

Why are some nations rich and others poor?

*A comparative analysis of Singapore and Indonesia's
institutional development between 1965 and 1998*

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Introduction

Why are some nations rich and others poor? One influential contemporary theory has linked economic development to inclusive institutions (Acemoglu & Robinson, 2013). According to this theory, countries differ in their economic success because of their different institutions. Countries with institutions that are more inclusive tend to be more prosperous. Furthermore, Acemoglu and Robinson highlight the negative impact of colonialism on the development of the institutions of post-colonial societies. Importantly, they make a distinction between political and economic institutions. They argue that inclusive political institutions are a prerequisite for inclusive economic institutions. Despite this, they recognize the interaction between the two, as we can observe in the following statement:

Inclusive economic institutions provide foundations upon which inclusive political institutions can flourish, while inclusive political institutions can restrict deviations away from inclusive economic institutions. (Acemoglu & Robinson, 2013, p.324)

Inclusive economic institutions, which will be analysed in more detail below, are economic institutions that are designed in such a way that all subsets of society can benefit from them in a relatively equal way. Extractive economic institutions are, on the other hand, designed to “extract income and wealth from one subset of society to benefit a different subset” (Acemoglu & Robinson, 2013, p.75). Moreover, extractive political institutions have been defined as institutions that “concentrate power in the hands of a small elite and create a high risk of expropriation for the majority of the population” (Acemoglu, Johnson & Robinson, 2002, p.1235).

However, there have been many instances where economic growth did occur under a politically extractive regime. Two cases that are particularly interesting in this context are Singapore and Indonesia between 1965 and 1998. For both countries, 1965 was the year that

brought authoritarian regimes to power. In Singapore, Lee Kuan Yew's People's Action Party (PAP) seized power after Singapore was expelled from the Malaysian Federation. In Indonesia, the army ascended to power under the command of Suharto after over 500,000 alleged communists were massacred. Even though Suharto was officially inaugurated in 1967, the army had already taken effective control over the state apparatus since the end of 1965. Additionally, they were both under colonial rule for many years and experienced a brief period of democratic rule after gaining more political freedom (in the form of independence for Indonesia and a high level of autonomy within a Malaysian Federation for Singapore). Importantly, both countries experienced a long period of economic growth under authoritarian rule. There is one major difference, which is that even though both countries had a politically extractive regime, inclusive economic institutions were created in Singapore, but not in Indonesia. This discrepancy leads to the question upon which this paper is based: Why were inclusive economic institutions created under politically extractive institutions in Singapore, but not in Indonesia?

Acemoglu and Robinson have one explanation for this. They argue that there might be situations where political elites permit the development of inclusive economic institutions when they feel that these developments will not threaten their own political power (Acemoglu & Robinson, 2013, p.92). In other words, Acemoglu and Robinson argue that inclusive economic institutions might emerge under a politically extractive regime when elites feel secure enough to let these institutions develop. Based on this theory, I hypothesize that economic institutions were more inclusive in Singapore than in Indonesia during 1965-1998 because Singapore's elite felt less threatened by the development of inclusive economic institutions.

This paper seeks to test this hypothesis of Acemoglu and Robinson through a comparative case study of Singapore and Indonesia's economic and political institutions

between 1965 and 1998. The year 1998 has been selected as the final year because in that year, Indonesia's authoritarian leader that had been in power since 1967, Suharto, was forced to step down and a period of democratization began. Their shared historical background, outlined above, and the fact that authoritarian regimes rose to power in the exact same year makes comparing these specific two cases particularly interesting when testing the theory of Acemoglu and Robinson. Moreover, both countries experienced a long period of economic growth under politically extractive institutions. These similarities make these two cases particularly interesting to compare. In other words, this paper is based on the Most Similar Systems Design (MSSD).

Anckar gives a strong explanation of why we should apply the MSSD in a loose sense when we compare two countries:

A looser application of a MSSD would be when we choose to study countries that appear to be similar in as many background characteristics as possible, but where the researcher never systematically matches the cases on all relevant control variables. If the MSSD is conceived of in the latter form, most regional comparative studies could be said to implicitly apply a MSSD.¹ (Anckar, 2008, p.390)

Arguments made in this paper will largely be based on evidence that is obtained from secondary sources in the form of academic articles and books. Additionally, this paper will also make use of primary sources such as government statements and 5 year development plans. In other words, this paper is based on qualitative content analysis.

The remainder of this paper will be structured as follows. In the next section, the concept of inclusive economic institutions will be clarified and the broader literature

¹ I am aware of the many differences between Singapore and Indonesia (in size, culture, etc.). Therefore, I apply the MSSD in Anckar's sense.

regarding the impact of authoritarian regimes on the inclusivity of economic institutions will be reviewed. In the third section, the political and economic institutions of Singapore between 1965-1998 will be examined. In the fourth section, the political and economic institutions of Indonesia between 1965-1998 will be analysed. The fifth section constitutes of a comparative analysis of the two cases. In the sixth section, there will be some concluding remarks.

2.1: Operationalizing inclusive economic institutions

Before we can examine the broader literature on the impact of authoritarian regimes on the inclusivity of economic institutions, it is important to clarify what is meant by inclusive economic institutions. Acemoglu and Robinson have no clear-cut definition of this concept, which is rather odd since it is one of the core foundations of their research. However, they do discuss several elements that they consider to be crucial to the development of inclusive economic institutions. Based on their characterization, supplemented by the broader literature on inclusive economic institutions, I will ‘operationalize’ the concept of inclusive economic institutions in this section. This operationalization is necessary, since we cannot describe the degree of inclusivity of Singapore and Indonesia’s economic institutions without specifically clarifying what we will be analysing.

The first aspect of inclusive economic institutions that is stressed by Acemoglu and Robinson, is the presence and effective enforcement of property rights. Property rights “represent the right of control over an asset and the returns it may generate” (Denison & Klingler-Vidra, 2012). In order to guarantee property rights, there should be checks against government power to make sure that property cannot be confiscated without any legal basis. Therefore, a low level of expropriation risk is an indicator of inclusive economic institutions since it resembles checks on the government’s power, whether these are self-imposed checks or a result of popular pressure. The level of expropriation risk varies among authoritarian

regimes (Wilson & Wright, 2015). Land grabbing in particular is an indicator of weak property rights, although there are more factors that affect land grabbing besides a lack of property rights (Zoomers, 2010).

A second aspect that is crucial to inclusive economic institutions according to Acemoglu and Robinson is the presence of the rule of law. This includes access to the legal institutions on an equal base for the underprivileged sections of society. As a UN report states:

Legal empowerment of the poor seeks to establish the rule of law and ensure equal and equitable access to justice and tackle the root causes of *exclusion*, vulnerability and poverty. (emphasis added) (A/64/133, p.2)

For this research, a clear distinction needs to be made between civil and political human rights on the one hand, and economic and social rights on the other. This distinction has also been made in international law as a result of clashing views on human rights between the West and the Soviet Union when the international covenants on political and economic human rights were created in the 1960s (Chapdelaine-Feliciati, 2013). Political and civil rights are per definition restricted in politically extractive regimes, since power is in the hands of a small elite. Therefore, in this paper, legal empowerment will refer to the empowerment and enforcement of the *economic rights* of the underprivileged classes in politically extractive regimes. This includes the effective enforcement of property rights.

Something that Acemoglu and Robinson barely touch upon in their conceptualization of inclusive economic institutions is corruption. However, corruption is a strong indicator of the strength and inclusivity of economic institutions in a country. Research has for example demonstrated that counties in China that have more effective anti-corruption mechanisms have a higher income per capita and distribute wealth more equally (Wu & Zhu, 2011). Counties with higher levels of corruption also experience higher levels of income inequality

presumably because officials take more disproportionate shares of the available wealth. This is an indication that economic institutions are less inclusive when corruption is rampant, which is relevant for Acemoglu and Robinson's theory, even though they do not mention this themselves.

Importantly, even though some regions combat corruption more effectively, the central government in China struggles with implementing effective nationwide anti-corruption mechanisms since it lacks knowledge of what is going on at the local level (Gong, 2015, p.688). According to Gong, this lack of knowledge about what happens at lower institutional levels is characteristic of extractive political regimes, since the major political actors do not have to take the interests of all subsets of society into account. However, anti-corruption policies are greatly hindered by this, which makes corruption more persistent in extractive political regimes.

Additionally, empirical research has shown that the amount of bribes that a firm pays in China is correlated with weak external property protection (Wang, 2013). In other words, weak property rights and institutionalized corruption seemingly go hand in hand, both contributing to the deterioration of inclusive economic institutions. Lastly, regime type influences the level of corruption. Personalistic regimes tend to be more corrupt than single-party authoritarian regimes (Chang & Golden, 2010). This is very relevant to my research, since Indonesia's authoritarian regime was personalistic in nature whereas Singapore has been ruled by a dominant political party, the PAP. This might mean that Indonesia's economic institutions were less inclusive due to its higher levels of corruption, which might have been caused by its different authoritarian regime type.

To summarize this section, I operationalize inclusive economic institutions as follows: They are characterised by strong property rights, by the legal empowerment of the economic rights of all sections of society, and by effective anti-corruption mechanisms. This

operationalization will be supported by the case studies of Indonesia and Singapore. In the following section, the broader literature regarding the impact of authoritarian regimes on the inclusivity of economic institutions will be reviewed.

2.2: Authoritarian regimes and inclusive economic institutions

There is a rich body of literature on the impact of authoritarian regimes on the inclusivity of economic institutions. Some have proposed that authoritarian rulers might purposely create institutions that constrain his or her policy choices in order to gain popular support (Mizuno, Naito & Okazawa, 2017, p.116-117). A more radical argument has been put forward by Mancur Olson. According to Olson, “a secure autocrat has an encompassing interest in his domain that leads him to provide a peaceful order and other public goods that increase productivity” (Olson, 1993, p.567). The protection of property rights is one of these public goods because autocrats will make more money in the long run by taxing the property of their subjects than by expropriating this property. Therefore, according to Olson, it would be better to have as little rotation of political officials as possible in a non-democratic regime because they would be more committed to the protection of property rights.

These and many other scholars argue that authoritarian rulers have to make a crucial trade-off. On the one hand, they want to extract as many resources from the economy as possible in order to enrich themselves. On the other hand, they need to satisfy their own support base or other crucial sections of the society in order to stay in power. Economic institutions will be less extractive when the regime has to let other powerful actors in a society take control over sections of the economy in order to gain their support (see also for example McGuire & Olson, 1996; Miquel, 2007; Shen, 2007; Wintrobe, 1990).

This position has been criticized by some scholars who believe that the category ‘authoritarian regimes’ is too broad (Chandra & Rudra, 2015). They argue that we need to

distinguish between different types of authoritarian regimes. The variation in economic performances of authoritarian regimes is, according to them, mostly influenced by the level of public deliberation they allow. The higher the level of public deliberation in the economic sphere, the better the economic performance. This supports the hypothesis of Acemoglu and Robinson that this paper seeks to test; political elites sometimes let inclusive economic institutions develop when they feel that it does not threaten their political power.

What these scholars have in common with the theory of Acemoglu and Robinson is that they reason that political elites *allow* the development of inclusive economic institutions. In other words, they believe that elites operate from a position of strength and control. In this view, elites make a calculated trade-off between extracting resources from the economy and the likelihood that their political power will be undermined. From this follows the assumption that economic institutions will be more inclusive when authoritarian leaders believe that it is in their interest to let these institutions develop and feel secure enough to do so.

However, this view is not without its problems, since authoritarian leaders do not necessarily have the opportunity to make this calculated trade-off. For example, sometimes they are forced to increase the inclusivity of their economic institutions due to foreign pressure. Interestingly, research has suggested that variance in regime type among authoritarian regimes influences the response to foreign pressure:

Personalist regimes are the most likely to respond to sanctions with increased repression because of their inability to augment government spending. In contrast, single-party and military regimes are able to increase transfers to support groups. (Escribà-Folch, 2012, p.684)

This observation would be interesting for this paper, since Indonesia was under Suharto's personalistic rule, whereas the PAP ruled Singapore as a dominant political party. However, both countries were not targeted by large-scale international sanctions.

International economic crises are also times in which authoritarian regimes might be forced to increase the inclusivity of their economic institutions in order to stay in power. They have to do this because they often derive their legitimacy from their ability to provide material benefits to their citizens (von Soest & Grauvogel, 2017). Economic crises bring economic hardship, which undermines this fundamental claim to legitimacy. Importantly, not only the authoritarian regime type influences the response to international crises or pressure, but also the nature of its support coalition (Pepinsky, 2008, p.472). Authoritarian regimes need to redistribute wealth to maintain their support base in order to stay in power during periods of economic hardship. Doing so consequently increases the inclusivity of their economic institutions. The importance of economic performance and of providing some material benefits to the population is supported by research on local politics in China (Gang, 2007). Gang found that legislators were more likely to be promoted to higher positions when their districts had high economic growth rates and when they were able to distribute some welfare to the majority of the population.

What this second strain of literature shows is that both external and internal pressure can force authoritarian regimes to increase the inclusivity of their economic institutions. In this scenario, they operate from a position of weakness and are *forced* to implement policies that lead to the development of inclusive economic institutions. This goes against Acemoglu and Robinson's hypothesis, since they argue that inclusive economic institutions might emerge under politically extractive institutions when the political elites *allow* this to happen. At first, this might only seem like a small difference. However, if authoritarian leaders can be forced, by internal or external pressure, to increase the inclusivity of economic institutions, this would mean that there might be situations in which inclusive economic institutions are likely to develop under politically extractive regimes when this is not in the interest of the dominant political actors and when this might threaten their political power. The implication

of this is that we should be more careful in condemning authoritarian regimes based on the claim that they prevent the development of inclusive economic institutions.

Regardless of this critique on the theory of Acemoglu and Robinson, their theory is still most suitable for this research for a number of reasons. First of all, their analysis takes both political and economic institutions into account, including the interaction between the two.. Furthermore, Acemoglu and Robinson emphasize the historical impact of colonialism on the institutions of many nations. Singapore and Indonesia have both been under colonial rule for many years, which makes Acemoglu and Robinson's theory particularly fitting. The broader literature on the relationship between authoritarian regimes and the inclusivity of economic institutions does not take the historical background into account, whereas this is important in our cases because the historical legacy of colonialism has greatly impacted the institutional development of both Indonesia and Singapore as will be demonstrated in greater detail in the upcoming sections.

In the next section, the extractive political system of Singapore between 1965 and 1998 will be outlined. The focus will be on the period in which the authoritarian regime emerged, after Singapore became independent, since the early years of Singapore's independence would prove to be very relevant for the development of Singapore's economic institutions in the years thereafter.

3.1 Singapore's authoritarian regime

The PAP has governed Singapore since it became independent on the 9th of August 1965, after it was expelled from the Malaysian federation following a period of extreme tension

between the predominantly Malay population of Malaysia and the largely Chinese population of Singapore.² Lee Kuan Yew later said the following about Singapore's position at the time:

We faced a bleak future. We had no natural resources. A small island-nation in the middle of newly independent and nationalistic countries of Indonesia and Malaysia, each determined to cut Singapore off as the middleman.³ (Lee, 2007)

This perceived vulnerability has been one of the main justifications of implementing restrictions on civil and political rights. Restrictions on press freedom, for example, have been justified by the fact that Singapore has a delicate ethnic balance that could be 'disturbed' by overcritical media (George, 2008, p.266). Moreover, according to Lee Kuan Yew himself, "freedom of the press [...] must be subordinated to the overriding needs of Singapore" (Lee, 2000, p.218). The PAP had inherited a system from the British in which press licenses had to be renewed on a yearly basis. This system was not changed after Singapore achieved independence and was used to prevent critical newspapers from operating for a long period of time. Additionally, leaders of the PAP have filed numerous defamation suits against journalists after they were criticized. Not only have courts ruled that the image of political leaders is vulnerable to political opinion, thus justifying a higher accounting of damages (which often financially cripples political opponents), courts rule in favour of the PAP in the vast majority of cases. This has inhibited free speech in Singapore and silenced critique (Rajah, 2012).

It should be noted here that the PAP has risen to power through democratic elections

² Racial tensions between the Malays and the Chinese, educational and language policies, and economic issues were at the basis of the separation of Malaysia and Singapore (see Turnbull, 2009, Chapter 8 for a more detailed analysis).

³ Indonesia was hostile to Malaysia and Singapore because its leader, Sukarno, saw them as neo-colonial constructions. There has even been an armed conflict, called Konfrontasi (literally: confrontation), between Indonesia and Malaysia between 1962-1966 because of this (Subritzky, 2000).

that were held prior to Singapore's independence. These democratic institutions were 'inherited' from the British. However, the PAP used every means to defeat its opponents. The main opposition leaders, who were detained after a previous British-led 'anti-communist' raid (known as Operation Coldstore), were not allowed to participate in the elections, political gatherings were restricted or even suspended, and the major hostile trade unions were neutralized by freezing their funds or by even withdrawing their registration (Turnbull, 2009, p.285). Elections are still held on a 5 year basis for the parliament, but the PAP has gotten an absolute majority in every election since Singapore's independence. This is partly the result of the rapid economic growth of Singapore, but organizing opposition against the regime has also been made extremely difficult.

The main instrument that the PAP uses to suppress the opposition and punish political dissidents is the Internal Security Act (ISA). The main objectives of the ISA are "to combat subversion" and "to eliminate organised violence" (Zee, 2011, p.32). The act was inherited from Malaysia, where it was implemented in 1960, and has been in place ever since. The act prohibits for example actions that "excite disaffection against the President or the Government" or that are "prejudicial to the security of Singapore" (Government of Singapore, constitution, art. 149 section 1e). This very broad and vague formulation enables the PAP to detain whoever poses too big of a political threat to their position by branding them as a threat to national security. For example, the ISA was used in the 1980s to crush a network of catholic activists by branding them as Marxists that sought to overthrow the government (Barr, 2010). The ISA was also invoked in 1971 to arrest journalists that had made critical comments about the government under the pretext that they were causing racial tensions (Turnbull, 2009).

By restricting press freedom, undermining elections, and suppressing political opposition through the ISA, the PAP has been able to achieve complete dominance over

Singapore's society since 1965. Because of this, the political elite had a strong influence on the development of the economic institutions. Inclusive economic institutions could not have emerged if the PAP would not have allowed it. This supports Acemoglu and Robinson's hypothesis outlined in the introduction of this paper since they argue that inclusive economic institutions can only emerge under politically extractive institutions when the elites *permit* their development. However, its policy-making was not only driven by a sense of control, but also by a feeling of vulnerability vis-à-vis the outward world. The hostile international context in which Singapore came into being, combined with its fragile economy, pressured its leaders to allow the development of inclusive economic institutions.

Singapore's economy was so fragile because it had just lost the Malaysian hinterland after it was expelled from the Malaysian Federation. Additionally, it lacked natural resources, and its infrastructure was underdeveloped. At the same time Singapore needed to develop its economy to guarantee its sovereignty. Moreover, as has been outlined in section 2.2, authoritarian regimes often need economic progress to legitimize their rule. The only way in which Singapore could achieve economic progress was by attracting foreign capital and multinational corporations since it had historically depended on entrepot trade for most of its income. In order to become attractive for foreign investors, a strong rule of law regarding economic matters, the effective enforcement of property rights, and effective anti-corruption mechanisms were essential prerequisites. If we follow this reasoning, it becomes clear why Singapore's political elite was pressured to allow the development of inclusive economic institutions. How these institutions eventually developed will be further outlined in the next section.

3.2 Singapore's economic institutions

In this section, the development of Singapore's economic institutions from 1966 until 1998 will be analysed. The focus will be on the economic institutions that have been outlined in section 2.1; property rights, presence of the rule of law regarding economic matters, and effective anti-corruption mechanisms. Moreover, in order to test Acemoglu and Robinson's hypothesis outlined in the introduction of this paper, the reasoning behind the development of these economic institutions will be discussed.

Singapore's property rights regime differs substantially from the traditional Western one, in which property is inviolable and belongs to private owners. The basis of Singapore's property rights regime can be traced back to 1964, when a home ownership scheme was introduced. Singaporeans could purchase a 99-year lease on a 'dwelling', but could not own the land on which it was built permanently. In this way, ownership of the property standing on the land was separated from ownership of the land itself (Chua, 1996, p.9). A few years later, in 1966, the PAP drafted the Land Acquisition Act (LAA). The LAA empowered the Singaporean government to "acquire any land deemed necessary to the interest of national development" (Chua, 1996, p.10). In other words, Singaporeans could be 'asked' to relocate if the land they were living on was needed for 'national development'. This measure was taken because land is incredibly scarce in Singapore. The PAP wanted to ensure its complete control over the society by almost monopolizing the control of land (foreign corporations were exempted from this act). By doing so, it created a nation-wide system of public housing that has remained in place until this day.

However, even though the expropriation risk was high for Singaporeans, and there was even a legal basis for it, their property rights were still protected through a number of measures. First of all, the Singaporean government is obliged to compensate citizens that are

forced to relocated. Until 1982 this compensation was inadequate, since the government only paid the amount that citizens had paid at the time of acquiring the property, without taking any contemporary changes in the market value into account. From 1982 onwards, the Singaporean government has paid the market value plus the “relocation costs” (Chew, Hoong & Tay, 2010, p.176-177). Moreover, citizens cannot be forced to relocate until property of the same size is allocated to them.

By allowing citizens to own the property on the land and ensuring that they will be compensated appropriately when the land itself is acquired by the government, the public housing system has ensured that private ownership is the norm rather than the exception. As much as 81% of the public housing sector was privately owned in 1996 (Carter, 2002, p.213). The PAP encouraged private ownership of property, because it ensured that Singaporeans would invest in their country. This in turn would reinforce their commitment to the defence and prosperity of their country. The apparent paradox of private ownership of property on land that is completely controlled by the government forms the core of Singapore’s property rights regime. In this way, the PAP has achieved two major goals; the effective control of the scarce land in Singapore, through which it can exercise immense influence over its population, and ensuring that Singaporean citizens have much too lose by stimulating the ownership of property. Over time, this has increased the inclusivity of Singapore’s economic institutions because the majority of Singaporeans is able to buy property instead of renting it.

In order to support inclusive economic institutions, legal empowerment of economic rights is necessary. Singapore inherited the British legal system after gaining its independence. However, “the state’s pervasive narrative of national vulnerability tends to be at the heart of the state’s argument as to why law must be modified” (Rajah, 2012, p.21). This includes modifications of the law that suppress political and civil rights for the sake of national security. So even though the Singaporean government has not sought to change the legal

framework that it inherited from the British, it has gradually drafted more repressive laws to suppress political opposition. Despite this, the rule of law is objectively enforced when economic or social rights are at stake. Rajah describes Singapore's legal system as:

Dual state legality: Singapore is a dual state in that it matches the law of the liberal West in the commercial arena while repressing civil and political individual rights. (Rajah, 2012, p.23)

Even critics of the regime concede that Singaporean courts enjoy a good reputation when it comes to enforcing contracts and protecting property rights (Lingle, 1996, p.90).⁴ Even though, as Acemoglu and Robinson rightly assume, the political elites of Singapore allowed the development of this legal system⁵, this is not the entire story. The persistence of dual legality in Singapore can be explained in terms of vulnerability. The political elite felt that political opposition had to be repressed because it threatened Singapore's stability and used the law to effectively mute its adversaries. On the other hand, Singapore's economic situation is very precarious. Having lost its hinterland after being expelled from the Malaysian Federation in 1965, while not having access to natural resources such as oil, the Singaporean government needed to attract foreign investment to survive. An objective rule of law regarding economic matters was a dire necessity to attract foreign companies.

Effective anti-corruption mechanisms were also necessary to create a healthy investment environment and to attract foreign investment. Lee Kuan Yew himself stressed the need for a clean government:

⁴ In *Singapore's authoritarian Capitalism: Asian Values, Free Market Illusions and Political Dependency*, Christopher Lingle heavily criticizes the Singaporean government for repressing political opposition.

⁵ Lee Kuan Yew himself studied law in Cambridge before he became involved in Singaporean politics, so he knew very well how to influence the development of the legal system in Singapore.

When the PAP government took office in 1959, we set out to have a clean administration. We were sickened by the greed, corruption and decadence of many Asian leaders. (Lee, 2000, p.182)

The principal agency that was charged with the task of eradicating corruption was the Corrupt Practices Investigation Bureau (CPIB). Interestingly, this bureau was a legacy of British colonial rule as well. It had been set up by the British in 1952 because corruption was increasingly becoming a problem. The CPIB has been granted extensive powers since the enactment of the Prevention of Corruption Act in 1960. Among others, it has the power to “without a warrant arrest any person who has been concerned in any offence under this act or against whom a reasonable complaint has been made or credible information has been received” (Government of Singapore, prevention of corruption act, art. 15 section 1).

Not only did Singapore’s anti-corruption institutions have extensive powers to combat corruption, its leaders were also committed to eradicate it. The case of Teh Cheang Wan illustrates this. Teh Cheang Wan served as the minister for national development between 1979-1986. He was investigated for corruption in 1986 after rumours that he took money and granted favourable land concessions in return. He knew Lee Kuan Yew well and tried to contract him to discuss the matter with him and to plead for a stop of the investigation. Not only did Lee not interfere in the investigation, he also refused to talk to Teh Cheang Wan until the investigation was over. On 14 December 1986, Teh Cheang Wan committed suicide because he could not bear the shame. Even then, when his family asked Lee to stop the investigations because it would embarrass them, Lee still refused this.⁶

In conclusion to this section, I argue that the hypothesis of Acemoglu and Robinson that has been set out in the beginning of this paper is only partly supported by the Singaporean

⁶ The results of the investigations eventually got published, causing the family of Teh Cheang Wan to leave Singapore because they felt they had lost too much face. For the full report, see: *Report of the Commission of Inquiry on investigations concerning the Late Mr. Teh Cheang Wan*, 1987

case. Singapore's inclusive economic institutions could not have developed had the elites not allowed this. Anti-corruption mechanisms would not have been effective if Lee Kuan Yew would have simply by-passed them for example. However, the political elites did not simply allow inclusive economic institutions develop because they felt secure enough to do so. Contrarily, Singapore's political elites felt extremely vulnerable after Singapore became independent. They allowed the development of inclusive economic institutions because they felt it was the only way in which Singapore could survive as an independent state.

4.1 Indonesia's authoritarian regime

Suharto was an army general who ascended to power in 1967 (although he was only officially 'elected' in 1968) and remained in control for over 30 years. However, democratic rule had already effectively ended in 1965 after six army generals were killed during a failed communist coup.⁷ In retaliation, over 500.000 alleged communists were massacred in one of the worst massacres of the 20th century. The Partai Komunis Indonesia (PKI) was completely eliminated. Although the killings were stimulated by the military, large (Islamic) organizations such as Nahdlatul Ulama (NU) are also responsible for many murders (Chandra, 2017, p.1059).⁸

During the first years of his regime, Suharto depended heavily on the military. The military justified its interference in civilian matters on the basis of the concept *dwifungsi* (literally: dual function). Originally developed by general Nasution, "the doctrine stated that the military had a role in social-political development and deserved full representation in ideological, political, economic, and religious matters" (Jenkins, 1983, p.22). In 1982, the

⁷ It has never been proven that the assassins were affiliated with the PKI. However, this event was used as a pretext for the eradication of the PKI. Many years of political turmoil and tension between the military and the communists had preceded this. Unfortunately, there is no room here to discuss that period extensively.

⁸ Communism is still forbidden in Indonesia. Furthermore, commemorating those who got killed during '1965' is also strongly discouraged. The killings are still a highly sensitive issue in contemporary Indonesia.

“Basic Provisions for the Defence and Security of the Republic of Indonesia” was drafted to make sure that *dwifungsi* was enshrined in the law (Vatikiotis & Leifer, 1998, p.71). Suharto used this doctrine to place loyal military officers on key positions in the civilian government.

Suharto also sought to tightly control the bureaucracy, elections and political parties. Civil servants were obliged to join the regime’s electoral machine, Golkar (*Partai Golongan Karya*, or Party of ‘Functional Groups’) (Mietzner, 2018, p.86). Suharto used this party to distribute favours among his supporters. Additionally, the opposition was forced into two broad parties; one Muslim party (*Partai Perstauan Pembangunan*, or the United Development Party) and one nationalist-secular party (*Partai Demokrasi Indonesia*, or Indonesian Democratic Party) (Mietzner, 2018, p.87). In this way, Suharto was able to maintain a veil of legitimacy while at the same time tightly controlling the political system.

The press was heavily restricted under Suharto’s rule. Media outlets had to obtain two related permits to legally produce a periodical. If any of these would be withdrawn, it would effectively ban the publication. These permits had to be obtained from the military security authority (Hill, 1994, p.35). In this way, Suharto could ban media outlets when they were too critical of his policies. Moreover, these measures also led to a lot of self-imposed censorship because many editors were afraid of possible government crackdowns.

Suharto’s main aim was to “create a political desert”, where there was an absence of organized mass opposition (Liddle, 1985, p.74). He wanted that the entire political system depended on him and nothing else. The military was the main pillar that supported his authoritarian rule. In order to make sure that influential generals could not overthrow him, he set up an intelligence network within the military that was so extensive that the officer corps was mistrustful of one another and was not capable of uniting against him (Vatikiotis & Leifer, 1998, p.77). Disloyal officers were demoted or transferred to other positions that were further away from the political centre.

Communism was seen as the greatest threat to Indonesia's national security by Suharto's regime. In order to counter this threat, Suharto believed that the living standards of Indonesians had to be raised in order to base his legitimacy on the strong economic performance of his rule. Since the majority of the Indonesian population resided in the countryside, and communism originally gained a lot of ground in rural areas, the first development plans were aiming to increase agricultural output and living standards in rural areas.⁹

Political Islam was the last major source of possible opposition for Suharto, since the vast majority of Indonesians are Muslims. Islamic activists originally expected they would be rewarded for their role in the killings of 1965-1966. However, Suharto did not give in to their demands and did not choose to implement forms of Islamic law, which angered many Muslims (Cammack, 1999, p.50). This led to friction between Islamic organizations and Suharto's regime. From the 1980s onwards, Suharto increasingly sought to accommodate political Islam to prevent Islamic-based opposition to his rule (he even went on Hajj to Mecca to show his good intentions).¹⁰ By undermining these three main sources of opposition (the army, communism, and political Islam), Suharto's rule became increasingly personalistic in nature as the years progressed.

By restricting press freedom, controlling the army and the bureaucracy, and depoliticizing Indonesian society, Suharto was able to completely control Indonesia's political system for many years. He had to provide basic economic progress for the majority of Indonesia's population since a large part of his legitimacy was based on economic progress. This was not too difficult since the situation was so terrible that any form of stability would have led to economic progress. Besides that, he mainly used his political power to plunder

⁹ Republic of Indonesia, First five-year development plan (1969/70 - 1973/74), Chapter 1

¹⁰ There were limits to his goodwill, as the Tanjung Priok massacre of 1984 (where at least 24 Muslim protesters were killed after they protested against government officials who had entered their Mosque with their shoes still on) demonstrates.

Indonesia's economy, as I will outline in more detail below. Because of this, he could not allow the development of inclusive economic institutions because these would threaten his economic interests. This supports Acemoglu and Robinson's hypothesis that has been outlined in the introduction.

4.2 Economic institutions under Suharto's rule

At first sight it seems like inclusive economic institutions emerged under a politically extractive regime in Indonesia. During Suharto's rule, Indonesia's economy grew annually and absolute poverty rates declined rapidly. However, even though Indonesia's economy grew steadily and the majority of the population profited from it, economic institutions were anything but inclusive. It needs to be emphasized here that the main reason that the government was able to increase the general welfare of its citizens was the boom in oil prices in the 1970s, not because its economic institutions were inclusive. Developments in infrastructure and agriculture were mainly financed with the oil revenues (Vatikiotis, 1998, p.35). In this section, the elements of economic institutions that have been outlined before will be analysed in the context of Indonesia's extractive political regime.

There are overlapping systems of property rights in Indonesia, which has caused much confusion and distress. On the one hand, there are adat (customary) rights, which differ from community to community. Adat rights are often communal in nature, with land belonging to the entire community. On the other hand, the state has tried to create a national system of property rights, codified in the Basic Agrarian Law (BAL). The BAL would prevail over adat property rights (MacAndrews, 1986, p.23), as written in article 3 of the BAL:

Adat property rights shall be adjusted to the national law and interests and shall not be in conflict with such national laws and regulations.

(taken from Macandrews, 1986, p.22)

It should be noted here that this law was formulated in 1960, before Suharto seized power. Moreover, tension between different property rights regimes is still a huge issue in contemporary (democratically governed) Indonesia. Therefore, we cannot blame weak property rights solely on the existence of extractive political institutions in the Indonesian case.

However, under Suharto's rule, protesting against land grabbing or expropriation of assets by the state was seen as a threat to internal security. Resistance to expropriation of property was "subject to official sanction" and was often seen as "subversive to the national interest" (McWilliam, 2006, p.52). Because of this, combined with heavy press restrictions that prevented coverage of land grabbing and suppression of political opposition, local communities were powerless when it came to protecting their own property.

Even though protection of private / communal property has been inadequate, this was not the main obstacle to the development of inclusive economic institutions during Suharto's rule. Corruption was a much bigger obstacle. Indonesians even developed a term, *Kolusi, Korupsi & Nepotisme (KKN)* for the collusion of politics and business conglomerates during Suharto's rule (Robertson-Snape, 1999). As Suharto's rule grew more personalistic in nature, the clan around him plundered larger and larger parts of the economy with legal impunity. The state owned oil company, Pertamina, is a case in point, as Marks and van Zanden clearly outline:

Pertamina [...] became the cash cow of the clan [around Suharto] and its projects, and as a result went bankrupt in the mid-1970s. An audit sponsored by the IMF showed that between 1996 and 1998 Pertamina

alone had misappropriated 1.5 billion dollars annually through corruption and inefficiency. (van Zanden & Marks, 2012, p.180)

Sudono Salim (also known as Liem Sioe Long), the founder of the Salim group (the biggest business conglomerate in Indonesia), and other wealthy businessmen developed close personal relationships with Suharto. They were able to influence economic policies and bend the rules in their favour (Dieleman & Sachs, 2008, p.1288). They often monopolized control over profitable industries. Suharto's family members were even more notorious for their corrupt behaviour.¹¹ Efforts at increasing the competitiveness or inclusivity of Indonesia's economy were often blocked by a cluster of prominent interests clustered around Suharto (van Zanden & Marks, 2012, p.173). In other words, corruption and cronyism were major obstacles to the development of inclusive economic institutions under Suharto's rule.

In order to protect the interests of his allies and family, Suharto could not stimulate the empowerment of economic rights of large sections of Indonesian society, since this would directly threaten their business interests. The judiciary was incredibly corrupt, although it must be said that corruption in the judiciary is still a problem in contemporary Indonesia. Under Suharto's rule however, corruption in the judiciary was a much bigger problem than it is today. Winning a case often boiled down to offering the judge more money than the opposition. Cases could be slowed down or sped up by paying small 'fees' (Thoolen, 1987, p.61). When the state's interests were at stake, the judiciary was simply pressured into accepting the state's position. In this way, Suharto could cover his authoritarian rule with a veil of legitimacy by pointing towards the existence of 'the rule of law' (although I would call it rule by law). Moreover, the economic interests of his cronies and family members were also protected by this flawed legal system. Suharto could point towards a court decision in favour

¹¹ Tommy Suharto, the youngest child of Suharto, has even ordered the killing of a judge who convicted him in a large corruption scandal.

of his cronies and evade direct criticism of his opponents regarding the collusion of economic and political interests.

In conclusion to this section, the Indonesian case provides support for the hypothesis of Acemoglu and Robinson that has been outlined in the beginning of this paper. Inclusive economic institutions did indeed not develop under a politically extractive regime in Indonesia because the elite felt not secure enough to allow this. Although the Indonesian economy grew substantially under Suharto's rule, and the majority of the Indonesian population profited from this, the economic institutions were controlled by a small elite.

The main reason that the welfare of the majority of Indonesians increased was the steady increase of the oil price since the 1970s. However, as the case of Pertamina exemplified, a large portion of the wealth flowed in the pockets of a few small groups. The Indonesian people accepted this grudgingly as long as their own wealth increased. As soon as the economy crashed during the Asian financial crisis of 1997-1998, the disastrous management of the economy and the mind-boggling corruption of Suharto's regime was exposed. Eventually Suharto was forced to step down in 1998 after months of massive protests.

5. Comparative analysis

In this section, I will make some comparative observations regarding the development of Indonesia's and Singapore's economic institutions under politically extractive regimes between 1965 and 1998. Moreover, in order to examine whether the hypothesis put forward by Acemoglu and Robinson will hold, the reasoning behind their divergent trajectories will be analysed.

First of all, the influence of colonialism on the post-colonial institutions of Singapore and Indonesia is very visible. Singapore inherited Britain's democratic institutions and legal

system and Indonesia's legal pluralism has its roots in Dutch colonial policies. Although it is disputable whether colonialism had a negative impact on the *post-colonial institutional development* of Singapore and Indonesia (which Acemoglu and Robinson would assume, as outlined in the introduction), this does support Acemoglu and Robinson's claim that institutions are resilient and path-dependent. Institutions that were created during the colonial period have often persisted in the post-colonial period. The Internal Security Act (ISA) of Singapore is a good example. Although created in 1960, after Malaysia gained its independence and Singapore adopted the law when it became a part of the Malaysian Federation in 1963, the law was based on British preventive-detention laws that were enacted in 1948 to deal with a communist insurgency in Malaysia.

Secondly, it should be emphasized here that Indonesia and Singapore had a different type of politically extractive regime. Singapore has been under single-party rule since its independence and Suharto's military-backed rule grew more personalistic over the years. Acemoglu and Robinson do not make a clear distinction between the different types of political extractive regime. However, perhaps inclusive economic institutions are more likely to emerge in certain types of politically extractive regimes than others. Other scholars have already argued that certain types of authoritarian regimes tend to perform better economically than others (Chandra & Rudra, 2015). Similarly, certain types of authoritarian regimes might be more likely to permit the development of inclusive economic institutions than others. Perhaps inclusive economic institutions are more likely to develop under an authoritarian regime that is controlled by a single political party such as the PAP in Singapore than under a personalistic regime such as Indonesia under Suharto.

Lastly, the empirical evidence of this paper supports Acemoglu and Robinson's main argument; inclusive economic institutions are essential for long-term sustainable growth. Singapore's clear property rights regime, strong legal system regarding economic matters, and

effective anti-corruption mechanisms have definitely contributed to its incredible growth trajectory. Contrarily, Indonesia's confusing and weak property rights system, weak legal system, and negligible anti-corruption mechanisms during Suharto's rule inhibited its long-term sustainable economic growth. Indonesia had a much more advantageous position than Singapore after Suharto rose to power. It had vast reserves of natural resources and it was the strongest regional power in Southeast Asia. However, Singapore experienced much more inclusive and rapid economic growth over the period of 1965-1998; mainly because of its inclusive economic institutions.

6. Conclusion

This paper sought to test Acemoglu and Robinson's theory by trying to answer the following question: Why were inclusive economic institutions created under politically extractive institutions in Singapore, but not in Indonesia? As outlined in the beginning of this paper, Acemoglu and Robinson assume that inclusive economic institutions might emerge under a politically extractive regime when elites feel *secure* enough to *allow* these institutions to develop. From this follows the assumption that the political elites of Singapore felt secure enough to let inclusive economic institutions develop and those in Indonesia did not. The Indonesian and Singaporean cases provide some support for this hypothesis. In Indonesia, inclusive economic institutions could indeed not develop because they would have threatened Suharto's personal interests. In other words, Suharto did not *allow* their development because he felt not *secure* enough since they would undermine his power. In Singapore, the political elite did indeed *allow* the development of inclusive economic institutions, so the assumption that political elites in extractive political regimes operate from a position of control still holds to some degree.

However, as has been outlined in this paper, inclusive economic institutions did not

develop under a politically extractive regime in Singapore because its political elites felt secure enough allow this. It was rather the contrary; Singapore's political elites allowed the development of inclusive economic institutions because they were convinced that they were the key to their survival. This belief was driven by a sense of vulnerability, mainly caused by Singapore's precarious position when it became independent. They did not operate from a position of control, as Acemoglu and Robinson would assume, but from a position of weakness. Although this might seem like a small difference at first, it might mean that there are more situations in which inclusive economic institutions might develop under a politically extractive regime than Acemoglu and Robinson account for. Does this mean that their theory becomes obsolete or irrelevant? No, absolutely not. However, it does perhaps mean that we should be more careful in condemning authoritarian regimes based on the claim that they prevent the development of inclusive economic institutions.

One suggestion that I have put forward myself in this paper is that it might be useful to distinguish between different types of political extractive regimes when analysing the inclusivity of their economic institutions. Certain types of authoritarian regimes might be more likely to allow the development of inclusive economic institutions than others. Part of the reason why they might do this is because some authoritarian regimes might feel more vulnerable to external or internal pressure and need to distribute a larger part of the pie to crucial support groups than others. Unfortunately, there is no scope in this paper to examine this claim and further research is needed to explore this alternative argument.

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