

Political Economy of Development

from Global to Indonesian Context

— A Review of Literature —

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Political Economy of Development from Global to Indonesian Context

— A Review of Literature —

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Table of Contents

Chapter 1 Introduction	1
1.1 New Institutionalism as an Approach.....	3
1.2 Research Methods.....	7
Chapter 2 Before Institution Theory	8
2.1 Classical School of Political Economy Perspective	8
2.2 The State Intervention in Development Perspective	11
2.3 Alternative Approaches: Post Development and Dependency Theories.....	18
2.4 Neo-Classical Perspective.....	23
2.5 The Washington Consensus	27
Chapter 3 After Washington Consensus: The emerging of Institution Theory	31
3.1 How to create inclusive economic institutions?	44
3.2 OECD's Perspective on Inclusive Institutions	48
3.3 Transparency and Development	53
3.4 Participation and Development.....	56

Chapter 4 Ethnicity and Development.....	61
4.1 Primordialism.....	61
4.2 Constructivism.....	64
4.3 Instrumentalism.....	66
4.4 Conceptualising ethnicity and ethnic polarization.....	70
4.5 Ethnic Polarization after Regime Change.....	73
4.6 Inclusive Institutions and Ethnicity.....	77
4.7 The impact of ethnic polarization on Institutions.....	82
4.8 Ethnicity and Institution in Indonesia.....	90
Chapter 5 Framing the Politics of Development	
Discourse in Indonesia.....	102
5.1 Colonial Era.....	102
5.2 Understanding and Debating New-Order Development Discourse and Policies: Oligarchy versus Pluralist approach.....	108
5.3 Institution, Decentralization and Development in Indonesia after Suharto.....	112
Chapter 6 Conclusion.....	120
References.....	123

List of Figures

No table of figures entries found.

List of Tables

Table 1	The Washington Consensus	28
Table 2:	“Augmented” Washington Consensus	33
Table 3:	Barcelona Consensus	34
Table 4	The BeST Consensus	37
Table 5	The Commission’s ingredients	38
Table 6	The Commission’s list of bad ideas	40
Table 7	Inclusive and Extractive Economic Institutions looks like	43
Table 8 :	Inclusive and Extractive Political Institutions looks like	44
Table 9 :	OECD policy levers	50

Chapter 1 Introduction

Why do some governments perform well, when the others perform badly in the issue of development such as poverty, welfare, public good provision, environment and the lack of human development? Different theories exist in the literature regarding these questions. The main aims of book are; firstly, to discuss the debate among scholars to frame these questions. Secondly, to find novelty in this study so far in order to support this thesis argument that academia has insufficiently addressed the research question so far.

In this book we organise our discussion in several parts. First of all, we investigate the theory of classical economy, Keynesian Economics, Marxist theory to frame these problems. Secondly, this literature review book will review the emerging inclusive institution theory after the death of Washington Consensus. Thirdly, this book will review the specific institutions such as transparency, accountability and corruption and its

relation to development. This book also will explore the debate among institution perspective, geographical perspective and culture perspective in looking the explanation for good and bad in development. Next, this book will explain about the resource curse theory and the impact of ethnic relation to the governance. Lastly, this paper will review the previous study about Indonesia on the relation of ethnic, institution and development.

However, before that, it is necessary here to clarify exactly what is meant by the institution and development. In the literature, the term of institution refers to the formal or informal legal law such as procedures, routines activities, norms and conventions embedded in the organisational structure of the polity or political economy. They can range from the rules of a constitutional order or the standard operating procedures of bureaucracy to the conventions as a formal rule (Hall & Taylor, 1996, p. 938). Furthermore, while a variety of definitions of the term 'development' have been debated by scholars, this paper will use the definition suggested by Amartya Sen (1999) who saw it as the people capability. Peter Evans describes development in Sen's point of view as capability approach rather than economic growth indicator such as gross domestic product GDP:

“Unlike increases in income, the expansion of people’s “capabilities” depends both on the elimination of oppression and on the provision of facilities like basic education, health care, and social safety nets. Basic education, health care, and women’s rights are themselves constitutive of development. Growth in real output per head is also likely to expand people’s capabilities, especially at lower levels of income, but it cannot be considered, in itself, the ultimate yardstick of development or well-being” (Evans, 2002, pp. 54–55).

In the operational level, then the idea of capability approach are operationalized by the United Nations Development Programme (UNDP) in measuring development quality by promoting an index that well known as “Human Development Index (HDI)”. Furthermore, while a variety of definitions of the term ‘development’ have been suggested, this paper will add the sustainable environment as the modified from Sen’s definition. It is also suggested by (UNDP) in their The Sustainable Development Goals (SDGs).

New Institutionalism as an Approach

There are three kinds of new institutionalism theory approaches; historical institutionalism, rational choice institutionalism and sociological institutionalism.

The term new institutionalism was coined by March and Olsen (Marsh & Stoker, 2010, p. 63) . The emerging of new institutionalism in political science as popular approach in the beginning of 21 century is the revival of institution as focus of political science and also economics. In the beginning of political studies the old institutionalism was criticized as non-science by the behaviorism approach scholars. Old institutionalism assumed politics is the study of 'what ought to be' rather than 'what is'. In the other word, old institutionalism tended to normative, legal formalistic in their study. Thus, new institutionalism reborn with the same focus with old intuitionism in studying 'institution', but with the 'what is' perspective. New intuitionism is the synthesis between old institutionalism approach which focus in intuition and behaviorism which focus in individual as political actors (Peters, 1999, pp. 1-23).

It is necessary here to clarify exactly what is meant by Institution. In the literature, the term of institution refers to the formal or informal legal law such as procedures, routines activities, norms and conventions embedded in the organizational structure of the polity or political economy. They can range from the rules of a constitutional order or the standard operating procedures of a bureaucracy to the conventions as a

formal rule (Hall et al., 1996, p. 938). This definition will be used in this research in its broadest sense.

This study will use institution approach, which employs a rational choice theory of new institutionalism. Based on this approach, the term institution refers to an equilibrium of political actors' activities in maximizing their utilities (Shepsle, 2009, p. 26) . The other perspective describe rational choice instituion is related to economic theory of institutions. According to this point of view, actors act to maximixzing utilities as a respond to incentive stimulated by the institutions (Peter, 2012, 52-553) . Individuals are product of instituion, despite they may change its instituion (Chang, 115). The last perspective in looking institution based on rational choice believe that instituion is the individuals in institution Peter, 2012: 55-56).. However, this last meaning of institution focus with individu to get maximum benefit from institutions tends to close the rational choice theory rather than new institution appraoch.

The other major aproach is historical new instituion. This approach is the dominant perspective in comparative politics (Capoccia, 2016, p. 1096). According to this approach, institution is an instrument to shape human behavior Historical institutionalism is the early perspective of new institutionalism as a

respond of structural-functionalism approach in political science. The problem with the assumption of historical institutionalism in studying local governance and development is that the complexity of development is not just only caused by political or economic institutions, but also the most important thing is how the proses in creating this institution. As discussed above, the main limitation of historical institutionalism, however, is historical institutionalism avoids the fact that the institution is created by political or economic actors. Furthermore, the critics also emphasizes the less theory building in historical institutionalism approach (Thelen, 1999, p. 372).

This study will be designed in opposition to the assumption of historical institution approach which assumes that institution is given or 'rigid rule of game' rather than created by rational actors. This study will focus on how institution (within individuals attempt to maximize utilities) has changed by social and political interaction that has been assumed by the rational choice institutionalism approach (Pierson, 2011, p. 107). However, this study will be open and eclectic with the other perspectives of new institutionalism. Sometimes, in the reality, to explain research reality in better explanation, these perspectives have areas of overlap. (Orfeo Fioretos, Tulia G. Falleti, 2011, p. 1). Former

American Political Science Association President Elinor Ostrom said in her Nobel Prize lecture that “When the world we are trying to explain ... is not well described by a simple model, we must continue to improve our frameworks and theories so as to be able to understand complexity and not simply reject it” (Ostrom, 2010, p. 436).

Research Methods

To better understand and analyzing, an in-depth reading of historiographical literature as primary document analysis process is required. This strategy includes tracking the same subjects of analysis over time. It will be a chronological analysis of some books and journal articles

There are also media studies the general evolution of institution and ethnic relation over extended period of time from colonial era until the New Order regime. We use a variety of primary sources as documented data. The main purpose of using a hypsographical or historical research design in this thesis is to collect, verify, and analyse evidence from the past to establish facts that allow to understand better the current situation (Howell and Prevenier, 2001; Mahoney and Rueschmeyer, 2003; Lundy, 2008 as cited in González, 2016, p.49).

Chapter 2 Before Institution Theory

Classical School of Political Economy Perspective

The important role of the market in promoting economic development and wealth can determine when we investigated from the idea of Adam Smith in 'the Wealth of Nation' that is known as 'the invisible hand.' His famous sentence said; 'it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their interest.' The other scholars who further developed his ideas are David Ricardo (1772-1823), Jean-Baptise Say (1767-1832), and Robert Malthus (1766-1834). According to this perspective, the search of self-interests by individual economic actors produces welfare outcome. This result is made by the competition in the market. In their efforts to make revenues, producers try to supply cheaper and better goods, ultimately making their goods at the minimum possible costs, thus maximising national

output. Most Classical economists assumed in the so-called Say's Law, which argues that supply makes its demand. The reason behind the idea of welfare was that every economic activity generates incomes that equivalent to the value of its output (H. Chang, 2014, p. 88). Many writers have challenged Smith's claim on the idea of the invisible hand. For instance, John Maynard Keynes who argues that invisible hand or market mechanism cannot fulfil the condition of full employment. To do that, government interventions are needed. For more details about the idea of Keynes are in the next subtitle.

In addition, the classical perspective rejected the idea of government interventions such as protection policies. As a critical respond of mercantilism, classical perspective promotes the idea of free trade initiated by David Ricardo. David Ricardo develops the theory of comparative advantage. According to Ricardo, the country should specialize in some products which have a comparative advantage to that rather than trying to produce everything. With specializing, production would be more efficient; there would be more capacity for development, and scarce resources could be used more effectively (Willis, 2011, p. 33). The main weakness with this theory is that it avoid the importance of industrial upgrading for economic growth and

development when we look the relationship between developing countries who has a comparative advantage in natural resources and developed country who has a comparative advantage in technology (Lin & Chang, 2009, pp. 488–492). In 1960's Japan government has suggested by some the classical orthodox economists for agreeing on the free trade and eliminating the protection policy to the automotive industry. They said Japan and Korea at the time do not have specialization in the automotive industry because they do not have a comparative advantage on this sector. If Japan and Korea followed this idea, now Japan would not be a car exporting country. There would be no giant companies such as Samsung or Hyundai in Korea today because Korean just produce wig as their comparative advantage at that time (Chang, 2007, p. 109). The classical theory also does not look the important of government role in creating development and industrial country that has been implemented successfully in the East Asian countries. The emerging of industrial countries such as Japan, South Korea, and Taiwan is the evidence in how the state has a vital role in the development.

The State Intervention in Development Perspective

There is two kinds of theories that argue state interventions are needed in order to promote development. Firstly, in some western countries, this concept was well-knowns as Keynesian Economic theories. Secondly, “in the Third World, the ‘developmental state’ a parallel conception to Keynesianism, drawing from it but different in several respects, was employed during the post-war year”(Peet & Hartwick, 2009, p. 63). However, this paper will explain the basic idea of Keynesian economics in brief without using technical concept of economics theory.

In contrast with classical economist perspective, Keynesian economists suggest the idea of state intervention for developing welfare rather than *laissez-faire* or invisible hand mechanism. John Maynard Keynes with his influential 1936 book, “the general theory of Employment, Interest, and Money”, argues that government could intervene the market to promote economic growth through either fiscal or monetary policies. For example, fiscal policy mechanism such as increasing government expenditure could stimulate the production in fulfilling the government goods demands. As a result, they will stimulate a new job and will shift aggregate demand due to higher income. On the other

hand, if the economic condition is over production (inflationary gap) when real GDP above the potential GDP, in order to push economy to its potential GDP, the government should reduce the government expenditure. Decreasing of government expenditure will reduce the production of goods due to the decrease in aggregate demand. As a result, in the long run could decrease the inflation. In the long run economic condition will shift to meet their potential equilibrium or potential GDP. (Mankiw & Taylor, 2014, pp. 637–675).

The emerging context of Keynesian economics is related to what happened in economic crisis well-known as great depression in 1929 until the 1930s. Keynes idea then 'were drawn on in the post-war period of development interventions' (Willis, 2011, p. 35). In the US, his idea was adapted by Roosevelt's administration with new deals policy. Roosevelt increased the budget spending to stimulate the economy recovery from recession.

However, Keynes theory does not directly talk about development context; it only focuses on explaining how to deal with great depression or economic recession as short run respond rather than development issues in term of technological progress or institutional changes. In the long run, he said 'we are all dead' if we follow his idea. For the long run, related to development,

technology and demography are the basic requirements for development progress for promoting welfare (Chang, 2014, p. 115).

In the context of East Asian countries, some countries implement the idea of 'the developmental state.' According to Chalmer Johnson (1982), Japan and other East Asian Countries rapid industrial development is an outcome of the government intervention rather than market mechanism forces for achieving developmental goals. Furthermore, Robert Wade (1990, p. 7) argues that the success of Taiwan, South Korea and Japan economy is the result of government intervention to build international competitiveness of domestic industry rather than free market.

However, the idea of state intervention in the development does not originally come from Asian countries. The idea of state intervention in the modern world firstly came from the US President Alexander Hamilton with his infant industry protection policy. Hamilton argues that countries that want to develop to become an industrial country need to protect their infant industry from the competitors who have already great companies. Hamilton recommended a series of actions to achieve the industrial development of the US at that time such as protection with tariffs and import prohibitions, subsidies, export prohibition on vital raw resources,

import liberalization of and tariff rebates on industrial inputs, copyrights, prize and patents for inventions and innovators; regulation on standardization of import products, and development of transportation infrastructures (Chang, 2007, p. 69).

In addition, the implementations of infant industry protection are not only in Asia. Many countries became an industrial and developed country by using infant industry protection policy in the beginning era of their industrialisation rather than free trade policy except Hong Kong and Singapore. In the UK for instance, Walpole's 1721 legislation was kind of policy aimed to protect British manufacturing industries from foreign competitors (Chang, 2007, pp. 60-67). It also occurred in France and Germany. Moreover, there are no countries among today's rich countries were ever as protectionist as Britain or the US, with the brief exclusion of Spain in the 1930s. France, Germany, and Japan - the three nations that are frequently considered to be the homes of protection countries - continuously had lower tariffs than Britain or the US until then the two countries changed to free trade following their economic domination (Chang, 2007, pp. 76-77)."

On the other hand, many scholars argue that the strategy of state intervention will not be successful in some countries. In some research show some arguments

about the cronyism and nepotism in this model. In South Korea for example, there is a group of a large family-owned business conglomerate called *Chaebol* who has a relationship with the government and got economic privileges such as subsidy and monopoly. It was the major reason behind the Asian financial crisis in 1997-1998 (Park & Yuhn, 2012) (S.-J. Lee & Han, 2006). In addition, Sundaram & Gomez, (2000), for example, argues that the state intervention model of development which is fragile for the rent-seeking activities in Malaysia. State intervention models create corruption or crony capitalism such as in South Korea and the Philippine for instance (Kang, 2002).

Furthermore, critics from neoclassical economists have also argued that not only that state intervention model in development provide rent-seeking activities and crony capitalism, but also the conditions of low incentive for stimulating research and development (R&D) and technology innovations from the government. Neoclassical perspective argues that the best way to stimulate innovation and R&D that is by using patent and intellectual property right policy (Rosenberg, 1974). It is the main reason why some countries have a lack capacity in research and technology due to the lack in these kinds of incentive. As a result, developed countries such as the US pushed the

patent system to implement to the other countries through in GATT and now the proceedings of the WTO forum (Mazzoleni & Nelson, 1998, p. 273). They also argue that these new industrial countries became industrial countries are not based on innovation and R&D created by their people, but based on copying other countries technology products. However, this argument is true when we see these countries just developed their industry the beginning era of their industrial country such as Japan, South Korea and now China. However, Britain, USA, and the other countries also did the same things in their new era of industry (Chang, 2002, pp. 13–58). Nowadays, Samsung, Toyota, Hyundai, have developed their technology without copying other western countries product.

According to the neoclassical point of view, there is a concept that they called as government failure. The term 'government failure' refers to 'a situation where political power and incentives distort decision-making so that decision is made which conflict with economic efficiency' (Mankiw & Taylor, 2014, p. 254). There are several kinds of government failure such as public choice theory which means the analysis of government behaviour, and the behaviour of individual who interact with government. This theory assumes that government choice in policy is not based on the rational analysis but

as a response to public pressure or moral panic spread by media (Mankiw & Taylor, 2014, p. 255). As a consequence, a policy never meets its maximum benefit if the policy is not popular due to government action to get politician incentive from the voters. However, this case only in a democratic country with free election system. In Asia, they have a different political circumstance; it can be identified why an authoritarian country or authoritarian bureaucratic with a single party or hegemonic party system are easier to avoid the public interest in their policy for getting maximum benefit from the policy. In China, for example, the government easily to implement 'rational based policy' due to lack of politician incentive caused by the authoritarian political system.

In sum, there is a lack of theory when we discuss the state intervention approach. First of all, both developmental state and Keynesian perspective neglect the idea of bad state or bad (inclusive or extractive) institution. We can conclude that either government intervention or market force model can be a good policy if it is implemented in a good institution. On the other hand, state and market force also can be bad policy if there is a corrupt institution. Developmental state in Indonesia, for example, became a worse policy due to cronyism and corruption. In contrast, Japan, South

Korea, and Taiwan became an industrial country due to developmental state model with a good institution. Some parts of this chapter discusses the emerging theory of institution in development discourse.

Alternative Approaches: Post Development and Dependency Theories

The alternative political economy theories such as Post-colonialism (and in the development issue they called it as post-development) have also concerned in the issue in how to make better development and some in the criticising for development as an approach. This idea of post-development we can identify from the works of Arturo Escobar (1994), James Ferguson (2002), and Wolfgang Sachs (2009). The main argument of this perspective is “development (as distinct from imminent development – what people are doing) is a construct of Western hegemony. Sustainable development, they argue, is no different and indeed is perhaps worse, given that most of the global environmental degradation has been driven by consumerism and industrialisation in the West” (Morse, 2008, p. 341).

Furthermore they argue that the idea about development embody a form of colonialism and Eurocentrism. Furthermore, Escobar with an anthropology approach, in his study in Colombia, claims

that development is highly technocratic approach adopted by the Breton Wood Institutions, US government, and other Northern institutions in the post-second war world era. It is as a result of the problematization of poverty that takes place in the world during this time (Willis, 2011, p. 28) (Escobar, 1994, Chapter 2) (Esteva, 2009).

The other study from post-colonial or post-development perspective is also conducted by Abrahamsen (2000) who study about the development practice in Africa with Foucauldian critique approach of development. She also critiques the idea of good governance suggested by the World Bank and IMF in Africa. She argues that Structural Adjustment Programs (and good governance as a part of it) that requires African governments to cut social services, eliminate food subsidies, and keep wages low in order to invite the foreign investor to create an economic and political crisis in Africa rather than welfare.

However, the main weakness with this approach that these kind of theories only offers destruction or deconstruction of the grand narrative by tearing apart what is currently practised in “development” without providing an alternative policy or solution (Morse, 2008). Difficulties arise, however, when some challenges are made to conduct or to implement what policy they

suggest to eradicate poverty, to sustain the environment, to get a better education and health. Secondly, if the practices of development refer to industrialisation, there is no bias in geographical context as post-development argued. Most of the developed countries including Asian countries did the same policy such as infant industry protection in the beginning era of their industrial development (Chang, 2002b).

Some Marxist scholars have also contributed to the development discourse. For example as an anti-thesis of modernization theories, some Marxist scholars such as Andre Gunder Frank, Saamir Amin, Paul Baran, promote dependency theory. This theory argues that some Southern countries have a problem such poverty because of exploitation by Northern countries. According to a definition provided by Kaufman, Chernotsky, & Geller, (1975, p. 304), dependency theory is derived and rationalised from Vladimir Lenin's imperialism theory and remains economical in character. The basic idea is that the industrialisation of a few industrial, "metropolitan" countries has, as its consequence, the formation of "satellite" nations that are trapped through a global division of labour into a subordinate position within the "world capitalist" economic system. The satellite-metropolitan connection is reflected dependent system rather than the

interdependent system, because the satellite countries lack the resources to make or select alternative methods of responding to the limitations imposing upon them from the international environment. Dependent nations, in another term, are powerless to apply significant influence over the basic policies affecting their domestic economies; “the problems of what to produce, how to produce, and for whom are all shaped directly or indirectly by international structures and processes”.

Marx also argues that progress or welfare can be achieved by using class struggle, capital accumulation and technological process. He is the first person say that technological process is an important factor to promote welfare. Marx argues about the importance of the interaction between technologies that he called as the forces of production (including machines and human skill), and institutions that he called it as the relations of production (property rights, employment relationship, and division of labour). It is which other economic schools have only recently started to deal with it (Chang, 2014, p. 98). Marx argues that “institutions that once promoted the development of society’s productive capabilities can turn into an obstacle to it over time” (Chang, 2011, p. 482). Although, Marx has already indirectly mentioned the important factor of the institution, this theory does not fully explain what kind

of state or institution can be beneficial for development and how to measure or evaluate it.

However, in the earlier Marx bourgeois state theory, Marx has argued indirectly about “bad institution” that state is the instrument of ruling (bourgeois) class in for enforcing and guaranteeing the stability of class structure (Hay, Lister, & Marsh, 2006, p. 61) (Hay et al., 2006, p. 154). Nevertheless, this definition has not escaped criticism. Marx does not consider the fact that state does not always a ‘bad’ institution in class struggle society as he has claimed. In addition, in reality the prediction of the collapse of the state as long as the collapse of capitalism has not come true. On the other hand, the idea of the proletarian state as some Marx revisionist has argued was highly inadequate in the case of Soviet Union.

To sum up, an alternative approach called as post-development theory has deconstructed the idea of “development” as Western or European bias. However, some critiques have been shown. Firstly, they just deconstruct the idea and do not give a solution in addressing some basic needs problems such as poverty, lack of human development. Secondly, the European bias claim is a weak argument when we see the same experiences between European countries and Asian countries in developing their industrialisation.

Furthermore, Marxism point of view has also indirectly mentioned the need of intuition in promoting welfare, however, this view has not mentioned what kind of institution related to a bad or a good institution and how to measure it.

Neo-Classical Perspective

The basic idea of neoclassical or neoliberal assumption is utilitarianism that people are selfish and tends to maximise their utility unless when there are market failures when some of the government interventions are required. In contrast to classical perspective seeing the society as a social class among -capitalists -workers -and landowners, neo-classical view argues that society is based on individual who interact for maximising utilities. They assume that individuals know what they are doing, so leave them alone unless when there is markets failure. The other difference between classical and neo-classical that neo-classical economics shifted the emphasis of economics from production to consumption. Classical economics argue that the heart of economic activities could be production. In contrast, neo-classical economics argue that the heart of economic activities could be consumption (Chang, 2014, p. 92).

In framing welfare problems, both neoclassical economics and classical economic argue that free market is the best way to achieve welfare. They argue that under circumstances of perfect competition, price-making markets yield a long-run set of prices that meet the equilibrium of the supplies and demands for all goods in production and consumption. As a result, in the long run, both supply and demand allocate resources efficiently, due to minimising costs of production and maximising consumer utilities. Lastly, all the actors in production receive profits equal with their efforts. According to these assumptions, it is the best of all possible way to achieve welfare—efficient, want-satisfying, and full of social fairness when everyone gets what he or she earn (Peet & Hartwick, 2009, p. 48).

However, there is a market failure when the market cannot achieve the perfect competition condition that should provide government interventions according to the neo-classical point of view. These kinds of market failures such as monopoly, negative and positive externalities, asymmetric information, and inequality. Negative externalities then become popular among environmental economists who argue that there might be social cost such as pollution from the market activities that government should rule it. The policy instrument that they suggest for compensating this cost is well

known as a carbon tax. On the other hand, the property right is the policy instrument for positive externalities when there are positive things from the company in their research and development (R&D) activities (Chang, 2014, pp. 94–95).

The biggest critiques for neo-classical economics in their assumption about Bentham's utilitarianism that the humans are rational to maximise their utilities (*homo economicus*). According to Herbert Simon (Simon and Newell 1972) who promote the theory of 'bounded rationality,' for example, says that people are not fully rational. Rationality is imperfect. It is 'bounded by people's ability to formulate and solve complex problems and process information' (cited in Peet & Hartwick, 2009, p. 49). The Simon's work then is developed by Stiglitz with the theory of asymmetric information. Critics have also argued that not only do rational choice assumption provide an inaccurate understanding of human behaviour but the neglect of some important drive motivations such as ideology, ethnicity, morality, in the human motivation of behaving (Sen, 1977).

The other critique is about the role of the market and the neglect of government interventions. Not every country get success by the free market mechanism in developing their welfare. In East Asian countries,

government interventions such as protection for infant industry and farmer and industry subsidy are a positive role. Singapore for instance, as Chang said:

'If you only read things like The Economist or the Wall Street Journal, you would only hear about Singapore's free trade policy and its welcoming attitudes towards foreign investment. This may make you conclude that Singapore's economic success proves that free trade and the free market are the best for economic development – until you also learn that almost all the land in Singapore is owned by the government, 85 per cent of housing is supplied by the government-owned housing agency (the Housing Development Board) and 22 per cent of national output is produced by state-owned enterprises (the international average is around 10 per cent' (Chang, 2014, p. 38)

Overall, both these perspectives reviewed so far, however, suffer from the fact that there is an institution that influence how the market work. Classical economics approach, in fact, avoids the role of the government institution in developing the fair market for instance. In addition, neo-classical economics has already mentioned about state intervention in the market. However, they do not cover what kinds of institutions that can be beneficial for the development. For neo-classical economic, the unit

analysis for economic activities are individuals rather than the interaction between the institution such as the rule of law and individuals. Then the critiques also emerge with the assumption of rational human behaviour; the human also does not behave only by rational choice assumption, ethnicity as an approach in this research is also one of the motivation in behaving of human actions.

The Washington Consensus

Furthermore, in the development discourses the ideas of neo-classical, or the other call “neo-liberalism economics are implemented and represented prominently as Washington Consensus (Fine & Rose, 2001, pp. 4–6). This idea then was suggested World Bank, which was an attempt by economist John Williamson in 1989. He says that it is as what the US government and Bretton Woods institutions (Bank-IMF) meant by policy reform at the time in Latin America. Washington Consensus is kind of ‘laundry list’ from both the IMF and World Bank in order to facilitate the free market condition for some countries that need funding assistance from these Bretton Wood organisations. There are ten of policies reform in order to stimulate economic growth suggested by these Breton Wood Institutions such as:

Table 1 The Washington Consensus

1. Fiscal discipline	Not necessarily a balanced budget.
2. Public expenditure reform	Shifting expenditure towards infrastructure, health and education.
3. Tax reform	Broader base, lower marginal tax rates, better tax administration
4. Financial liberalization	
5. Exchange rate	Should be competitive.
6. Trade liberalization	
7. Foreign direct investment	All barriers to be abolished
8. Privatization	
9. Deregulation	
10. Protection of property rights	

Source: Modified from (Williamson, 2004, pp. 16-17)

In the end, however, the Washington Consensus (WC) has been modified or (some of the points) rejected. Modification of this then is called as “post-Washington consensus” which is based on some critiques of this general checklist. The first problem of this checklist is on the issue of poverty rights for example. In Indonesia,

property rights can be enforced by dictators such as Suharto rather than by the rule of law as the IMF and WB suggestion (Temple, 2003, p. 160). It means Washington Consensus (WC) has avoided the important factors such as political institution and the issue of corruption.

The context of a specific geography or specific country has also been avoided by WC. Privatisation in rent-seeking economic creates a monopoly, in Mexico for example Carlos Slim who has a connection with politicians, can buy the telecommunication state-owned company and monopolise the telecommunication sector in Mexico. Carlos Slim developed his telecom monopoly during the Presidency of Carlos Salinas de Gortari. Salinas was appreciated as a reformer at this era, brought a wave of “market reforms” as IMF and WB suggested as Washington Consensus to Mexico, such as the telecom privatisation. These policy reforms can be interpreted as an attempt by him to develop a new political condition by producing a group of wealthy oligarchs, politically obliged to him (Acemoglu & Robinson, 2012, pp. 67–75).

In the end, World Bank President at that time, Wolfensohn (2004) said that “The Washington Consensus has been dead for years (Wolfensohn cited in Sumner & Tiwari, 2009, p. 27).” After the dead of

Washington consensus, some efforts have been made in looking for new consensus, then the important of the institution has been emerging. More recent attention has focused on the provision of inclusive institution. A more detailed account of the institution is given in the following section.

Chapter 3 After Washington Consensus: The emerging of Institution Theory

After the dead of Washington consensus, some alternative consensus has been discussed to find the best formula for economic growth and development. There are many differences among the new candidate, but the same things from these alternatives are; firstly, put emphasis on the institution and secondly, give emphasis to the importance of specific reforms rather than a laundry-list as the Washington Consensus has already done. This section will explain the emerging of institution theory that will be discussed chronologically.

The first alternative after the Washington Consensus is conducted by Kuczynski and Williamson (2003). Contains of reforms under four central directions as they call it as “New Washington Consensus”:

1. Stabilise the macro economy for avoiding the crises.

2. Complete liberalisation and privatisation including trade reform in developed countries.
3. Build up institutions including national innovation system, reform of the judiciary and civil service, teacher unions, financial sector regulation, property rights, political reforms.
4. Build up the assets of the poor, through education, microcredit, land reform and asset titling.

Furtermore, Dani Rodrik (2006) also provide some direction as an alternative after the end of Washington Consensus. He calls it “the Augmented Washington Consensus”. He modified the Washington Consensus with the emerging of institution reform as a significant new heading. He lists cooperate governance and anti-corruption as part of institution reforms that should be adopted by the government for the development.

Table 2: “Augmented” Washington Consensus

Original Washington Consensus	“Augmented” Washington Consensus the previous ten items, plus:
1. Fiscal discipline	11. Corporate governance (institution)
2. Reorientation of public expenditures	12. Anti-corruption (institution)
3. Tax reform	13. Flexible labour markets
4. Financial liberalization	14. WTO agreements
5. Unified and competitive exchange rates	15. Financial codes and standards
6. Trade liberalization	16. "Prudent" capital-account opening
7. Openness to DFI	17. Non-intermediate exchange rate regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10. Secure Property Rights (old version of institution by WC)	20. Targeted poverty reduction markets

Source: (Rodrik, 2006, p. 978)

In 2004, some prominent economists who disagree with the Washington Consensus met in Barcelona and made a consensus well-known as Barcelona Consensus. It is an alternative to the Washington Consensus which defines “the essence of the neoliberal economic agenda shared by the establishment around the world (World

Bank, IMF, governments, US congress and senate, banks, multinationals and lobbies)". They emphasise the important of the institution as the root of successful development strategies". There are seven key points that they suggest consist;

Table 3: Barcelona Consensus

1. Seven key points:
2. Institutional quality "at the root of successful development strategies" **but don't copy the institutions of rich countries mechanically.**
3. Large debts, poorly regulated banks, and loose monetary policies hinder development.
4. No single set of policies that will ignite sustained growth. Successful nations have adopted varying policies regarding regulation, export and industrial promotion, and technological innovation and knowledge acquisition. Countries need to experiment, but not the case that "anything goes." Identify "the most binding constraints to growth"
5. Multilateral trade negotiations should promote development. Developed and developing country trade policies need reform.
6. Reform the international financial architecture.
7. Promote international migration
8. Rich and poor countries need to tackle environmental problems, including global warming

Source: (Howes 2012, p.18)

On the other hand, in 2004, Joshua Cooper Ramo (2004) promoted the idea of Beijing consensus. He argues that the China economic development model after Mao is the good experiences that should be implemented the other countries rather than Anglo-Saxon reforms promoted by the US and the UK with Washington Consensus. There are four key elements of policy that he promoted based as the opposite of Washington Consensus. Firstly, Innovation-led growth with emphasising technological innovation and go straight away for world-class technology. Secondly, emphasising on sustainability and equality and rejection of Per Capita GDP. Thirdly, emphasising on self-determination and strategic power with actively seeking independence from external pressure, as it is forced by “hegemonic powers” such as the United States (Ramo, 2004: 12). Fourthly, willingness to innovate and experiment, the ‘Beijing Consensus still holds tightly to his pragmatic idea that the best path for modernisation is one of “groping for stones to cross the river,” instead of trying to make one-big, shock-therapy leap’ (Ramo, 2004, p. 4). Nevertheless, due to ‘groping for stones to cross the river’, Romo’s article is not very clear in term of rigid policy that developing countries should follow; there is a more general sense that the Beijing Consensus is simply that the Washington Consensus is wrong. In the sense of the institution, Ramo even promotes authoritarianism rather

than the democratic system. Furthermore, Halper (2012) argues that Beijing Consensus could be kind of model for legitimising of the authoritarian system rather than promoting development. However, Ambrosio (2012) find that worries about the initial stages of an anti-democratic 'reverse wave' as the impact of the emerging of China model of Beijing Consensus are exaggerated. At present, it does not appear to be a significant change in favour of a model of authoritarian-capitalism.

A serious weakness with this Beijing Consensus criteria, however, is that Beijing Consensus assumes that the fact of some countries have a good development without transparency and participation (deliberative process) such as China for example. China is a model of good economic without transparency and participation of people. However, the fact that China is a good model for other countries might be questionable when we see the fact what happened in the collapse the Soviet Union. The Soviet Union has a very good economic performance in the era after World War 2, but this performance then did not sustain due to a lack of inclusive institution.

Another model based on East Asian experiments is also conducted by Lee and Mathews as they call as Beijing-Seoul-Tokyo Consensus or BeST Consensus (K. Lee & Mathews, 2010, p. 86). The principle of this consensus is its emphasis 'on capability building, on

dynamic transitions from one stage to the next, and on building an institutional platform to capture latecomer effect'. They describe their idea of the key principle of BeST consensus in this picture bellow:

Table 4 The BeST Consensus

The BeST Consensus
<p>A. The two principal agents</p> <ul style="list-style-type: none"> (1) Creating firms and building their capabilities (2) Creating pilot agencies to guide industrialisation <p>B. Setting the process of capability enhancement in motion</p> <ul style="list-style-type: none"> (1) Arranging for firms to access and leverage advanced knowledge (2) Promoting export-based engagement with the global economy to discipline firms and expand markets (3) Targeting industries/technologies for (initially import-substituting) development (4) Sequential upgrading of the leading sectors and activities to secure dynamic comparative advantages. <p>C. Creating an economic environment in which capability development will proceed</p> <ul style="list-style-type: none"> (1) Building broad-based education, from primary to tertiary education (2) Creating a financial system that is catch-up friendly but cautious about external financial liberalisation (3) Establishing stable macroeconomic settings (4) The gradual phasing out of non-market interventions.

Source: (K. Lee & Mathews, 2010, p. 91)

Furthermore, to respond Washington Consensus critiques, The World Bank published a report about the strategy for sustained growth and inclusive development (Commission on Growth and Development, 2008). This report conducted by 21 leading economists including two Nobel Laurates Robert Sollow and Michael Spence, Indonesian former Vice President Boediono, and Singapore former Prime Minister Goh Chok Thong. They argue that there will be no necessary or sufficient policy list or conditions for growth, but commissioners “have a keen sense of the policies that probably matter.” The government should focus their effort where payoff to growth is largest, but “suspect that over the course of 10 or 20 years of fast growth, all of these ingredients will matter.” (Commission on Growth and Development, 2008, p. 33). These are their ingredients for a growth strategy.

Table 5 The Commission’s ingredients

The Commission’s ingredients
1. High levels of investment
2. Technology transfer (promote FDI)
3. Competition and structural change (embrace it)
4. Labour markets (deregulate if possible)
5. Export promotion and industrial policy (if an economy failing to diversify exports, governments should look for new ways to jump-start the process).
6. Exchange rates (use to maintain export

- competitiveness).
7. Capital flows and financial market openness (gradual opening)
 8. Macroeconomic stability (important, but flexibility required).
 9. Savings (government revenues need to be high).
 10. Financial sector development (important for development, along with property rights, and sound regulation).
 11. Urbanisation and rural investment (both important)
 12. Equity and equality of opportunity (redistribution, public services, meritocracy)
 13. Regional development (unity not uniformity)
 14. Environment and energy (mistake to grow first, and worry about the environment later).
 15. Effective government (fight corruption; pay civil service properly; make the public sector accountable by competition, feedback, and evaluation).
 16. High-quality debate (whether public or not, successful countries owe a lot to exposing all idea to review)

Source: (Commission on Growth and Development, 2008, Chapter 2)

The Commission also provides a list of bad policy that should be avoided by the government. These are their list:

Table 6 The Commission's list of bad ideas

The Commission's list of bad ideas
<ol style="list-style-type: none">1. Energy subsidies2. Using civil service to expand employment3. Reducing deficits by cutting infrastructure4. Providing open-ended protection5. Price controls to combat inflation6. Banning exports to keep prices low7. Resisting urbanization8. Ignoring environmental issues at an early stage, ignoring quality of education, underpaying civil servants, poor regulation of banking, and excessive direct control, excessive appreciation of the exchange rate)

Source: (Commission on Growth and Development, 2008, pp. 68-69)

There are several ingredients according to this report containing institution reform such as equity and equality of opportunity (point 12), effective government (point 15), and high-quality debate (point 16). However, if we compare between Growth Commission ingredients

and Washington Consensus, we will see that there are not all different. Some new items have been added and some of them are excluded. The most important change is the emerging of the economic and political institution are; firstly, redistribution by the government to universal access to health and education, and meritocracy system. Secondly, the Growth Commission gives serious attention to environment issue. Thirdly, there is a significant recommendation for fighting corruption. Lastly, Growth Commission provides an important factor of the circumstance for deliberative process of policy making such as public debate.

Overall, although extensive consensus has been carried out on the institution (except Beijing Consensus), no single consensus exists which the role of ethnic relation to the institution. For example, New Washington Consensus, Dani Rodrik, Barcelona Consensus, BeST consensus and Growth Commission have already mentioned the important role of the institution such as national innovation system, reform of the judiciary and civil service, financial sector regulation, property rights, political reforms, anti-corruption. However, it does not mention the role of ethnicity and ethnic relation in developing good institution.

Acemoglu and Robinson . pp.118-120) state that inclusive economic institution consists; feature secure

private property, impartial system of law, and a provision of public service that provides a level playing field in which individuals can exchange and contract. It also must permit the entry of new private sector and allow individuals to choose their professional job. In contrast, extractive institution refers to the institution are designed to extract incomes and wealth from one subset to society to benefit different subset, lack law of order, entry barriers and regulation preventing functioning markets and creating a non-level playing field.

Furthermore, an inclusive political institution is the political institution allowing broad participation or pluralism and placing constraints and checks on politicians. In contrast to inclusive one, extractive institution means absolutism when power in the hands of few people without checks and balances system and the rule of law. These two tables below summarise the theory of institution according to Acemoglu and Robinson (2012).

Table 7 : Inclusive and Extractive Economic Institutions looks like

Extractive Economic Institutions	In contrast: Inclusive Economic Institutions
<ol style="list-style-type: none"> 1. Lack of Law and Order 2. Insecure property rights 3. Entry barrier and regulations preventing functioning of markets and creating a non-level playing field 	<ol style="list-style-type: none"> 1. Secure property rights 2. Law and order 3. Market and state support (public service and regulation) for markets; open to relatively free entry of new business; uphold contracts; access to education and opportunity for the great majority of students

Source:

Table 8 : Inclusive and Extractive Political Institutions looks like

Extractive Political Institutions	In contrast : Inclusive Political Institutions
<p>1. Political institutions concentrating power in the hand of few, without constraints, checks and balances or “rule of law”</p>	<p>1. Political institutions allowing broad participation-pluralism-and placing constraints and checks on politicians; the rule of law</p> <p>2. However, there are also some degree of political centralization for the states to be able to effectively enforce law and order</p>

Source:

How to create inclusive economic institutions?

Acemoglu and Robinson (2012, p.124-129) then argue that economic institution is created by the society with politics as the process by which a society makes the policy and rule of law that will govern it. If the politics is inclusive, it will create the inclusive economic institution. On the other hand, extractive political institution can

create both inclusive and extractive economic institution. In addition, Acemoglu and Robinson argue that the higher economic growth will not sustain in the institutions with combining extractive political institutions and inclusive economic institution such as in China since Deng Xiaoping. China before Deng had both extractive political and extractive economic institution. Since Deng, China has changed their economic institution from extractive to inclusive economic institution, but the political institution with extractive political institution (one party system) does not change. As a result, according to Acemoglu and Robinson, this kind of combination will not sustain in economic growth. It combination also happened to South Korea under General Park.

Unsustainable Economic growth also can be come in the combination of extractive economic and political institutions such as Barbados and Soviet Union . Soviet Union for instance, has a good economic in the early of their era but then collapse, even some prediction as put Soviet Union would overtake the US economy:

'As late as 1977, a leading economic textbook by an English economist argued that Soviet-style economies were superior to capitalist ones in terms of economic growth, providing full employment and price stability. As late as 1977, a leading

academic textbook by an English economist argued that Soviet-style economies were superior to capitalist ones in terms of economic growth, providing full employment and price stability and even in producing people with altruistic motivation. Poor old Western capitalism did better only at providing political freedom. Indeed, the most widely used university textbook in economics, written by Nobel Prize-winner Paul Samuelson, repeatedly predicted the coming economic dominance of the Soviet Union. In the 1961 edition, Samuelson predicted that Soviet national income would overtake that of the United States possibly by 1984, but probably by 1997'

Furthermore, they argue that the decentralisation is one of the factor that can develop both extractive economic and political institution. They argue that political centralization (not decentralisation) is required to create inclusive economic institutions (Acemoglu & Robinson, 2012, pp.125-126). It is because political power has long widely distributed in decentralisation when there in no authority that can control or sanction what anyone does. As a result, it is problematic to create inclusive economic institution in this circumstance. What happen in Somalia, it is an example why decentralisation become a disaster for economic institutions due to the lack of authority caused by decentralisation. On the

other hand, in the United States and South Korea case, the US and South Korea have not only pluralistic politics but also sufficiently centralised and powerful state despite the US is federal country. As an impact, it is easier to create inclusive economic institutions in these countries.

However, Acemoglu and Robinson's study makes no attempt to consider the long-term impact of ethnic polarizations to the institution in their work. This is that this research wants to address. This research would have been more relevant if a wider range of factors that could impact in making inclusive institution had been explored. In addition, he also neglects the impact of indigenous factors such as geographical, ethnicity and culture as a "moderator variable" between institution and development. Their argument relies too heavily on linear cause and effect analysis of the implication of institution to development. "Today's dominant discourse on institutions and development fails to identify that the relationship is not linear, differs across societies, and changes over time even in the same society" (Chang, 2011, p. 481). There are many factors that can influence the process of building the inclusive institution that they suggest.

Furthermore, Acemoglu and Robinson (2012) provide some examples of several countries that have inclusive institutions both political and economic institution. However, these countries are relatively homogenous countries. For instance, the US are dominant by White American. The other example is South Korea. South Korea is highly homogenous country with the Korean ethnic group accounts for approximately 96 percent of the total population of the South Korea. Japan, Taiwan, Germany, France and Scandinavian Countries are also the same homogenous countries in term of ethnicity. In contrast, Indonesia as of this research object, is heterogeneous country with 300 ethnic group with more than 700 local languages. The dominant ethnic in Indonesia is Javanese who make up for 40 percent of total population. The different background in Indonesia as pluralist multi-ethnic country is the main motivation of this research in order to evaluate the inclusive institution theory in the setting of heterogeneous country.

OECD's Perspective on Inclusive Institutions

The other definition of inclusive institutions also provides by The Organization for Economic Cooperation and Development (OECD). According to OECD (2014), inclusive institution criteria are: Firstly, inclusiveness in

policy cycle means to give opportunities for peoples to contribute in and influence policy. Secondly, citizen engagement in accessing information or open governments are also needed. Furthermore, inclusive institutions go beyond the election and legislative representation. 'Such accountability involves citizens to have access to information as well as to involve in public debate. Thirdly, the access to information covers to public budgets as well. Traditionally, budgeting policy making processes have been complex and opaque, with some important decisions made internally within government administration. A more transparent and inclusive institution should allow budgetary selections to be made manifest to citizens and other stakeholders. Fourthly, making the policy making process with a mechanism to protect the public interest and control the undue influence of money and power is important to fairness in public policy making process. The institution should make governments proactively address crucial areas at the connection of the public and private sectors, including lobbying, conflict of interest in public decision-making, and the influence of vested interests exercised through political financing (rent-seeking institution). Fifthly, the decentralisation that has long been seen as one method to empower society, by making the policies that affect their condition closer to them.

Furthermore, OECD also mentions that there are three elements or characteristics of an inclusive policy process as policy levers as summarised by the table below:

Table 9 : OECD policy levers

Key Characteristics	Guiding Elements	Policy Lever	
The policy-making process is well-informed	Inclusiveness of the information and views relevant to the specific policy problem available to decision makers; Quality and reliability of the information available;	Access to information Citizen engagement Open Government Supreme Audit Institutions Ex ante & ex-post evaluation Performance budgeting Regulatory impact assessment	Transparency, Reliability, Openness
The policy-making process is aligned with the public interest (public participation)	The ability of the policy-making process to safeguard the public interest and avoid capture, while effectively aggregating	Transparency and integrity in lobbying Political finance regulation	Safeguarding Integrity and Curbing Undue Influence

	competing, but often legitimate interests.		
The policy-making process is aligned with broader principles and high standards of governance.	Integrity framework, aimed at preventing corruption and fostering high standards of behaviour, thus reinforcing good policy making.	Conflict of interest management Codes of Conduct Transparency of the policy-making process	

Source: OECD, (2014, p. 168)

OECD and World Bank also highlight the impact of specific institution such as regulation to a better development. They also promote the idea of regulatory reform. The term for measuring the quality of regulation in order to achieve good governance then well known as Regulatory impact assessment (RIA), a systematic method for evaluating the impact both positive and negative of current regulations as well as the potential impact of proposed new regulatory measures. Its goal is to explain the objectives of the regulatory proposal, the risks that need be addressed and the possibilities for delivering the objectives. In doing so it should make transparent the estimated costs and benefits of the

choices for the different stakeholders involved, such as Government and small businesses, and “how compliance with regulatory options would be secured and enforced”. The assessment should be multi-disciplinary and consider the economic impact, environmental factors, social cost and distributional consequences of a regulatory measure (Jacobs, 2005, p. 2). In a short sentence, “Regulatory Impact Assessment is a method of policy analysis that can assist policymakers in the design, implementation, and monitoring of improvements to regulatory systems by providing a methodology for assessing the consequences of new and existing regulation” (Peci & Sobral, 2011, p. 206). Furthermore, in European countries, “RIA has emerged on the political agenda of the member states of the European Union (EU). RIA is the cornerstone of programmes for ‘better regulation’ and ‘good regulatory governance’ (Radaelli, 2005, p. 824). According to the European Union (EU), there are some “core aspects” required for RIA implementation (EU 2004, p. 11, cited by Peci & Sobral, 2011, p.206), including:

1. *“Appropriate problem definition and identification of policy objectives to avoid ambiguities, vagueness, and contradictions (with expected results expressed in quantitative, physical terms and an explicit hierarchy between objectives).*

2. *Beginning the assessment when the choice is still open and consideration of multiple options.*
3. *Information gathering – possibly through consultation – and data assessment, with an explicit choice of relevant criteria, procedures, and techniques for selecting a specific set of information.*
4. *Ex ante impact assessment of each relevant option, through some explicit and consistently used method; description and most of the time quantification of effects; and explicit selection of types of effects to be considered.*
5. *RIA results expressed and publicized in a thorough and transparent way”*

Transparency and Development

Another important aspect of the development is transparency. Several works have shown the relationship between governance transparency and development. Most of the literature show there is a significant impact on these both variables. More transparency of government is better in the development. The other also argue that transparency is needed for better public trust related to development.

The basic idea that transparency is good for development in particularly for economic development can be identified from the work information and

behavioural economist who concern with the idea of well-informed economic actors for market to work perfectly. Several works from Joseph Stiglitz about asymmetric information and bounded rationality from Herbert Simon show that market is not effective as Adam Smith's invisible hand of the perfect free market has been argued due to these factors. As a result, open information is a basic need for economic efficiency (Arnott, Greenwald, & Stiglitz, 1994). Furthermore, government intervention is needed to achieve the economic efficiency due to market failure caused by asymmetric information and bounded rationality. The kind of policy instrument of government intervention is open information governance among government itself, market and civil society organisations.

For the policy making process, transparency is needed for making effective policy. A study from Fung, Graham, & Weil, (2007) and Fung, Mary, & Weil, (2003) show that transparency is necessary for stakeholders interaction in governance in achieving the effective policy. In term of public service, improving transparency might lead to improved public services according to Kosack & Fung, (2014). "Transparency's potential to catalyse improvements in areas such as healthcare outcomes and educational quality, leading to measurable

improvements in citizens' capacities and well-being" (Kosack & Fung, 2014, p. 84).

In the context of Asian Countries, a study from Kim (2010) for instance, looks the relationship between transparency and trust in the government in two Asian Countries; Korea and Japan. He concludes that that government performance on the economy, controlling political corruption, the quality of public services, criminality, and attention to people participation and involvement are significantly related to broad public trust in government in both Japan and South Korea. However, this theory does not fully explain what the relationship is between government performances on the economy to the transparency in governance. This work focuses on the variable of transparency and trust.

The major reason to create transparency and accountability is eradicating corruption. World Bank and IMF advocate this issue as their major campaign. For instance, Agustín Carstens (2005), Former Deputy Managing Director of the International Monetary Fund, argues that despite the issue of trust, transparency is an important factor for eradicating corruption. In the context of oil-rich countries, he argues that transparency and accountability then critical for confirming that rich in the resource is managed for the benefit of the entire people. Transparency in oil sector operations allows

deliberative democracy work on how oil resources should be managed.

However, the studies reviewed so far do not address the issue of ethnic relation to the transparency and accountability of government. Kim for example, studies the impact of transparency on the public trust in relatively homogenous countries in Asia. Some works from Fung do not consider the impact of ethnic relation for the willingness of the government to open the information. Behavioural economists just concern the disability of economic actor to access information in creating a rational decision, and they still assume that humans are rational.

Participation and Development

As previously stated, participation is part of the inclusive government needed for better development. Some scholars and also international organisations have advocated the impact of public participation or public engagement in public policy making to the issue of development such as well public provisions and economic performances. The other scholars also argue that participation is an important thing for the public trust.

In political science, the idea of participation related to the idea of deliberative democracy. As a critique of

representative democracy, deliberative democracy supporters highlight the important of citizen (including civil society engagement) participations such as public hearing, opening public shares for debate among stakeholders or policy networks. Form of participation according to this point of view is not only voter turnout in election to elect their represent in parliament, but also how the state open the deliberative process in public policy making between civil society and government (Hendriks, 2006, Dryzek, 2000).

Scholars often argue that participation has a positive outcome on the peoples' satisfaction with political results and the legitimacy of procedure (Traber, 2013, p. 60). For instance, study from Olken (2010) in Indonesia, he looks for the relation between variable of participation and variable of public good providing satisfaction in 49 villages in Indonesia with quantitative experimental research method. He finds that direct participation in public policy making process can significantly increase satisfaction on government project and legitimacy. The other scholar such Joseph Stiglitz (2002, p. 163) also argue that the relationship between democracy and growth is positive not trade-off, *"consensus-building, open dialog and the promotion of an active civil society are key ingredients to long-term sustainable development"*. Furthermore, international organizations

such as World Bank also make the important of participation for development as their massive campaign. In World Bank's report on 2004 (World Bank, 2004), this Bretton Wood institution reports that:

“Increasing poor clients’ choice and participation in service delivery will help them monitor and discipline providers. Raising poor citizens’ voice, through the ballot box and widely available information, can increase their influence with policymakers – and reduce the diversion of public services to the non-poor for political patronage. By rewarding the effective delivery of services and penalizing the ineffective, policymakers can get providers to serve poor people better.” (World Bank, 2004, p. 1)

However, the perspective in looking connection between participation and economic development is not a single point of view. There is still a space for some debate. The other contrary perspective argues that deliberative democracy with participation be a barrier to economic growth and development. Participation in deliberative democracy model policy making can disturb political stability and in the long run can affect the lower economic development. Chinese leader Deng Xiaoping has a famous slogan, *“It does not matter if a cat is black or white, so long as it catches mice”*. From this adagium we can

conclude that whichever democracy or authoritarian not be necessary, and the most valuable thing is as long as can realise welfare. In policy studies point of view, the system such as participation model focus and debate on the process more rapidly rather than the main purpose of policy (welfare) as an outcome of rational technocratic decision making process. Moreover, to critique western liberal democracy, Lee Kuan Yew also claim that Asian Value Democracy is kind of democracy in Asia that promote harmony and stability rather than debate and conflict as Western liberal democracy model do (Zakaria & Yew, 1994).

The other problem with participation model is its practical difficulties. The bottoms up model with pluralism paradigm have been too optimistic about the possibilities of equal participation. Some of groups or policy communities may be more dominant in power than other in the policy process (Bevir, 2009, p. 151). Despite in democratic countries system, an individual actor such as businessman might be more dominant than political parties or civil society in influencing the decision-making process. For Instances, the study of Robison and Hadiz (2004) and (V. R. Hadiz & Robison, 2013) in Indonesia, argue that even though Indonesia has transformed from an authoritarian regime to a democratic country, in fact, there are still oligarchy

groups from the authoritarian regime. Then, these groups are more dominant in power. In short, an ideal model of participation policy making is difficult in practice because of the unequal power among the policy communities.

Chapter 4 Ethnicity and Development

Primordialism

There are three main approaches; primordialism, instrumentalism and constructivism in the study of ethnicity. "Primordial theory, which views ethnicity as a "natural" or "given" based on the individual's birth into an ancestral gene pool or shared cultural network, centres on the origin and durability of ethnic identify (Rudolph, 2006, p. 4). Primordialist argues that the concept of ethnicity are real and ancient as carried the prestige of Geertz's studies (1963) (1973) and Weber (1980 [1921]). Beside Geertz the other prestige studies using this approach is Rabushka and Shepsle (1972). Primordialist approach for the origin of ethnicity have received several heavy criticism from other approach such as constructivism and instrumentalist. For example, Abner Cohen (1974 cited by Eriksen, 2010) argue that ethnic identities develop in reaction to functional organisational requirements. He argue that ethnicity basically as a specific form of informal political

organisation in which cultural boundaries are invoked so that this group's capitals or 'symbolic capital' can be protected. In a similar Hale, (2004, p. 459) states that :

“Although identity is found to be inherently situational and always changing, to the consternation of primordialist accounts, it is never “multiple.” Moreover, what we think of as identities are in fact sometimes “age old” and can be “reawakened,” as primordialists’ instincts would have it. I argue that this perspective, once we shed the unhelpful labels”

The idea of ethnicity as “given” concept of primordial perspective is challenged by constructivist approach. Bayar, (2009, p.1640) summarized the constructivist criticisms of primordialism: firstly, the fluidity of ethnic identities in special place such as sub-Saharan Africa and in the immigrant countries of the New World contradicts the primordialist theory of fixed ethnicity (Eller and Coughlan 1993; Brubaker 2001; Lustick 2001) . Secondly, “the primordialist assumption of the attributed significance of assumed kinship makes ethnicity unsociological and unanalysable (Eller and Coughlan 1993)”. The constructivist works provide these limitations with the relatively recent construction of ethnic groups by colonialist and post-colonialist governments. The other example of constructed group is

the phenomena flexible identities of African Americans and high intermarriage rates in the United States. In sum, Tanasaldy (2012, p.27) states when cited Cornell and Hartmann (1998, p. 50) Yang (2000, p.43) *“primordialism cannot explain the phenomenon of identity change, or the emergence and disappearance of ethnic identities”*.

Furthermore, Marxist traditions look ethnicity as social class approach in the studies of ethnicity in industrial society. In Marxist theories the focus is not the social bond, but class struggle, transformed by the revolutionary nature of capitalism (Fenton, 1999, pp. 97-98). These class relations are founded upon the exploitation of labour by capital and the inevitability of the search for profit. They have argued that ethnic discrimination in industrial societies for example, is contingent on the class relations in those societies. Eriksen (2010) gives an example a study of Immigrant groups in the North Atlantic societies. These groups tend to occupy a low-ranking grade in the division of labour. They have been understood as a reserve labour force which was needed when there was a demand for labour, and which is abandoned and sometimes excluded during economic crisis. Some “conflicts between immigrants and domestic working classes, sometimes taking the shape of racism and rioting, have sometimes

been regarded within this framework as being 'functional' for the system as a whole, since they divert attention from the fundamental contradiction between labour and capital" (Eriksen, 2010, p. 160).

Constructivism

Constructivism theory is more about the flexibility of ethnic identity. For constructivist ethnicity connected to the broad definition. Constructionism frames ethnicity as a constructed concept in which, "over time and space, economic, political and religious structures emerge with specific configurations that may be labelled ethnic (Lake & Rothchild, 1998, cited by Rudolph, 2006 p.5)." Hale (2008, p.15) states that:

"Constructivism, on the other hand, has essentially become a blanket term capturing all other theories, all accounts that do not actually believe that ethnic identities are literally age-old or permanent. As it happens, even those who have applied the term "primordialist" to themselves are actually constructivists by these criteria". ... "The constructivist claim that ethnic identities are socially constructed is clearly correct. After all, our social identities are not stamped on our genes, so they must be socially constructed."

In the study of nationalism, this approach is well known used by two leading authors, Benedict Anderson in “*imagine communities*” and Ernest Gellner in “*Nation and Nationalism*” who study the phenomena of nation-state and nationalism in some countries. They variously argue that nation is constructed rather than natural phenomena. Nationalism theorist call this approach as modernism approach (Ozkirimli, 2010, Chapter 4). In ethnic studies, the term of Malay ethnic in Malaysia is an example of the definition constructed according this approach. Malay or Malayness for instance, has been constructed by a colonial historiography and successively adopted uncritically by most historians after the colonial era (Shamsul, 2001). Another example of this approach in ethnic studies is the construction of ethnic is the study of Latino and Hispanic ethnic group in the United States. Latino and Hispanic is self-identified and also it is constructed by White American in order to call the people who speak Spanish (Nagel, 1994).

In some literatures the term of ethnic and nation can be intersected called as ethno-nationalism. This field of research studies about the phenomena of ethnic identities then become a “*nation*” and nationalism in the studies of separation movements in some countries (Olzak, 2007), for example, the study of Aspinall (2009)

in Indonesia and Acehese rebellion, and Papuan nationalism in West Papua Province (Webster, 2001). The other studies of Basque and Catalan nationalism in Spain or Quebec nationalism in Canada (Belanger & Pinard, 1991) (Conversi, 2002).

Instrumentalism

Some scholars also call instrumentalism as the same meaning or the other version of the 'constructivism' (Hale, 2008, p. 15). By contrast, instrumentalist theory emphasizes on the utility of ethnic identity as an instrument of politics, used by both individuals and groups in order to reach their personal political goals. "The emphasis is on political leaders—political entrepreneurs and demagogues who mobilize communities around perhaps latent or forgotten ethnic identities and grievances—not the groups themselves, and the area of concern is the political process, not the historical origin of the group or the changing environment in which it exists or defines itself" (Rudolph, 2006, p. 5). People convert to specific ethnic and remain ethnic when their ethnicity makes significant benefits to them. "Ethnicity, like class and nationality, is also a means of political mobilization for advancing group interests" (Yang 2000:46 cited by Tanasaldy, 2012,p. 28).

Furthermore, the trend of theories of ethnicity have changed away from focusing on ethnicity as primordial approach (Rabushka and Shepsle, 1972; Geertz, 1973 cited by Birnir 2007) to one of ethnicity as a more or less constructed category (Horowitz, 1985; Olzak, 1992; Laitin, 1998; Chandra 2004; Posner, 2005 cited by Birnir 2007) that is “highly influenced by contextual factors and political strategies adopted by the group leaders” as instrumental approach (Birnir, 2007, p. 21).

Although the trend of theories of ethnicity has changed to the instrumentalist approach, there are some limitations of this approach. For example, Barth argues ethnic categories as ‘organisational vessels that may be given varying amounts and forms of content in different sociocultural systems’ (1969a, p.14 cited by Eriksen, 2010, p.63). Implicitly, he seem like to argues that regardless of the contact across boundaries and the change in cultural content of the groups, the ethnic categories as such are constants which may be called upon when the need arises, as in a competitive situation. Barth explicitly defines ethnic as categorical ascriptions which categorize ‘a person in terms of his basic, most general identity, presumptively determined by his origin and background’ (1969a, p.13 cited by Eriksen, 2010, p.63). Secondly, a controversy can be identified on the issue of

“objectivity” in the study of ethnicity with instrumental approach.

None of those approaches above can fully explain all the ethnicity phenomena. It is depended on what kind of society, time and social context. Primordialism approach cannot explain identity change phenomena, or the appearance and disappearance of ethnic identities (Cornell and Hartmann 1998, p.50; Yang 2000 p. 43 cited by Tanasaldy, 2012. p.28). While most scholars see that constructivist and instrumentalist approaches are more considerable, both perspectives also have some boundaries because they neglect for primordial ties (Laitin 1998:11-2 cited by Tanasaldy, 2012, pp.28-29).

As a result, for me, the combination of these three approaches is needed to see the case of Sumatera. For example in the case of Chinese community in East Belitung region, the primordialism approach can be used to analyse the phenomena of Chinese community or *Tionghoa* in Bahasa. They came to this area for mining labour reason, but they still remain their identity as Chinese. On the other hand, constructivism is useful to see the change of Chinese to Malay. For example, they will become a Malay if they convert their religion to Islam. In the Muslim community they will be called as Malay not Chinese anymore. Become a Malay could be beneficial for them in term of discrimination actions by

the majority. This model of ethnic formation based on the constructivism approach also can be found in Malaysia (Nagata, 1974, p. 343). Even though according to the primordialism approach, Javanese migrant in Malaysia is not similar in ethnicity with the indigenous Malay ethnic, but according to the government policy, Javanese is included as Malay ethnic due to their religion as Muslim (Hirschman, 1987) (Nagata, 1974, p. 335).

In the case of Lampung, Javanese and Lampungese in the context of urban area is difficult to be classified and distinguished due to assimilation and intermarry (mix marriage) between these two ethnics, but in the context of rural area of Lampung it is still easy to distinguished due to the space reason. In rural area it is easy to find the barrier between Lampungese village and Javanese village but not in the urban area. So, using a primordial approach to distinguish Javanese and Lampungese will be useful in this rural area. On the other hand, it is hard to find intermarriage case in the context of Malay and Chinese due to the difference in religion in both these area. In the case of electoral competition, the issue of ethnic among these ethnic groups in the case of both Bangka Belitung and Lampung then can be more appropriated explained by the instrumental approach.

(Alesina, Baqir, & Easterly, 1999)

Conceptualising ethnicity and ethnic polarization

Since the definition of ethnic polarization varies among researchers, it is important to clarify what is ethnicity and ethnic polarization. In humanity and social science it is more complicated to define what is ethnicity compared with the other science such as natural science for example. Definitions of this term have been influenced by range of aspects which intersect with one another. Jones mentions four aspects which have influenced the definition of ethnicity:

Firstly, “the impact of different theoretical and disciplinary traditions (such as neo- Marxism or phenomenology, psychology or anthropology); Secondly, the particular aspects of ethnicity being researched (ranging from the socio-structural dimensions of ethnicity in a plural society, to the cultural construction of ethnic difference, to the effects of ethnic identity on individual performance in education, and so on); thirdly, the region of the world where research is being conducted (e.g. the highlands of Papua New Guinea, American inner cities, the former Soviet Union); Lastly, the particular group that is the subject of research (e.g. the Australian Aborigines, migrant Turkish workers in Europe, or the Jewish people” (Jones, 2004, p. 102)

According to Encyclopaedia of Britannia, “ethnicity refers to the identification of a group based on a perceived cultural distinctiveness that makes the group into a “people.” This distinctiveness is believed to be expressed in language, music, values, art, styles, literature, family life, religion, ritual, food, naming, public life, and material culture” (2016). Geertz argues that the main markers of ethnicity are blood ties, race, language, region, religion and custom (cited by Tanasaldy, 2012, p. 28). In addition Weber defines ethnic groups as those groups that ‘entertain a subjective belief in their common descent because of similarities of physical type or of customs or both, or because of memories of colonization and migration’ (1968, p. 389 cited by Bayar, 2009, p.1640). By “ethnic,” Weber refers to perceptions of common descent and culture along with at least some traits usually associated with these things such as shared language, physical resemblance, common ritual regulation of life, and including religion. In Sum, an “ethnic group” is defined generally, “as a set of people who have a common point of reference to at least one ethnic dimension of the social world. They also share the view that they indeed have this in common. They capture this similarity in a label, the ethnic group’s name” (Hale, 2008, p. 47).

Ethnic polarization in this research is operationalized as the difference among the positions taken by members of the ethnic groups on issues concerning political competition like local election. Alesina uses the term of 'ethnic fractionalization' to the same term of ethnic polarization. According to encyclopedia.com (2017), "*ethnic fractionalization (EF) deals with the number, sizes, socioeconomic distribution, and geographical location of distinct cultural groups, usually in a state or some otherwise delineated territory. The specific cultural features might refer to language, skin color, religion, ethnicity, customs and tradition, history, or another distinctive criterion, alone or in combination. Frequently these features are used for social exclusion and the monopolization of power*".

In order to measure fractionalization or polarization based on ethnicity among the countries around the world, some scholars also conduct some research in this issue. Alesina for example, uses quantitative methods and introduces new methods to calculate ethnic polarization in order to study the ethnic polarization and its impact to economic performances for about 190 countries (Alesina, Devleeschauwer, Easterly, Kurlat, & Wacziarg, 2003). However, according to Alesina, it is difficult to evaluate precisely the impact of ethnic polarization to the economic growth due to the other potential explanatory variables, in particularly

geography factor. Another example is a Reynal-Querol Index conducted by Chakravarty & Maharaj, (2011). However, these two authors just provide some characterizations of the Reynal-Querol (RQ) index of ethnic polarization using alternative sets of independent axioms.

Ethnic Polarization after Regime Change

The second theoretical framework in this research is ethnicity in particularly ethnic polarization. The ethnic polarization in Indonesia emerge as the impact of democratization and decentralization after Suharto era in the region. After the establishing of local election, there is ethnic polarization in the local electoral competition based on ethnic rivalry. Some studies on this issue are also conducted by some scholars. In particularly for Indonesian context, some studies conducted by some scholars concern on the impact of democratization after the downfall of Suharto era.

In the issue of communal violence for example, some article conducted by Aspinall (2011), Bertrand, (2008), C. Wilson, (2015), I. D. Wilson, (2006), Menchik, (2014), and van Klinken, (2007). They argue that there is an increase in the ethnic violence after the regime change in Indonesia. In the broad context, the same conclusion arguing that there are an increase in ethnic conflict after

regime change also has conducted by some authors. For example, the study from Georgia conducted by Siroky & Aprasidze, (2011) who argue that there is “Huntington (1991) developmental crisis” like ethnic conflicts and civil wars after democratization. In the context of African countries, Roessler (2005) conducts his research in Kenya and Rwanda. He argues there is state violence by incumbent, and moreover democratization empowered the opposition and increased the range of political challengers to take account of rural constituencies and entire ethnic groups. H. J. Choi & Raleigh, (2015, p.158) analyses how regime change create incentives and disincentives for opposition groups to incite different style of political violence. They argue that “variation on two specific parameters of governance—checks and balances and political participation—compels states toward one of the three forms of conflict, including civil wars, political militia, and riots”.

Furthermore, a research from Hegre, Ellingsen, Gates, & Gleditsch, (2001) cover more data in term of period. Their study on democracy and civil war from 1816 to 1992 data argues that domestic violence which in some cases related to ethnicity associated with political change; whether toward better democracy or more autocracy. However, the main weakness of these studies is the failure to address whether ethnic polarization has

an impact to how inclusive is institutions work. These study focus on how do the institution changes have an impact to the increase of ethnic violence. In looking for the work of inclusive institution after the Civil War in general and regime change Joshi (2012) cover it. After analysing the data on post-civil war transitions toward democratization after regime change from 1946–2005, he found that the proportional representation system and the parliamentary system are the most important institutions that help sustain the post-civil war. The limitation, of this study however, he just cover the issue of how to treat post-civil war society with the liberal parliamentary system. In the other case, for instance in Iraq, this thesis does not work. Democratization and institution change after authoritarian regime, instead of creating peaceful country, this change does not work to stop sectarian conflicts and the mushrooming of terrorism.

Several scholars also created some research to look ethnic polarization in local election. From India for example, a research conducted by Wilkinson, (2004) shows how electoral incentives at two levels interact to explain both where violence breaks out and, more importantly, why some states decide to prevent mass violence and others do not whereas relates to the higher or the lower role of politicians plan for a clear electoral

purpose. In context of Bottom Billion countries in Africa, Collier (2009) describes how ethnic politics and ethnic polarization in election create a political disaster as a the trigger of civil war and poverty in Africa. Furthermore, related to the trust issue, Collier states: “*ethnic diversity makes social cooperation more difficult, and that at low income levels this effect is sufficiently strong to be a substantial impediment to prosperity*”(Collier, 2009, p. 61). The same conclusion with Collier also have been previously mentioned by Kaplan (2000, Chapter 1) who argues that the post-cold war era of democratization is illusion in the context of Nigeria, where democracy based on ethnic politics has caused an upsurge of ethnic violence.

In Indonesian local election case, Aspinall, Dettman, & Warburton, (2011) conducted research in the city of Medan local election on 2010. They describe that this local election as an example of the ‘identity switching’ from ethnic issue to religion identity that can occur when politicians choose from multiple and overlapping identity categories in changing political contexts. However, Aspinall (2011, p. 289) argues that ethnicity still has role in political arenas like local elections, “but what prevails is a soft form of ethnic politics, with few of the deep disputes about ethno history or cultural policy that occur in more ethnicized polities”. Moreover, he argue that rather than producing

ethnic polarization, democratization in Indonesia has produced powerful new norms of compromise among the ethnic group in particularly in inter-ethnicity candidate coalitions on the local election. In short, he argues that ethnic politics in Indonesia are relatively weak. The same conclusion also has argued by (Allen, 2015) when he studies about the clientelism and personal vote in Indonesian voting behaviour. He conclude that ethnic politics is weak compared with the clientelism. Aspinall and Allen concern in local election and ethnicity arguing that ethnic politics is weak might be questionable in the case of local election in some parts of Indonesia when the candidate came from ethnic minority such as from Chinese ethnic group for example. There is one region in Indonesia when the minority of non-Muslim Chinese become a candidate and win the election. This region is in the case of Belitung Timur (East Belitung) when the Tjahja Purnama brother both Basuki (Ahok) and his brother Basuri win the local election in the majority Malay Muslim community.

Inclusive Institutions and Ethnicity

This research will find the impact of ethnicity and ethnic relation in particular inclusive institution such participation and transparency. The generalisability of much-published research on this issue of participation is

problematic when we see the context of relation among development, participation and ethnicity. Academia has insufficiently addressed this issue so far.

Most of the academia focus on the ethnicity and voter turnout in the election rather than civic engagement in public policy making process. For example the study from Darr & Hesli, (2010), Jackson, (2003), and Fieldhouse & Cutts, (2008). Darr and Hesli conduct research in post-communist Muslim society in Kyrgyz Republic. Jackson studies about Latino electoral participation in the United States. Fieldhouse and Cutts studies about the effect of neighbourhood ethno-religious composition on voter turnout on Britain on British General election 2001 case studies.

However, some scholars also write the issue of ethnic, institution (participation) in the development discourse. According to the Web of Science, there are 58 articles with relevant field of studies on this topic with the keywords; development, ethnicity and participation. The most cited article in this web is the journal article from Stoll 2001 with 47 time which has been cited. Stoll (2001) studies about the issue of racial differences in participation in voluntary associations. He argues that once the bad effect of area poverty is taken into account, blacks participate in more voluntary associations than do whites people and other, while Asians participate the

least. “The ethnic community theory of blacks’ greater participation, as blacks living in black communities participate in more organizations, particularly in ones that are political, than blacks who do not” (Stoll, 2001, p. 529). However, this study does not focus on the issue of institution and development.

If the field of studies we modify only for development studies and economics, there are only 12 articles in the web of science. The most cited articles so far is an article written by Bastia (2014). Bastia studies about the issue of feminism in household level. Bastia argues that despite the acceptance of feminist contributions to development, how gender-based inequalities are often interconnected by inequalities based on class, race and ethnicity remains mostly under-theorized in majority development studies. Bastia’s analysis does not take account of inclusive institution, nor does he examine participation based on ethnicity.

From 12 articles, there is only one article that is relevant and focus on the issue of ethnicity, participation and development. This article is conducted by Fontana & Grugel, (2016). This study explores the challenges of ethnic-based participation and its potential for creating inclusive policy-making for marginalized social groups in Bolivia context. The writers argue that indigenous political participation in policy making by using

consultation and Free Prior and Informed Consent (FPIC) will not automatically lead to better or more democratic governance and a more equal society. In this study, the writers only examine the quality of democracy with FPIC as an instrument of participation. This study does not cover the idea of development itself. This research does not take into account pre-existing of development such as human development, poverty, ecological issues and other welfare issues.

Using keywords such as transparency, ethnicity and development, there are only two journal articles that are not relevant for this research according to the web of science in all of study fields. If we modified with only two categories of key words; transparency and ethnicity, there are 19 journal articles in all of fields and only two articles that is relevant in the context of social science.

First article is written by Hirschmann (2011). He write about “the cultural dynamics and tensions of efforts to reform African tax bureaucracies according to contemporary global standards of institution reforms such as independence, transparency, and efficiency”. He argue that in Mauritius, there are three bureaucratic cultures interact in this area of public sector: a global semi-private sector, highlighted on the performance-based culture of New Public Management (NPM); a communal culture, give emphasis to loyalty, ethnic

identity, and union solidarity; and lastly a Weberian culture, where process, hierarchy, and security are important. As a result, Mauritius's government reform such as tax reforms, cannot be approached as entirely technical and apolitical due to this condition. The main limitation of this studies' approach, however, is the lack of development issues in this article. The writer only concern how the new public management reform is hard to implement due to ethnic and culture barriers.

Second research is conducted by Ijewereme (2015) from Nigeria. He concludes that there is corruption in the Nigerian Public Sector because of social pressure, tribalism, nepotism, low risk-high benefits of involving in corruption among others. However, this research does not directly examine the impact of ethnic relation to the specific institution such as transparency and accountability. Furthermore if we combine the key words such as inclusive regulation and ethnicity, we will only find one articles that is not relevant to this research according to the web of science.

To sum up, the research to date has tended to focus on participation in the election rather than the participation of public engagement in the process of policy making. In the issue of transparency, it is infrequent that the scholars has conducted research to make connection between transparency as inclusive

institution and ethnicity in the context of development discourse.

The impact of ethnic polarization on Institutions

This research aims to address the impact of ethnic polarization to institution. In some recent studies show ethnicity has an impact on economic performance but it is very few to look whether inclusive or extractive governance (institution), as an impact of endogenous factors such as ethnic diversity and ethnic migration.

Some studies have focused on the issue of public good provision. The most powerful argument in this field that there is a negative relationship between ethnic diversity and the provision of public good (Singh & vom Hau, 2016). Some studies conducted by Habyarimana et.al (2007), Miguel & Gugerty (2005) and Alesina, et.al , (1999) show that there is an evidence that ethnic diversity has a correlation to low level of public goods provision (such as low crime, good school, better sanitation etc.) issued by the government. If the ethnic diversity is low, there will be a better public good provision. Successful public goods provision in same ethnic communities can be attributed to a strategy selection mechanism: in similar settings, co-ethnics play cooperative equilibria, whereas non-co-ethnics do not.

'Co-ethnics are more closely linked to social networks and thus plausibly better able to support cooperation through the threat of social sanction' (Habyarimana et al., 2007, p. 709). Furthermore, the study conducted by Baldwin and Huber (2010) in measuring the impact of ethnic diversity on governance, with the data from 46 countries, they argue that between-group inequality 'has a large, robust, and negative relationship with public goods provision' (Baldwin & Huber, 2010, p. 644). However, the weakness of these papers is that we are given no explanation of how the institution works in providing a public good. With the quantitative research methods, this research only measures the variable of ethnic diversity as the independent variable and public good provisions as the dependent variable. There is no "moderator variable" such as institution and how it work as the impact of ethnic diversity or relations. Perhaps the most serious disadvantage of this quantitative method used by Baldwin and Huber is that this study does not explain in depth the "why" question.

In Indonesian context, some studies linking the ethnic diversity and public good provision are conducted by Bandiera & Levy (2011). Bandiera & Levy's work (2011) studies about whether democracy foster the interest of the poor or elite? They argue that "policies are closer to the preferred outcomes of the elites when the

polity is divided along ethnic lines". In addition, "when the poor are divided into groups with different preferences over public goods and politicians from different groups can form coalitions, the level of diversity endogenously determines the power of the wealthy elites in influencing policy outcomes". (Bandeira & Levy, 2011, pp. 1328-1329). However, this study has some limitations. For example, this study do not cover how the local leader from ethnic minority win the local election and how they secure their power wheatear they provide public good fairly without discrimination among ethnic groups or whether provide discriminated policy that only benefits the same minority ethnic. For me, I think it is very important to look the Ahok phenomena, a Chinese minority governor who rule local government in Jakarta and Belitung.

In contrast with the project addressing the impact of ethnic relation to institutions, Sumitra Jha (2013) and Pepinsky (2016) studies the relations between institution and ethnic relations. Jha uses historical institutionalism approach in explaining the impact of economic and trade institution to the Muslim and Hindu relationship in India. In sum, he argues that the basis of ethnic tolerance in South Asia is non-trade discrimination institution. Trade institution create ethic tolerance legacy in this region. This research is a good explanation in dealing

with the issue of the inclusive institution and ethnic tolerance. One question that needs to be asked, however, is whether the inclusive or extractive institution in South Asia history is an exogenous impact or endogenous impact? This research did not cover it. For instance, in some countries history, some institution is an effect of colonialism as an exogenous impact. The study carried out by Acemoglu and Robinson (2006) in which show the impact of colonialization strategy by European countries to the economic and political institution in some colonialized countries. Congo for example, Congo institution is very bad due to Belgian colonialization strategy. They put in extractive states through the purpose of transferring resources rapidly to the metropole and slaves trade is the most extreme form of this institution. In contrast to Congo, colonialization strategy in Australia, the US and New Zealand is different. Colonialization strategy in here is by setting up institutions that enforced the rule of law and encouraged investment (Acemoglu, Johnson, & Robinson, 2000, p. 76). Inspired by Acemoglu and Robinson, Michalopoulos & Papaioannou (2013) study about the Africa in looking for the relationship between pre-colonial ethnic institution to the development in African countries. They argue that there is a strong correlation between pre-colonial institutional and development. They argue against the claim of some scholars who argue

that development is driven by observable differences in geographic, ecological, and natural resource endowments.

However, Alesina & Giuliano,(2015, p. 898-938) have mentioned that culture will affect the institution. In contrast to the theory of institution as colonial legacy, they assume that ‘culture and institutions are endogenous variables determined, possibly, by geography, technology, epidemics, wars, and other historical shocks’. Furthermore, they argue that ‘it would be wrong to claim the causal superiority of either. Culture and institutions interact and evolve in a complementary way, with mutual feedback effects’. This study, however, does not cover the ethnic polarization as an endogenous variable which can determine the institution. In his other work, Alesina argues that ‘*more ethnically and linguistically segregated countries, i.e., those where groups live more spatially separately, have a lower quality of government*’. (Alesina & Zhuravskaya, 2008, p. 1872). More segregated countries have much lower quality of government in term of the World Bank’s indices of the rule of law, control of corruption, regulatory quality, government effectiveness, and voice and accountability. (Alesina, Alberto & Zhuravskaya, 2008).

The reason behind this finding is that the lower public trust due to higher ethnic segregation. Thus,

lower trust related to the lack of social trust and low quality of government. They argue that segregation in a society based on ethnic group can lead to lower trust between members of the different groups. There is a contrary causality: if certain groups choose to live separately, it may be because they trust each other less. Furthermore, related to decline of trust among ethnic groups, segregation can be associated with higher in-group trust as it increases homogeneity of local communities. There is a link between social trust and the quality of government. "Since segregation affects trust and trust affects the quality of government, trust is an important mediating factor between segregation and the quality of government" (Alesina & Zhuravskaya, 2008, pp. 1873–1874). In Indonesian context, the same argument also has been argued by Mavridis (2015). He argues that ethnic diversity tends to lower trust and then social capital. However, Mavridis has a limitation in his conclusion when we want to connect between trust issues including social capital to the better institution. His quantitative research methods just cover the linear causalities relation between ethnic diversity variable and social capital.

Furthermore, in his other studies, Alesina and La Ferrara (2005) concludes that higher in ethnic diversity point to economic failures is not a general conclusion. In

a good institution country such as the United States, there is a good economic performance despite the US is the heterogeneous country in ethnic diversity in particular the city of New York. According to Alesina's "trust is lower in more segregated countries and higher in countries with good government" (Alesina & Zhuravskaya, 2008, p. 1909). However, there is an inconsistency with this argument. It is not clear that which one is the independent variable ethnic segregation or the quality of government. In some part he argues that trust make a better of government quality, on the other part he argues oppositely that government quality create a better trust. He argues that ethnic segregation can create lower trust, and then create a better government. On the other hand, he argues that better government create better trust even though in the multi-ethnic countries. In addition, previous studies of Alesina have not deal with the migration context and local government context, he focuses on the impact of ethnic segregation and the quality of government.

In contrast to Alesina, Paul Collier (2000) mentions the political context of the institution in explaining the relationship between ethnic diversity and economic performance in developing countries. He argues that in developing countries with democracy political institution the extent of ethnic diversity has no

systematic impact on this choice of government in order to prioritise the growth or redistribution, although in some specific ethnic composition may increase or decrease the growth rate depending upon the extent to which ethnicity and income correlated. In contrast, in dictatorship regime, ethnic diversity tends to shifts government policy choice towards redistribution as the leader is able to concentrate the redistribution upon his close group (Collier, 2000, p. 244). However, this study does not cover that there is a democratic country in term of free election, but it has a bad political and economic institution. In some developing countries they maybe have democracy just for the electoral term rather than the institutional democracy with non-discrimination (inclusive) institution. Using just a free election for single indicator to justify democracy or not democracy of a country might be questionable.

Overall, however, these recent studies do not take into account pre-existence such as migration as a major factor in ethnic polarizations to governance. Few writers have been able to draw on any systematic research into the impact of migration and ethnic diversity to the institution. The institution as a moderator variable between the variable of ethnic diversity formatted by migration and development will be covered in this research proposal.

Ethnicity and Institution in Indonesia

Majority the ethnic study in Indonesia talk about power relation, ethnic violence or ethnic competition based on ethnic. The study of migration, ethnicity and the institution in Indonesia is just beginning in 2016 pioneered by Pepinsky. This sub-title will review the ethnic politics study in Indonesia that has been conducted by some scholars. Furthermore, the last section will review the previous studies in looking the impact of ethnicity on governance or institution.

Some scholars have conducted the study of ethnicity and politics in Indonesia. Van Klinken's (van Klinken, 2007) studies about the emerging of communal and ethnic violence due to democratisation in Indonesia. In addition, Aspinall and Fealy (2003) conduct some researches of ethnic political in local power in Indonesia. Aspinall also research about rebellion in Aceh province (2009). This research studies the issue about nationalism and ethnicity in Aceh Province Indonesia. He argues that the Free Aceh Movement (GAM), a separatist movement in Aceh, went from being a quixotic fantasy to a guerrilla army in the space of a generation, leading to a bitter conflict in which thousands perished. He also explore the complex relationship between Islam and nationalism, he explains how a society famed for its Islamic piety gave rise to a guerrilla movement that ended up refusing

the Islamic goals of its founding. In addition, study of Choi,(2011) explores how the local election in Indonesia has affected the development and dynamic of Indonesia's fledgeling democracy. There is transformation in elite and party in the level local than before. A study from Reuter (2009) looks for the impact of globalization to the local identities in Bali Islands of Indonesia. He argues that there are new social movements that are requesting local autonomy, more local control of local resources and larger acknowledgement for traditional institutions. Such social movements shed light on the challenges faced by the multi-ethnic nation of Indonesia today and, more generally, on shifting local identities in developing nations in a globalizing world. It is a result of political liberalization and decentralization. Additionally, the latest study in this topic so far is conducted by Pierskalla & Sacks (2016). This work links the connection between decentralization as a reform in institution to the ethnic violence in Indonesia. They argue that there is a positive effect of service delivery as an impact of decentralization on violence due to newly generated distributive conflicts among local ethnic groups around the control over and access to services. On the other hand, *“district splitting and the introduction of direct elections of district heads are negatively associated with some forms of violence. There is little evidence that fiscal transfers, in general, mitigate*

conflict” (Pierskalla & Sacks, 2016, p. 213). However, these previous studies of ethnicity in Indonesia have not fully explained what the impact of ethnic conflict to the issue of development and institution or governance.

In looking Indonesian ethnic relation to transmigration is initiated by Elmhirst (1999) with political geography perspective. She studies about government's transmigration resettlement scheme which has been one particularly powerful mechanism through which the New Order government has tried to realise unity among the country's different ethnic groups as a political agenda. She concludes that there are confrontations or rejections by indigenous people (Lampungese) against to the spatial authority of the government. The methods subtle forms of confrontation are articulated in agrarian landscapes and livelihood practices in Lampung. “For example, in the construction of Lampungese farm landscapes in the midst of homogeneous plantation agriculture and transmigrant rice-farming), or in people's “hidden transcripts” – everyday discourses of resistance to authority”. (Elmhirst, 1999, p. 813).

The other scholar who studies the impact of regime change and decentralisation to ethnic politics in Indonesia is conducted by Tanasaldy (2012), Duncan (2007) and Tyson (2010). Tanasaldy’s research in

Kalimantan argues that after the fall of the authoritarian regime in Indonesia, there is an emerging of Indonesian ethnic politics of indigenous people who has the demand to fill a local leadership position in the local election. Before that, under Suharto regime they do not have the ability to have a position in Indonesia local politics which has dominated by Javanese ethnic or military official. Furthermore, Duncan (2007) focus on the impact of regional autonomy and decentralisation to indigenous ethnic minorities in Indonesia. He shows that the change in the institution on local politics make the indigenous people can control over natural resources through the local election. This condition then creates the issue of corruption in Indonesia local government. Tyson (2010) conducts a research about decentralization and *adat* revivalism in Indonesia. He argues that in contrast with the main aim of decentralization, public participation engagement often takes the form of indigenous revivalism, a highly contested and continent process linked to political struggles and conflict throughout the Indonesian archipelago. However, these works have not treated the impact of the emerging of indigenous ethnic politics to institution and development or economic welfare in much detail. This study also does not cover the rivalry based on ethnicity between the indigenous and migrant Javanese in a local election and how the impact on the institution or governance.

In the topic about the relation of governance institution to the mining sector, the study from Spiegel (2012) is the pioneer in this area. He conducted research in Borneo Island of Central Kalimantan Province in looking the impact of the institution in the mining sector to the indigenous people of Kalimantan who has become an informal labour in this sector. He argues that mineral policies in Indonesia show a tendency that is common to numerous developing countries when the privilege has continually been given to overseas investment strategies with poor regards for homegrown mineworkers (Spiegel, 2012, p. 201). This study would have been more interesting if it had included the impact of mining sectoral institution changes to the environment. Furthermore, it would be more curious also how the impact of ethnic rivalry in the local election between the indigenous and the migrant to the institution and development issue such as environment disaster in some local areas of the mining sector in Indonesia. This research will cover the issue of institution and ethic in the case study of Bangka- Belitung Islands, the islands with the biggest tin mining industry, as one of the research location to look enrich this perspective.

Furthermore, the study of ethnic polarizations and governance with the historical new institutionalism approach in Indonesia just begins in 2016, conducted by

Tom Pepinsky (Pepinsky, 2016). Pepinsky looks the relations between ethnic and migration in Java colonial era as the foundation of Indonesia modern political and economic institution that effect Indonesian economic contemporary condition. Pepinsky develops the theory of social exclusion and completion, which he defines ‘as the social distance maintained between native populations and migrant communities such as Arabs and Chinese who – unlike Europeans – remain excluded from formal politics in the colony’ (Pepinsky, 2016, p. 2). He argues that the economic and political institutions have a relation to indigenous and migrant relations conducted by Dutch Colonial when migrants from China and Arab-dominated economic sector. One of the limitations with this explanation is that it does not explain Indonesia in general. He only focuses with Java, but the outside Java, the Dutch colonial institution formation is the difference that has also significant impact in Indonesia development today. This research will cover the impact of Dutch Colonial and after independent on institution formation outside the Java islands related to migration and ethnicity.

Some researchers have also conducted in Indonesia and Malaysia Ethnic Relation in Comparison perspective. Indonesia and Malaysia in the issue of ethnic polarization are relatively close each other.

Indonesia is the same pattern in Malaysia in the issue of multicultural society. There are some difference things due to ethnic polarization. Firstly, in Malaysia, the dominant ethnic is Malay, meanwhile in Indonesia is Javanese. Secondly, Chinese and India is the second largest group in Malaysia, while in Indonesia, the second largest group is the native group of ethnic outside Javanese such as Sundanese, Malay, Batak, Bali etc. Chinese, Arab and India is a minority group in Indonesia. For Chinese, there are some areas while they are significant such as Bangka Belitung Province and West Kalimantan Province. Malaysia's inhabitants are just over 50 percent ethnic Malay, with Chinese Malaysians combining nearly 24 percent and Indian Malaysians another 7 percent. The balance of the inhabitants is a blend of relatively small non-Malay indigenous groups that live in Malaysian Borneo and even smaller records of Eurasians and Thais (Pepinsky, 2009, p. 61).

Some studies about ethnicity in Malaysia and Indonesia in comparison perspective begin with the work from Alatas (1977). He studies about the Myth of Laziness among native Malay, Filipinos and Javanese from the 16th to the 20th century. Alatas argues that there could be colonial political interest behind the myth that they are lazy because of geographical factors such as

climate and tropical areas. In fact, Alatas says that they are hard worker people. In this book, Alatas debate the cultural factor as the impact of geographical factors that become a myth in Indonesia and Malaysia nowadays. This book is a counter argument of very famous book 'The lazy native', written by Sir Thomas Stamford Raffles, a Lieutenant-Governor of British in Java from 1811 to 1815. Alatas' work is the first work in comparing the ethnic relations of Malaysia and Indonesia with post-colonial theory approach. Alatas. One question that needs to be asked then, however, is whether the Alatas argument of hard worker native related to the development or institution issue? Some countries with the shorter working time are rich countries such as the Netherlands and Germany rather than poor countries. The evidence of this fact can be clearly seen in the case of Greek Workers, they are the hardest workers among the OECD countries even though their economic performance are lowest that the others (OECD StatExtracts, 2011). As a study, Alatas' book is a not good enough in exploring the issue of ethnic polarizations both bad governance institution and the development. Alatas has contributed to make counter arguments to the myth of lazy native created by colonialism.

In the issue of an ethnic minority in comparing Indonesia and Malaysia several studies have also

conducted by some scholars. The study from Tan for instances, shows how Chinese as an ethnic minority in Indonesia and Malaysia. Tan argues that state has a dominant role in constructing the idea and belief of *pribumi* (indigenous) hegemony vis-à-vis the most visible economic dominant minority is uncommon (Tan, 2001, p. 967). However, Tan offers no explanation for the relations between ethnicity and governance in this study.

The other study is conducted by William Case in his study about the political regime in Malaysia, Indonesia and Thailand after crisis in the context of ethnicity and institution. He argues that 'Malaysia's hybrid approach to authoritarianism has been most resilient, Indonesia's harder authoritarian rule was most brittle, and Thailand's democratic politics displayed an intermediate level of sturdiness, hence delaying but not preventing their breakdown'.(Case, 2009, p. 649). Furthermore, he concludes that in 'Malaysia, with ownership shared by the state, indigenous or *pribumi* and Chinese business elites, and overseas investors, a hybrid regime took form'. In New Order Indonesia, where state own company was also major actors, but government tends to empower or to promote the Chinese Indonesia. (Case, 2009, p. 667). However, Case's analysis does not take account of development, nor does she examine the impact of ethnicity in governance. He

just concerns the issue of how regimes among those three countries treat the ethnic minority in the business. Furthermore, the work of Case has the similarity with the Pepinsky dissertation in Yale University. Pepinsky tries to answer how authoritarian regime survived in Malaysia, and on the other hand, there was a regime change in Indonesia after the economic crisis 1998. He argues that the elite of Chinese conglomerate who has been dominant as the impact of discrimination policy in Indonesia was fragile in supporting Suharto regime when Suharto launched to implement neoliberal agenda that create them lose in economic. In contrast to Suharto, Mahathir avoided the neoliberal agenda that make his crony and business elite who dominantly come from indigenous ethnic of Malay. As a result, they were solid to support him and his regime, and the regime could survive even though in economic crisis turbulence (Pepinsky, 2009). In conclusion, however, these two writers have not been able to draw on any systematic research into the impact of ethnicity on institution and development. These study only focus on regime change as an impact of ethnicity relations to the authoritarian institution.

A pioneering study in the border area between Indonesia and Malaysia in dealing with the issue of ethnicity, labour migration and livelihood has been

conducted by Eilenberg and Wadley. Their study explores cross-border ethnic relation as a significant livelihood strategies of the Iban population in West Kalimantan Indonesia. They argue 'that the close interconnections among cross-border labour migration, ethnicity, identity, and citizenship, and how this plays into contemporary issues related to Indonesian political and economic change'. According to them, the economic disparity between Indonesia and Malaysia create this strategic borderland flexibility, they are more flexible in identity and citizenship between Indonesia and Malaysia (Eilenberg & Wadley, 2009, p. 58). However, their conclusion would interesting if they addressed the issue of beyond the citizenship and livelihood strategy. They might contribute to the issue of borderland area, but they cannot conclude in general in addressing the issue of ethnic in relations to governance performance between Indonesia and Malaysia in comparison. One of the other limitations with their explanation is that it does not explain why Malaysian economy is better than Indonesia in this border era, are there any impact from institution change such as decentralisation?

The recent study who look Indonesia and Malaysia as a comparison in the issue of ethnicity is the study conducted by Carolina Prasad (2016). She studies about the political ethnic in the election by comparing ethnic

minority voting behaviour between Indonesian Borneo and Malaysian Borneo as an effect of a political institution that plays an enormous role in determining the ways and dynamics of ethnopolitical manipulations. In this study, Prasad only covers the implication of political institution to political behaviour. Nevertheless, she did not mention the impact of this to the development diversity.

Overall, the researchers to date have tended to focus on ethnic minority studies rather than the impact of ethnic relation to the governance and development. Despite, the study from Pepinsky that highlight in how ethnic relation has influence in regime change in Indonesia but not in Malaysia.

Chapter 5 among the Politics of Development Discourse in Indonesia

Framing Indonesia development in Indonesia is a relatively a large debate in Indonesia. As the part of theory, some scholars debate what kind of model is appropriate for the Indonesian context. The other scholars try to understand the Indonesia development in the Suharto era and post-Suharto era. The jargon of development itself is very famous in Indonesia as a jargonic term for the New Order Regime. Suharto himself is well-known as “the father of development” in Indonesia. This section will investigate the discourse of development chronologically in the Indonesian history.

Colonial Era

The term of development is not very familiar in the colonial era. However, some scholars have created some works in order to understand the economic development in this period. Some of them are the scholars like Furnivall, Anne Booth, Geertz and JH Booke. However,

these authors do not cover the institution problem in their work. They focus on the historical and anthropological background.

The classic work by Furnivall which was firstly published in 1939 (Furnivall, 2010) focuses on the history of Indonesian economic development in the colonial era. This should be the oldest work in the discourse of economic development in the context of ethnic diversity of Indonesia colonial context. This book is a history book with the historical approach. He describes in some chapters how the mushrooming of liberalism in Europe, malaise in 1939, affects the colonial policy in Indonesia. In his last chapter he argues the failure of European liberalism context in the plural society of Indonesia (Netherlands India). He challenges the concept of individualism and freedom of enterprises as the mainspring of wealth as suggested by Adam Smith and his followers as a western bias theory (Furnivall, 2010, pp. 447-448). He argues that there is a lack of social demand which means “a taken for granted idea of how society ought to be a common culture” in the plural society like Indonesia (Preston, 2010, p. 92) . Social demand is a basic requirement for development, and Adam Smith neglects this important factors. In contrast with European countries which has social demand such

as individualism or freedom in their society, Indonesia at that time has a lack of this social demand.

Furnivall is the first economic historian who studies Indonesian economy, he is one of the few of the economic historian highlighting the important of culture become part of the development success. However, these claims have been strongly contested in recent years by some writers. The new-institution theory of economic as an approach of this research is one of them. Acemoglu and Robinson (2012), Rodrik, Subramanian, & Trebbi, (2002) and Chang (Chang, 2007, Chapter 9) some of the scholars questioning this theory. More detail about it explain in inclusive institution subtitle.

In contrast to Furnivall, Geertz (1963) with the anthropology perspective argues that the lack of Indonesia economic development is caused by the culture conditions of agriculture involution. He argues that the increase of agriculture production is not based on the technology advance. However, according to Geertz, it is rather caused by the increase in the number of labour. It can be tracked from the poverty share in Indonesian culture. Geertz relates it with the solidarity culture in Indonesians with emphasizing the poverty share rather than focusing in technology is the main factor why Indonesian agriculture is underdeveloped. The same approach work with Geertz is also conducted

previously by Boeke (1953) with his theory of dual economy. He established his theory in the context of Indonesia as a dual society country in the colonial era. He uses anthropology approach for studying Indonesian economy at that era. He argues that there are two kinds of economic society in Indonesia, capitalism model with several big companies owned by Europeans and subsistent model with the traditional market system run by the indigenous. Both these models run together simultaneously. He encounters the Furnivall's work of the plural society. However, this work only focus on understanding economic society in Indonesia colonial era. Furnivall, Gertz and Boeke neglect the idea of institutions on their work. Furthermore, it would be more interesting, if there is a much more systematic approach that would identify how the impact of colonial legacies interacts with recent institutions and development variables that are believed to be linked to in the recent literature.

The other famous scholar in this field is Anne Booth. She conducts some works to understand the economic development in Indonesia with the historical perspective since the colonial era. Her book (Booth, 1980), investigate the colonial history of economic development in the era of colonial Indonesia. Despite she does not mention ethnicity directly, but Booth covers the

idea of social class based on ethnicity in Indonesia colonial era. She concerns the issue of “native welfare” in Indonesia Colonial. She argues that the weight of government forced duties such as tax, levies on the indigenous populace in late colonial Indonesia was less than that forced by other colonial governments in the Southeast Asian Countries. The reason behind this argument is the context of 1930s economic depression in the Europe enforcing Dutch Colonial to find more income due to that crisis. Her other recent works also concern in the Indonesia Colonial legacies with comparison among the counties in East and Southeast Asia (Booth, 2007, p. 196). She argues that the Asian economic miracle success is not related to the anti-developmental colonial policy legacies that dependency theory has argued. In the context of Asia and Latin America, despite the colonial has left poor legacies to the newborn countries, however, these same legacies with the Latin America, has not impact in the Asian countries as the dependency theory argued. In Short, she want to argue that dependency theory is incorrect when they spotlight the colonial legacy as the cause of under-development in the developing countries.

In term of development as a living standard in the colonial era, Booth also writes an article in this issue. Her work (Booth, 2012) investigate the quality living

standards in Indonesia and other several countries with variant methods such as the capability of basic needs approach, demographic indicators (particularly mortality rates, anthropometric measures) and wage data as a counter variant of GDP. She concludes that despite there is progress in GDP which happened in most parts of the region between 1900 and 1940, developments in living standards were modest, and by the late 1930s most of these colonial countries including Indonesia had low educational enrolments and high mortality rates. In Indonesian context, she argues that there is a progress in living standard in this era compare with the previous era. This is happened due to ethical issue as a “new approach” as long as Calvinist-Catholic coalition ruled the government. As a result, there is a concern with the “native welfare” in the colonial region (Booth, 2012, pp. 1147-1148). All Booth’s studies reviewed so far, however, suffer from the fact that there is an institution factor that influences the degree in development. All of her works only focus on the economic history of Indonesia as she has expertise in this field. Despite she has concentrated on the colonial legacies, but her argument is the criticisms of dependency theory rather than emphasis on the impact of colonial legacy to the modern institution in particularly what factors that influence to the process of inclusive institution building.

Understanding and Debating New-Order Development Discourse and Policies: Oligarchy versus Pluralist approach

New Order regime massively uses the term of development in particularly the theory of modernization written by Rostow (1960). The style of development was designed by the central government using the Rostow theory or model of developmental stages. Suharto in his a lot of speech often cite the Rostow concept in his model such as "take off phase" or "*tinggal landas*" in the Indonesian language.

The dominant modernization theory paradigm in government policy is challenged by some scholars and activist from the outside of government. Two of the famous scholars who advocate the theory of dependency in Indonesia are Sritua Arief and Adi Sasono from Marxism point of view. In their book (Arief & Sasono, 1981), they critique the paradigm of development of Suharto regime which was dominated by modernization theory of Rostow. Arief and Sasono argue that colonialism legacy is the main cause of Indonesia economic exploitations by developed country after Independent. Their argument is the same with other dependency theories scholars who argue that the industrialisation of a few industrial, "metropolitan" countries has, as its consequence, the formation of

"satellite" nations that are trapped as a subordinate position within the "world capitalist" economic system (Kaufman, Chernotsky, & Geller, 1975, p. 305).

Furthermore, some scholars see Indonesia development under Suharto through the lens of Marxism paradigm with oligarchy approach. This perceptive is initiated by Richard Robisson whose book (1986) was banned in Indonesia at Suharto era, Yoshihara Kunio (1988) and MacIntyre (1991). Robisson is the first Indonesianist, (Indonesia experts from outside Indonesia) who study Indonesia with this social class lens. He argues that "capitalism has produced four distinct types of bourgeoisie in contemporary Indonesia and that power struggles under the New Order reflect the competing interests of these groups".

Those four group consist; firstly, indigenous Muslim traders who become weaker in this regime due to the rise of capital and technology-intensive foreign investment in mining and import substitution manufacture. Secondly, a coalition of civil bureaucrats, students, and intellectuals who has social and political power that has depended upon the extension of the state sector, which delivers distinct chances for technocrats, planners, managers, and associated intellectuals. Thirdly, the bureaucratic capitalists who come from the military bureaucracy, from the national to the regional level. In

contrast with the real capitalism that has power from private ownership of capital, these bureaucratic capitalist has protected a base economic power based on the appropriating power of bureaucratic office which allows certain factions and commands to control access to the market. Ruling the main centres of political power within a neopatrimonialism mercantilist state, they have been able to secure a share of the profit generated by foreign and domestic Chinese capital. Finally, a client *asli* (indigenous) bourgeoisie has emerged, outside the bureaucratic apparatus, but dependent on it and on foreign capital (Robison, 1978, pp. 17–18). Robison work is also the founder of class oligarchy paradigm in looking Indonesia at that time. After Robison, some scholars also has observed Indonesia new order and after with this lens as an approach in the other topics such as the studies from Winters and Hadiz who argue that “democratization has changed the form of Indonesian politics without eliminating oligarchic rule” (Ford & Pepinsky, 2013, p. 3).

The other works with the same approach with Robison are conducted by Yoshihara (1988) and MacIntyre (1991). Yoshihara argues that the capability of Southeast Asian capitalism (including Indonesia) to develop is constrained by its inability to make self-sufficiently the technological advances necessary to

sustain successive waves of manufactured exports. Robison explains why this is happened:

“Why is this the case? There are three major causes: first, the low levels of technology and technological skills in the societies, as well as low levels of investment in science and technology by both government and the private sector; secondly, the low quality of government intervention in the economy, resulting in political and economic domination by rent seekers, bureaucratic capitalists and cronies and the reliance upon policies which seek to build industrialisation upon expensive subsidies and an extensive apparatus of tariff and other protective barriers; thirdly, the continued technological domination by foreign capital and the failure of strong domestic capitalist classes to emerge”. (Kunio 1988, cited by Robison et al., 1989. p. 119)

However, this oligarchy of approach by these authors has a number of limitations. One of them is the critiques from some major Indonesianists who use pluralist tradition in Indonesian study. In contrast with oligarchy approach, pluralist argue that oligarchy approach is capable on its own of making causal analyses and explanation for political outcome. For example, despite there are some observations about what oligarchs do as a result of the type of oligarchy in

which they find themselves, oligarchy analyses cannot explain causal claims about the consequences of oligarchy for policy or political outcomes (Pepinsky, 2013, p. 89).

The other framework in looking Indonesia development discourse is pluralist approach. Pluralist approach argues that each interest group in political nature interact through the bargaining, coalition and competition between a pluralist ranges of interests. In shorter word, politics is about the battle among groups for influence (Marsh & Stoker, 2010, p. 16). In some studies, some scholars looks Indonesia new order based on this point of view.

Institution, Decentralization and Development in Indonesia after Suharto

After the new order, as long as the paradigm change from state centrist of model to the emphasizing of institution reforms in development, the development discourse in Indonesia also follow this trend. Some studies in development issue related to institution reforms in Indonesia have discussed between Marxian tradition and non-Marxian scholars. An article from Hadiz, (2004) (Hadiz & Robison, 2005) shows that how neoliberal reform is the dominant strategy in Indonesian development paradigm. They conclude that the

dominant of neoliberal institution agenda is the major factor of development failure in Indonesia since new Order. Furthermore, Hadiz argues that decentralisation from central government to local government as part of this neoliberal agenda, instead of creating greater accountability and transparency, decentralization, has been hijacked by the predatory interest of political actors. Decentralization in Indonesia started when President Habibie implement the Letter of Intents (LOI) derived from Washington Consensus between IMF and Indonesian government in order to get a debt from IMF due to economic crisis in 1997-1998. The World Bank and IMF prescribed decentralization with the aim to reduce corruption and to reform bureaucracy, to open the market, to create friendly investment governance, and to enhance local democracy and community driven development (Goldfrank, 2002, pp. 51-52) (Tyson, 2010, p. 34).

The other work from Marxian perspective in this issue is the work of Hutchison et al. (2014) and Hadiz and Robison (2005). They argue that in the case of Indonesia after the Suharto era is also part of the neoliberalism strategy in dealing with the financial crisis was caused by the neoliberal regime. However, the paper would appear to be over-ambitious in its claims. The problem with this argument is when they identified

what is the main cause of Indonesian crisis in 1998. The authors claim that new order is a liberal regime that was circled by a liberal economist in the so-called 'Berkeley Mafia' who has an important role in Suharto policy (Hutchison et al., 2014, p. 18). Furthermore, Hadiz is to simplify to avoid the role of the institution as the main factor of development failure in Indonesia. Indonesia in new order is not a neoliberal state model but more what Robert Wade's terms as 'governing the market' model (1990) when development goal such as industrialisation is designed and ruled by the state or government (politically driven) not by the private sector (market driven).¹ In addition, the economic crisis in Indonesia tends to state failure rather than neoliberal (market) failure. However, the previous study about new order policy circles conducted by Mallarangeng (2000) has challenged some of the Marxian conclusions in Indonesian studies, concluding that the Indonesian policy making under new order regime is not dominated by some liberal technocrats. They just were called by the regime at the beginning of new-order after and in the economic crisis after the oil bomb in the early 1980s. Furthermore, after the economic recovery, Mallarangeng

¹ Some scholars use the other terms such as 'state capitalism' (The Economist, 2012), Ersatz Capitalism'(Yoshihara Kunio, 1988) or 'developmental state'(Johnson, 1982) with the same meaning as of state role in governing the market. In contrast to the 'real capitalism' which the role of state is limited, or with the term of 'laissez faire' by Adam Smith and Ricardo

argues that Indonesian economic policy had been recaptured by pro-state or anti-liberal economist.

Some studies have also conducted by Indonesian scholars in looking for the link between neoliberal reforms and the quality of development. For instance, a research is conducted by Santoso and Kristiansen (2006) in looking for the impact of decentralisation and privatisation as the neoliberal reform agenda to health provision in Indonesia. They argue that the health services after the neoliberal reforms have been turned into profit centres rather than non-profit public services. The other research is conducted by Pratikno looking for the impact of decentralisation on the education sector. He concludes that decentralisation without transparency and accountability create a lack of quality in education services such as the increase of education cost charged to the household (Kristiansen & Pratikno, 2006).

On the other hand, some works from non-Marxian scholars in the field of institution reforms and local governance argue that the problem of development in Indonesia that is just not about the failure of neoliberal policy but beyond that. For instance, a pioneer work in the issue of political development with the political economy perspective in Indonesian context is conducted by von Luebke (2009) who look the decentralisation in Indonesia from political elite theory perspective. He

argues that the reason why local government performs well might be caused by the local leader or elite group of government who has a vital contribution rather than good institutions. On his recent work when comparing Indonesia and Philippines he also argues that elite group has a significant impact on Indonesian decentralisation success in dealing with the development issue. He also criticises the focus in institution reform such as good governance programs. He suggests a more nuanced approach: one that takes account of existing elite groups, without labelling them as a detriment to good governance' (Von Lübke, 2012, p. 43). The other work with the same conclusion is also conducted by Bunnell et al. (2013) with the context of the urban city such Surakarta under the success era of Joko Widodo and Surabaya under the Tri Rismarini era. However, the most serious disadvantage of this elite approach of von Lubke's work is that he just look for a specific area of Surakarta city not in general of Indonesia. The other recent research with elite theory perspective also with the specific area is conducted by Lucas (2016). *In contrast* to von Luebke, Lucas studies about the unsuccessful decentralisation due to the corruption of the elite in the village level. In sum, these two authors have the similarity in looking elite as the important factor for success or not success in decentralisation as

institution reform in Indonesia after the era of New Order.

On the other hand, von Luebke and Bunnell et al., Pepinsky and Wiharja (2011) who study the effect of decentralisation as an institutional reform to economic performance, argue that decentralisation has been unsuccessful in Indonesia to create a better economic performance at the local level. This work portrait more a big picture of Indonesia with a statistical quantitative research. The interesting argument from Pepinsky and Wiharja is that the reason behind this unsuccessful of decentralisation. They argue that the country with homogeneous regions (geographical factors), a highly worker in term of mobilisation and strong accountability in local governance will success with the decentralisation, and Indonesia does not have these such of characteristics. This study has covered cover the geographical factors and institution as a key problem of decentralisation in Indonesia, however, this study avoids the fact that there is a success story of some areas such as Surakarta, Bandung and Surabaya that has been mentioned by von Luebke before. Furthermore, these success stories in local governance recently have begun to create a new pattern of national leader selection by the winning of Joko Widodo as local leaders in the presidential election. It means decentralisation has an

impact in reducing the dominant roles of central elites and oligarchies who has dominated Indonesian politics since the independent era.

The other work that study the impact of institution reform of regional autonomy to the participation and transparency in Indonesia is conducted by Baswedan (Baswedan, 2007). He finds that the implementation of regional autonomy does not directly increase local political participation. He also argues that the degree of government responsiveness is influenced by the size of population. The larger the district's population, the government tends to be more responsive. In the issue transparency, this work finds that the degree of government transparency is associated with the degree of public awareness of local politics. However, this study has remain some gaps. For instance, Baswedan's argument that institutional reforms affected the way of citizens and political behave is not new in literature. He also not cover for example in the issue of natural resources between rich region and poor regions regarding natural resources. He also does not cover for example the issue of ethnicity between the degrees of ethnic polarization tension among those regions.

The most recent article so far in the development discourse in Indonesia is written by Warburton (2016). This article discuss the style of Joko Widodo (Jokowi)

Presidency that she calls as “the New Developmentalism”. In contrast with the institutional reform discourse in development that is accompanied by a substantive program for building transparent and good governance, she argues that Jokowi’s style of administration tends to back the New Order style of development in design and implementation. Jokowi’s developmentalism “exhibits a renewed commitment to a state-centred nationalism that has deep roots in Indonesian history. For Jokowi, the state functions to provide economic services and nurture local industry, and the state sector is the locomotive for his infrastructure boom”. In order to achieve his goal in development, Jokowi use political accommodation to create political stability (Warburton, 2016, p. 288). One criticism of much of this article on the new developmentim is that Jokowi government re-emerge the idea of new order state-centrist development is contradictive with the evidences provided in this article. For instance, in the on the other pages of this articles, she argues that Jokowi support the policy such as deregulation, and de-bureaucratisation that means Jokowi supports pro-market policy (Warburton, 2016, p. 308).

Chapter 6 Conclusion

There are some gaps in the literature reviewed so far; firstly, grand theory such as classical and neo-classical (including neoliberalism), Keynesian and Post Development also has lack of care of institution and ethnicity factors. Secondly, the theory of inclusive institution neglect the factor of ethnicity or ethnic relation as a factor that can influence the process of creating inclusive institution for development in particularly in the context of a heterogeneous country like Indonesia.

In order to find out the originality and the contribution to knowledge, the other some questions remained as the other gap of research based on this literature review of based on the Indonesia context that will be potential as future research topics:

Firstly, How migration from Java to the islands outside Java affect the quality of institution and the development? Pepinky has done the research the effect of migration from China and Arab during the era of

Dutch Colonial. Secondly, some scholars have conducted some works in role of IMF and World Bank as neoliberal institution in the institution transforms (governance reforms) of Indonesia an exogenous factors. Luebke (2009) argues that the local leader is more important variable. How about the endogenous factor such as migration and ethnic polarization or other variables? Thirdly, The works by Tanasaldy (2012), Tyson (2010) and Duncan (2007) have studied the impact of institution change (decentralization) to the indigenous people politics. How does this research develop these two arguments with the “vice versa” question: how are the impacts of the emerging of indigenous ethnic politics to institution and development? Fourthly, How to look the ethnic rivalry relations based on ethnicity between the indigenous and migrant Javanese in local election and how are the impact to governance? Fifthly, to what extend do neo-liberal institution reform after New Order Era in Indonesia create inclusive or extractive institution in local level of the outside Java Island? It will fulfill the Pepinsky gap of research (2016) who has worked in Java with historical institutional approach. (It could be broad topic research, but it may one variable that we should aware and opened as we discuss before). Lastly, Spigel (2012) explores the impact of decentralization in discriminating the local indigenous people in local mining sector. How about the impact of ethnic relation

to the institution (local regulation) of mining and then environment in Indonesia local politics?

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