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The Impact of Natural Resources on Indonesia's Political Economy: A Comparative Historical Analysis

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The Impact of Natural Resources on Indonesia's Political Economy

A Comparative Historical Analysis

Abstract

This thesis examines the role of natural resources in shaping the political economy of Indonesia under authoritarianism and democracy. By means of a comparative historical analysis, it compares natural resources' impact on politics and economics in the authoritarian period under Suharto (1967-1998) with their impact in the post-1998 democratic era. Special emphasis is placed on the establishment and sustainability of oligarchy and clientelism in Indonesia, which are inseparably linked to the country's natural resources and political economy. The analysis focuses in-depth on the continuities and changes in Indonesian politics and economics stemming from democratisation. The role played by natural resources in shaping the political economy is illustrated through examples from a variety of sectors. It is found that natural resources are inextricably linked to Indonesia's political economy, both under authoritarianism and democracy. The study concludes by considering future prospects for Indonesia and by offering suggestions for further research into the workings of natural resources.

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1 Introduction

Is natural resource abundance a blessing or a curse for development? There has been a vivid debate among academics on this subject. Up until today, there is still no consensus over the opportunities and limitations of natural resources for a country's development. Further research into the subject would therefore be useful. Indonesia might be of particular interest, because it is one of the largest resource producing countries in Asia. In the second half of the 20th century, its political economy was largely based on the extraction and export of oil and timber. After the turn of the century, these commodities were replaced by palm oil and coal. Bearing in mind that the country has both experienced an authoritarian and a democratic period in its modern history, Indonesia becomes an even more interesting case. From 1967 to 1998, Indonesia was led by the authoritarian regime of President Suharto. The *reformasi* in 1998 marked the end of the Suharto era and paved the way for democratisation.

Because of this history, Indonesia lends itself perfectly for a comparison of the impact of natural resources on the country's political economy under different regime types. In this research, I will analyse and compare the role played by natural resources in shaping the political economy, both under authoritarianism and democracy. The research question that is central to my analysis, is as follows: What is the impact of natural resources on Indonesia's political economy under authoritarianism and democracy?

The scientific relevance of the study is drawn from both its ability to engage with the academic literature on the impact of natural resources on a country's development and its capacity to compare between distinctive regime types within a single country. This may generate valuable contributions to the scholarly debate on whether natural resource abundance should be considered a curse or a blessing. The study's practical relevance is similar to its scientific relevance, but focuses more on the potential to improve the decision-making of practitioners. The analysis may produce critical insights for decision-makers on how to govern natural resources in resource-abundant regions. In the case that natural resources tend to negatively impact Indonesia's political economy, the governance of natural resources should be revised.

The remainder of this thesis will be structured as follows. In the next section, the theoretical framework introduces the main theories and debates in the literature on the impact of natural

resources on development outcomes. Subsequently, the central concepts and the methodology used to conduct the research are defined. Then, I will turn to the analysis of the role of natural resources in shaping Indonesia's political economy, first under authoritarianism and later under democracy. Finally, the thesis ends with a conclusion in which the main findings are presented and recommendations for future research are made.

2 Theoretical Framework

2.1 What is the resource curse?

The question whether natural resources are a ‘blessing’ or a ‘curse’ has been the topic of much scholarly attention. Until the late-1980s, natural resource abundance was considered a blessing for developing countries (Rosser, 2006). In the 1950s, Ginsburg (1957) argued that natural resources were one of the major factors for developing countries to achieve economic development. On a similar note, the renowned development theorist Rostow argued in his influential work *The Stages of Economic Growth* that natural resources in developing countries could function as a means to transition from underdevelopment to industrial ‘take-off’ (Rostow, 1959). Neoliberal economists in the 1970s and 1980s came to a similar conclusion, arguing that a country’s industrial development could be facilitated by natural resources through the provision of domestic markets and investible funds (Rosser, 2006).

However, views on the development possibilities arising from natural resources started to change in the late-1980s. Evidence from various studies suggested that natural resource abundance, or at least an abundance of particular types of natural resources, tends to be a curse rather than a blessing for developing countries (Rosser, 2006). In a comprehensive study of 97 countries, Sachs and Warner (1995) measure the impact of mineral and other resource exports on GDP growth. They found that natural resource-abundant economies were associated with less rapid economic growth than natural resource-scarce economies in the period 1971-1989 (Sachs & Warner, 1995). In other words, being a resource-abundant country would rather be a curse than a blessing for achieving economic growth. This is why some scholars argue that resource-abundant developing countries are thwarted by the ‘resource curse’.

Nowadays, there is still no consensus in the literature whether natural resource abundance is a blessing or a curse. On one side of the spectrum, Brunnschweiler (2008) suggests that natural resource abundance has been a blessing for the development of countries. She finds a positive direct empirical relationship between natural resources and real GDP growth in the period 1970-2000. This relationship is particularly strong for subsoil wealth, i.e. mineral resources. On the other side, scholars contend that natural resource abundance would increase the probability of poor economic growth, high poverty and corruption rates, authoritarian rule, and civil war (Rosser, 2006; Ross, 2015). This is why these scholars speak of a curse rather than a blessing.

Briefly put, the resource curse refers to the poorer development outcomes of developing countries due to their natural resource abundance.

2.2 The resource curse in Indonesia

Indonesia is one of the largest resource producing countries in Asia. This makes it an interesting case to research how the resource curse has played out. What does the resource curse look like in Indonesia?

During Indonesia's authoritarian era led by President Suharto, which is generally referred to as the New Order (1967-1998), the country's development was characterized by extractivism. The extractive regime was based on the exports of a number of extractive commodities, among which oil, timber, minerals and gas (Gellert, 2010a). In this period, natural resource abundance has generated ambiguous development outcomes. Purely in an economic sense, it appears to have been a blessing for the country, because it was able to achieve rapid economic growth during the 1970s and 1980s (Rosser, 2007). Nonetheless, economic growth was achieved under an authoritarian regime in which human rights were not respected, and it was accompanied by high levels of corruption and massive inequality (King, 2000; Winters, 2011).

Indonesia's contemporary political economy remains shaped by resource extraction, although the types of commodities have changed (Gellert, 2019). For decades, Indonesia's extractive regime was mainly based on the export of oil and timber, but these commodities have been replaced by palm oil and coal nowadays. Regardless of the change in natural resources, the country has been able to continue achieving positive economic growth rates after democratisation. At the same time, levels of corruption and inequality have remained significantly high (Transparency International, 2020). So although Indonesia underwent a change of regime type, multiple negative development outcomes associated with the resource curse have not disappeared.

In conclusion, a political economy based on the extraction of natural resources has been present in Indonesia, both under authoritarianism and democracy. The resource curse purely in its economic sense, that natural resource abundance is negatively associated with economic growth in comparison with natural resource scarcity, cannot be found in Indonesia, neither under Suharto nor today. However, other negative development outcomes related to the resource curse, such as increasing the durability of authoritarianism and high corruption rates, can be

observed. Because the resource curse in its traditional form has already been studied to a large extent, a sole focus on the negative development outcomes drawn from the literature would probably not yield any critical insights. However, many scholars have observed that Indonesia's political economy has been shaped by oligarchy and clientelism since Suharto took office in 1967. Winters (2011) and Hadiz and Robison (2013) argue that Indonesia's politics and economy were driven by the interests of oligarchs in the New Order, and that those same interests continue to shape the political economy ever since democratisation in 1998. According to Fukuoka (2013), relations in the New Order state were based on clientelism. These clientelist relations have persisted in Indonesian politics, as demonstrated by Aspinall & Berenschot (2019) in their investigation into the country's elections in its first two democratic decades after Suharto.

The fact that Indonesia possesses an abundance of natural resources while at the same time its political economy is shaped by oligarchy and clientelism raises questions about the role of natural resources in structuring this very political economy. In this analysis, I test whether natural resources have proven to be a curse for Indonesia's political economy, both under authoritarianism and democracy. Moving away from the resource curse in its traditional reading seems a plausible and interesting research opportunity, which may produce critical insights. Therefore, the research rests on testing the resource curse through an analysis of the role played by natural resources in shaping the country's political economy, with a special emphasis on the establishment and sustainability of oligarchy and clientelism in Indonesia. The analysis is based around the research question, 'What is the impact of natural resources on Indonesia's political economy under authoritarianism and democracy?'

3 Methodology

In this thesis, a comparative historical analysis will be conducted through comparing the role of natural resources in shaping Indonesia's political economy in two distinct historical periods. The first period is Indonesia's authoritarian era under President Suharto, which lasted from 1967 until 1998. The second period marks the country's democratic era and runs from 1998 until present. Indonesia has the largest endowments in natural resources of Southeast Asia, making it an interesting case for studying the connection between natural resources and a country's political economy. A comparison of the impacts of natural resource abundance in these two eras in Indonesian modern history is of particular importance, because inferences can be made about the effects of regime change on the political economy, especially with regards to oligarchy and clientelism.

In the literature, democracy is associated with state institutions and legal systems that function to defend the majority of the population from potential abuses of power by the few (Bertrand, 2013). It does so by regulating power and interests to ensure the power of the few is limited and personal enrichment or similar personal interests are avoided. In contrast, authoritarian states are often ruled by a small group of elites or oligarchs that set the rules, control the regime and acquire personal wealth without much obstruction (Bertrand, 2013). For these reasons, it seems odd that oligarchy and clientelism have been able to survive the process of democratisation that took place in 1998. In an attempt to solve this puzzle, this research examines the role of natural resources in upholding these 'authoritarian' practices. I hypothesise that the politics and economics revolving around the country's natural resources have allowed the persistence of the power of Indonesian oligarchs and the endurance of clientelist relations within the state.

It might be useful to clearly conceptualise the main variables of the analysis, oligarchy and clientelism. Oligarchy is the extreme concentration of wealth into the hands of private actors that are closely associated to the state, and the politics of wealth defence that come with it (Winters, 2011). Clientelism is a political system based on an enduring exchange relationship between patron and client, in which leaders hold on to power by providing personal favours that secure the key followers' loyalty (Fukuoka, 2013).

The analysis will be based on a combination of primary and secondary data sources. Primary data will be drawn from reports of NGOs, such as The Gecko Project and U4 Anti-Corruption Resource Centre. Secondary sources will mainly consist of academic literature from books and journal articles.

In order to answer the research question ‘What is the impact of natural resources on Indonesia’s political economy under authoritarianism and democracy?’, qualitative research will be undertaken by means of comparative historical analysis. Comparative historical analysis, an approach used by many political scientists, is an examination of events that are compared in multiple historical periods (Thelen & Mahoney, 2015). The aim of the analysis is to make inferences about the impact of a certain variable, in this case natural resource abundance, in different times in history. In my analysis, the impact of natural resources on Indonesia’s political economy under the country’s authoritarian period will be compared to its impact under the democratic era.

4 Natural resources and the political economy under the New Order

In this section, I analyse the role of natural resources during Indonesia's authoritarian period. The analysis shows how and why the extraction of natural resources has been a vital component of the country's political economy. I start by analysing the main characteristics of the New Order's politics and economics, and their indissoluble link to the state's vast amount of natural resources. Subsequently, analyses of the oil and gas industry as well as the forestry sector illustrate the role of natural resources in two of Indonesia's most important extractive industries under the New Order. The final section is devoted to the fall of authoritarianism in Indonesia.

In 1965, members of the Indonesian armed forces removed President Sukarno from power. Major-General Suharto became Indonesia's new President in 1967. Suharto took office in a time when Indonesia suffered from negative economic growth, massive inflation, no foreign reserves, and an enormous national debt (Vatikiotis, 1998). These conditions, under which Suharto came to power, are crucial to understand the future direction Indonesia's politics and economy would take. The new president saw the development of the country as his major task, in which he himself would be critical for achieving this objective. Therefore, Suharto had to secure that he would stay in power for a long time. Natural resources would play a key role in the process of power consolidation.

In Indonesia, natural resources are inextricably linked with the country's political economy under authoritarianism. In large parts of the New Order, two-thirds of government revenue and nearly three-quarters of merchandise exports were provided by oil, gas and related minerals (Hill & Narjoko, 2010). Indonesia's development was characterised by a political economy based on the extraction of natural resources. As Gellert (2010a) notes, an extractive regime relies on the "extraction of multiple natural resources in the formation of an economic and political order that is also supported by global and regional forces" (p. 28). Motivated by securing his power, natural resources allowed Suharto to establish and nourish a political system of oligarchy that was crucial to the consolidation of his regime. In order for this oligarchy to arise, two things had to be taken care of first. On the one hand, opposition from civil society had to be dealt with to ensure regime stability. On the other hand, Suharto needed to eliminate the fairly effective and independent government institutions, especially in the legal sphere, that had been in place in Indonesia since independence in 1949. The military, together with

conservative Islamic forces, removed the threat of strong opposition from civil society during the fall of 1965 when it executed a relentless attack on the Communist Party of Indonesia (*Partai Komunis Indonesia*, PKI), in which hundreds of thousands of peasants and workers associated with the party were slaughtered and the party's leaders were killed, captured or detained indefinitely (White, 2016). Suharto's predecessor, President Sukarno, laid the basis for the institutional devastation needed for an oligarchy to arise. The declaration of martial law in 1957 and the presidential decree to reinstate the authoritarian 1945 Constitution finally led to complete erosion of the Trias Politica in Indonesia, which allowed Suharto to capture the formerly independent government institutions (Winters, 2011). The removal of strong opposition from civil society and the dismantlement of state institutions were of crucial importance for creating an oligarchy that would be influential in Indonesia's political economy for decades.

Now that the most imminent threats to a long stay in power had disappeared, Suharto could start building the oligarchy. Once he took office, Suharto immediately started with the creation of a stratum of oligarchs. Revenues from natural resource extraction were fundamental to Suharto's ability to establish the oligarchy. The creation of Indonesia's oligarchy was fulfilled in three phases (Winters, 2011). The first phase was the military-Chinese phase, which lasted from 1965 until early-1974. Generals and ethnic-Chinese merchants were critical for Suharto, because the former posed the most immediate coercive threat to his regime and the latter were best able to help him earn money rapidly. In the late-1970s, the second phase of oligarchic expansion commenced, the Indigenous phase. The windfall rents coming from the oil booms of 1974 and 1978 allowed Suharto to include the *pribumi*-Malay. This group was mainly included because of political reasons. Anti-Chinese resentment was growing under the *pribumis* as the Chinese oligarchs got richer. Inclusion of the *pribumi*-Malay would lower the possibility of regime opposition and thereby strengthen Suharto's rule. The third phase, the Family phase, took place in the mid- to late-1980s. This phase was not the outcome of potential challenges to the New Order regime, but rather a means to let Suharto's grown up children take a share of the natural resource revenues of the oligarchy.

The oligarchy's involvement in politics was deliberately protected by Suharto. Oligarchic interests were insulated from other social forces, which were purposefully excluded from the political process within the New Order's framework of authoritarian corporatism (Hadiz, 2001). For instance, an elaborate mechanism of control over organised labour was developed that tore

down the country's once vibrant labour movement. Indonesia's civil society was further weakened when a number of laws were passed in the mid-1980s. These laws contained restrictions over mass association and political parties, thereby practically eliminating the last remaining opportunities for legitimate opposition politics (Hadiz, 2001). The elimination of civil society forces under Suharto has had lasting implications for the role natural resources would play after democratisation at the end of the twentieth century, as I explain later.

Access to state resources and state patronage facilitated oligarchic consolidation in the mid- and late-1980s, which allowed the oligarchs to usurp state power and make the state apparatus function as a guardian of the oligarchy's interests (Hadiz, 2001). Through their control over state power and institutions, oligarchs were powerful enough to steer Indonesia's economic policy. The dominance of the oligarchy could be perceived in the state's institutions, such as the military and state party Golkar. During the New Order, the military transformed from a once very powerful institution in Indonesian politics into the bodyguard of oligarchic interests (Hadiz, 2001). Golkar became the oligarchy's political vehicle, which translated itself into the composition of the party. In the 1990s, positions in Golkar were almost completely filled by members of oligarchic families (Hadiz, 2001). In conclusion, natural resources were causal to the emergence and consolidation of Indonesia's oligarchy. The oligarchy, in its turn, owed its wealth to the extraction of natural resources, which allowed the oligarchs to be influential in the country's political economy throughout the New Order. The attention is now shifted towards analyses of the oil and gas industry and the forestry sector that illustrate the impact of natural resources on the New Order politics and economics.

4.1 The oil and gas industry under the New Order

As already stated, Indonesian development under Suharto originated from the extraction of natural resources. Indonesia's extractive regime was based on the exports of a number of extractive commodities, among which oil, timber, minerals and gas. The importance of the oil and gas industry for the New Order can be observed in Law (*Undang-Undang*) No. 8, 1971. This law stated that oil and gas were strategic natural resources to be used for goals regarding the national economy (Seda, 2001). State oil and gas company Pertamina would have an integral part in achieving these goals. Revenues drawn from these natural resources were used by Suharto to accomplish his developmental ambitions and to protect and promote the oligarchy. Large portions of the wealth originating from these natural resources were captured by oligarchs. They engaged in skimming and stealing from the country's natural resource

abundance. Especially rents from oil and gas, which went through Pertamina, were very lucrative. Suharto appointed fellow army general Ibnu Soetowo as leader of the oil and gas enterprise (King, 2000). Whereas Pertamina should have concentrated on achieving expertise for national development, it was more concerned with distributing patronage in order to create a network of private oligarchs (Winters, 2011). A group serving as contractors for Pertamina quickly became part of the country's oligarchy. An oligarchy which in turn heavily impacted Indonesia's politics and economy.

Not only oil booms, as we saw with the oligarchic expansion involving the *pribumi*-Malay, but also oil busts profoundly influenced the country's political economy. When oil prices were falling in the 1980s, pressures for economic deregulation grew. The result of this deregulation process was not a more transparent and liberal state, but rather a further protection and promotion of oligarchic power through a selective privatisation process (Hadiz, 2001). In other words, the oligarchs who had enjoyed state protection during the oil booms in the 1970s once again benefited. The privatisation process basically transferred state monopolies into the hands of well-connected oligarchs, which allowed for the expansion of corporate power in Indonesian politics (Hadiz, 2001). In sum, economic liberalisation, albeit limited, did not go hand in hand with political liberalisation in the 1980s. Rather, it was accompanied by the appropriation and re-fashioning of the existing political framework and further consolidated oligarchic rule (Hadiz, 2001).

4.2 The forestry sector under the New Order

Just as the oil and gas industry, Indonesia's forestry sector perfectly demonstrates the inseparable link between natural resources and the oligarchy under Suharto. As part of a national developmentalist strategy, domestic actors, both private and state, would dominate the sector throughout the entire New Order and rule it by means of an industrial extractive model of forest development and accumulation (Gellert, 2010b). The sector came to be governed by an oligarchy of domestic timber industrialists, under the leadership of Suharto trustee Mohamad (Bob) Hasan. Concession holders, among which foreign firms, military officials, predominantly ethnic-Chinese conglomerates and members of the Suharto family, acquired massive wealth from the extraction and export of timber (Gellert, 2010b). The rising economic power of these oligarchs provided them with enormous power over the political system, which was so big that the forestry sector was able to survive the demands for liberalisation and privatisation in the 1980s. At the end of that same decade, Indonesia was supplying 79% of the world's tropical

plywood (Scholte, 2020). Deforestation, connected to the trade of timber under the New Order, has had a lasting impact on the country's political economy to the present day. Palm oil plantations were planted on land that used to be filled with tropical forests. More on this will follow in chapter five, but before that, I move to explain the changes in the New Order oligarchy that have indirectly led to the fall of Suharto in 1998.

4.3 The end of the New Order

Suharto ruled the oligarchy in a sultanistic manner, based on patronage and clientelism. The oil price surge in the 1970s had allowed Suharto to consolidate the clientelist state (Fukuoka, 2013). In this state, personal connections rather than persuasive investment proposals determined whether one would receive state loans (Barter, 2008). This is prototypical for a weak state, in which the state and its laws are secondary to personal profits and social networks (Barter, 2008). The personalistic nature of the New Order comes from the institutionalisation of personal rule as opposed to strong impersonal institutions of law (Winters, 2011). Suharto built and ruled the oligarchy in a quite orderly and predictable manner, in which the oligarchs knew what to expect as long as they kept their side of the bargain. In this sultanistic oligarchy, proximity to Suharto was most important for oligarchs' wealth defence (Winters, 2011). Proximity would determine who would become rich and remain rich. It was a system that lacked any rule of law and was flooded with corruption.

The last phase of oligarchic expansion may have backfired on the longevity of the Suharto era. During the entire New Order, Suharto had offered coherence and stability among the nation's oligarchy. However, exactly these two elements decreased when the president's children had been incorporated into the oligarchy (Winters, 2011). The children behaved in a predatory manner that was not in line with the oligarchic norms. After a while, criticism erupted within the oligarchy and the children started to get involved in conflicts with the other oligarchs (Winters, 2011). Ultimately, coherence and stability were further undermined by people acting in the name of Suharto's offspring (Winters, 2011). Because of the absence of limitations on the children, other actors around them would seek to benefit from grabbing the country's natural resources and wealth by acting on behalf of them. In short, the reliable and stable system of wealth defence got disrupted, which prudently heralded the end of the New Order. Nevertheless, Suharto chose to protect oligarchic interests until the very end. When a bailout package of the International Monetary Fund (IMF) to save the Indonesian economy in 1997 included conditions to end import monopolies and cancel commercially doubtful projects run by

oligarchs, Suharto rejected to fulfil those, which worsened the economic crisis (Hadiz, 2001). Instead of complying to the conditions set by the IMF, which would have been beneficial to the country's economy and probably to the longevity of his regime as well, Suharto preferred to keep the oligarchy alive. This decision unambiguously exemplifies how powerful oligarchs were in the final years of the New Order.

5 Natural resources and the political economy in post-*reformasi* Indonesia

In this section, I examine the role of natural resources in Indonesia's democratic period originating from *reformasi* in 1998. The analysis starts by focusing on the continuities and changes that have followed the fall of the New Order. Afterwards, the attention is shifted towards the impact of natural resources on the political economy in a number of realms: elections, the forestry sector, elite capture of development projects and the survival old oligarchs' influence in the country's politics and economics.

So authoritarianism was halted in 1998 with Suharto's removal from power, but this did not mean that Indonesia entirely transformed to democracy. Indonesia's political system still contains elements from the New Order, which we can see in the oligarchy thesis. The oligarchy thesis, developed by Hadiz and Robison (2013) and by Winters (2011), states that post-*reformasi* Indonesia continues to be dominated by oligarchs, although the country is no longer led by an authoritarian government (Tapsell, 2015). However, as I will show, this does not mean that nothing has changed in Indonesia since democratisation, it rather means that politics and economics continue to be dominated by the same faces as before 1998 whilst new faces, who are moving towards the same predatory practices that have defined Indonesian politics for decades, have emerged as well. The oligarchy established under the extractive New Order regime appears to have generated deep and lasting implications for the country's political economy.

In order to explain the role of natural resources under democracy, it is crucial to understand how democratisation has been implemented. Civil society was too weak to fulfil the task of democratising Indonesia, which allowed the oligarchy to capture the process of democratisation and reinvent itself (Winters, 2011). The foundations for the oligarchs' success lie in the New Order politics. The reason for civil society's weakness can be traced back to a number of events that occurred under Suharto. The elimination of the PKI in 1965 and the crackdown on students in the early-1970s formed the basis for weakening Indonesia's opposition. Together with the laws passed in the mid-1980s that almost entirely restricted legitimate opposition politics, the New Order had produced a civil society that was too much weakened to play a significant role in the democratisation process. For oligarchs, the key to surviving *reformasi* in 1998 was the flexibility of the oligarchic networks of political authority and economic interest that were

entrenched in the state's institutions (Hadiz & Robison, 2013). Crucial for the oligarchy's continuity was its ability to maintain grip on pivotal parts of the bureaucracy, as well as on essential financial ministries and on the judiciary and commercial courts (Hadiz & Robison, 2013). The fact that oligarchs were able to capture the process of democratisation is extremely significant, because this has prevented change with regard to the country's natural resources, which in turn ensured the oligarchy to remain influential in Indonesia's political economy.

The legacy of the oligarchy created during the New Order can be seen in Indonesia's judiciary and courts, political parties and parliaments, and local politics. Oligarchic power was most entrenched in the country's judiciary and courts. After *reformasi*, these institutions continued to be held by officials who were appointed by Suharto (Robison & Hadiz, 2004). In the new democratic setting, oligarchs were forced to obtain political power and control over state institutions via political parties and parliaments. Old oligarchic forces spread themselves among the major political parties in order to continue influencing Indonesian politics. Indonesia's political parties thus were not the result of claims based on ideology or policy agendas, their function is rather to act as a vehicle for the protection and promotion of oligarchic interests (Robison & Hadiz, 2004). For Golkar, this meant that from now on it had to compete with other political parties in offering patronage and access to state resources, such as the PDI-P, which started off as an anti-Suharto and pro-reform party but was quickly captured by the oligarchy. When looking at the nature of Indonesian local politics, it is important to analyse the effects of decentralisation. As part of the country's democratisation process, decentralisation was implemented in 2001. The idea of decentralisation was that it would alter power relations in local politics. Decentralisation put real administrative and financial authority into the hands of local parliaments, mayors and district heads (*bupatis*). Hadiz and Robison (2013) find that the vast majority of candidates for seats in local parliaments, and for positions of mayor or *bupati* had exercised authority at the local level during the New Order as well. Thus, decentralisation failed to fulfil its function of fundamentally transforming power relations because the old political forces were able to survive the 1998 regime collapse and capture power on the local level (Hadiz, 2010). Natural resources played an important role in the entrenchment of the oligarchy in political and state institutions. This is because the money with which the oligarchs were able to infiltrate in these institutions was drawn from natural resource extraction. The oligarchs' ability to maintain grip over Indonesia's natural resource endowment allowed them to stay influential in the political economy after democratisation.

Clientelism is another legacy of the Suharto period. The New Order state was based on patronage and clientelism. These same dynamics continue to afflict Indonesian politics. In Indonesia's democracy, politicians gain political support on the basis of clientelist relations. They offer cash or other goods to voters or community groups, distribute small-scale projects, and trade contracts, licenses and other benefits to businesspeople in exchange for campaign funding (Aspinall & Berenschot, 2019). The fact that candidates should either be very wealthy or have great control over state resources in order to stand a chance in running for office, lends itself perfectly for clientelist politics. The unequal distribution of power in Indonesian society is what clientelist politics thrive upon. Natural resources play a double role in these politics of clientelism. Oligarchs and state elites fund political campaigns in exchange for the provision of rights to exploit natural resources once the politician takes office. But it also works the other way around, money obtained from natural resources finds its way into politics by funding election campaigns, thereby generating future leverage over politicians.

In spite of democratisation and decentralisation, Indonesia's political economy remains shaped by an extractive regime based on natural resources. In 2014, Indonesia was the world's top producer of palm oil and nickel, second-largest producer of tin, fourth of bauxite and twelfth of gold (EITI, 2018). A set of policy changes ordered by incumbent President Joko 'Jokowi' Widodo has illustrated the continuing importance of extractivism in Indonesia's political economy (Hatcher, 2020). Jokowi claims that the country's natural resource abundance should be used in favour of the Indonesian people. Thus, change away from natural resources in the country's political economy seems far away.

Despite all these continuities, several changes have unfolded as well. In contrast to Hadiz and Robison's and Winters' oligarchy thesis, Buehler (2014) argues that Indonesian local politics do not continue to be dominated by oligarchs established under the New Order. Rather, new state elites emerged who were able to adapt to the changing nature of Indonesian politics after *reformasi*, thereby gaining power in local politics (Buehler, 2014). These state elites have done so through selectively reaching out to societal groups that can empower them with the resources needed to win elections. In other words, they adopt policies in order to gain and keep the support of groups needed to stay in power under the country's electoral democracy. Although economic structures have largely remained the same, political dynamics are different now. The result of these changes is that societal groups are better able to influence agenda-setting and policy adoption since *reformasi*, but remain to lack influence over policy implementation (Buehler,

2014). Thus, societal groups are now better able to influence the political economy of natural resources, but their impact remains modest.

Indonesia not only experienced a shift from authoritarianism to democracy at the end of the twentieth century, it also saw a shift in the type of oligarchy. The country's oligarchy transformed from a sultanistic oligarchy into an electoral ruling oligarchy (Winters, 2011). During the sultanistic oligarchy of the New Order, Suharto personally tamed the country's oligarchs. However, after democratisation in 1998, an electoral ruling oligarchy, which is more chaotic and under which far fewer effective constraints on oligarchic power exist, came into existence (Winters, 2013). This transformation has paved the way for natural resources to impact Indonesian politics and economics via new routes, especially money arising from resource extraction has proven to be a powerful method in influencing the political economy. In stark contrast with the New Order, in which proximity to Suharto was most important for an oligarch's protection, money became the vital power resource as an assurance for wealth defence.

The essential role played by money can be observed in a number of realms. First of all, the legal system has shown its vulnerability to the influence of oligarchs. Since *reformasi*, case brokers have become the primary actors in oligarchic wealth defence in this realm (Winters, 2011). Legal matters are now being settled through cash payments to judges in order to rule in favour of the oligarchs. Secondly, the oligarchy has been able to infiltrate in major state forces. Since 1998, the oligarchs have always maintained a small army of crooked officials in the police, the tax office, and the attorney general's office, which assist them in case problems arise (Winters, 2011). Finally, and perhaps most strikingly, the politics of money are encountered in times of elections, where vote buying is the norm rather than the exception. Through analysing Indonesian elections over the past two decades, Aspinall and Berenschot (2019) find a systematic process through which candidates spend their money. It all starts within the own political party, when candidates bribe party officials in order to secure their selection as a candidate. What follows is the recruitment of a comprehensive group of political activists and influential figures. This group will form the candidate's 'success team' (Aspinall & Berenschot, 2019). The 'success team' is equipped with cash to buy the support of local powerbrokers, which are people with a large amount of influence in the area, such as religious leaders, village chiefs and heads of sports clubs. These local powerbrokers recruit the support of people in their sphere of influence. The final step is usually referred to as a 'dawn attack', in which large

numbers of supporters take to the streets and knock on doors, thereby giving money directly to voters in order to ensure their support for the candidate (The Gecko Project, 2017).

All these realms demonstrate how money drawn from natural resources heavily influence Indonesian politics in the democratic era. I now provide several illustrations of the impact of natural resources on Indonesia's political economy after democratisation.

5.1 Natural resources and Indonesian elections

Indonesian elections on both the regional and national level provide a clear illustration of the central role of natural resources and the politics of money. In regional head elections, political investors play a significant role in funding candidates. Political investors are normally entrepreneurs and business groups that seek to gain the benefits from state resources. In return for their monetary support, winning candidates promise them economic and political protection (Hidayaturrehman, Ngarawula & Sadhana, 2020). Economic resources from Regional Owned Enterprises, especially those engaged in oil and gas, are distributed to the political investors once the candidate takes office (Hidayaturrehman et al., 2020). Through this way, state and natural resources are being captured by state elites and oligarchs, thereby preventing local populations to benefit from them. Political investors often determine a candidate's fate, making them very influential in Indonesian regional elections.

The role natural resources play in Indonesian politics could also be observed during the 2019 national elections. Incumbent Jokowi from the PDI-P was facing Gerindra's challenger Prabowo Subianto in the race for presidency. Interestingly, Subianto is Suharto's ex son-in-law and was commander of Indonesia's special forces under the New Order. At the time of the elections, Subianto owned huge plots of land that were used for plantations and mining. His running mate, Sandiaga Uno also had businesses in gas and mining. 98 percent of their funding turned out to be retrieved from the businesses of Subianto and Uno (Morse, 2019). Funding for Jokowi's campaign was obtained in an equally shady manner. Jokowi and his running mate Ma'ruf Amin received two shadowy donations of more than \$2.5 million in total from two groups of the *Perkumpulan Golfer* (Golfers' Club), thereby exceeding Indonesia's election laws that prohibit campaign contributions of over \$1.7 million (Morse, 2019). These groups were connected to the owner of companies investing in mining and plantations, businessman Wahyu Sakti Trenggono, who coincidentally also was treasurer for Jokowi's campaign (Morse, 2019).

As both of these elections show, money extracted from natural resources continues to find its way into Indonesian politics. Oligarchs and state elites maintain a great say in shaping the country's political economy.

5.2 The forestry sector in post-reformasi Indonesia

When shifting our focus to the forestry sector, we find that timber has remained an important source of revenue from natural resources since the fall of Suharto. In the process of democratisation, major companies active in the forestry sector managed to secure their licences allowing them to continue operations (Hapsari, 2011). Therefore, the same oligarchic networks have remained in place, as can be observed in the Pelalawan district in the Riau province. Riau, located on the island of Sumatra, has rich natural endowment in timber. In the first decade of democratic Indonesia, Tengku Azmun Jaafar was *bupati* for Pelalawan. Under his watch, a corrupt network, involving powerful brokers, private sector entrepreneurs and *bupatis*, that provided scope for illegal logging in the forestry sector was established (Baker, 2020). Jaafar improperly issued logging licences for plantation forests to fifteen pulpwood companies, thereby allowing them to grab and steal from the country's natural resources in the same way oligarchs did under the New Order. The political economy of resource extraction by state elites Pelalawan had known for decades, thus persisted and was reinstated in the district's forestry sector after democratisation.

As I already briefly touched upon earlier, the political economy of the forestry sector under the New Order is causal to the emergence of a powerful palm oil industry. In the mid-1990s, conglomerates with ties to Suharto started to invest heavily in plantations for the production of palm oil. The amount of hectares used for palm oil production grew from 1.1 million hectares in 1990 to 11.3 million hectares in 2015, making Indonesia the world's biggest palm oil producer (Scholte, 2010). Many of the country's palm oil plantations are found on the island of Kalimantan. An example from Seruyan, a district on Kalimantan, exquisitely shows how wealth acquired from the production of palm oil is inextricably linked to Indonesian politics. Decentralisation had given the *bupatis* the authority to enact their own regulations. Therefore, they had the right to give licences for palm oil production to whomever they wanted, without public consultation or bidding (The Gecko Project, 2017). In 2003, Darwan Ali was elected *bupati* for Seruyan. After assuming office, he started to rule Seruyan in a Suharto-like manner. Through generously spreading permits for creating palm oil plantations, Darwan established an elaborate system of companies that were owned by his relatives and cronies (The Gecko Project,

2017). In other words, Darwan had been able to create a palm oil oligarchy. In the consequent elections of 2008, funding for Darwan's campaign was attracted from local businesspeople and contractors, and votes were bought by means of palm oil revenues (The Gecko Project, 2017). The Seruyan' case clearly shows the persistent role played by natural resources in Indonesia's political economy.

5.3 Natural resources and elite capture of development projects

Many conservation and development projects were established as part of Indonesia's decentralisation legislation arising from democratisation. These projects were aimed at the stimulation of local empowerment, prevention of corruption and conservation of forests (McCarthy et al., 2014). However, many of them were captured by local elites who used their positions to materially benefit from the projects. Bandar Agung and Ladang Palembang, two Sumatran villages, are illustrating cases for the ways in which local elites continue to capture the benefits from natural resources. Since 2002, a development project focused on forest conservation and the prevention of illegal exploitation had been in place in Bandar Agung (Lucas, 2016). The responsibility for monitoring and enforcing the project was put into the hands of Bandar Agung's village head. Even so, the village head knew that illegal exploitation of sapwood and timber was taking place in the village's forest but he refused to fulfil his role as enforcer of the conservation project. Illegal loggers could go into the woods without having to fear being reported or prosecuted, because bribes restrained the village head from speaking up (Lucas, 2016). Several miles north, the case of a water supply development project in Ladang Palembang shows similar dynamics of the inseparable connection between natural resources and local elites. In 2008, a National Community Empowerment Program involved the creation of a domestic water system (Lucas, 2016). The construction and financial management of the project was handed to members of the elite family that had held the office of village head in Ladang Palembang for many decades. In addition, the village's sitting village head, brother-in-law of the project leaders, demanded a 5% kickback on all revenues resulting from the project (Lucas, 2016).

Both events in these Sumatran villages reflect the impact of natural resources on how local elites engage in politics. Corruption is intrinsically linked to the exploitation of natural resources in Bandar Agung's forests, whereas the water supply development project in Ladang Palembang demonstrates how revenues from natural resources continue to be absorbed by elite families by means of nepotism and corruption.

5.4 Natural resources and the survival of the old oligarchs

Perhaps the best way to illustrate the lasting impact of natural resources on Indonesia's political economy is to focus on the old oligarchs who were able to survive *reformasi* and remain influential in the democratic era. A prime example is successful Indonesian businessman Aburizal Bakrie. During the New Order, Bakrie was one of the top officials at Bakrie & Brothers, a conglomerate that was founded by his father. Bakrie & Brothers operated in the mining industry and was closely linked to Suharto. In the 1990s, Bakrie was close enough to Suharto to be considered a family member (Leith, 2002). Via the company, Bakrie had an influential say in Indonesia's political economy under the authoritarian regime. Although Suharto was successfully removed from power in 1998, *reformasi* did not bring down Bakrie. Bakrie & Brothers, whose name has been changed to the Bakrie Group, continued its mining operations and became active in the oil and gas industry in 2001 (The Insider Stories, 2019). Bakrie's political career took off in 2004, when he was appointed Indonesia's Coordinating Minister for Economy. A year later, the cabinet was reshuffled and Bakrie became Coordinating Minister for People's Welfare. In 2009, Bakrie successfully ran for the chairmanship of the Golkar party, a post he fulfilled until 2014 (Warburton, 2014). The wealthy businessman even announced his candidacy for the presidency in the 2014 elections, but that bid turned out to be ill-fated. His achievements in the natural resources sector allowed him to become a politician of stature. Bakrie's top positions in the Bakrie Group and in Indonesian politics made him a powerful actor in shaping the country's political economy, both under authoritarianism and democracy.

6 Conclusion

This thesis has shown that natural resources have significantly impacted Indonesia's political economy, both under authoritarianism and democracy. The analysis of the New Order has demonstrated the fundamental role of natural resources in shaping the political economy. In this period, Indonesia's development was characterised by a political economy based on the extraction of natural resources. Furthermore, natural resources were causal to the creation of Indonesia's oligarchy, which would quickly become influential in the country's politics and economics and has been so ever since. When looking at post-*reformasi* Indonesia, I observe that regime change has not enabled a significant shift in the country's political economy. The political economy remains heavily impacted by natural resources and the actors involved in their extraction. The country's oligarchy, which was established and consolidated because of the extractive nature of the New Order, was not halted by *reformasi* either. Democratisation pushed the old oligarchs to reinvent themselves and allowed new oligarchs to emerge. The old oligarchs were able to maintain a strong influence on the state and its institutions, whereas the new oligarchs took advantage of Indonesia's newly established electoral democracy and began to operate through taking money directly from state institutions by holding positions in the executive, legislature and judiciary (JATAM, 2018). Although their routes of influence differ, both branches of the oligarchy enjoy their influence in the political economy because of Indonesia's abundance of natural resources. The answer to the research question, 'What is the impact of natural resources on Indonesia's political economy under authoritarianism and democracy?', is that natural resources are inextricably linked to Indonesia's political economy, both under authoritarianism and democracy.

A future of further democratisation appears unlikely to unravel in Indonesia. As Robison and Hadiz (2004) note, democracies where oligarchs are influential in state power have shown a great capacity for survival. Oligarchs and state elites are so entrenched in the Indonesian state that only a full-blown revolution from below would be able to overthrow the current system. Given the weak nature of the country's civil society, this does not seem likely to happen in the short term. Indonesia's biggest challenges, such as massive inequality and corruption, will probably stay in place unless radical steps are being undertaken.

This study has been an attempt to determine the impact of natural resources on Indonesia's political economy. A more thorough understanding of the ways in which natural resources define Indonesian politics and economics is essential for developing policy measures to mitigate negative development outcomes associated with the country's abundance of natural resources. Reducing the negative effects of Indonesia's natural resources needs to be the main objective. Therefore, future research should explore opportunities to counter elite capture of natural resources in order to make the entire population enjoy the benefits from the country's natural wealth.

7 Bibliography

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