



UPPSALA
UNIVERSITET

TVE-MIL: 18038

Master's Thesis 30 credits

September 2018

The Extractive Institutions as Legacy of Dutch Colonialism in Indonesia

A Historical Case Study

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Abstract

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Fida Amalia Fathimah

While some countries are thriving in political stability and economic prosperity, others are struggling with political instability and poverty. The fundamental difference between the successful and the failed nations boil down to their institutions, as stated by Acemoglu and Robinson in their influential institutional economics work, "Why Nations Fail". Inclusive institution is the reason why some countries achieved economic success and prosperity because they allow the population to participate and take advantage of the economic activities while extractive institutions hinder it in case of failed nations.

The purpose of this study is to explore more closely how extractive institutions persist in an ex-colonised country in spite of institutional drift and the political disruptions of post-colonial governments avowedly vying to rid the present of the past. Indonesia is chosen as the subject for this historical desk research case study wherein the relevant history surrounding the colonial period and the subsequent development will be explored and analysed through the lens of secondary literature. In addition to being based on textual evidence, the institutional economics approach will be used as a theoretical framework to break down the social, economic, and political aspects of the history. Furthermore, the mechanism of how the institutions evolve will be seen through the political development framework. The result will show that patrimonialism is present as an extractive feature in both modern and colonial Indonesia and how it has been sustained after independence. This study also suggests other extractive features as a legacy of the Dutch colonialism that is separate from the native tradition and customs which are Javacentrism and racism in the form of social stratification between races as a result of colonial policies.

Keywords: Extractive Institutions, Institutional Drift, Institutional Economics, Colonialism, Political Development, Patrimonialism, Javacentrism, Racism.

Subject reader: Rickard Grassman
Examiner: David Sköld
TVE-MILI: 18038
Printed by: Uppsala Universitet

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1. Introduction

1.1 Background

Disparities and inequalities between countries are a glaring reality of the modern world. The Global North enjoy the privilege of wealth and control over the world's capital and resources in addition to being more advanced in their level of industrialisation. Most of them share the similarities beyond wealth including on the one hand having gone through the industrial revolution at a much earlier stage compared to the global south, and having a history that is with few exceptions more on the side of the colonial power as opposed to being colonised which is conversely by and large the experience of the global south.

In consequence, the Global South is much less advanced in terms of social and economic development as these impacts and resulting interdependencies has sustained themselves in a multitude of ways. The more precise focus of the present thesis is set to explore how these patterns persist beyond colonial rule and, as it were, become significant features in post-colonial governments and consequently also determinant on the dynamic and direction of industrial processes transcending subsequent governments and political ideologies.

In this master thesis I will endeavour to find out how the extractive features are realized in the modern setting and how these historical patterns of colonisation may translate into more contemporary facets of institutional conditions and tendencies. I will also try to make clear how the past plays a role in the present is to be found in the way institutions that apparently do change on one level, nevertheless may endure in a deeper sense. The particular case to be explored in this regard is Indonesia against the backdrop of Dutch colonial rule from the critical historical period of the 17th century onwards when economic growth and nation-building was becoming a much more global affair with wide ranging institutional arrangements.

The argument that will be developed throughout this thesis is that colonialism and colonial institutions, which obviously are by their very nature and definition bound up with a certain extractive dynamic between coloniser and the colonised, leaves behind an institutional heritage despite more progressive and egalitarian agendas that explicitly aspire to sever ties to the past (Schulte Nordholt, 2011). This, as we will see, explains why we find certain predispositions towards extractivism in Indonesia and elsewhere that have proven rather difficult to break even after independence from the former colonial power. In other words, colonialism by the Western world during the age of imperialism has left lasting institutional residue with a certain latency towards extractivism, which do account for the underperformance of ex-colonised countries in terms of democracy and economic institutions for economic prosperity (Olsson, 2007).

This broader historical pattern we can see play out in most instances of Global North-South colonial rule, be it in Latin America, Africa or in parts of Asia, and is thus more of a rule rather than the exception. This is to say the resulting political and economic environments that mark post-colonial development as a rule, accentuate the significance and endurance of institutions sustaining, colouring or predisposing new institutions through the underlying extractive experiences of their colonial past. This general historical development and path dependency is also very much part of the particular experience of Indonesian independence after Dutch colonial rule that is what more specifically we will investigate in the following (cf. Pierson, 2000 or Mahoney, 2000; Acemoglu and Robinson; 2012).

Among other imperialists, the Dutch is relatively unique since the size of their colonies is much bigger than their own country, spanning from the island of Sumatra to the West Papua (Lindblad, 1989). However, for the most part of their hegemony in the East Indies, creating the extended phenomenon of Javacentrism: putting Java Island and its inhabitants as the focus while excluding and neglecting the Outer Islands, a phenomenon that will be analysed in this study. One of the colonial policies specific to Java is the Cultivation System, a system of “forced cultivation of cash crops” (Bosma, 2007). This policy is one of the most discussed aspects of the Dutch colonial era which is notable in how it exploited the natural wealth of the Java Island and its people and eventually became the precursor of other events covered in this thesis. Following this era was the Liberal Period which opened the exploitation of Java and the Outer Islands for foreign private enterprises. Along with the changes and transition between these periods, there are transformation in the institution of colonialism and lasting effects into the Indonesia’s modern institution.

There are several reasons to limit the case to Indonesia. The ex-Dutch colony is the biggest economy in Southeast Asia, an emerging market country, and a member of G20. Its population is the 4th biggest in the world and it has vast natural resources. However, despite the steady climb in its GNI and breaking free from the low-income country category, Indonesia is still a lower-middle income economy country and has not changed in the category with GNI per capita of \$70 in 1969 and GNI per capita \$3,400 in 2016 (World Bank, 2018). Moreover, Indonesia is riddled with corruption and has missed many opportunities throughout its history of breaking such a vicious cycle. Although not as severe as in many parts of the ex-colonized world, Indonesia has endured many separatist movements and ethnic frictions, the notable instances being the Free Aceh Movement (Schulze, 2004) and the Free West Papua Movement (May, 1992). Coincidentally, the two regions are among the latest of Indonesian regions to be united under the nation state Indonesia.

Furthermore, the study of precolonial history and economic development of East and Southeast Asia is something that generally is lacking in the academic discussion. Most scholars are more interested in the economic development of the second part of the twentieth century of the

region (Booth, 2007). This thesis therefore could hopefully become a contribution to fill this gap.

Before turning to colonial policies in different periods in greater detail, it is beneficial to trace the thread on broader global patterns of imperialism and its many symptoms, and once more stress the enduring institutional heritage of colonialism persisting beyond the cessation of colonial rule, as evidenced throughout most of the Global South and elsewhere. This is not to say that the colonial institutions are single-handedly responsible in hurting the future of their colonies since often the colonies perpetuate the vicious cycle that leads to the underperformance themselves.

The shared history of being exploited as the point of supply of labor and capital in the past continues into recent days for these ex-colonised countries. Though it is no longer in the hands of those who effectuated the colonial institutions, the extractive dynamic that were put in place through such institutions persisted and can be traced back to the fallout of colonialism. In addition, the complexity in discussing the legacy does not stop only on the good or bad, but can also extend to the degree of strength and the nature of it (Austin, 2010).

In this thesis, the way the legacy of colonisation affects the institution will be explored. The contemporary Indonesia will first act as a background to show how and if the extractive features actualized before we delve into the colonial past. Therefore, a brief description and analysis on the contemporary era will set a better connection with the exploration of the colonial past and how it leaves behind an institutional legacy. The way the institution of modern Indonesia has developed and if there are extractive features present will be explained. In examining this subject, some theories on political development and modern vs patrimonial state will be utilized, and evaluated insofar as how well it applies to account for institutional patterns of Indonesia, past and present.

The ways countries are colonised are different and the way colonialism and imperialism take shape is different so that even the use of the term “post-colonial” could be overly simplistic too simplifying and thus erasing significant nuances in the matter (McClintock, 1992). In addition, colonisation is not the only thing that contributes to the said process for the ex-colonised countries, that is, many factors interact and combine over time resulting in different situations and leading countries to different directions.

One could argue that Indonesia is not a failed state, although undoubtedly a weak one (Wanandi, 2002), which nonetheless makes it still interesting as a subject for discussion. Some argue that the weak state is due to the failings of the conception of the state, a failing that dates back to the conception of the country by its educated youth (Vickers, 2005). The way political institutions change over time is described in the political development framework as elaborated

by Francis Fukuyama in his book “Political Order and Political Decay” (2014). There is benefit to use this framework to understand how weak institutions came to be since political development concerns the “underlying rules” of society rather than temporary shifts of policies and politicians.

One of the concepts of political development is the differentiation between patrimonial state and modern state which ultimately lies in the separation between the private and public scopes. The states are “indistinguishable from the ruler’s households” in a patrimonial one whereas in a modern state there should be a clear separation of the two (Fukuyama, 2014). The distinction between patrimonial and modern state is especially relevant here since the transition between patrimonial to modern Indonesia coincides with the independence.

Furthermore, repatrimonialization, which happens as a result of the persistent nature of institution, is a phenomenon worthy of discussion since it explains how the extractive tendencies materialise in modern Indonesia. While patrimonialism is a thing of the past, rulers of the modern world could adopt or retain patrimonial characteristic and become what is called “neopatrimonial rulers”, a combination of patrimonial rulers and modern bureaucracy (Medard, 2014).

Despite the effort to create a modern state out of the collection of sultanates and kingdoms that was Dutch East Indies, Indonesia was ruled by neopatrimonial rulers for the most part of its history a fact that will be explored in the beginning of the thesis. Patrimonialism is related to clientelism in the mechanism of how it secures power of the ruling elites. This extractive design excludes outsiders from taking part on the prosperity and prevents anything that might threaten the status quo. When the effort to maintain the status quo is done in a grand scale, it threatens the integrity of the modern state of Indonesia. Other patterns of behavior also realised such as racial discrimination and the pattern of centering Indonesia around Java, neglecting the rest of the country.

The discourse regarding the formation of the country cannot be separated with the rhetoric of colonialism and its legacy. Indonesia is an ethnically diverse country, controlled by different rulers in the past. It is now a nation state only because they were all part of the Dutch East Indies and united through the struggle against Dutch colonialism (Wanandi, 2002), which shows how great of an influence the Dutch colonialism have on the foundation of Indonesia. Colonialism is therefore a factor that is relevant to some extent for how the country develops since it is very fundamental for the formation of the country and by extension, how it is established as a political and economic institution.

1.2 Problem Formulation

Postcolonialism is generally used as a framework for the discussion on how colonialism and imperialism present enduring outcomes in various aspects. However, the ways colonialism eventually impact the contemporary economic institutions are disproportionately underexplored. The book by Acemoglu and Robinson (2012), “Why Nations Fail” is a notable work on institutional economics which mainly explores this link between the patterns established usually by the colonial powers ended up impacting the country’s own institutions even long after they are gone.

The extractive economic institution is given emphasis as the key main thing that prompt the making of failed nations. There is legitimate critique against the simplicity in determining whether a country can flourish or flounder on account of rather broad and abstract dichotomous ideas. Acemoglu and Robinson (2012) make a distinction between what is considered as inclusive and extractive institutions throughout the book, but they never spell out the precise definition (Dzionic-Kozłowska and Matera, 2015). Yet all the illustrations on how the connection came about are based on this distinction.

Henceforth, colonialism and imperialism are paramount topics, still relevant even in the present times. The Dutch imperialism however is not as prominent in the body of scientific works within these subjects and the Dutch colonialism in Indonesia even less so. This thesis then is an attempt on filling this gap. As opposed to academic works that explain how European colonialism could have been beneficial for its colonies, this thesis problematizes this impact further by accentuating that underneath overt institutional agendas for free elections, rule of law and human rights one may find a deeper institutional predisposition towards extractivism that is perhaps even more part of the European legacy in Indonesia and elsewhere.

1.3 Problem Statement

Prior to the Dutch colonialism, there was no single authority or government that united all the regions of what were to become the Dutch East Indies. The context needed to make sense of the history will be found through the analysis of the modern Indonesia, therefore the history of Indonesia post-Independence will give the context retroactively. The ultimate aim of the study is to explore how the extractive institutions as explained in the book “Why Nations Fail” take form during the Dutch colonial era and proceed to shape the political and economic institutions of Indonesia. As in the book, institutions as a subject matter in this thesis are in the context of political and economic and seen as intertwined with each other. Therefore, the overarching research question that is to be thoroughly explored throughout this thesis is the following:

What are the extractive features of Dutch colonialism in Indonesia, and to what extent has it come to influence the institutional dynamic of present-day Indonesia?

To help answering this question, it should also be discussed how these features have been realized, and what the mechanisms are behind them.

As stated by Acemoglu and Robinson (2012), the legacy of colonialism could significantly influence the critical juncture of a nation resulting in either inclusive or extractive institutions. The purpose of this study therefore is to discover and understand the nature of the Dutch colonial era of Indonesia and how it fits the characteristics and patterns of extractive political and economic institutions vis-à-vis their Indonesian colonies, and to what extent. These extractive characteristics are sustained through the process of independence and into contemporary Indonesian society.

1.4 Limitations

Because of the constraints on time and resources, this study relies on available literature and other existing scientific works. The complexity of analysing a societal/institutional development case could lead into difficulty in establishing causal factors. The opportunity to open up innovative perspective and insights is admittedly limited since the exploration and the analysis will be done on textual evidence. This type of academic work will naturally enforce what other works have come to achieve since it requires textual backing even though the research is qualitative.

2. Literature Review

The problem as stated in the previous chapter boils down to the exploration of how the characteristics of extractive institutions, both political and economic, manifest themselves in the Dutch colonial era of Indonesia. To explore the theme more comprehensively, how the said characteristics carried on into the more contemporary era of independent Indonesia will be discussed first. The concept of extractive institutions as the explanation of nations' underperformance comes from the book "Why Nations Fail" and it is what this thesis is based on. The institutional economics is deemed appropriate as a framework for the analysis as it emphasizes the social context for economic issues. In particular, examining ex-colonised countries, "Institutional Economics', with its paradigmatic emphasis on culture and long-standing openness to interdisciplinarity, is best positioned to bridge the gap between postcolonial theory and economics" (Zein-Elabdin, 2009).

In assessing and analysing how this extractive dynamic come about, it is not possible to dismiss the larger socio-political context even when talking about the economic aspects and how the industrialisation process of a country unfolds. These variables from this larger context are seen as critical factors since in the institutionalist point of view, it is unacceptable to neglect the habit and the history that shape societies. Despite the benefit of institutional economics in facilitating the analysis, the connection between colonialism and institutional economics is largely unexplored due to the different disciplines those issues belong to.

Apart from applying institutional economics framework in the analysis, this thesis also uses other concepts from the Acemoglu and Robinson's (2012) book "Why Nations Fail" in order to explain how the institutional factors came about as consequences of decisions in the past in the form of path dependency. The definition and dichotomy of extractive and inclusive economic and political institutions are also another important theory in this thesis.

2.1 Institutional Economics

As mentioned before, the Institutional Economics approach is used in this case study as it takes into account the pattern of a system that is entrenched in larger systems (Mayhew, 2018). This approach focuses on the evolution of social systems and social processes, while analysis founded on three concepts "enculturation, empiricism in aid of both understanding and policy, and evolution" (Mayhew, 2018). In the institutionalist point of view, to build distinctions between economic and non-economic factors and between economic and social processes in the discussion is not acceptable (Huppel, 2013), and in part it is an attempt at reducing the isolation and self-containment of the economy from other branches of social sciences (Kapp, 1976). It is also not enough to only establish connection but also to explore the causal relationships between variables. This consideration towards causal relationships and the

circular interdependencies within it are used as a framework for analysing the process and formulating the solution of the problems (Kapp, 1976).

The different attitudes in approaching the human agency is one of the things that distinguish the old/original and the new institutional economics (Hodgson, 1998). In analysing an institution, the concept of habit in how it affects human behavior is seen as significantly affecting human agency. The concerns of the approach are “human agency, institutions, and the evolutionary nature of economic processes to specific ideas and theories, related to specific economic institutions or types of economy” (Hodgson, 1998).

Some degrees of bias is unavoidable in the social science field especially when cultures are of concern which is the case in regard of the institutional economics approach (Mayhew, 2008), as indeed with any other form of social analysis. In the discussion structured within institutional economics, cultural hegemony is a relevant risk regarding bias insofar as it may influence the way problems are being framed (Zein-Elabdin, 2009).

There is some criticism concerning how institutional economics may influence the academic outlook in analysing a case. This is more specific towards the old institutional economics and its treatment and approach towards the degree of how much habit could shape human behavior and institutions in particular (Hodgson, 1998). Putting too much emphasis on the “molding of individuals by institutions” is one critique towards the “cultural determinists” approach of Old Institutional Economics (Hodgson, 1998). On the other hand, the New Institutional Economics neglect the conditioning that happens under institutions and rather put more emphasis on interactions of the individuals (Hodgson, 1998).

2.2 Industrialisation

The industrial revolution fundamentally changed the way humans live their lives by revolutionizing, not only the system and technology concerning work processes but also, new habits in society. Industrialisation is powerful enough to be the driver for political development, transforming patrimonial states into modern ones (Fukuyama, 2014). Unlike political revolutions, industrial revolutions do not have clear beginnings and ends, but are rather marked by major events - though major events throughout history are parts of and affected by changes in technologies and organizational forms that powers industrialisation (Stearns, 2013).

The discussion regarding industrialisation can be deceptively simple where in reality it is tricky and complicated and should be treated like so. The path of each society in the process of industrialisation is affected by a myriad of different things such as how much the societies are open to new technologies, how the policies are enacted as a response to the changes, which

industries flourish and which ones shrivel, and many more. The changes mostly happen gradually and eventually involve political and economic changes and even affect the basic social structure of countries. Industrialisation is therefore a continuous process with many aspects incorporated into it rather than discrete events (Stearns, 2013).

Some countries had their industrialisation process earlier than others. For the industrialisation to take place successfully, there needs to be capital, access to raw material, the availability of a labor force, and an aggressive, risk-taking entrepreneurial spirit. An example of how these factors combining into setting an outset of an industrial revolution is the case of 18th century Britain. Those factors contribute into why the British was the first nation to embark on the industrial revolution, leaving agriculture for large scale manufacturing as the dominant source of economic growth (Stearns, 2013).

Imitation of industrialisation processes does not always guarantee an industrial revolution to happen. Take Russia for example. In the 19th century, Russia was trying to imitate the industrial revolution in the West by buying machines but eventually they did not export manufacturing goods and the economy was still based on agriculture instead of industry. In another instance, the British was responsible for building railway network in India during the time the latter was still a British colony in the 19th century. India had a budding textile industry which could have been benefiting from the railway network but eventually the infrastructure was used to further advance the commercial agriculture and the penetration of British goods to the Indian market (Stearns, 2013).

The latecomers have to play catch-up to be successful in their industrialisation process. Russia and Japan are two examples of that because of the combination of several factors. To begin with, both are never colonised thus they are not trapped in a commercial pattern that exists to serve the interest of other countries like e.g. the example of India. They have some differences down the line such as major political unrest and social upheaval in Russia but not in Japan, though in the end they both have strong governments that initiate the process. They both also had the foresight to observe the learning experience of former industrialisation processes (Stearns, 2013).

It has been suggested that the economic growth in Europe during the early stages of industrialisation was actually assisted by the military competition between the countries. The role of military competition, in this view, regarding the contribution to industrialisation is however not viewed as due to how it favors the strongest but how it extends the influence of industrialisation outside Europe (Pomeranz, 2012). The abundance of natural resources is not a requirement for a country to undergo an industrial revolution. In the past, the industrial revolution that started in European countries led them to colonise other parts of the world to obtain raw materials, specifically Asia and Africa. In most cases however, the availability of

infrastructure such as railway network to distribute raw material is a vital requirement. Among the early industrialised countries, the construction of the railway itself came to pass as a result of technological breakthrough (Stearns, 2013). However, further development of railway network did not transpire until the entrepreneurs' worked out the modestly lucrative schemes to provide the funds. The investors were mainly the entrepreneurs in emerging industries at that time such as cotton and coal industries that realize the benefit of railways and the adequate returns the railways gave for their investments (Pomeranz, 2012). In colonised countries, the colonial powers developed infrastructure especially to distribute the raw material extracted from their colonies (Stearns, 2013).

After colonised countries gained sovereignty, they did not immediately succeed in undergoing an industrial revolution. In fact, the state of the domestic economy was even worse off in many cases initially, and some countries are still stuck in the old ways of extracting raw materials to answer the demand of the industry of other more industrialised countries. Most of the time they also provide low-wage labor for factories of international companies (Stearns, 2013).

As the case with Japan and Russia who benefit from strong government, South Korea, and Taiwan, and other Asia Pacific countries relied on planning and guidance provided by the states. The authoritarian leaders of those countries governed to advance the economy while preventing political unrests. Low-wage labor is also another component for the economic development since it allows factory production at low cost to compensate for the lack of technological progress (Stearns, 2013).

Another explanation for industrial revolution latecomer could be observed in the case of "East Asian miracle". Development in East Asia is also facilitated by the population growth between 1500-1800 which then stimulates the increase of labor force and skills (Pomeranz, 2012). In the case of China in India, both countries are still developing economy despite increasing manufacturing output. Producing only for fulfilling internal demands is one way for development of a latecomer to begin, which would be followed by the rise of industrial sectors in the midst of agricultural economy. The industrial sectors then will be increasingly significant for the economy of the country as laid out in the following points:

1. They exported cheap goods, based on low-paid labor
2. Their manufacturing growth provided import substitution, reducing their reliance on manufactured imports
3. Multinational companies, such as the Nike shoe company in China, exploited low-paid labor and weak environmental regulations.
4. Several industrial export sectors emerged, such as Brazilian computers and Chinese housewares (Stearns, 2013).

Regarding this formula of latecomers, Stearns remarked that “this fourfold combination generated growth, change, and massive new international economic competition, but for a time it fell short of full industrialization” (Stearns, 2013).

2.3 Inclusive and Extractive Economic Institutions

The essential differences between failed and successful nations is the main theme of Acemoglu and Robinson’s (2012) book “Why Nations Fail”. The authors go through cases of countries and events throughout history that boils down to exemplifying why some countries manage to develop economic institutions in which its citizen benefit from economic development while others don’t, and concomitantly why these very same countries prosper economically over time. The difference resides in the contrasting nature of institutions, both political and economic. True to the line of thinking of institutionalists, according to the theory, the two factors intertwine in a causal link with each other.

According to the definition by Samuel Huntington, *institutions* are “stable, valued, recurring patterns of behavior” and *political institutions* “develop by becoming more complex, adaptable, autonomous, and coherent” (Fukuyama, 2014). Political institutions cannot be separated in the analysis of how the economic institutions come about. The economic condition is affected by the dynamic created by the amount of political rights of the people since “political institutions determine who has power in society and to what ends that power can be used” (Acemoglu and Robinson, 2012).

However, this decision is also a result of a conditioning that happened in the previous history of the people which is the concept of “path dependence”. Through many “critical junctures” in the course of the history of a nation, their trajectory could change by some event that disrupts economic and political condition (Acemoglu and Robinson, 2012). Therefore, it doesn’t mean that they are fully dictated by their “habit” but rather it fits the notion of evolutionary economics as a basis of an institutionalist view.

The differences of the political and economic institutions then boiled down to whether they are extractive or inclusive. In extractive political institutions, power is not distributed but rather concentrated in the hands of a small group of people. The government where the power is concentrated and unconstrained is an absolutist in which it allows the powerful elite to extract resources and use it to their own benefit rather than for the interest of the society. As a result, it creates an extractive economic institution whose aim is to ensure power and wealth to be restricted for a few, while barring access for everyone else.

A weak rule of law stemming from extractive political institutions also means that society cannot depend on the state for guaranteeing fair economic incentives for their work. A strong

and functioning justice system enables people to be equal in the face of law, which is not the case in an extractive political institution. The combination of these things hinder economic growth from happening and resulting in a failed nation.

“Extractive economic institutions are a consequence of extractive political institutions which have two dimensions:

1. Narrow distribution of political power (lack of pluralism)
2. Weak and ineffective state (lack of political centralisation)”

(Robinson, 2013).

The concentration of power makes it possible for the elites to restrict the access to prosperity by monopolizing businesses and resources. There is no equal opportunity for everyone since it can threaten their share of wealth.

An inclusive economic institution, brought about by an inclusive political system, is therefore the opposite of this. In an inclusive political institution, the distribution of power is pluralistic, meaning that it is distributed broadly and there is a check and balance system in place to keep the power from being abused. The system of law exists and functions to ensure the political and economic right of the people therefore also providing fair a incentive system. Opportunity is more or less equally accessible through education and secure property rights which then make sustainable economic growth possible (Acemoglu and Robinson, 2012).

2.3.1 Path Dependency

In the institutionalist approach, the concept of path dependency is relevant in understanding how the past decisions affect the way forward. In analysing, a case study as such that is the subject of this thesis, it is vital to examine how the socio-economic changes influence the existing institutions through changes on current practices (Mayhew, 2018). The economy is affected by actions in the past, in other words, “history matters” (Arestis and Sawyer, 2003). Growth happens in the trajectory stated by the course set in the past. Although in turn, the decisions made in the past are taken with the future in consideration (Arestis and Sawyer, 2003).

The “cumulative causation” implied by path dependency is relevant in the discussion of institutional economics, particularly in understanding how and why past decisions matter. In the book “Why Nations Fail” the path-dependent nature of a nation’s trajectory is illustrated by the differences in diverging paths between successful and failed nations which is due to the institutional difference. In one example, the authors of the book explain that the difference in economic progress between Latin America and the United States diverged in the era of the exploration of the frontier. Allowing access to the frontier and its resources in a more

egalitarian way, as opposed to limiting it to the powerful elite, set the economic progress and innovation in motion for the North as opposed to the South of the American continent (Acemoglu and Robinson, 2012).

The self-regulating dynamic Acemoglu and Robinson (2012) label as the virtuous cycle builds on the “positive feedback between inclusive economic and political institutions... Inclusive economic institutions led to the development of inclusive markets, inducing a more efficient allocation of resources, greater encouragement to acquire education and skills, and further innovations in technology.” (Acemoglu and Robinson, 2012). This concept explains why the destructive pattern could be perpetuated even when the past extractive powers have left a nation, though this cycle is not limited to such cases.

The dynamic that allows for a vicious cycle has the key component of the lack of constraints against the abuse of power. People who hold the power and benefit from the status quo have all the reason to defend the system and are not willing to give the power up or share it through a more pluralistic structure of government. Extractive institutions are sustained by this frequently occurring dynamic, which is unless some critical junctures happen to redirect a nation to adapt more inclusive characteristics.

However, as stated by Francis Fukuyama (2014) in “Political Order and Political Decay”, this change hardly happens. The reason for this comes back to the attribute of institutions themselves, which begin as recurring patterns of behavior: “[*institutions*] “can also grow rigid and fail to adapt when the circumstances that brought them into being in the first place change. There is an inherent conservatism to human behavior that tends to invest institutions with emotional significance once they are put in place” (Fukuyama, 2014). In some cases, the recurring patterns of behavior are brought about by colonialism. Even after de-colonisation happened, the patterns stay, and the institutions do not change. The establishment of the colonial institutions and how they develop can be described below:

1. Europeans adopted very different colonisation strategies, with different associated institutions. In one extreme, as in the case of the United States, Australia, and New Zealand, they went and settled in the colonies and set up institutions that enforced the rule of law and encouraged investment. In the other extreme, as in the Congo or the Gold Coast, they set up extractive states with the intention of transferring resources rapidly to the metropole. These institutions were detrimental to investment and economic progress.
2. The colonisation strategy was in part determined by the feasibility of European settlement. In places where Europeans faced very high mortality rates, they could not go and settle, and they were more likely to set up extractive states.
3. Finally, we argue that these early institutions persisted to the present. Determinants of whether Europeans could go and settle in the colonies, therefore, have an important effect on institutions

today. We exploit these differences as a source of exogenous variation to estimate the impact of institutions on economic performance” (Acemoglu et al, 2000).

2.3.2 Exception

Though Acemoglu and Robinson theorize that the growth under extractive institutions are different than the one under inclusive institutions there are some exceptions on how the inclusive economic institutions are always a result of inclusive political institutions. China, South Korea, Chile, and Singapore are countries whose governments in the past are extractive institutions. Apart from China, all of them evolved into more inclusive and pluralistic political institutions along with economic progress (Boldrin et al, 2012). Therefore, it is possible that pluralism in the context of political institutions are a result of economic development. Or it could be argued that since the absolutist powers in the past allow creative destruction to happen, naturally they shift towards inclusive institutions, fulfilling the theory of “Why Nations Fail”

2.4 Political Development

More than just the transitions between leaders or laws and regulations, political development refers to the transformation within political institutions. The state, rule of law, and accountability are the three elements of political development. The state as institution is where the power centered, in which the citizen live, provided for and in necessary cases, protected. A state is “centralized and hierarchical” as a result of the monopoly of power and therefore tends to produce more inequality as opposed to tribes where familial relationship creates more equal standing between the tribe members (Fukuyama, 2014).

The scope of the rule of law in this discussion is in the general sense, which is shared among the citizen and “binding on even the most powerful political actors in the society”. Rule of law in the context of political development is usually enforced by a separate judicial institution which should be free from any interference by the executive. It has to function as a restraint for those who possess political power. The third element, accountability, does not necessarily refer to the procedural accountability which is common in modern governance but rather how responsive the government is towards the interests of the people rather than a select few. The three aspects therefore go to the opposite direction; on one hand the institution of state has the power over the people, on the other hands the rule of law and accountability limit the power so it will not be abused (Fukuyama, 2014).

2.4.1 Patrimonialism

After evolving from tribe-based societies, humans formed states in which they live and interact according to rules enforced within the societies. Max Weber (1971) explained patrimonial state as a form of traditional domination. In patrimonial states, a citizen's relationship with the ruler is more personal, mimicking the dynamics between families or friends. The state and its wealth are deemed as personal properties of the rulers and therefore could be dispensed according to the ruler's own consideration and most of the time, personal interests (Fukuyama, 2014). According to Thomas Lancaster and Gabriella Moninola, 'all property, with the exception of personal effects, belong to the ruler in a patrimonial [state]' (Robertson-Snape, 1999). Two types of patrimonialism can be distinguished from one another according to Roth; one that originates from traditionalist patrimonial regime, and the other one based on loyalties which also created the demand for material rewards (Roth, 1968). In the discourse of patrimonialism in this thesis throughout, "patrimonialism" will refer to the latter type.

In contrast, a modern state is impersonal. The consideration that matters are according to objective measures and merit. Personal relationships between citizens and rulers should not count into consideration. In order for a patrimonial state to evolve into a modern state, the political organization based on personal relationships should change from personal level, involving familial or friendship into more impersonal (Fukuyama, 2014).

There are three different types of domination as described by Max Weber: legal-rational, charismatic, and traditional (Medard, 2014). A patrimonial ruler uses the traditional domination which does not require "either personal charismatic appeal nor a sense of mission" (Roth, 1968). The participation of the citizen in a patrimonial state is minimum. The transaction of loyalties and benefices happened among the ruling class. The leaders do not take into account the masses who do not have political rights and power (Crouch, 1979).

A state could evolve from patrimonial to modern, often with political upheaval. But modern states also can revert back to a patrimonial state. According to Benedict Anderson, patrimonialization is a phenomenon where a state in which 'real power is seen to flow out of the concentrated centre' (Robertson-Snape, 1999). An admittedly very long word, "repatrimonialization", is used by Fukuyama to describe another phenomenon that describes the appearance of patrimonialism in the modern world. Defined as "to designate the capture of ostensibly impersonal state institutions by powerful elites". Re-patrimonialization happens in the case of elites redirecting resources of the state to their associates after long periods of peace (Fukuyama, 2014). The continuation of patrimonialism means that it is acceptable to appropriate resources that belong to the state, which could negatively affect the economy (Medard, 2014). The patrimonial rulers of the current world in where the modern state is the formal structure do not blatantly claim the wealth of the country anymore. The term

“neopatrimonialism” is coined to refer to both the appearance of patrimonialism in the modern world and a form of combination between patrimonial rule and modern bureaucracy (Medard, 2014). Many among the generation of post-colonial nationalist leaders of ex-colonised countries claimed to embrace some form of national socialism ideology while still holding onto the native traditions (Roth, 1968). Meanwhile the leaders of repatrimonialized states still aim for furthering their own interests and private gain (Fukuyama, 2014).

2.4.2 Corruption: Clientelism and Rent-seeking Behavior

A public servant who steals from the state is conducting a different act of corruption than taking bribes from private business at the cost of the public they are supposed to serve. The definition of corruption is therefore usually centered on the distinction between the private and public interests and the misuse of public interest to benefit private (Rose-Ackerman, 1996). In order to define corruption, first there needs to be some degree of separation between public and private sphere, which exists in a modern state (Fukuyama, 2014).

It could be profitable or even necessary for private business to engage in such practice especially when other businesses do it as well. They would have better opportunity to win bids or getting access to preferable resources, whether it is cheaper and/or better (Rose-Ackerman, 1996). Businesses could also be paying bribes to avoid bigger costs such as taxes or expenses to comply with government regulation.

The cost of corruption is making the economy of a country inefficient and the high costs of doing business are furthermore not for the benefit of the citizens. Firstly, the government will choose not the best and most efficient bidders but the ones who pay the most bribes or the most well-connected. Time and energy will be spent in “gaming the political system” (Fukuyama, 2014), it takes away from improving the lives of the citizen. Secondly, “clientelism undermines good democratic practice has to do with the fact that it strengthens existing elites and blocks democratic accountability” (Fukuyama, 2014), which is parallel but not limited to the extractive dynamic where the few elites maintain the status quo for the continuity of their own interests.

There is no denying that a corrupt state tends to be an extractive institution since they go hand in hand. The corrupt public servants and everyone else who is involved will have a stake in maintaining an extractive system that “extract rents from the economy” channeling the fortune into their own pockets (Harm and Charap, 1999). All the while, the salary of the civil servants is kept low to encourage the rent-seeking behavior. This system is predatory and hierarchical, which also serves the ruler by ensuring loyalty and therefore maintaining the system. Institutionalized corruption is therefore “a systemic device for the ruler to extract rents from

the populace while at the same time securing loyalty, which protects him from revolt” (Harm and Charap, 1999).

The misuse public resources for personal gain as described so far the creation and extraction of rents and patronage or clientelism (Fukuyama, 2014). Rent is defined as “the difference between the cost of keeping a good or service in production and its price”, which is a result of scarcity. When the scarcity itself can be artificially created, it can be either for legitimate or unlawful reason. With the power held by the government to create scarcity when needed to, they can abuse that power. When politicians or public servants manipulate the system for private gain, it falls under “rent-seeking behavior” (Fukuyama, 2014).

Patronage is more commonly used to refer to a face-to-face based rent seeking behavior. Clientelism, on the other hand, has more to do with the grander scale transactional relationship with some degree of power differences. There is a patron and client relationship where the patron dispenses favors to the client in return for the client’s loyalty and political support (Fukuyama, 2014). The scale of this transaction and the favors involved distinguish clientelism from patronage. While the former is on larger scale and often also involves intermediaries, the latter is smaller and on personal basis. To some extent, the mechanism of clientelism is also how democracy works. By promising something in return to the base support in exchange for their vote is a way democratic accountability is realized (Fukuyama, 2014).

Different political conditions involve different properties regarding rent-seeking behavior. For example, a well-coordinated predatory hierarchy in strong and centralized dictatorship usually produced a more centralized and coordinated rent to be paid for the rulers. Whereas in a weak dictatorship, bribes get higher due to the ubiquity of uncoordinated rent-seeking behavior among low-level government official resulting in a costly decentralized corruption (Harm and Charap, 1999). This phenomenon is unsurprising considering that in the extractive vs. inclusive institution, there is exception where extractive institutions can achieve unsustainable economic success due to the centralized rule.

The different rent-seeking patterns in different political regimes are laid out on the table below:

Table 1. Rent Seeking Patterns and Political Regimes. (Harm and Charap, 1999)

Political Regime	Rent-Seeking Pattern
Anarchy	‘Each Against All’
Warlordism / Weak Dictatorship	Competitive Corruption
Strong Dictatorship	Monopolistic Corruption
Benevolent Monarchy	‘True’ Corruption
Weak Democracy	Political Corruption
Functioning Democracy	Interest-Group Rent-seeking

In addition to impeding economic progress, political corruption is also damaging towards the political order of a country. First, systemic corruption can weaken democratic government by prompting the citizen to question its legitimacy. Secondly, when corruption is widespread, a punishment for a corrupt politician is not a proof of a functioning justice system but rather a political move to secure power (Fukuyama, 2014). This is also what is called the “hostage mechanism” where all rent-seeking behavior is functioning “both as the carrot and the stick” (Harm and Charap, 1999). One’s participation in a corrupt system is also the component that ensures one’s compliance to the said system.

Ineffectual strategy to reduce corruption occurs in a principal-agent problem where the public as the principal cannot control the government as the agent (Hamilton-Hart, 2001). In order to prevent corruption, it is necessary to establish greater risks for corruption compared to its benefit which means a strong rule of law. In the case of ex-British colonies, the legal tradition is considered strong enough which results in less corruption among other ex-colonised countries (Treisman, 2000).

Freedom of press is also an important component in checking the misuse of public property. Free press and freedom of expression expose actions by public official that are against the public interests. Abuse of power such as corruption will then be challenged in such society where information is freely shared and authority is not free of accountability (Treisman, 2000).

3. Methodology

The aim of this study is to examine how the components of extractive institutions realized in the institution of the Dutch colonial government and the Dutch East India Company before that. In this section, the procedures to achieve those aims are laid out along with the steps taken to ensure trustworthiness and credibility.

3.1 Research strategy

In this thesis, the way the legacy of colonisation affects the industrialisation process will be explored. However, the ways countries are colonised are different and the way colonialism and imperialism take shape is different so that even the use of the term “post-colonial” could be overly simplified and thus erasing some significant nuances (McClintock, 1992). In addition, colonisation is not the only thing that contributes to the said process for the ex-colonised countries, that is, many factors interact and combine over time resulting in different situations that lead countries in different directions though almost without exception resulting in economic underperformance.

The context dependent knowledge resulted from a constructivist paradigm is the ultimate goal of this study. The strategy for this thesis should be determined with great care to ensure that all aspects and the unique outcome are addressed. Case study as the strategy is an option to present the complexity and contradictory nature of real-life situation in addition to present the findings on its context without treating the concepts as separate (Flyvbjerg, 2006). Therefore, to be able to cover the necessary aspects exhaustively and contextually, a critical case study of one of the ex-colonised countries is deemed as the appropriate approach.

A case study design exhaustively examines a setting and “concerned to elucidate the unique features of the case” (Bryman and Bell, 2003). Case study as a research design is commonly used in practical setting in relation to geographical location (Bryman and Bell, 2003). A case study project is qualitative with small-N (Yin, 2003) and concerned with the process (George and Bennett, 2004). On the other hand, case study is commonly used in political science to examine historical events because most of the advantages of case study lies in how it enables a deliberate inquiry into context (Gerring, 2004).

The nature of case study as mentioned above makes it beneficial for examining this particular topic. The concepts used in this thesis in how the diverging path of nations is unique and influenced by their differing histories and the change throughout the time. However, the sole use of secondary sources, specifically history over a long period of time for a case study is unusual. One of the characteristics of case study as stated by Yin is that case study is concerned

about present or recent past (Yin, 2003). In addition, case study emphasizes on the generation of new data more so than historical research (Widdersheim, 2018).

In the field of social science, the definition of case study is still open to interpretations. At least 25 definitions of case study are presented during the last thirty years, and VanWynsberghe and Khan in their paper “Redefining Case Study” proposed the definition of case study as “a transparadigmatic heuristic that enables the circumscription of the unit of analysis” meaning that regardless of the discipline, case study can be appropriate to use to examine its specific unit of analysis. Likewise, a further examination on the term case study shows that it does not dictate the data collection plan implying that it is not merely a method (VanWynsberghe and Khan, 2007). Furthermore, case studies allow the considerable narrative feature since the complexities and contradictions of real life come through in them (Flyvbjerg, 2006).

A project to examine more than one point of complex history is a large undertaking that requires the pertinent strategy. Historical research as is a diachronic strategy, meaning that it is concerned with history or the way events unfold. Case study as a research design shares the same characteristic since diachronic studies are concerned with how the object of the study changes and develop throughout the time (Widdersheim, 2018). In a typology that describes the relationships between spatial and temporal variations of cases by Widdersheim, historical case study appropriate use can be found to be appropriate for one or several case studies with temporal scopes of contemporary time and distant past.

Table 2. Relationship between temporal and spatial variation of case study (Widdersheim, 2018)

Cases	Spatial variation	Temporal variation		
		No	Yes	
			Contemporary	Distant past
One	None	[Logically impossible]	Single-case study (diachronic)	Single-case history (diachronic)
	Within-case	Single-case study (synchronic)	Single-case study (synchronic + diachronic)	Single-case history (diachronic)
Several	Cross-case & within-case	Comparative method	Historical case study	
			Comparative case study	Comparative history

The characteristics of diachronic analysis are as follow:

1. A definition of the case or cases, including spatial and temporal boundaries;
2. A research framework that guides source collection and data analysis;
3. Source materials relevant to the case that are informed by the orienting framework;

4. At least two points in time, two or more temporal units of the case that can be described and compared;
5. Methods for describing and comparing the temporal units in a uniform way; and
6. Methods for explaining trends or patterns.

(Widdersheim, 2018)

For a project such as this study that requires a blended approach, the combination between the two is needed. A research strategy developed by Widdersheim underlines the diachronic nature of history which could also be present in in case study. In a proposed strategy that combines case study and history by Widdersheim, the research is divided into four stages which are: temporal range, source material coverage, temporal units of the case, and resulting knowledge.

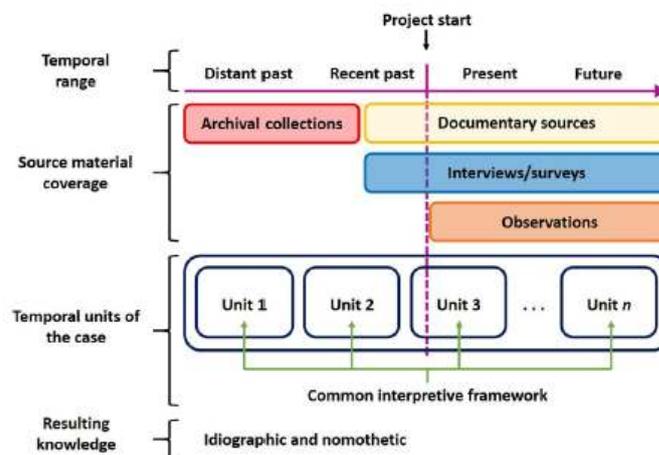


Figure 1. Concept of the proposed hybrid strategy (Widdersheim, 2018)

This project utilizes the proposed hybrid strategy above and furthermore takes advantage of the purpose of the strategy as laid out in the characteristics of diachronic analysis.

3.2 Data collection

This thesis is grounded in academic works in relevant topics therefore making this project a desk research using secondary data sources. Even though case study emphasizes on the development of new sources, following the characteristics of a diachronic analysis as stated in the previous sub-chapter, (Widdersheim, 2018). The points in time are determined to be consisted of two big parts: colonial as the core setting and the modern era (post-colonial) as the peripheral setting. Each part is then divided into periods of history based on the division commonly found in historical discourse of Indonesia.

The core setting is the history of the colonialism of Indonesia, specifically the Dutch era. That includes the period of Dutch East India Company, the Dutch colonial government, and the liberal period. The data is considered relevant if it fits into the theme of the political and economic institution of the Dutch colonial era to provide insight in how they add into the institutional dynamic. The peripheral setting is the era after the independence of Indonesia which is deemed necessary to complete the theory on the long-lasting effect of the extractive policies in the past affecting the present in accordance to the theories laid out in the previous section.

3.3 Data analysis

The analysis will be done by tracing the account of the history of the modern Indonesia and Dutch colonialism of Indonesia in heuristic. To understand how colonialism affects Indonesia, it is necessary to also study the modern Indonesia as an institution to provide context.

Based on the significance of colonialism affects a nation, there is an assumption that the policies of the Dutch colonial era profoundly affect Indonesia as an institution. Therefore the case study also includes analysis on how the institutional impacts endured through the times from the Dutch East Indies as the colonies of the Dutch into the modern-day independent Indonesia. The extractive features will also be figured out if expressed on the Dutch colonial institutions.

The analysis is then conducted for every chapter of history by finding the link between the expressed features, how one affects another resulting into a theory on how the institutional dynamics play out in the form of narrative with supporting theories. Narrative analysis is commonly found in case studies to capture the rich details and contradictions of the real life. The difficulty to summarize intricate narrative is not a disadvantage but rather a sign that the study managed to divulge the complexity of it. Trying to condense an already dense case study is risky and even dangerous since the strength of narrative lies in the ability to present the contextual aspects and to avoid treating the concepts found as separate from each other (Flyvbjerg, 2006).

3.4 Trustworthiness and Credibility

The careful examination on the particular case of colonialism and its legacy means that rich details of the case are necessary. According to Guba and Lincoln in Bryman and Bell, 2003 the rich details fulfill the transferability criteria since it allows the assessment of whether or not it is transferable to other cases (Bryman and Bell, 2003).

It is necessary for the author to acknowledge and be aware of not to let her preconceived notions, bias, and personal views affect the integrity of the argument. On the other hands, since the author is an Indonesian, potentially there would be some things that are common knowledge and other things that are in the blind spot for Indonesians that should not be assumed in the writing of this topic.

The transferability of the finding is admittedly limited since the historical record of the majority of the Dutch colonialism happened in Java Island. The diversity of the socio-economic discourse and the national identity of Indonesia has long been plagued by Javacentrism (Sander et al, 2004) (Toer, 1999) and inferring that the events happened in Java as something that generally affect Indonesia as a whole could contribute to this problem. However, this fact is generally acknowledged in the discourse of Dutch colonialism of Indonesia and the institutional effects of the various Javacentric policies itself, considering the Java Island and the Javanese were the main subject to the majority of the Dutch rules and policies.

3.4.1 Potential Research Bias

Since the author of this thesis is an Indonesian citizen, the familiarity with the topic could instill some preconceived notions and interpretation on what certain things imply. The incorporation of perspective from other academic works is therefore an attempt to minimize this bias. Reflecting on other works could act as a preventative measure on biased interpretations.

In the same vein, the use of secondary sources inevitably poses some risks on how the recorded events and policies analysed and risks some degree of selection bias leading to the premature conclusion of the existence of heavily extractive colonial institutions, even if to prove such thing is not the purpose of this thesis. Furthermore, the historical account itself is potentially biased since most of them, if not all, are from Dutch sources which is a common problem for Indonesian nationalist (Klaveren, 1983). Therefore, it is necessary to be conscious on this and limiting the scope of the study into examining the aspects of the history.

3. 5 Ethical Consideration

During a discussion of how colonialism relates or affects industrialisation, it could be problematic to associate industrialisation with progress as in spectrum of good and bad. In discussing the effect of colonialism on the industrialisation process in particular, one should be careful not to equate industrialisation with human progress. There is also the risk of further perpetuating Eurocentrism and the segregation of the “west” and the “rest” (Dirlik, 1994).

In addition, tracing the cause of Indonesia's underperformance in economic development back to colonisation could encourage a non-productive way of reflection on the past. It is necessary to limit the scope of the problem in academic settings and it should be emphasized that this discussion in no way aims to put all the "blames" to the colonial power of the past.

3.6 Limitations

Since this thesis is a qualitative study, the formulation will be done by relating and finding connections between relevant theories with economic history which is highly contextual, therefore a significant amount of knowledge in related fields will be required. This thesis is in the area of Industrialisation, however the issue also significantly demands a good understanding of history, politics, and economy particularly regarding the subject matter. In constructing the case to form a robust argument, every aspect mentioned cannot be neglected.

Among countries, Indonesia contributes very low in their academic publications (Tilley and Pellini, 2016), therefore the search for relevant resources for this thesis could be a significant issue in this type of thesis where it mainly uses secondary sources. In addition, breaking down and formulating the factors that influence industrialisation could be a back-and-forth process and there might be the need to limit the inquiry so that the thesis will fulfill the due date.

4 The Institutions of Indonesia - post-independence

The variation between economies of different countries is an outcome of the difference between the political and economic institutions. Institutions transcend whoever the current leaders are in shaping, limiting, and channeling human behavior (Fukuyama, 2014). In finding out why some nations are successful and others failed, it is important to not only find out what their institutions do right but also what the failed institutions do wrong (Acemoglu and Robinson, 2012).

Indonesia is considered to have had it better than some and worse than others in terms of institution and economic performance. Fukuyama suggested that striving directly into successful political order could be unrealistic, and use Indonesia as a model of a “good enough governance” as described by Grindle and Mason in their paper “Good Enough Governance” (Fukuyama, 2014). Indonesia is, however, deemed to have a “weak” institution despite its economic growth (Hofman, Rodrick-Jones and Thie, 2004). This shortcoming brings unwanted consequences that hinder economic success of a country with many potentials such as Indonesia.

The small differences that accumulate into institutional drift happened since the colonial era. The differences dated back from the colonial or even pre-colonial era cannot be neglected in the shaping of the institution of Indonesia (Hofman, Rodrick-Jones and Thie, 2004). A careful treatment is then needed by combing through the history in order to connect the points in history.

First it will be briefly illustrated the modern institution of Indonesia. Note that the term modern will refer to the independent Indonesia as a sovereign country to differentiate it with Indonesia or the collection of East Indies states under colonial rule. The purpose of painting a picture of Indonesia is to then connect it with the conclusion gathered by looking back on the history. Next, the colonial history of Indonesia will be expanded and the takeaway of the events in regards to the effect each of them has on the institutional drift with the connection to the former part.

Indonesia is one of the Asian countries that experienced the rapid economic growth in the 1990s. The Asian Miracle countries showed booming economies and for Indonesia’s case, it was not backed by domestic savings but heavy reliance on Japanese direct investment (Bello, 2007). However, the miracle was not sustainable and as soon as the 1997 crisis hit, Indonesia was one of the economies that went under. Along with South Korea and Thailand, Indonesia

was then bailed out by the International Monetary Fund in a multibillion dollar deal (Bello, 1998).

The lack of strong institution is regarded as the reason why the 1997 hit Indonesia as severely as it did and the aftermath disastrous (Hofman, Rodrick-Jones and Thie, 2004). A strong institution would provide control to prevent the brunt of the effect and enable the country to recover better. Indonesia's weakness in enforcing financial regulation and reducing corruption, among other things, contributes in increasing Indonesia's vulnerability in crisis (Hill 1999; MacIntyre, 1999 in Hamilton-Hart, 2001).

In the height of an economic crisis, the political stability of a country is generally also affected. Long before the economic crisis of 1997, the Old Order (1945-1966), led by Soekarno, was concluded in economic trouble and culminated in a massacre on the suspected "communists". The next leader, Soeharto, swooped in and installed the New Order (1966-1998) as the new regime. It is only fitting that Soeharto's rule also ended when he was impeached in an unrest motivated by economic hardship of his people, signaling the start of the Reformation era (1998-present).

4.1 Old Order (1945-1965)

Informal leaders and nationalist sentiment resulting from national revolution were crucial in uniting the archipelago into one republic. The orientation for the nation building was to look into the future instead of drawing inspiration from the past due to the initial optimism after the national revolution and the "Indonesia" identity was synonymous with "modernity" (Schulte Nordholt, 2011). The conception of Indonesia as a state by the nationalist also relied on the "myth of common struggle against the Dutch" to give the much-needed sense of unity for the new country (Vickers, 2005: 112)

The nation-building process of Indonesia was forward-looking and externally-oriented (Vickers, 2005). On the other hand, the first decades after the struggle of independence, Indonesia's economy turned inwards, away from what was perceived to be "foreign" and to have "western" influence. It was mostly because Soekarno, the first president and one of the founding fathers of Indonesia, regarded the West with suspicion (King, 2000). The nationalist sentiment was a major force for the national revolution and the decades after. The foreign assets in Indonesia were nationalized as a result of this sentiment (King, 2000). Under Soekarno, Indonesia even withdrew from the UN and IMF (Prianti, 2018).

Started off with democracy, the parliamentary system was suspended in 1957 when the government was unable to quell the rebellion in Outer Islands (Crouch, 1979). Regional

rebellions happened as a result of local chauvinism, the wariness that Javacentrism dominating Indonesia, and dissatisfaction on the orientation of the nation-state of Indonesia (Schulte Nordholt, 2011). The implementation of martial law soon followed. The hallmark of the Soekarno's rule is the Guided Democracy system with Soekarno appointed himself as the lifetime president of Indonesia and the expansion of military role into politics and economy (Crouch, 1979). The authoritarian system started off the era with the suspension of the parliamentary institutions, limitation of the freedom of press, and monopoly of strategic businesses (Robertson-Snape, 1999). The military had been politically oriented, and in the effort to quench the rebellion, they became even more entrenched in politics (Crouch, 1979).

Soekarno also combined three ideologies into his politics; nationalism, Islamism, and communism which obviously had different base support for each ideological movement. He himself relied on the communist masses to be his main supporter (Crouch, 1979). The distrust between nationalist and communist was deepened, however. The muslim base was also wary of the communist and together with the nationalist they positioned themselves as the opposition of the communist in Indonesia's political landscape. The nationalist was backed by the military while the communist "recruited heavily" from the Chinese Indonesian. Soekarno tried to play each faction against each other, true to the fashion of the patrimonial rulers of the past. In a modern setting, this strategy was not very successful since each faction themselves consisted of people with their own interests and political rights (Crouch, 1979). The grand scale corruption happened as a result of the benefices granted by Soekarno for elites of different factions, which happened on the high-level of the government. But not until the economic situation became so bad did the people revolt. During this time, even the salaries of civil servants reached "Rps. 175,000 (about US\$25) per month, plus a rice allotment" (King, 2000).

Indonesia's attempt under Soekarno to annex West Papua and the confrontation with Malaysia also posed considerable burden to the country's economy. At the end of the Old Order, the Indonesian citizens were struggling as the inflation rate skyrocketed. At this point, the corruption was no longer tolerated by the people and the demand for Soekarno to step down became louder (King, 2000). By 1962, the public which had enough of economic hardship called for the overthrow of Soekarno which ultimately happened through a military-assisted coup.

4.2 New Order (1966-1998)

The Guided Democracy era was ended with political upheaval and the New Order started with the depoliticization of the people (Crouch, 1979). The depoliticization process started with subduing PKI through arrests in large numbers and bloody crackdown which was participated by the military and civilians alike. The remaining political parties were then forced to accept

the new leaders by the military (Crouch, 1979). An election was held in 1967 resulting in the victory of the government-sponsored party, Golkar (Crouch, 1979). The depoliticization process went on for decades with the repression by the military on the political parties which prevented the mobilisation of the masses (Crouch, 1979). As a result, “a distinctive-and almost partyless-pattern of state-society relations” was formed (Liddle, 1985). For the remainder of the New Order era, all elections resulted in the Golkar victory (Liddle, 1985). However, according to Liddle, the army was the one who came out as a victor of the political reorganisation. The almost partyless-pattern, a characteristic of the New Order which Soeharto established his three-decade of authoritarian rule on, is a result of the coalition between Soeharto, the military, and the bureaucracy (Liddle, 1985).

After Soeharto replaced Soekarno, the priority was to lift Indonesia from the economic crisis. Coming out from the economic ruin of the Old Order, Soeharto with his military-dominated regimes and western-educated technocrats managed to generate miraculous economic growth propped up by foreign capital and an oil boom. Opposing views were reduced to be insignificant which allowed the administration to do what they need to lead the process of leaving an agriculture-based economy into a more industrialized one. Indonesia was the least industrialised country among 5 original ASEAN member countries. However, by 1998, 20% of its GDP was from manufacturing (Hofman, Rodrick-Jones and Thie, 2004). Welfare and education programs for the population were also boosted despite the end of the oil boom in 1980, and the economic growth of Indonesia particularly under Soeharto, had almost gone into an extreme “pro-poor” agenda, which consists of “conscious strategy that combined rapid economic growth with investments and policies that insured the growth would reach the poor” (Timmer, 2004). Soeharto dubbed himself as the “Father of Development”, a title that is still widely used to refer to him until this day.

Soeharto treated the state as his by granting the resources and wealths to his cronies, from “lucrative distribution and supply deals with state-owned companies, financing from state banks, preferential consideration on government-funded infrastructure projects and export/import monopolies” (King, 2000). Meanwhile, the lack of standardised procedures in dealing with government offices causing corruption to flourish, resulting in a high-cost economy (Robertson-Snape, 1999).

The military also became a tool to repress political opposition. Insurgencies were still surfacing in areas that are late to join Indonesia. Most of them were also the regions where the populations don't share the same ethnic and cultural roots with the Javanese majority, such as Ambon and West Papua (Wanandi, 2002). Differences in ideologies and deviation from the mainstream (Javacentric) culture and the expression of different political views were not tolerated (Crouch, 1979).

The Chinese Indonesian as an ethnic minority in Indonesia is considered as outsiders and a target of racially motivated discrimination. During the New Order era, there had been systematic attempts to blame the whole racial minority for people's economic hardship. For decades, Soeharto successfully inflamed the resentment and suspicion by portraying the Chinese Indonesian as an economic and political threat (Minghua and Ingkertia, 2016). The Chinese Indonesian are claimed by other ethnic groups to be economically dominating the native Indonesian and therefore should be restricted in how they can conduct themselves.

Soeharto imposed forced assimilation on Chinese Indonesian, forbidding any expression of their cultural roots including names and language (Ingkertia, 2018). Although removed from what is supposed to be their mother country for centuries, they are still classified under separate categories from other ethnic groups (Thaniago, 2017). All other ethnic groups identify as "WNI" or "Indonesian Citizen" but the title WNI Keturunan Asing or "foreign descendant Indonesian citizen" is reserved for Chinese Indonesian (Thaniago, 2017). They are assigned a specific role in society as merchants economic and cannot deviate from that role. Until reformation, they could not work as public servants or hold political positions. The Chinese Indonesian are singled out to be the subject of extractive policies, excluding them from benefiting and truly assimilating into society (Thaniago, 2017). However, the Chinese Indonesian who owned big businesses were included in the circle of Soeharto's cronies, receiving operating licenses and importing rights (Timmer, 2004).

4.3 Reformation (1998-now)

No democratic election happened during both of the period of Soekarno and Soeharto rule, save from the election in 1955 during which a parliamentary system was set up (Hauswedell, 1973). The next era following the collapse of the New Order is called the Reformation (1998-now) in which the leaders are actually a result of democratic elections (Timmer, 2004). Immediately after the impeachment of Soeharto, the country rushed to decentralise the power, shifting and distributing it from the central government in Jakarta to autonomous provincial governments to manage the distribution of the wealth of the country better (Ahmed and Hofman, 1999).

The institution post Reformation still leave much to be desired, but it is developing towards order. Corruption is still a big concern with reforms to eradicate it facing many obstacles (Hamilton-Hart, 2001). The judiciary system as the implementer of the rule of law separate and procedurally free of influences from the executive. Meanwhile since 1999, presidential and legislative elections happen every 5 years. The effort to decentralize the power resulting in provincial government, but with the downside of decentralized corruption (Timmer, 2004). The institution of Indonesia became more stabilized during the two terms (2004-2014) of

Susilo Bambang Yudhoyono's tenure in presidential seat (Meitzner, 2014). The regional conflicts in the Outer Islands are controlled through peace talks rather than military intervention in an unprecedented turn-around by the government (Wanandi, 2002).

Though striving to be better, the struggle to eradicate corruption remaining the predominant issue for Indonesia (Butt, 2011) (Meitzner, 2014). Indonesia is notable for its consistent effort to reduce poverty (Yusuf and Sumner, 2015) (Timmer, 2004). However the poor population increased despite the 4-5% growth in GDP during 2013-2015, reflecting a problem in creating an inclusive growth (Yusuf and Sumner, 2015). The continuation of the anti-import policy is done to achieve self-sufficiency (Yusuf and Sumner, 2015). The recent rise of negative racial sentiment towards the Chinese minority also means that the problem is far yet to be solved (Ingketría, 2018). The developmental gaps between provinces are slowly closing but there is still a lot more work to do.

In the 2014, a populist and authoritarian candidate with a New Order affiliation, Prabowo Soebianto, was one of the only two contenders in one of Indonesia's most bitter democratic elections to date. The grassroot candidate with humble origin, Joko Widodo came out as a winner (Mietzner, 2014). Still, in the post-Reformation era, the anti-foreign and anti-Chinese sentiment is utilized by Prabowo (Mietzner, 2014). The rise of right-wing populism and nationalism is happening all over the world and Indonesia is not an exception. This particular issue is arguably another pressing matter looming as a threat to the future of Indonesia if it is striving to be a successful, inclusive institution.

4.4 Analysis on the Institution of Indonesia

Even in the 1950s at the start of the existence of Indonesia, the country underwent three changes in institution. Identified by Taufik Abdullah (2009:251-9), the three Indonesias are:

1. Indonesia that had achieved independence and sovereignty
2. New nation-state on a trajectory towards democracy, press freedom, a new constitution, and emerging citizenship
3. Indonesia as a resource that fuelled neo-patrimonial networks, characterized by the struggle for power
(Schulte Nordholt, 2011)

The highlight of certain features which are particularly relevant to the discussion throughout the history of modern Indonesia can be seen below:

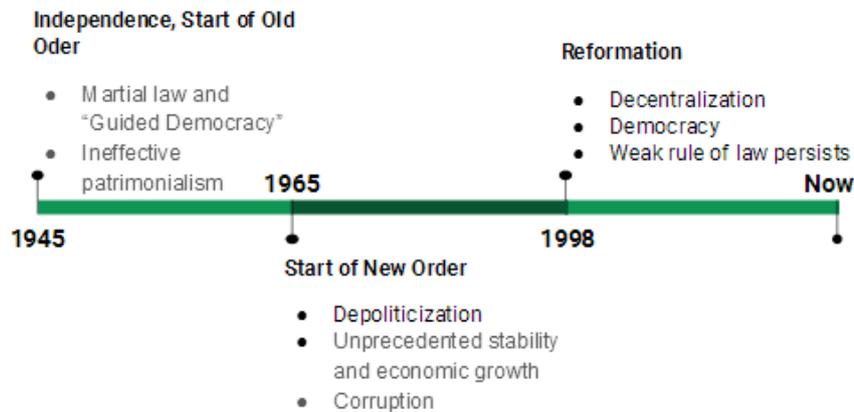


Figure 2. The highlight of the history of modern Indonesia

The weak institution of Indonesia could be explained by its history as an ex-colonised country. A post-colonial state was “primarily designed to control and to extract, and not to support a nation and to guarantee citizenship” (Schulte Nordholt, 2011). As shown in the history of modern Indonesia, some of the extractive features as explained by Acemoglu and Robinson are present in the nation’s political and economic institution. In this chapter we have seen how some of them realized over time in the history, but their origin is yet to be analysed. Some of them, or some extent of them, could be considered as separate from colonial influence.

4.4.1 Corruption

In many cases of third world economy developing under authoritarian regimes, the political stability of the country is held together by some of the traditional features incompatible with the modern states (Crouch, 1979). The traditional patterns of behavior are also realized in the setting of modern states which is analyzed to be the case in Indonesia (Crouch, 1979). The patrimonialism features, for example, should not have a place in modern states and certainly not to the extent of what happened in Indonesia. Curiously, Indonesia has always been sufficiently stable politically and in relative peace since its independence, save for bouts of political turmoils especially during its regime changes.

Although it has to be admitted that as the example of Indonesia during its first 50 years of independence under authoritarian rulers, the periods of economic growth and the political stability are not sustainable. The relatively stable period of Soeharto’s rule, for example, was achieved through the severing and silencing of the political rights of the people thus allowing Soeharto to operate in a patrimonial setting. It is a feature shared between the authoritarian rulers of the “economic miracle” of the East Asia in the case of latecomers to the industrial revolution (Fukuyama, 2014).

The patrimonial, or neo-patrimonial state--since Soeharto and Soekarno did insist on the demoractic front--allow the corruption in grand scale to happen. Or rather, the grand scale corruption is the reason why the leaders need to revert Indonesia from a modern state into a patrimonial one and to prevent the country into becoming a truly modern state. In that endeavor, corruption undermined the rule of law by infiltrating the justice system so much that the term 'justice mafia' (mafia peradilan) was conceived to refer to the justice system (Butt, 2011).

In addition to the grand scale political corruption, petty corruption is also widespread among the public officers. This kind of corruption is institutionalized within all levels of government because of the low base salaries. It then led to "projectism," "moonlighting" and corruption. Projectism refers to the neglect or reformulation of routine activities, which do not attract a bonus or allowance, in pursuit of proyek (projects) that do" (Hofman, Rodrick-Jones and Thie, 2004). Illegal fees were also (and still commonly in some areas) charged for standard administrative services by public servants (Hofman, Rodrick-Jones and Thie, 2004).

In 2002, the Corruption Eradication Commission or KPK was founded and has been making strides against corruption (Schütte, 2012). The commission has since brought many changes, namely indicted high-profile and high-stakes corrupt politicians, relatively free of political interest (Schütte, 2012). However, the endemic political corruption means that there were attempts to attack the credibility of the Commission (Butt, 2011). Left unchecked, the political attacks against the Commission do not bode well for the future of corruption eradication effort in general.

4.4.2 Extractive Features of the Institution of Indonesia

The lack of the freedom of press in Soeharto era causing no accountability and transparency in managing the country. The press and information was controlled by the government under the Ministry of Communication. Corruption in grand scale was thus led to the necessity of controlling what is allowed to be said in public (Robertson-Snape, 1999).

Although it is deemed to be highly militaristic, the New Order regime led by Soeharto managed to stay in power largely because of the promise of financial gain rather than threat of military forces in his command (Crouch, 1979) (King, 2000). Soeharto was freely dispensing favors to those closest to him and those who appealed to him although the favors were usually the rights to access the nation's resources and wealth. In Soeharto's era, it is vital to be inside Soeharto's circle in order to do business successfully (Robertson-Snape, 1999), effectively preventing

anyone not included in the circle to participate in the economic development in addition to the silencing of the political rights.

The failure of the Soekarno's style of patrimonial leadership was mainly due to the incompatibility of the patrimonialism with the modern state where the citizen exercise their political rights. In the subsequent period, the New Order, the political rights were all but silenced, allowing Soeharto to focus in economic growth in an unprecedented stability of the new republic.

Indonesia did not fail in establishing a centralized and powerful state albeit an authoritarian one. During the New Order era, the government was especially centralized in Jakarta and harsh in squashing subversive and separatist movements. Coming from a military background, Soeharto used the military forces for eliminating the traces of opposition and subversion which turned out to be not very effective (Wanandi, 2002). It was considered necessary to prepare Indonesia for industrialisation and it was apparent that in this sense, Soeharto succeeded to do so (Timmer, 2004). The building of nation identity is not an easy feat but Indonesia under decades of authoritarian rule managed to undergo the nation building with adequate success (Wanandi, 2002) (Fukuyama, 2014).

Nevertheless, the centralized government in Jakarta and Java Island is not necessarily a good thing for a country as diverse and as extensive as Indonesia in "geography, culture, natural and human resource endowment" (Hofman and Kaiser, 2002). More importantly, the great developmental gaps between Jakarta and Outer Islands which were the main source of dissatisfaction were far from solved by military crackdown (Hofman and Kaiser, 2002).

The strong and absolutist government of the New Order only served to secure the prosperity into a handful of people closest to the president. The centralization also prevented the local communities from accessing the benefit and taking advantage of the resources in their own land. The central government would then allocate provincial spending, making the people dependant to the central (Hofman and Kaiser, 2002). Hindering the access to prosperity further emboldened the resentment felt by the marginalized population (Hofman and Kaiser, 2002).

In the case of analysing an institution, small differences matter in creating institutional drift as they accumulate over time. It is important to note characteristics differences in the history of, in this case, Indonesia. As the case for other ex-colonised countries, some aspects of Indonesia as an institution are significantly affected by the colonial era. In many other ex-colonised nations, extractive institutions are the legacy of the colonial era, which then perpetuated by their own post-colonialism institutions. For example, corruption within government official is a common theme from the VOC era-as will be mentioned in the next chapter- onto the present

day of the modern Indonesia. In the next chapter, the period of Dutch rule in Indonesia will be explored

5. Dutch Imperialism

Dutch colonialism is distinctly pragmatic in their approach. As described by a Javanese prince in 1780s, “The British are like the strong rapid current of water, they are persevering, energetic, and irresistible in their courage. If they really want to obtain something they will use violence to get it. The Dutch are very able, clever, patient and calm. If possible they try to reach their goal rather by persuasion than by force of arms” (Vlekke, 1981; Landes, 1998; Blusse, 2015). They ended up enforcing monopoly but above all, what they tried to achieve was the success of their business venture, not the expansion of territories, ideologies, or culture. It was understood that the Indonesian arts and culture prior to colonialism had been advanced and of a highly sophisticated nature (Pols, 2007). The Dutch colonial government even encouraged the pursuit of arts and culture by the Javanese high society during the period often referred to as the Cultivation System, a period when the Javanese underwent “a forced cultivation of cash crops” (Bosma, 2007). The reason was because they saw themselves as more enlightened among other imperialists (Brown, 2003: 87).

The notable events on the history of Dutch colonialism are driven by economic interests. As their venture was high risk in nature especially at the beginning, it was necessary to secure their supply channel. Over time, they developed an intra-Asian trade network that generated sufficient income to finance the products they imported to Europe. To deliver goods within Asia and among Asian peoples, it became even more necessary to reduce competition. According to Kuitenbrouwer (1989), the form of Dutch expansion on the East Indies fit into the imperialism through “pre-emptive policy and sheer geographical contiguity” and that it resembles the British imperialism instead of Portuguese (Lindblad, 1989). The Java Island was considered as a periphery, and the nature of the Dutch uncoordinated expansion which started in Java is defined as a “frontier imperialism” by Fasseur, (1991). The big difference between how the Dutch exercised its control through treaties on the East Indies colonies later in the 20th century with how they did in the 19th century was notable (Lindblad, 1989). Some factors to also be considered for Dutch imperialism are the colonial government official and military force was always present in Java and other islands and the initiatives on newly conquered areas were aimed into incorporating it into one entity therefore the Dutch expansion is considered as “imperialism” (Lindblad, 1989).

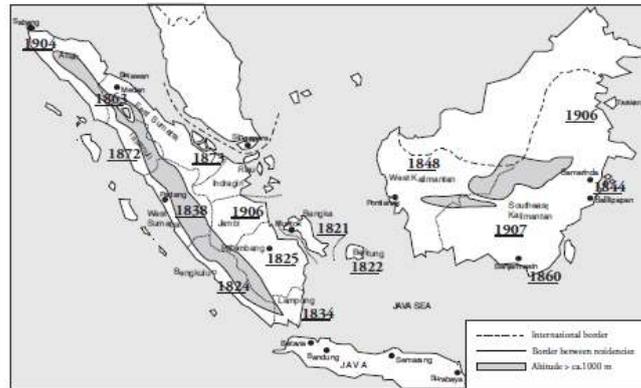
Since Coen, who later became an infamously ruthless Governor General of VOC, considered the Portuguese and the British had legal claim on other ports of the East Indies, he settled the base in Banten. This allowed the next part of his vision, which is to make Java as a source of wealth for the Netherlands. This eventually came to foreground one of the most significant institutional legacies of Dutch colonisation that is still fundamental to the structure and dynamic of Indonesian economy and society. By placing the trading hub at Banten the Java Island that previously was peripheral to economic activity became the center of the territory,

and the establishment of Batavia as the base for VOC. This Java-oriented policy was sustained even up until the Cultivation System era and eventually has carried on as a fundamental characteristic of modern Indonesia (Dick, 2002).

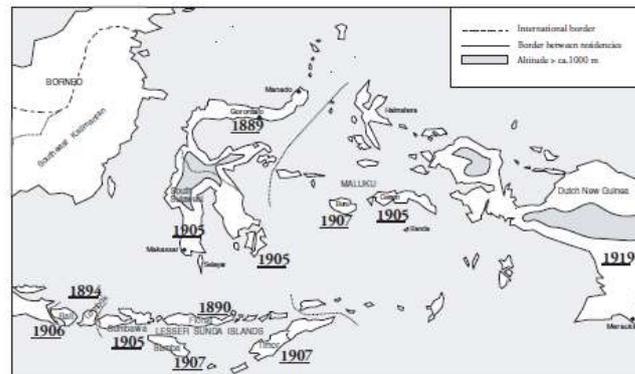
The expansion of the Dutch power in the 18th and early to mid 19th century happened by transactional alliances and treaties between the Dutch and the local powers and the use of military force, as what happened in Aceh in 1898, and 1904-1909 (Lindblad, 1989). Even though the Dutch claimed sovereignty, the colonial government depended on the local rulers to control and extract resources from the land and the people (Dick, 2002). As previously explained, the collection of crops as cash payments, was how the Dutch co-opted local rulers to levy taxes on their populations and by extension generating the financial investment the Dutch needed to facilitate this emerging global trade.

Until the 19th century, the Dutch were still discovering the Outer Islands and oriented trades from the Outer Islands to the outside world instead of integrating them with Java, indicated by the value of trade between islands of the Dutch East Indies compared to the trade with the world (Dick, 2002). Later in the end of 19th century to the early 20th century, the colonial institution became more defined and structured, along with the annexation of the outer islands. Only in the first decade of the 20th century did the area of the Outer Islands such as Aceh, South Kalimantan, and so on get fully absorbed into the Dutch East Indies even though the process had been going for a long time before that (Dick et al., 2014). Arguably the driving factor is the increasingly formalized colonial institution which ironically spurred the nationalist movement. It is also inevitable that there was growing awareness among the few who enjoyed access into European education that there was hypocrisy in implementing liberal values while treating the colonies as of lesser worth.

The spread of the Dutch hegemony throughout the islands outside Java can be seen as the maps follow:



Map 3 The extension of Dutch colonial authority in western Indonesia



Map 4 The extension of Dutch colonial authority in eastern Indonesia

Figure 3. The spread of Dutch hegemony throughout the Outer Islands (Lindblad, 2002)

5.1 Dutch Colonial Institution through the Centuries

The Dutch hold across the East Indies was not a homogenous situation but rather varied throughout the colonial period and across the colonial territories. Under the VOC, “even at the end of the eighteenth century, most Indonesian territory and peoples were not under Dutch control” (Brown, 2003), implying how tricky it is to trace and pinpoint a pattern of institutional impact of colonialism. Indonesian kingdoms and sultanates were mostly geographically dispersed, either the mountainous setting or the sea separated one kingdom from the other, making it difficult for any ruler to install or develop centralistic institutions of governance, and the Dutch were no exception (Ricklefs and Nugraha, 2008).

The Dutch expansion of the Indonesian archipelago was based on economic interests, which started with the race of the monopolistic European state-chartered companies on dominating the world spice trades. On expanding their hegemony over the Indonesian states, the Dutch used coercive means in the form of alliances, treaties, and military actions. In the beginning, the disparity of military strength between the Dutch and the major local rulers was not too great, though this was not the case in terms of navy strength and capability (Brown, 2003). If

we compare the difference between the size of the area, Indonesia is vastly greater than Holland. This fact is reflected in the patchy presence of the colonial officers particularly during the 18th and 19th century.

They depended on the local kings and sultans to indirectly rule the people and representing their commercial interests. There are of course other factors at play such as the internal and external conflicts among the Indonesian states but the indirect rule over the native people was mainly how the Dutch achieved their monopoly in the archipelago, that by and large consisted of spice trades.

In this part, the notable events throughout the period of the Dutch colonialism of Indonesia will be described so that it could better be observed how the origin of the institutional legacy could be traced from the Dutch era of the East Indies.

5.1.1 Arrival of the Colonial Powers

The combination of its geographical situation, diverse natural wealth, and vast resources made Indonesian ports as entrepôt for trades with other traders from overseas and attractive to foreign powers. In the 15th century to 17th century the island of Sumatra was known as exporter of pepper (Ricklefs and Nugraha, 2008). Between 1403-1433, the search for the Maluku spices and black pepper attracts expeditions from China, led by the great admiral Cheng Ho (Brown, 2003). The kingdoms and sultanates in the East Indies had been trading with merchants from Arab, China, Gujarat, Persia, and India before the 1500s when the European traders started to turn their expeditions to the Southeast Asia (Hall, 1988). At that time there was no such thing as “Indonesia” which only came up in 1884, but rather there were big and small kingdoms trading, especially in coastal areas - and occasionally warring each other (Vlekke, 1981; Brown, 2003). This condition shows the needs for strategies that accommodate the sporadic nature of ruling that will set various patterns of behavior.

The Portuguese are the first among the Europeans to arrive to the area that later became Indonesia, specifically to Melaka. Later they would be followed to the area by colonists from Spain, Holland, England, and the United States (Lockard, 2009). The Maluku Islands are especially known for their cloves and nutmegs. The kingdoms and sultanates of Maluku were already used to trade their spices for clothes and food supply with foreign merchants (Hall, 1988). Their presence deterred the various merchants that were used to trade in Melaka such as the Chinese and Indians (Lockard, 2009: 78). Rather than doing their usual business there, they opted to bring it somewhere else which soon made the Portuguese realize that Melaka was merely functioning as a place to trade but irreplaceable for most of the merchants (Brown, 2003). They proceeded to capture the Maluku Islands in the same brutal fashion (Lockard, 2009), and set Ambon as their new base after Melaka turned out not to be profitable (Brown, 2003).

Even though in the end the Portuguese were not exactly successful in utilizing the Melaka ports, their impacts were long-lasting. In the wake of their bloodied path in Nusantara, the ports of Melaka that used to be the entrepôt between the Malay kingdoms and foreign merchants lost its influence in keeping the peace and security of trades in the Strait of Melaka (Ricklefs and Nugraha, 2008: 65). Conflicts happened between traders communities in the area that once was the place where the Asian wealths were exchanged and the influence of Melaka reduced. This started the shift of history to Java and later will accumulate into Javacentrism. The island at that time was also populated by merchants and trading ports, but it was still a periphery of the spice trades, away from the mainland Southeast Asia. Java wasn't claimed yet by any colonists.

In 1595, the first of the Dutch expedition sailed off to the coasts of East Indies, led by Cornelis de Houtman, an explorer who had his experience in Lisbon. They were 4 ships, 249 sailors, and 64 cannons strong, landed in Banten in June 1596 and arrived back in the Netherlands at the end of 1597 almost two years after the expedition started. They were welcomed uneasily by the locals who were afraid of rivalries between the Dutch and the British (Brown, 2003) - who arrived first there - but then the Dutch expedition bombarded the ports of Banten in an attempt to take over the trading ports (Hall, 1988).

The leadership of de Houtman did not bring the expected prize, with the expedition resulting in conflict with the locals and little to show in terms of profit since the revenues barely covered their expenses (Gelderblom, de Jong and Jonker, 2013). Despite that fact, this endeavor prompted many and more fruitful expeditions from the Netherlands to the East Indies in a period called *wilde vaart* (disorderly) since the Dutch companies were in rivalries against one another. In 1598 at least 5 expeditions with the total of 22 ships left for the East Indies (Hall, 1988), 14 came back with the most successful one managed to generate 400% of profit led by Jacob van Nick (Ricklefs and Nugraha, 2008:71).

The other expeditions that followed proved to be more successful so much that the price of spices soon went down. All these reasons prompted the parliament (*Staten Generaal*) to unite all the effort for spice expedition under one company (Ricklefs and Nugraha, 2008: 71), thus the United East India Company (*Vereenigde Oost-Indische Compagnie* or VOC) was established on 20 March 1602 supervised by a council called Gentlemen Seventeen (*Heren Zeventien*) (Brown, 2003). The council consisted of delegation from smaller trading companies that preceded the VOC (Emmer, 2014). The arrival of the VOC trading ships in the coasts of Banten marks the era of Dutch colonialism of the Dutch East Indies according to Indonesian history.

5.1.2 The VOC Era 1605-1799

The VOC first established their base in Ambon in 1605 but then realized the intra-Asian trading route had shifted to Banten located in Java Island and they intended to take advantage of this. However, they also abandoned that idea because Banten was already swarmed with English and Chinese traders. More importantly, the ports of Banten were still under the Banten Sultanate, which was still strong at that time (Ricklefs and Nugraha, 2008: 74). In 1610 the VOC then turned their eyes to Jayakarta, near river Ciliwung for their new base although technically, Jayakarta was still a part of the Banten Sultanate territory. They renamed the area “Batavia” and began a new era of business empire (Brown, 2003: 61).

By the mid seventeenth century, the Company acquired a lot of profit by selling Maluku spices up to seventeen times their buying price to the European market. However, none of the benefit reached the intermediaries such as the Javanese, Malay, and others (Brown, 2003: 66). It was in the interest of the VOC to limit the supply of pepper to the European market and therefore it was necessary for them to establish a monopoly of pepper trade (Brown, 2003: 66) which was a common method of “all European chartered companies trading to Asia” including “the EIC (founded 1600), VOC (founded 1602), the *Compagnie des Indes Orientales* (founded 1684), and the Ostend (founded 1722), Danish (founded 1668 and 1732), and Swedish Companies (founded 1731)” (Berg et al, 2015).

Aceh became a stronghold of the Sumatran kingdoms against the colonialists especially so since the capture of Melaka by the Portuguese. The Aceh rulers had not yet recovered from their defeat from the Portuguese in 1629, therefore the threat from the strong Dutch navy was enough to persuade them into signing the Contract of Painan (Painansch Contract) in 1663 to ensure monopoly on the export of pepper, camphor, tin, gold, silk, and other commodities (Brown, 2003:66).

This type of treaty is a common theme throughout the first century of the Dutch hegemony over Indonesia. It was the consequence of the monopolistic approach despite the Dutch official stance of non-interference (Dick et al., 2014). Eventually they became more entrenched in the politics of Indonesian kings, although reluctantly. The involvement was growing specifically in Java Island which later set the course for more involvement and exploitation. The sultanates relied even more to the Company since all ports were controlled by them (Van Welderen Rengers, 1947)

One name that cannot go unmentioned on the subject of VOC’s glory and its grip on the Java Island is Jan Pieterszoon Coen, the VOC governor general during 1619-1623 and 1627-1629. He is known for his ruthlessness in limiting the exclusivity of the spice trade only to the Company, ordering massacres against the locals, and designing grand strategy of the Company.

He had the foresight to install military force of their own to accomplish financial success (Ricklefs and Nugraha, 2008:77) and initially he proposed to install Batavia as a city inhabited only by white Europeans, a plan that eventually was never fruitful seeing that the city ended up with multi-ethnic population with Europeans as minority (Harner, 2017).

In Coen's view, there could not be financial success without the support of military prowess (Ricklefs and Nugraha, 2008: 77). The Company soon changed their strategy from merely acting as exporter of spices to produce their own, and the island of Java became their "primary source of wealth" (Lockard, 2009: 87), therefore focusing on Java and minimizing their presence in the other islands of the archipelago.

The term "imperialism" to describe the Dutch presence in Indonesia itself is debatable among Indonesian historians due to the lack of cohesiveness in colonial policy particularly the ones executed before the 20th century (Lindblad, 1989). There was never "formal annexation of colonial territories" and for the most part, the Dutch never paid as much attention to the Outer Provinces outside of Java (Dick, 2002). What sort of annexation happened is the one that was done on the other islands to Java since the Dutch colonialism "turned the archipelago inside out, away from mainland Southeast Asia towards the small offshore island of Java" (Dick, 2002). At this stage, the influence the Dutch had on the institutional drift is still minimal, only the reinforcement of the existing dynamics, but with foreign backing and interests. The latter point will be illustrated in the sections that follow.

The Fall of Indonesian States

Makassar, the new entrepot, remained to be one for traders from Portugal, Great Britain, and even Denmark (Vlekke, 1981: 142). For the most part of the century it remained the stronghold against the Dutch along with Kalimantan island also remained a free place. Other parts of Indonesia such as Ambon and Melaka had been claimed already by other colonists. In Java Island the dominance of the sultanates were still strong and no European laid claim on it yet. The 17th to 18th century was when the majority of the fall of the small and big kingdoms of Indonesia into the binding contracts with the VOC. The hold that VOC had throughout the Indonesian archipelago limited only to Batavia and scattered islands in the Moluccas since they were not interested in political rivalries of Indonesian kings and or in governing in the first place (Vlekke, 1961: 181; Lockard, 2009: 87).

The VOC considered it was best to let the people governed by their own laws, even so far as applying different sets of laws on different groups of people. Unless it threatened their commercial interests, the Company would not care to impose new law (Lev, 1985). For all Batavian they applied Roman-Dutch laws; for Chinese, Chinese laws; and native laws (Hukum Adat) for the natives (Vlekke, 19681: 184). However, it was common particularly in Batavia

for the VOC officers to take wives from the native population which then formed separate class from the previously established racial dichotomy of white and natives thus added to the complexity of the racial segregation (Harner, 2017).

Moreover, unlike other colonial powers at that time, the Dutch were not interested in spreading their culture or religion on their colonies (Van Welderen Rengers, 1947: 4). The kingdoms and sultanates of Indonesian archipelago fell all the same, due to wars and instability of their political rivalries which the Dutch were eventually “forced to intervene”, in addition to internal corruption (Van Welderen Rengers, 1947). Although there are exceptions where the economic interests of the Company were too important to let the native kings rule themselves such as in Makassar, Melaka, and Palembang (Van Welderen Rengers, 1947: 8).

Though by 1680s the Dutch gained more control of the archipelago following the fall of Makassar, Mataram, and Banten (Vlekke, 1981: 223). In achieving hegemony over the various states throughout Indonesian archipelago, the VOC established various alliances with one party or another in wars that the native rulers waged against each other. In return for their assistance, the winning party usually granted monopoly rights to the VOC over agriculture commodities of their regions.

Another example of this mechanism is the Treaty of Bongaya (1667) which is a result of the victory of Arung Palakka against the rulers of Gowa (Blusse, 2015). The Treaty of Giyanti (1755) is considered to significantly changed the political map of the Java Island in that era (Vlekke, 1981: 246) dividing the Sultanate of Mataram into three. The division of power written in the treaty means higher political cost for the VOC but at the same time this settlement of disputes between the nobility brought stability and economic prosperity to the Javanese up until the Great Java War later down the line (Brown, 2003: 63). Although aside from intervening the royal matters, the VOC still did not seek to change the societal structure of the Dutch East Indies. The payment from the kings and sultans to the VOC was determined depending on the agreement between each rulers and the Company, with the societal structure relatively unchanged and unaffected.

This system unfortunately reinforced the patrimonialism and absolutism among the Javanese kings. The tribute paid by the peasants was considered as the kings as their rights. On the other hands, the Javanese kings needed to secure loyalties among the elites of the states and alliance with the VOC especially since they controlled their trades and had their own force.

The Fall of VOC

The relationship between the Company and the Javanese was relatively stable during these decades. The Dutch did not rule directly but rather used designated local rulers (*bupati*) as their representatives. The Treaty of Giyanti between the colonialist and the sultanate that changed

the political power of Java meant little for people in the rural areas (Ricklefs and Nugraha, 2008).

The VOC reached the height of its glory in the beginning of XVII with yearly dividend 20-40%. They are the first multinational corporation in the world and almost entirely controlled the world's spice trade. However, funding officers to the tropics was expensive (Hall, 1988) and without anything to offer to the local rulers aside from military protection, the VOC did not have other things in exchange for the monopoly rights over spices (Ricklefs and Nugraha, 2008). This costly military spending was one of the major factor of the eventual downfall of the VOC in the end of the 18th century (Ricklefs and Nugraha, 2008: 154).

The tight monopoly was the official policy of VOC at that time, meaning that their presence did not involve the peasants who lived under the rules of their aristocrats. It did introduce the concept of cash economy into the society. The Javanese society at the 18th century was still less monetized than the Indian at the same time (Maddison, 1989).

The decision to install their base in Batavia launched the establishment of the city as starting point and from there on out, the Dutch colonialism centered in the Java Island, turning the other islands of the Indonesian archipelago into a periphery. The Company based their plan according to the strategy of building a naval empire in the East Indies which was concocted by the visionary Coen. Involvement in Javanese politics was not appealing compared to the prospect of generating profit by trading in Batavia (Vlekke, 1981: 152).

The VOC, especially near its end, was not managed well. At that time, a place so far away from home did not attract people who had better choices. The officers were paid very little they felt compelled to participate in smuggling and corruption (Vlekke, 1981: 238). After a while, it was expected for the VOC servants to manage themselves which made corruption a norm (King, 2000).

The Company was rife with corruption, inefficiency, and alcoholism while its treatment of the locals was often cruel (Ricklefs and Nugraha, 2008: 72). VOC officers often ended up killed during revolts of the locals or dying of alcoholism or disease (Ricklefs and Nugraha, 2008: 188). The ever-expanding Asian market means more investment for mass transportation to accommodate delivering goods from other ports of Java but the VOC executives in the Netherlands were reluctant to do so (Vlekke, 1981: 217). Later this mistake would be remedied during the Ethical Policy period, during which infrastructure development was initiated more to accommodate the need to distribute agricultural products and deliver Dutch goods to East Indies consumers (Vickers, 2005). Even though the Company declared bankruptcy, their asset was still considerably large enough that it warranted a bail out by the government and that includes the Dutch East Indies (Vlekke, 1981).

Analysis on the VOC Era: the Outset of the Ongoing Extractive Features

There are some features to be highlighted during the VOC era. Most of the institutional drift at this point only set the path for the more definite institutional drift later down the line. The indirect rule of the VOC means that the social order and the pattern of behavior of the natives were mostly unaffected by their presence. However, the same features that started to crop up during VOC era has become a constant theme which will be obvious as we dredge through the colonial history of Indonesia.

One instance of the features that later became more established is the petty corruption by the VOC officers. The corruption by VOC servants has been noted as one of the major causes of the company's downfall. It was also pointed out by scholars the connection between petty corruption during this era and the endemic corruption within all levels of public servants of Indonesia (King, 2000; (Hofman, Rodrick-Jones and Thie, 2004)).

Another one is the racial-based law on the natives, the Europeans, and the Foreign Orientals" (Vreemde Oosterlingen) which consisted Chinese, Arabs and Indians. Dutch colonialism brought in the concept of racial classification to Indonesian population (Prianti, 2018). The racial classification--and later hierarchy which was established during the Cultivation System era--are the "cornerstone" of Dutch colonial administration (Fasseur 1997; Tjandrasasmita 2009) and colored the overall colonial administration conduct up until the end of the Dutch rule in Indonesia (Prianti, 2018).

Another important legacy that was set during the VOC times is the patrimonialism and corruption in the grander scale. Until recent times, the majority of rulers of the world's population extract the wealth gathered by agricultural activities and dispense it to the few elites, usually the closest ones to the rulers (Herschel Grossman (1995a) quotes Edwin Mills - in Fukuyama, 2014). During the VOC time in the East Indies, the wealth was used to secure alliance with the company in exchange for military support. In the still patrimonialist settings, the disputes which then resolved in wars and battles were ones between noble families as the case with Arung Palakka with the Sultanate of Bone or the conflict over the succession of the Sultanate of Mataram. The interest of the citizen acted as motivation in some cases but ultimately, it did not matter significantly.

The presence of the VOC during the first two centuries of the Dutch in Indonesia was too sporadic to have a long-lasting impact on institution of Indonesia, compounded with the fact that there was no Indonesia as a nation just yet. The VOC as a colonial power did not even install rule of laws save for the treaties that bind the states in trades.

During the VOC time in Indonesia, its presence as a colonial power was somewhat sporadic. However, there is a consistent pattern where it meddled in the political affairs of the local rulers by providing military assistance in exchange for access towards natural wealth and the good will of the company since they controlled the harbors. In most cases, the political dispute was between members of royal families whose loyalties had to be won with the benefices. The wealth of the states was seen as a legitimate bargaining chip by the king, enforcing the mix of public and private spheres in states. Admittedly, even without the presence of colonial power, this patrimonialist style of ruling could still be perpetuated in the same extent as it was in the modern Indonesia today.

In accordance with the institutionalist view, the institution of Indonesia is hard to change and “as recurring patterns of behavior, they can also grow rigid and fail to adapt when the circumstances that brought them into being in the first place themselves change” (Fukuyama, 2014). The transformation from traditional into modern state does not guarantee the discontinuation of old practices.

5.1.3 The Establishment of the Colonial Administration during the British Rule of Java 1811

The Java Island was taken over by the British in 1811 from the Dutch government as one of the consequences of their defeat to Napoleon Bonaparte’s troop. In the earlier years, much discussion happened to determine the way going forward, either the government continue holding monopoly on trades or allowing free trade by private entrepreneurs. In the Netherlands itself, there was political reform into a more Napoleonic style which the British Governor General of the East Indies, H.W. Daendels was a proponent of when holding office from 1808 to 1811. However, both Daendels and a British Lieutenant Governor-General Thomas Raffles (1811–1816) were interested in transforming the administration of the Dutch East Indies into a more efficient one, away from VOC administration which was rife with corruption (Dick, Houben, and Lindblad, 2014). Daendels and Raffles eventually became the “the main architects of the new Dutch colonial state” (Dick, 2002: 59).

Land rent system was introduced by Raffles in this era. Prior to this, the Javanese viewed the ownership of land in a different way to that of the British and the Dutch. The Dutch introduced a reformation on the structure of administration in Java, mainly by the formalization of the roles the native elites have on the structural administration. According to Sutherland, 1979, they formalized the position of the Javanese elite (*priyayi*) as the intermediaries in facilitating transaction between European colonial officials and the Javanese population. The *priyayi* were associated with the Mataram administration and the system worked in parallel with the European administration, “regent (*bupati*) at the top, via the district head (*wedana*) in the middle, to the village head (*lurah*) at the bottom” (Dick et al., 2014).

In place of their more formalized role in the administration, *priyayi* lost their noble position in society (Dick et al., 2014). Manorial estates (*landerijen*) were sold so that the Eurasian and Chinese landowner could rent it to peasants to work on the land. The high taxes the owners imposed were sometimes burdened the peasants so much that it incited riots (Dick et al., 2014).

The Dutch still ruled indirectly through the kings and expected the native rulers to snuff rebellion and maintain order. As of before, “self-aggrandizing behavior with the backing of the Dutch government was tolerated” as long as the peace and order in the society is maintained (King, 2000; Vickers, 2005).

Analysis: The Impact of the British Rule

The British period in Java introduced some reforms regarding the way the society acts within a state. The government hierarchy is still used currently in Indonesia. The formalization of the native’s role in the structural position in the government helped to bridge the transfer of the pattern of behavior.

As noted by many scholars, the petty corruption is shared between the VOC officers and the public servants of modern Indonesia. The connection, if any, should be in the periods between. The establishment structural organization helped to bridge the pattern of behavior between the VOC era and the subsequent periods where the Javanese were included in the hierarchy.

5.1.4 Extraction of the Javanese Wealth during the Cultivation System 1830-1850

The year 1830 marked a new era of the Dutch colonialism on Java Island. Prior to that, the successful effort to generate profit in this fertile land by the colonial government was only the lucrative coffee plantations of the Priangan, West Java. They needed to utilize Central and West Java more and to cover the spending on the war the Kingdom of Netherlands was having at that time against Napoleon Bonaparte’s forces (Ricklefs and Nugraha, 2008).

The cultivation system (*cultuurstelsel*) was introduced in 1830 as an idea to save the Kingdom of Netherlands from bankruptcy due to expenses on this war by the new Governor General in Java, Van den Bosch. The mechanism of this system was never explicitly stated (Ricklefs and Nugraha, 2008), though under this system, only the government had control over the crops and overall agriculture industry.

The system is based on the notion that Javanese villages owed land rent to the colonial government worth 40% of the villages’ main crops. In reality the villagers did not pay it in full

amount and the system is a remedy for that. Van den Bosch proposed for all villages to set aside a part of their land for cash crops that were more valuable for export commodities such as coffee, sugarcane, and indigo. They opted for taxing based on land or crops rather than profit because the difficulty of exploiting a society with such low level of monetization. Still, the forced delivery of harvest during the System era was not institutionalized apart from the passing of ethnic 'apartheid' laws that separate the natives and the Chinese population in order to make them more manageable during 1816-1914 (Maddison, 1989). The law that police racial hierarchy among three groups (natives, Foreign Orientals, and Europeans) was enacted on 1854, in new *regeeringsreglement* of 1854, Article 109 (Fasseur, 1997 in Prianti, 2018)

The colonial administration played favorite among recipients when they granted permits to produce crops outside of the bound of the System. The recipients of this permit were the closest and the cronies of the administration officers or even the officers themselves. The rulers of Jogjakarta and Surakarta got the leases to produce with government control (Maddison, 1989). There were no guidelines to ensure the fairness of the tax burden because of the difficulties to communicate within the island therefore the price and wage were determined arbitrarily by the government (Maddison, 1989).

This system was also minimally implemented outside Java to produce coffee specifically in Minangkabau following the Paderi War and in Minahasa though the harvest was far below the amount of Javanese harvest (Brown, 2003: 84). The villagers were then required to sell the crops to the government with a set price regardless the high price of the crops in the world market (Lockard, 2009). The crops were then processed by European and Chinese entrepreneurs (Brown, 2003: 84). The Chinese also acted as tax collectors and were allowed to make a living by setting higher collection as long as they turned over the decided amount of harvest to the Dutch (King, 2000).

The Indonesian society at that time was not quite into the monetization of their agriculture crops (Maddison, 1989). In accordance to the feudal society setup at that time they produce enough rice or other crops to feed their family and pay land taxes to their kings (Dick, 1985). Their participation in the market economy was minimal, the taxes from harvest they produced were then used to support the aristocrats (Dick, 1985).

The colonial government facilitated this system by clearing the forests and improving the irrigation system, which the peasants took advantage of for developing their land (Lockard, 2009). According to the original plan, it would be enough for the villagers to sell 20% -which later increased into 33% - of the crops to the government to pay for the owed land rent (Ricklefs and Nugraha, 2008). Some of them also had to travel away from their own land to work on lands that produce the mandated crops. The requirement to provide labor was an addition to the allocation of the land that was used for rice farming into land for the export commodities.

The system is practical in theory both for the colonial government and the Javanese villagers and should pose less burden the villagers compared to the 40% taxes imposed on rice harvest which was set during the previous period by Raffles (Booth, 1998). But the collection system, in which the official both locals and Dutch rewarded according to the production of cash crops, encouraging corruption (Brown, 2003: 85), therefore they had put more demands in the collection of crops from the villagers.

Moreover, the system was somewhat abused so that the villagers ended up having to put more labor into working on the cash crops instead of rice or the production of household handicraft with the estimated 12% if the Javanese population deployed for cultivation of coffee, sugar, and indigo in 1840 (Booth, 1998). The villagers were responsible to cover the loss, should crop failures happen, which was against the original rule set by Van den Bosch (Vlekke, 1981: 329). Peasant revolts happened as the taxes became too burdensome for the life of Javanese peasants and the unoccupied lands were getting scarcer (Lev, 1985).

The cultivation system proved to be successful in fulfilling its purpose, increasing the income from the colonies from the average of 125 million gulden at the end of 19th century to 700 million at the beginning of 1920s decade which means six folds increase in under 30 years (Creutberg and van Laanen, 1987). Another consideration for the success is that in general, the system was accepted by the Javanese without inciting significant unrest. The Dutch awarded adequate incentive for the peasants and “checking the worst abuses.” (Clarence-Smith, 2007)

This era, with all the development for accommodating industrialisation of the agriculture, laid down the foundation for the boom of sugar industry that follows (Bosma, 2007). Other plants with high economic value were introduced to the Indonesian agriculture industry such as tea, tobacco, cinchona, and palm (Vlekke, 1981: 332). The yields for pepper and cinnamon harvest however never significantly increased under the System (Vlekke, 1981: 332). The native rulers gained considerable economic advantage during this period (Ricklefs and Nugraha, 2008: 264).

Even the villagers gained something out of the economic stimulation the government provided to support the system. The Javanese peasants took initiative in developing entrepreneurial activities while adapting the situation regarding this controversial policy (Brown, 2003: 87) since it turned out that the System introduced the cash economy system to the Javanese peasants. Nevertheless, the Java Island and the Javanese could be even more developed for the result of Cultivation System if not for the extraction of wealth to the mother country (Clarence-Smith, 2007).

Analysis: Perpetuating the Patrimonial State

As with the earlier periods, the Dutch never tried to impose any laws or rules that more than what is necessary to ensure their gain. The colonial administration backed patrimonial arrangement that gave total control to the Javanese kings over the wealth of the states on the parts that were indirectly ruled by the Dutch. The connection between the supports by the colonial administration on the Javanese king over wealth with corruption is also noted by (King, 2000). The kings and sultans had the rights to grant the wealth of the state as it belonged to them. This pattern of behavior is inherited into a “strong tradition of neo-patrimonial arrangements” in the contemporary Indonesia (Schulte Nordholt, 2011). After the Dutch left Indonesia, the control over resources was handed back in a neo-patrimonialization process during the era of Soekarno and Soeharto eventually mirroring this dynamic (King, 2000).

1. Patrimonialism

One of the tools for the extraction to happen is the Javanese social structure that places the kings on top as rulers but with the obligation to bestow their loyal subjects with “distribution of fiefs and benefices” (King, 2000). The Javanese are always the majority ethnic group in Indonesia and the Java Island and its people are where most of the colonial actions were focused on. The first two presidents of Indonesia, Soekarno and Soeharto are of Javanese origin.

The Javanese hierarchical social structure might not fit the Dutch’s idea of an ideal society but it was necessary for the Dutch to maintain order with their limited resources by maintaining the said structure and dynamic. The Dutch colonial administration intentionally kept the social order and hierarchy for the indirect ruling could happen (Vickers, 2005)

In previous parts I have described how the Dutch was rather consistent in their insistence on non-interference as a policy. There is also a recurring pattern where their main concern was always how to maximize their income from their East Indies colonies. Ruling indirectly while still extracting the resources is a constant theme which will be observed throughout the Dutch rule in Indonesia (Clarence-Smith, 2007)

Soeharto, the second president of Indonesia, mirrored this dynamic by how he regarded the country’s assets as something that he had the right to grant to whoever he saw fit (Robertson-Snape, 1999). The accumulated assets of Soeharto and his family was estimated to be at US\$ 15 billion in mid-1998 (King, 2000). In 1999, two years after Soeharto was forced to step down from presidency, Transparency International Corruption Perception Index ranked Indonesia the third most corrupt among other countries on the list (Transparency International, 2018)

It is not unreasonable to note the connection between the Javanese view of benevolent absolute ruler and the modern-day corrupt dictator (Liddle, 1985). Acting as benevolent monarchs towards those whose loyalties are needed is commonly practiced as the case in other patrimonial states. In addition to that, the old Javanese and other Indonesian kings surrendered a proportion of their rights to access their wealth to the colonial power in exchange for their military support.

The support the Dutch gave to the existing social hierarchy perpetuated this dynamic and it is connected with the dynamic of how the New Order regime treated the elites. During the colonial era, this dynamic as previously explained had already started in the time of the VOC (Robertson-Snape, 1999).

I will argue that unlike the petty corruption among government officials which is a common subject of academic works regarding corruption (Harm and Charap, 1999), the corruption carried out by Soeharto and his cronies during the New Order should not be viewed as a form of agency problem, in ordinary rent-seeking behavior. Another claim made in this thesis is that the much greater and more endemic scale of corruption in the case of Indonesia during the New Order regime is more in line with the clientelism secured by a hostage system that keeps all parties involved on a systemic level – that I argue is usually predicated on a broader institutional context of both entitlement and complicity on the part of the ruling class. Their own participation in the corrupt hierarchy keeps them from withdrawing from the circle.

In return, Soeharto only had to appease the elites in this patrimonial setting. Patrimonialism is an apparent feature in the way of living of the Javanese aristocracy and repatrimonialization is self-evident among modern leaders of Indonesia in the way they abuse their power. This feature is arguably a remnant of the old thoughts and behaviors that cannot be erased only with the transformation into what is formally a modern state, where the line between public and private roles and rights is clear (Crouch, 1979).

While the clientelism could amount to some degree of accountability (Fukuyama, 2014), in Soeharto's case it is not necessary to be accountable to the people of Indonesia. Soeharto only needed to appease to the powerful elites after he managed the depoliticization of the people. The distribution of power is narrow; formally because authority is heavily centralised and informally because in practice, the ruler is only accountable to his cronies. The depoliticization achieved two things; first it creates the kind of stability for a patrimonial ruler to thrive by eliminating the sharp divide of political ideology among elites which was the downfall of the Old Order (Crouch, 1979), secondly it makes the distribution of power less pluralistic by taking away the political voice of the people. Soeharto then successfully built an absolutist regime.

It is therefore necessary to underline the vicious cycle as the connection between patrimonialism and extractive institutions in this discussion. The said connection is however is not unique to Indonesia. In their 2013 paper “Economics versus Politics: Pitfalls of Policy Advice”, Acemoglu and Robinson also bring up another case of patrimonialism that materialized as the manipulation of political institution by Sierra Leone’s Siaka Stevens. the manipulation occurs as he secured support with by redistribution of rents (Acemoglu and Robinson, 2013). The more explicit connection between patrimonialism and extractive is drawn by the two institutionalists in the case Rwanda, the “Real Leviathan”. In their 2016 paper “Path to Inclusive Political Institutions”, the term “Leviathan” is used for countries that cannot control the direction of the development of the state. In the case of Rwanda, patrimonialism or clientelism and military are the coercive tools utilized to build a state. Rwanda ended up as an extractive society, with difficult path towards becoming an inclusive one (Acemoglu and Robinson, 2016). It even leads to the repatrimonialization in the mechanism explained above.

The effect of corruption in impending economic development is more related to how the executives accept bribes. Instead of the people or even the legislatives, the cronies surrounding the executives became the principal in a principal-agent relationship between them. The corruption in the grander scale stems mostly from the blurred distinction between private interest and public sphere by the rulers. The transformation from patrimonial state into a modern one had yet to be fully realized, or rather the repatrimonialization process happens against the backdrop of modern state. The type of patrimonialism amidst modern state by the rulers of Indonesia fits both definition of neopatrimonialism, which are the emergence of the old phenomenon in a modern setting and the combination of patrimonialism and modern bureaucracy in a modern state (Medard, 2014).

It is important to recognize Soeharto’s crime as it has been made possible by the weak rule of law. Harsh punishment for convicted corrupt politicians is not common in Indonesia where they can even run for office while being investigated and after being free of conviction (Butt, 2011). There was also the lack of political will to enforce the already existing law and low probability of being exposed in an environment where the information is tightly-controlled by the rulers (Sherlock, 2002). The chart below exhibits the process:

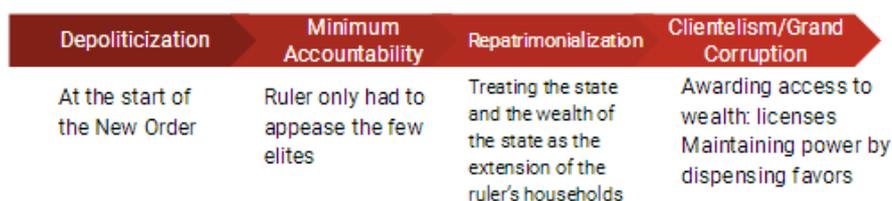


Figure 4. The process of neo-patrimonialization of Indonesia

In addition to the elements of the process above, it could also be argued that rather than weak rule of law made grand-scale corruption possible, the neo-patrimonial Soekarno and--to a greater extent--Soeharto weakened and undermined rule of law to ensure their own private gains. The weak rule of law contributes into the decrease of accountability in the process as pictured. Regardless, the feedback loop is the dynamic pictured in the “vicious cycle” as described by Acemoglu and Robinson regarding how the rulers in an extractive society secure their power.

2. *Petty Corruption*

Aside from the corruption by president and other key figures who hold the higher authority in Indonesian government, petty corruption is also widespread among government officials in all levels. In 1998, the end of the New Order hegemony, 78% of Indonesians considered bribes to be “[necessary] in dealing with government offices” (Robertson-Snape, 1999). As traditionally the duty of a person is first to their family and community rather than to his profession, receiving gifts is considered culturally acceptable to strengthen the bond between people. It means that among lowly government officials there is expectation to receive gifts from the citizens (Robertson-Snape, 1999).

This can also be connected to the dynamic during the Dutch era, where Indonesians who ruled over the people whether by being a member of the aristocracy or occupied position in government office. It is also parallel to the common occurrence during the VOC era when it was a common practice for the company officers to do business outside of the bound of the monopoly which was the official policy of the company. The weak rule of law as discussed in the previous point is also relevant here as it is a leftover of this practice and enables the petty corruption in the future.

The feedback loop to explain said dynamic as proposed by this thesis is illustrated in the cycle below:

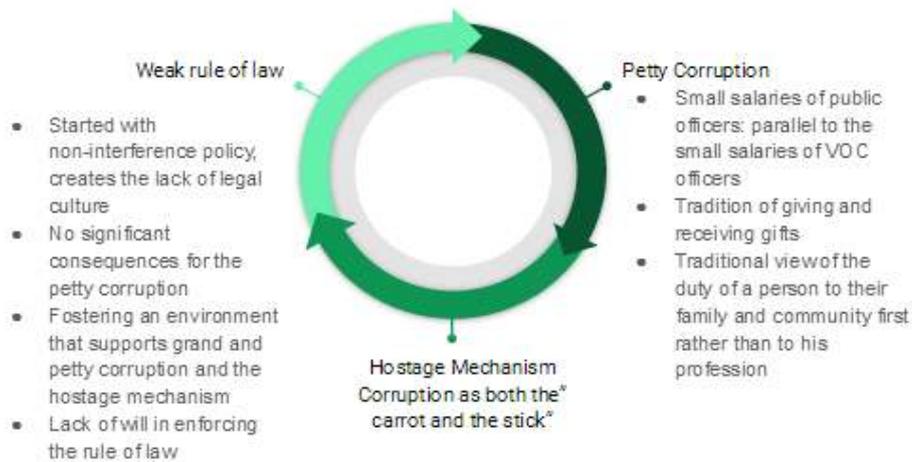


Figure 5. The vicious cycle of petty corruption, hostage mechanism, and the weak rule of law

The lack of standardized procedures of collection of the crops during the Cultivation System era kept alive the abuse of system in the more personal basis, amounting into petty corruption by government official. The participation of the native in the structural organization during the British era potentially perpetuated the pattern of behavior by the VOC officers.

3. *Rule of Law*

The different types of the misuse of public office as I distinguished here are enabled by a weak rule of law. The undermining of the modern state started even as early as Soekarno's era. But to take it even further, the weak rule of law has started since VOC established itself in Batavia. The VOC and the Dutch colonial government with their non-interference policy had always been reluctant to enact law that does not concern themselves and the profit from the colonies. Nevertheless, as the colonial administration became more formalized and involved in governing the native population, more laws were enacted and some of them were then borrowed into the modern Indonesia (Vickers, 2005). The lack of clear goals by the Dutch colonial government could contribute into the weak rule of law in Indonesia, in contrast to strong law in ex-British colonies.

Furthermore, the corruption by the VOC officers as a precursor to the corruption that happens in modern Indonesia among its government officials. The pervasiveness of corruption among VOC official is considered as where the pervasiveness of corruption in modern Indonesia rooted from. Petty corruption is done in modern Indonesia because of the low base salaries of public officers (Hofman et al., 2004). This pattern of behavior mirrors how VOC officers were

expected to look for other means of income outside the officers' wage (Ricklefs and Nugraha, 2008). However, there was no significant consequences for the abuse of the system, a phenomenon that was carried on throughout the Dutch rule.

The combination of those factors above resulting in an environment that fosters the abuse of the system by government official. The politics of Indonesia is very entrenched with corruption. A significant reason of the overthrow of Soekarno and the collapse of Soeharto from power were corruption (King, 2000). Long before the establishment of the KPK, anti-corruption laws and procedures were already plentiful though it did not have significant effect on the effort to reduce corruption (Crouch, 1979). The corrupt judicial system and the weak will of the executive impede the effort to eradicate corruption.

5.1.5 The Liberal Period; the Advent of Private Enterprises in the Agriculture Industry

In 9 April 1870, the Agrarian Law was introduced, ending the era of the Cultivation System. It opened Java and the Outer Islands for private enterprises and guaranteed the safety and the freedom of private businesses. Soon other laws followed "Between 1862 and 1870, 'no fewer than four bills were introduced in the Dutch parliament with the aim of presenting Western agricultural enterprises with more opportunities for expansion without disproportionately damaging the interests of the treasury or of the native population' (Fasseur 1991: 36). The fourth was finally successful. It became the so-called Agrarian Law of 1870 which, together with the Sugar Law passed a few months later, is often considered as signalling the demise of the Cultivation System, at least in Java" (Booth, 1998: 30).

Foreign investors were allowed to rent lands up to 75 years from the government (Ricklefs and Nugraha, 2008). Immediately, between 1870 to 1885, the sugar production increased two-fold, showing the effectiveness of private enterprises in managing agriculture production in comparison to the exclusive monopoly by the government.

Increase in sugar production:

1637: 12 tonnes

1779: 6.235 tonnes

1870: 152.595 tonnes

1885: 380.346 tonnes (Ricklefs and Nugraha, 2008)

After the era of cultivation system, where no private enterprise could operate in Java Island (Bosma, 2007) the liberal period is a swing to the opposite direction. In this period, government involvement on business was minimal. Capital owners had significant influence on government policy (Ricklefs and Nugraha, 2008). The colonial government put more attention

in developing infrastructure, especially ones that support agriculture industry such as railways, ports, communication links, and the supply of energy (Brown, 2003: 102). The development of the railways was done to support the new direction of the formalisation of the colonial administration which is to unite the East Indies (Vickers, 2005: 18).

Education for Indonesian students was also re-initiated. Most of the initiative however was done in the primary level and aimed at aristocrat (Brown, 2003: 102). Eventually, the goal was to prepare the children of nobles to serve the colonial government as public officials (Schulte Nordholt, 2011) (Vickers, 2005). The Dutch however did not pay heed of the industrial development since it was still merely a source of raw material for them (Lockard, 2009). The Dutch did not see Indonesia as a place they should invest on in order to ensure long-term development (Ricklefs and Nugraha, 2008).

This economic development did not do much to change the indigenous people for the better (Booth, 2007; 7). At this time, although the Dutch were already minimally present outside of Java, the islands other than Java were still more incorporated with the mainland Southeast Asia. This fact is inferred through the trades between the islands and Singapore and Melaya (Dick, Houben, and Lindblad, 2014).

5.1.6 The Ethical Policy and the Formalisation of Colonial Government (1901-1930)

The new direction of Dutch colonialism stemmed from the “Ethical Policy” (1901-1930) based on sentiments originating from the liberal movement. The push to improve the life of the Javanese people under the colonial rule resumed when the liberal movement gained traction. Seeing how much the Javanese suffered under the Cultivation System, the liberal class of the Netherlands recognised their treatment of the colonies as something contrary to their values. The ruthless practice of the colonial government was especially highlighted in a particularly influential work of fiction titled “Max Havelaar” written by Eduard Douwes Dekker under the pseudonym “Multatuli” (translated into “I have suffered much”), published in 1860 (Brown, 2003:85). In 1899, Conrad Theodor van Deventer, a fervent liberal politician published an important article, “A Debt of Honor” to argue in favor of the proposed ethical policy (Pols, 2007).

The need for labor by the entrepreneur still put demand on the government to guarantee education and safety and therefore investment on the people and infrastructure. At the same time, they needed the Indonesian people to be prosperous enough to afford products that Dutch enterprise sold (Brown, 2003: 105). The need to improve the quality of life of the people is also in line with humanist and liberal ideology (Ricklefs and Nugraha, 2008), thus the Ethical Policy was introduced by Queen Wilhelmina in 1901 (Dick et al., 2014).

The changes in the colonial policy in the turning of the 20th century had also to do with major socio-political changes that was happening in Europe, including the Netherlands. These changes moved towards empowerment of the less privileged of the society which then “Related to this was the increased demand for government social spending on unemployment and sickness benefits, pensions, health, and housing” (Booth, 2007: 4).

The Dutch Ethical Policy was based on three goals: education, irrigation, and immigration. (Ricklefs and Nugraha, 2008). The number of Indonesian children who attended school doubled between the end of the nineteenth century and the beginning of twentieth century due to the increase of spending on education even though the percentage of children who attended school was only 8% (Brown, 2003).

The East Indies also saw development of infrastructure necessary for business. The Dutch East Indies railway network grew from the total 25 km in 1867 into 7.425 km in 1930 (Ricklefs and Nugraha, 2008:319). However, economic interests still acted as the base for the decision to invest in transportation. According to Weber, Kreisel, and Faust, the ethical policy was only another action of the colonial government with “ulterior economic motives” (Weber et al., 2003). The ineffectiveness of the implementation of Ethical Policy will be seen throughout the history especially in regards to the education as one of the main goals.

Meanwhile, the Dutch forces were conquering the Outer Islands one by one during the early 20th century. Aceh was the first to be subdued in the early 20th century, followed by northern Sumatra and Jambi, later Sulawesi (Dick et al., 2014). According to Locher-Scholten, 1991 in Dick et al., 2014,

“In upriver South Kalimantan, the resistance of supporters of the former sultanate of Banjarmasin was crushed by 1907. The Bugis and Makassarese states in southwestern Sulawesi fell in 1905 and 1906. The fiscal motive for imperialist expansion was conspicuously present in the Dutch military expedition to Bone in South Sulawesi in 1905. Here the local raja allegedly declined to cede the right to collect export and import duties (Locher-Scholten 1991).”

Soon the Outer Islands became another source of revenue for the colonial government through the development of agriculture and oil industries. The door for the exploitation of Indonesian natural resources opened wider for Dutch capital, particularly in the Outer Islands. The advent of industrialisation in Europe and America put a growing demand of raw material which was fulfilled by the exports from Java, but more importantly from Sumatra, Kalimantan, and Sulawesi (Booth, 1998:203). Industrialisation changed the valued commodity of the tropics from the classics such as sugar, coffee, etc. into ones to supply industries such as rubber and

vegetable oil. Besides agricultural crops, mineral was the valuable commodities from Indonesia (Booth, 2002). In 1894 the export from the Outer Islands only accounted for one fifth of the export from the entire Dutch East Indies, however by 1909 it reached one third of the total export (Dick., 2014). The general timeline and the notable events and policies of each era of the Dutch colonial history of Indonesia are concluded in the figure below:

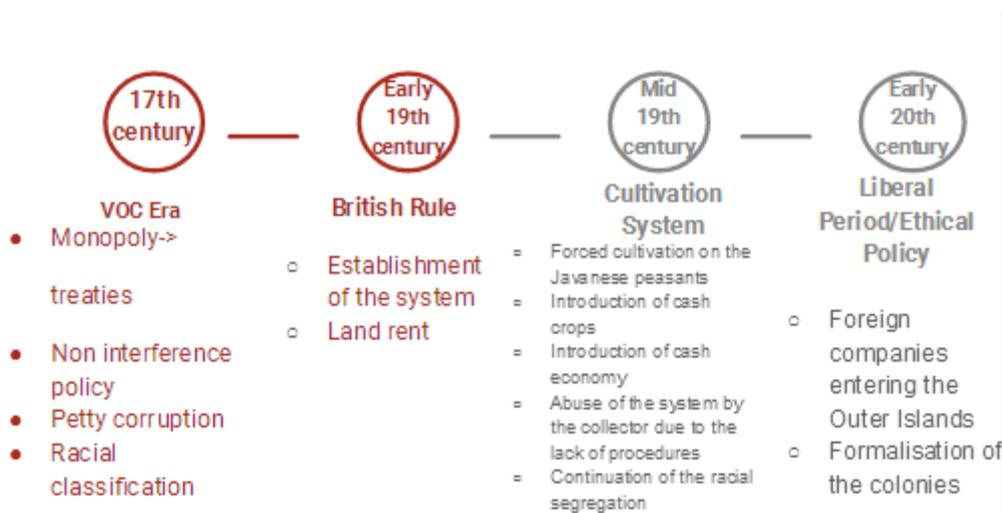


Figure 6. The highlight of the colonial history of Indonesia

Analysis: The Influence on the Industrialisation of Indonesia

The Indonesian islands were never producers of only one dominant crops, something that separates the country with other tropical colonies (Booth, 1998). Much of the introduction of the crops with high economic value was done through the colonial interests, particularly during the Cultivation System era. The Cultivation System and the industrialisation that took place after laid the foundation for the agriculture industry centered on the Java Island as the economic backbone for the most part of the Indonesian history (Dick, Houben, and Lindblad, 2014). The positive impacts of the System are the introduction of cash crops to the Java population and the increase of cash that the countryside received (Brown, 2003). However, the dramatic increase of the export volume of agrarian product from Java in the 19th century was not followed by the same success in the 20th century post-Dutch era of Indonesia, while other countries increased their trades in the same period (Booth, 2002).

The development of the agriculture industry outside Java also contributes to the foundation of the Indonesian economy which is based on the export of raw materials. The technology utilized to produce is also diverse due to the development by the Dutch government and later Dutch and other foreign enterprises in agriculture (Booth, 1998). However, the interest of the Dutch was to provide raw material but not to develop the industry. Therefore, the effort to establish

industries and investment in technology was minimal as it was not needed to increase the income from the colonies (Lockard, 2009).

The construction of the railway network somewhat helped to accelerate the industrialisation of Indonesia though as the case with the investment in technology and industries, the actual purpose of infrastructure development was to advance the commercial interests of the Dutch. In many cases of industrial revolutions across nations, railway network is a vital ingredient for speeding up the early phase of industrialisation (Stearns, 2012), when the distribution of raw materials is still one of the crucial building blocks. Mirroring the case in India, the main concerns of the colonial government were still to build infrastructure in order to assist the distribution of agricultural products.

Upward mobility and the growth of middle class happened as the result of this development. Small business owners could join in the economic growth of the early phase of industrialisation, though it was still quite limited to agriculture industry (Vickers, 2005). For the rest of the native population, the development of local cash economies and the participation in petty trade were made possible by the emergence of large plantations (Vickers, 2005).

Because of the export of raw material which is lower in value, understandably the Indonesian government tried to encourage the export of processed goods which are higher in value. A more controversial policy by the Indonesian government regarding promoting domestic industry is to ban the export of raw material such as logwood so that the plywood industry will advance (Booth, 1998). For example, subsidy was granted to *ratán* processing industry in Java, in contrast to the taxes imposed on small *ratán* suppliers outside Java (Booth, 1998). This is an instance of a countermeasure by the government of Indonesia against the extraction of raw material in the expense of the underdeveloped processing industry or a higher-value, technologically-sophisticated industries. There is little mechanisation but more labor-intensive works, due to the low technology nature of the production of raw material (Booth, 1998). According to Lindblad, this tendency also bleeds into the agriculture industry. Even well into the reformation era, the anti-import agenda is still a popular issue in elections, rooted from the concern the Indonesian have on their self-sufficiency and competency (Yusuf and Sumner, 2015). The anti-import rhetoric and policies by many regimes of Indonesia prevent it into fully follow and take advantage of the formula of the latecomer as stated by Stearns.

Analysis: Further Drift into Javacentrism

During the Ethical Policy, Javacentrism still persisted despite the attempt to enact a more decentralized development policy and shift the focus into the Outer Islands. The other islands saw more intensive investments into extracting their natural resources but the focus of the colonial government was still to “pay debt” to the Javanese people (Ricklefs and Nugraha, 2008). The other islands were still peripheral to the institutions of Dutch colonial rule, however

the subsequent exploration of oil reserves in the area meant that investments from oil companies in these regions have provided further nuance to this core-periphery dynamic. In 1920s, five oil companies operated on the Sumatra Island. Others soon followed in Kalimantan Island, all foreign companies from the Netherlands, United Kingdom, United States of America, and even Japan (Ricklefs and Nugraha, 2008). This shift of focus on economic activities posed problems that still continue to this day. Whereas important commodities are produced in the other islands, human and infrastructure development is still centered in Java (Ricklefs and Nugraha, 2008).

The accelerated rate of production required the infrastructure that could accommodate it, such as mode of transportation and labor force to work on them (Booth, 2007: 7). Immigration as one of the main pillars of the ethical policy also aimed for redistributing the population needed for labor. During the liberal period, the Dutch expansion into the Outer Islands required labor from Java Island. Immigration acted as a welfare program and to serve Dutch commercial interests.

Analysis: Cultural Impact of Institutionalized Racism in Colonial Era

Since 1854, the law separated the citizens into a different class: European at the top of the caste (and later the Japanese was added), the Foreign Orientals as the intermediate class, and then the native Indonesian which was called *inlander*. In 1930, it was shown that the difference between the races expressed also on the average incomes of each group (Wartheim, 1995 in ed. Dick et al., 2014)

“Average incomes, expressed in guilders at current prices, were as follows:

- Indonesians 59.70
- Chinese 326.90
- Europeans 2700.00

The income distribution remained uneven throughout the 1920s and 1930s (Figure 5.7; Creutzberg 1979: 71; Dick et al., 2014).

The social hierarchy that separates people of East Indies based on their race has a lasting effect on the collective psyche of the Indonesian people. At that time, the scientific movement considered the white race as the highest whereas other races are inferior to them (Boudewijn, 2016). Furthermore, the political turmoil following the independence added to the complexity regarding post-colonial racial discourse of Indonesia (Prianti, 2018). As mentioned before, the nationalist movement rejected the west as the source of colonial power but at the same time regarded Western political ideas as something progressive and modern and therefore is something to aspire to.

Culturally, Indonesians tend to see themselves as somewhat inferior to Western people even in modern times. For example, music genre perceived as belonging to the Western culture are placed somewhat higher in status than the “ethnic” varieties, so far as in record stores, they are displayed in separate categories and deemed as more sophisticated even if there are Indonesian recordings available in the same genre (Wallach, 2002). Western lifestyle is considered of a higher class and Western body image is deemed as something to strive for. In the media, Western body image is portrayed as ideal and Western clothing as sophisticated (Prianti, 2018).

According to Hall, 1986, internalized racism is “the ‘subjection’ of the victims of racism to the mystifications of the very racist ideology which imprison and define them” (Hall 1986: 26). Fascination and admiration of the Indonesian people towards white people and Western culture are arguably the more subtle legacy of colonialism. Internalized racism starts “at the moment the oppressed accept the identities imposed on them by their oppressors” (Pyke, 2010), which is what happened after the native Indonesian being subjugated to this racial stratification for decades. The internalized racism that follows such unequal treatment is when race is perceived as intrinsically tied up with merit and entitlement, reinforcing the way of life and society under the white race’s rule (Pyke, 2010).

Indeed, colonialism itself and as a whole is rooted in racism and paternalistic behavior the white race at that time had towards the colored races (Robertson-Snape, 1999). In the logic of colonialism, those of a white race considered themselves as having a moral duty to bring the colored races into being more “civilized” seeing that they are at the “top of racial hierarchy”, a moral duty described as the “White Man’s Burden” a term borrowed from Rudyard Kipling (Boudewijn, 2016). Even the Dutch colonialism of Indonesia, with their hands-off approach and relatively free of ideological reason, was still motivated by “White Man’s Burden” particularly during the Ethical Policy (Boudewijn, 2016). Unfortunately, the Dutch post-colonialism study is not yet developed, seeing that there is still the lack of critique by Dutch scholars towards Dutch colonialism compared to those of the tradition of English and French postcolonial studies by their own historians (Boudewijn, 2016).

The inferior attitude enforced during the colonial era seeps into the lives of Indonesian society to this day, as commonly found in other ex-colonised nations. In business, this internalised racism could affect the interactions between Indonesian and foreigners. In industrial and commercial setting of Indonesia, even so close after the national revolution, white people are assumed to be more competent and therefore have more opportunity compared to native Indonesian (Wartheim, 1955). In an ethnographic study to explore the attitude towards Chinese Indonesian in 2010, it was found that a “race-based hierarchical structure” is still alive and well in a transnational office in Jakarta (Leggett, 2010).

The colonially-affected racial relations are not limited into only between the natives and the white race. The relation between the Native Indonesian (*pribumi*) and the Chinese Indonesian has always been filled with tension as elaborated in the previous section. The Chinese were disliked both by the Dutch and the locals, though the former deemed them as necessary whereas the locals only saw them with suspicion. The Dutch themselves fanning the tension in order to redirect the dissatisfaction the locals had to the Chinese rather than the Dutch, creating many negative stereotypes towards the Chinese (Cheang, 2011).

The racial animosity towards Chinese Indonesian is one of the hallmark of the 1998 political crisis. Mobs consisted of native Indonesian who suffered from economic hardship blamed not only the government but also the Chinese Indonesian who were (and still are) perceived as being unfairly wealthier. This is the same sentiment that was perpetuated by the Dutch to sow discord between ethnic groups, preventing them from uniting against them. I will propose that there is a connection between the portrayal of the Chinese Indonesian as the “other” or worse, an antagonistic force against the “native” initiated by Dutch with the racial tension existing in the current times. Of course, this negative sentiment was then fanned especially during Soeharto’s administration.

Policies that discriminate the Chinese Indonesian deemed as necessary and morally right by the majority of the people during Soeharto’s era (Thaniago, 2017). Because the Chinese Indonesian are considered as a threat to the interest of the *pribumi*, the racial discrimination and forced assimilation is necessary to impair them somewhat. In this case, the state use its power to institutionally exclude a whole group of racial minority.

5.1.7 Overall Institutional Impact

Education which was one of the main objectives of the Ethical Policy, did not get the adequate commitment and resources from the colonial administration. Education was made available for the natives but with poor quality which limit them into low-paid jobs (Maddison, 1989). Better education was reserved for the European children and children of the Indonesian aristocrats, however even for the latter, the possibility was more limited (Weber et al., 2003).

Despite the growth of the educated class, the Ethical Policy did little to improve the condition of the native Indonesians. This sentiment grew among the said educated class who even were fueled by this growing resentment to establish the movements towards independence. The Ethical Policy is then regarded as a failure in fulfilling its objectives (Weber et al., 2003; Van Welderen Rengers, 1947). Vickers deemed the Ethical Policy as an “illusion” by the Dutch liberals who portrayed the economic expansion as something that will “trickle down” and improve the lives of the natives (Vickers, 2005).

The lack of will to improve the welfare of the Javanese could be one reason of the failure. Regardless of the intention, the policy was cut short by the crash of sugar industry due to the Great Depression (Vickers, 2005). The Great Depression also impacted the average yearly income of the inhabitants of the Java and Madura Islands, “from f 47.60 to f 20.30 (US\$19.04 to \$8.12 or \$1,750 to \$750 in present-day terms)” with the rest of Indonesia suffered even greater decline (Vickers, 2005: 50).

The accessibility of education for the population is vital for creating an inclusive society, thus conversely hindering the access to education will sustain the existence of an extractive society (Acemoglu and Robinson, 2012). The few elites who are benefiting from the status quo will do their best to maintain it which is the case in the Ethical Policy era. The systematic limiting of education for the general population throughout the Dutch era could indeed have a rather straightforward connection with the comparatively low rate of education we find in modern Indonesian society. In 1971, 20 years after Indonesia declared its independence, the percentage of the population who enjoyed education was only 55,6%. It rose to 87,6% in 1985 under Soeharto’s administration, which is also one of his most significant achievement (Fukuyama, 2014).

Politically, the East Indies also experienced upheaval due to new policies along with the sentiment of the Ethical Policy. At this period the colonial government also created the *Volksraad* (People’s Council) in the attempt to be inclusive to the native Indonesian. They held their first assembly in 1918 with 9 out of 19 members were native Indonesians (Ricklefs and Nugraha, 2008). In practice, the *Volksraad* did not hold significant power over the government policy since whatever they decide was superseded by the decisions made by Governor General (Feith, 1964: 5). During this period. the colonial administration became more present in the lives of the Indonesian according to Wesseling, 1988. After 1900 the colonial policy in the Dutch East Indies was characterized by systematic development and involved government (Booth, 2007: 5).

There was no reason at that time for the colonial government to think that their hold on the East Indies would not last, however the indigenous nationalist movements were becoming more strident (Pols, 2007). The educated class of Indonesians increased although still very few at that time, a result of the education initiatives by the government. Ironically, also due to the Ethical Policy, the more structured the bureaucracy and the more authority exerted over the Indonesian people, the stronger the nationalist sentiment shared among the people (Dick, et al., 2014). Harsh punishments and preventative measures then conducted on the activists of the nationalist movements. The colonial government even portrayed the nationalists as a class of people who were out of touch with the masses since the beginning of the movement was limited to an elite few (Pols, 2007).

There is a certain degree of irony in how this era unfolded in the colonial history. Prior to this time, the Dutch were minimally present in the Outer Islands. However, because of the objective of the Policy to modernise and improve the lives of the natives, military takeovers were considered necessary to unite the East Indies into a single entity (Vickers, 2005). As a consequence, harsher rule was administered and combined with the rise of an educated class, the struggle for independence was triggered.

An influential Indonesian modern historian, Sartono Kartodirdjo, considered the Ethical Policy as “a colonial policy that brought Indonesia as a colony into the orbit of the culture of the Netherlands as the mother country”. Aside from the political changes, the significant absorption of Dutch culture and system started to occur during this period. The native Indonesian intellectual class was born during this era. This particular group of people is later considered as the ones that initiated the “progress” into modern Indonesia after witnessing modernised western countries (Purwanta, 2017).

6. Institutional Drift

Throughout the discussion, two motives are prominent in explaining the action and policies the Dutch took. First is the commercial motivation and the lack of ideological motivation. The second is the non-interference policy, which combined with the first point, resulted in a very hands-off approach of ruling indirectly, weak rule of law, and lack of cohesiveness in policies.

The landing of the Houtman's expedition in the ports of Banten signaled a new direction for the whole East Indies. First, it set the Java Island as the stage for the next centuries to come as the center and the Outer Islands as the periphery despite the fact that for the most part of the history up to that point, the kingdoms and sultanates located in the Outer Islands were more influential. As a consequence of the Dutch arrival, most of the colonial policies revolves around the Java Island and its inhabitant even well into this day in the era of modern Indonesia.

The Dutch presence during the VOC era was sporadic throughout the East Indies even though it was based in Batavia. Coen's idea to focus on the extraction of Javanese natural wealth was realized with the Cultivation System. The era led into a more pronounced drift towards Javacentrism. The policy sets the island as the main focus of Dutch colonial policies, followed by the Ethical Policy in which the Dutch paid the moral debts to the Javanese. Later, during the struggle for independence and the national revolution, the informal leaders of the Outer Islands were cautiously optimistic in joining the newly established state. Still, during the first decades of post-Dutch Indonesia, the government had to deal with rebellion in the Outer Islands because of the dissatisfaction the locals of Outer Islands had on the state of Indonesia.

Though less discussed, racial classification was also a legacy of the Dutch colonialism in the East Indies. As the case with Javacentrism, the racial hierarchy became even more established during the Cultivation System, though the concept was introduced to the East Indies since the VOC era in Batavia. The lasting effect of the racial policies is the inferiority the Indonesians have towards the white race and the discrimination towards the Chinese Indonesian. The former has to do with the ideology that drove colonialism, a moral duty of the more enlightened white race towards the more backwards race. The latter is the legacy of the division that turn the native Indonesian and the Chinese towards each other in the implementation of the Cultivation System. During the implementation of the System, no standardised rules applied to the whole Java except the racial hierarchy which assigned the Chinese as "tax collector". Unlike patrimonialism and corruption, Javacentrism and racism exist without any precedence from the pre-Dutch East Indies.

Cultivation System had devastating effect on the lives of the Javanese peasants but it also provided the prerequisite for the industrialisation process by introducing cash economy and cash crops. The advent of industrialisation and the introduction of cash crops were brought

about by the colonial policies spanning through three centuries albeit with widely varied intensities between time and places. The emergence of the middle class and cash economies are the result of the industrialisation process that mainly happened during the Liberal Period. The industries were, however, heavily based on the export of raw material. There were no incentives for the colonial government to develop technology and human resource of their East Indies colonies when the short-term benefit proved to be profitable enough.

The sharp drift into more extractive patterns of institutional development curiously did not happen during the colonial era. Indonesia as a nation state is the brainchild of the intellectual class started off on a promising note in its strife towards becoming a modern state (Vickers, 2005). However, the tradition of patrimonial behavior and some centuries of reinforcement of the said pattern under foreign power means that it is not that simple to sustain the modern state dynamic. Indonesia therefore soon reverted back into its old pattern. The regime change brought about an even more institutionalised patrimonialism which exclude most of the population from enjoying the economic growth.

Still, the reinforcement of the extractive pattern started during the colonial era and later upheld and sustained by the presence of the colonial power. Unlike the two features discussed above, patrimonialism as a legacy of Dutch colonialism did not become more established during the Cultivation System. Rather, it was a continuation of the old practice. The patrimonial Javanese kings were used to see the wealth of the state as their own, to be used as they wish. With the Dutch's presence and their military backing, it could be utilized to secure their power. It was not too different with how before, it was only used to secure alliance with their elite royal subjects instead of with foreign power.

This mentality is carried out to the neo-patrimonial rulers of the modern Indonesia. The weak rule of law is also an important factor of the vicious cycle that enables patrimonialism to persist and corruption to flourish. Curiously, even though there was a regression into a more traditional state, Soeharto did not set up any figure as his successor. It shows that the pattern of behavior is in fact institutionalized under the New Order regime, replacing personal rule (Liddle, 1985). Soeharto was successful in restricting the people to exercise their political rights, resulting in an authoritarian and corrupt rule for three decades.

A different type of corruption is also widespread in Indonesia, before and after independence. Petty corruption among officers is something that the VOC, colonial government, and Indonesian government share with each other. Similar to the grand scale corruption, the prevalence of petty corruption is made possible by the weak rule of law. The continuation of both kinds of corruption are also ensured by the hostage mechanism which prevents the participants of the corrupt system from revealing the abuse.

There is admittedly some potential benefit to the authoritarian rule, as a successful nation building could be unlikely under states other than authoritarian one, which is not to confuse patrimonialism and authoritarianism as one and the same (Fukuyama, 2014). According to Max Weber, there are three types of authority; traditional, charismatic, and rational-legal. It was theorized by Apter (1966) using Weber's framework that the transition into a modern state could be facilitated by a charismatic leader such as what happened in Ghana with Kwame Nkrumah up until some point in the country's history (Liddle, 1985). The same benefit could also have been reaped in the process of nation building of Indonesia, seeing that the presence of authoritarian rules during the crucial nation building phase is not something that sets the country apart from other ex-colonised countries.

The historical past as an ex-colonised country will always have influence on the nation identity of Indonesia. The mentality of being part of national revolution was a major part of the unitarism among local informal leaders which in turn was a crucial part of the nation building (Schulte Nordholt, 2011). During the Old Order, Soekarno used the anti-foreign rhetoric to wage war against Malaysia and to annex West Papua, a rhetoric that was used also by the 2014 election candidate, Prabowo Soebianto, who ended up losing. This candidate was backed by the clientelist force with heavy affiliation with the New Order, something that deemed to be "most severe threat of authoritarian regression" since the reformation era (Aspinall, 2015). The threat of re-patrimonialization seems to be lurking around in the case of Indonesia.

7. Conclusion

The influence of Dutch colonialism on how the institution and the industrial development of Indonesia has played out to the present is indeed too complex to be fully attributed into causal relationships, let alone be boiled down to Dutch colonial policies. However, it is possible to break down how it unfolds. In the institutions of modern Indonesia, some extractive characteristics are present which can be traced to its colonial past. In a reflection of the post-independence era, it is found that the distinct aspects of modern Indonesia are corruption and neo-patrimonialism.

The motivation of the Dutch to colonise the East Indies was always associated with commercial interests whether it is to extract its natural resources or to sell Dutch goods. As the Netherlands is a small country who was relatively progressive even at that time, it is proven to be a blessing and a curse for Indonesia; the progressiveness in facing other civilizations and the lack of other agendas by the Dutch means that there was never a significant and conscious attempt to impart certain ways of living, instead they encouraged and reinforced existing extractive patterns of behavior, that later carried out into modern institution.

7.1 Extractive Legacy of Dutch Colonialism of Indonesia

The findings of this study are the extractive characteristics perpetuated by colonialism and the mechanism of the political development that explains how they persist:

1. Patrimonialism

The past behavior of Indonesia's rulers as was common during the patrimonial era was to secure loyalties and in the case of the Dutch, military assistance to maintain their power. The lack of clear lines between what was considered as the extension of their own households and what belonged to the public and the state carried on by the reinforcement of the colonial power which results in corruption; the misuse of public office for private gain. Even when the circumstances have changed, patterns of behavior as a way to cope is hard to break. This phenomenon resulted in the re-patrimonialization in modern Indonesia, which is distinct in Soekarno and Soeharto's rule.

The nature of patrimonialism is extractive in the way that it prevents outsiders from taking part in the political process. The politicians, high-level public servants, and businessmen are the ones whose loyalties needed in the neo-patrimonial state. There is no need for the rulers to be held accountable by the people since they only need the few elites in order to maintain their position. When the wealth of the country is misused by the cronies surrounding the executives,

it limits the general population to take advantage of it. The neo-patrimonial creation of Soeharto signifies the entitlement and complicity of the ruling class on the institutional context, safeguarding the participation the ruling class in the corrupt hierarchy.

2. Petty Corruption

Other forms of corruption also have their origin in Dutch governance and have been perpetuated ever since. The corruption by low-level bureaucrat is more in line with the common rent-seeking behavior in form of patronage.

Aside from the two characteristics that greatly affect the modern Indonesia to be extractive, other extractive features are found as the legacy of Dutch presence in Indonesia rather than a continuation of old practices, such as:

1. Javacentrism

The island of Java which Indonesia has effectively revolved around during colonial rule and ever since, was set to be the focus of Dutch colonial policies. After the formalisation of the Dutch colonialism, the Outer Islands became another source of revenue which continued into the post-independence era. The little sense of unity among the Outer Islanders towards the state of Indonesia is particularly obvious during the struggle for independence and the pre-reformation era. For the most part of the post-independence Indonesia, the Outer Islanders are marginalized and neglected, a fact that only changed during the Reformation era.

2. Racism

Racial classification and hierarchy placed the native on the bottom rung while the white at the top, as was the case in other European colonies. The Chinese which was a part of the Foreign Orientals, sitting in the middle, setting them as something different. The institutional discrimination of the whole ethnic group, the Chinese Indonesian, happened in the modern Indonesia as another legacy of the Dutch.

Another legacy of the Dutch colonial policies is the way the industrialisation of Indonesia develop. Dutch colonialism of Java took shape of the extraction of natural wealth through local rulers, however from Cultivation System era and throughout, the form of colonialism became increasingly formalised, culminating into the establishment of agriculture industry and the extraction of raw material by foreign companies with little regards to the development of technology and human resources. However, this creates a kind of defense mechanism from the people, showed by the popularity of the anti-import rhetoric in all regimes.

7.2 Concluding Remark

From the conclusion above, it can be observed that there are extractive institutional patterns that translate throughout the history of Indonesia. As shown in other academic works in similar topic, institutional patterns are hard to break as it is maintained through a vicious cycle. More specifically, the strong link between patrimonialism and corruption even in modern states is nothing new. However this project does give the insights how modern states progressing or rather regressing into a neo-patrimonial state by preserving and translating patrimonial features against the setting of modern world.

The most influential extractive features found in this project are the ones originating from the practices of the old rulers of Indonesia. The Dutch presence did make way for the old patterns to persist and arguably help shaping and influencing how the extractive features realized in significant ways. The preservation of the new patterns introduced by the Dutch happened in regards to agricultural practices, racism and Javacentrism. But more importantly, the institutional drift explained in the discussion of this thesis show the mechanism of how Dutch colonialism hands-off approach encouraged the patrimonial rulers to keep their practices. The continuation of the extractive patterns of patrimonial practices enabled by weak rule of law cemented the institutionalisation of said patterns, establishing a neo-patrimonial state.

7.3 Suggestion for Future Studies

The result of this study spans through very wide array of topics with the only thing in common is that they are the legacy of the Dutch colonialism. As the postcolonial study regarding Dutch colonialism is still limited, further research following the features in more specific ways is possible and needed. This study relies on historical accounts which is also where the limitation of this study lies. Further research on the extractive features could benefit from interviews and field study to find actual data in the present day.

While the topic of patrimonialism and its connection with corruption has been discussed by many scholars, the study on the effect of racial classification is still limited. It is however an important topic that is still relevant today, and not only regarding the dynamic between Chinese Indonesian and the native Indonesian but also the ones that explore the dynamic between the native Indonesian and the white race. Both relationships are affected by the legacy of the Dutch colonial policy, but while the former is already a subject of many scholarly works due to turmoils recorded in history, the latter is less explored in academic settings.

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