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Indonesia's Changing Political Economy: Governing the Roads

JAMIE S. DAVIDSON

Cambridge: Cambridge University Press, 2015, xvii+292pp.

Jamie S. Davidson's *Indonesia's Changing Political Economy: Governing the Roads* starts by raising an intriguing question: "How does a weakened democratic government with a checkered past of economic property rights and contracts establish a regulatory framework to promote private sector investment in infrastructure?" (p. 8).

Let us review the discussion along the path laid out in the book. According to the introductory chapter, while conventional discussions underscore that a regulatory regime would induce private investment, the author asserts that a balance between institutionalizing rules and government discretion, in other words sectoral governance, is essential for private investment. This is, he insists, a political question (p. 15). Setting out the book's conceptual framework in Chapter 1, the author treats toll roads not as a technical matter but as a product of conflicts and compromises. To do this, he attempts to apply the New Institutional Economics (NIE) discussions that underlie formal institutions as constraints in transaction costs.

However, Davidson finds that formal institutions in developing countries are weaker and more susceptible to powerful interests (p. 29), and that the NIE-based approach fails to take into account the informal aspects of governance. Broadening the NIE's scope of analyzing formal institutions, the author takes the wider approach of "*political sociology of infrastructure development*" (p. 29). He focuses also on the NIE's blind spots, such as variations in rent-seeking outcomes with prevailing firms' incentives, extra-parliamentary politics of redistribution in the post-enactment phase, and the land rights of citizens, not of investors, by way of shining a light on the contested nature of the eminent domain.

Chapter 2 illustrates how the New Order's governance of toll roads changed twice. The first occasion was the emergence of former President Soeharto's children in the late 1980s. As Jagorawi Toll Road was financed by the government and international agencies, the private sector was still "poorly endowed" in order that "the state should be at the forefront of infrastructure investment" (p. 60) from the 1970s until the mid-1980s. However, once Soeharto's children emerged in the toll

road sector after the financial liberalization of the late-1980s, decrees sought to mediate between the first family and the state toll-road company, Jasa Marga (pp. 65–66). As a result, foreign investors rushed to businesses connected with Soeharto's daughter Tutut, one of which was known as CMNP. The second occasion was when the president launched the Trans-Java expressway project and divided its control into several concessions in 1995. The author raises four outcomes of the distribution: a high number of short-distance concessions, ideally positioned indigenous (*pribumi*) contractors who were dissatisfied with the government's preferential treatment of Sino-Indonesian businesses, "ghosts" and "shadows" in opaque holding structures of the project, and dubiously competitive auctions. Thus, sectoral governance had been clearly transformed into corrupt, or non-transparent, decision making.

After the Asian Economic Crisis in 1998, officials of the post-Soeharto government contended unsuccessfully with the stigma of corruption in the chaos of democratization, as Chapter 3 shows. In order to encourage private investment in the toll road sector, President Megawati signed the 2004 Road Act bill, which included the reform of sectoral governance, introduced as "best practice" upon the conditionality of the IMF and the World Bank. However, BPJT, a new agency to which the act relocated Jasa Marga's regulatory authority, was subsequently emasculated by the government's decrees and regulations (pp. 107–109). The Act also could not invalidate the concessions of New Order interests, such as Jusuf Kalla and Aburizal Bakrie. Megawati's successor, President Yudhoyono, who lacked military support, quickly moved to implement the act and accelerate land acquisition by issuing presidential decrees that were more "draconian" than the New Order's. Nevertheless, the internal squabbles of his Cabinet over finances caused a slowdown in disbursements.

Chapter 4 illustrates the political economy of the further delay of sectoral development in the Yudhoyono era. While there are investment risks inherent to the sector, illustrated by incidents such as the Bakries' Lapindo disaster and Tutut's CMNP debacle, informal collective action by business associations was partially successful in passing more pro-investor measures for special "revolving" funds for land acquisition in a Ministerial Decree (pp. 129–130). However, land purchases proceeded at a slow pace because local officials were reluctant to enforce them and clashed with central government officials. As a result, the latter recentralized the eminent domain with the 2012 Law on compulsory land acquisition, the implementation of which in turn brought further delay. Adding to that, populist parliamentarians threatened to "punish" the operators not only for the delay but also the worsening traffic conditions on Jakarta's toll road. Thus, Yudhoyono's dream of constructing a 1,600 km road was thwarted.

Another factor in the underperformance of the toll road in the post-Soeharto era was the concessionaires' reluctance, as discussed in Chapter 5. However, the author insists that rent seeking in the weaker government led to a wide range of outcomes. Political connections with the BPJT had negative consequences in the Kalla and Bakrie cases: in the former, the regulation was

retroactively changed to legitimize the sale to foreign companies and got a foreign investor as a result; in the latter case, not paying for the purchase of land showed a lack of the agency's capacity. Meanwhile, there was a positive outcome in the Jasa Marga case: political influence in debt servicing and privatization brought the firm high profits, which in turn induced investment. These various outcomes show the "failure of financing alternatives to take root." The concessionaires were afraid of the liberalists' idea of ending up relying on state capital and pursued their own interests, not national growth nor technical details of distribution. Thus, the chapter concludes that "Characteristic of the Indonesian toll road sector, power, interests and path-dependent trajectory have triumphed once more" (p. 197).

In Chapter 6, the author argues that local rather than national sources were the forces that favored road development, with some case studies of local politics that fall outside of NIE literature. The Solo-Semarang turnpike project was protested by the strongly motivated governor of Central Java as part of his legacy of a top-down approach, and local politics for *bupati* election and decentralization pushed his hand. The author observes that reformist-outsider leaders who opposed the inner ring road projects in the mega-cities were expected to contend with vested interests, namely, the Solo-born governor of Jakarta, Jokowi, and the non-politician Surabaya mayor, Risma.

The last chapter points out that private sector participation in infrastructure has not fared well. The following factors account for the poor record of economic governance and its inefficacy: weak and fragmented state institutions captured by predatory elite interests; business-government relations that vacillate from collusive to antagonistic; an incapacitated rule of law; economic nationalism; and an uncertain investment climate (p. 230).

Among the author's suggestions for policy implications, the foremost one is to overcome "a glaring inability to discipline the business class that will keep rule of law at bay" (p. 242). With this in mind, he concludes that the Java Expressway shows evidence of varying results—from regulatory progress to policy failure, from high growth to "jobless growth," from negative to positive rent-seeking outcomes, and from coercive enforcement to democratic deliberation of state policy.

I would like to point out some "cracks" in the exciting scholarly road paved by this book. First of all, Davidson shows how, and how far, politics has informed economic governance in Indonesia, so his main targets are Jasa Marga, BPJT, and corporate investment behaviors. The question arises, however: How far has the politics of governance shaped, and also how far will it shape, the outcomes of changing each corporation's perception, as assumed by NIE scholars (Aoki 2008; North 2015)? In the Bakrie case, to quote my interview with some Indonesian businesspersons, it is not Aburizal but his younger brother, Nirwan Bakrie, who has led the group business since Aburizal became committed to the politics of the business world in the 1980s. But the group's behavior has been under the control of Nirwan, a genius in financial management. The author convincingly points out that the complicated and opaque ownership structures of BTR "may have been intended to mask Bakrie's intention to use these assets to boost BTR's valuation in order to raise more funds"

(p. 177), considering Nirwan's capability. And the Bakrie group shifted its perception that finance with a large portion for the short term would be more beneficial for its business during the commodities boom.

Second, the author points out that finance has been a constraint in the creation of private businesses in developing countries, while environmental issues and noise level are issues in developed countries (p. 11), as evident in cases ranging from Soekarno's Jakarta-Bogor road to the World Bank's failure in financing alternatives. If so, alongside the discussion of weaker civil society, uncertainty and non-transparency in securing corporate finance should be discussed further to clarify how much state bank loans have been provided, and how political connections play a key role in securing such loans. More specifically, Jusuf Kalla played an active role in mobilizing the state banks' capital, as Chapter 3 (p. 117) describes. If so, it is much more important to explore Kalla's political connections with state banks and how he could have made the latter mobilize their capital for private interests. Similarly, in clarifying Aburizal's role in Bakrie's financing for roads, it is more appropriate to thoroughly refer to the dynamics of Aburizal's influence behind the government's commitment to Pawenang's decision not to nullify the bank loan deeds for SMR (p. 174).

Finally, Davidson views economic factors exogenously, but it would provide a more balanced view if he took into consideration state capital constraints and political dynamics. The book illustrates appropriation by vested interests, as the liberal Minister tried to do when he resisted firmly the business associations' plan (pp. 129–130). If so, along with state-led developmentalism (p. 242), more light should be shed on the political dynamics of state finances as part of a weak government's defense arsenal.

Despite the "cracks" above, this book enables us to grasp today's changing Indonesian political economy. First, the author offers this insight on the outcome of politics over economic governance: the weaker the government, the more penetrative the governance for private interests. And referring to "*the financialisation*" (p. 11) in the Indonesian business sector is insightful, as it suggests that state banks' finances are the principal means in the battle over—and against—rent seeking. Second, the author shows that there is some hope of change through the agency exercised by government officials. In the political economy of independent regulation agencies, the government has kept attempting to induce capital and protect investors' rights (see achievement of Pawenang of BPJT, pp. 118–119), against both of which in turn vested interests have triumphed. But now Davidson pays attention to how the new leadership of this state will change the momentum of governance politics.

Last but not least, the methodology of Political Sociology is insightful. Although lacking some points of view related to corporate finance as indicated above, the author succeeds in proving the dynamism of the political and social informality of institutions. The contributions of this book help in navigating the road toward a better understanding of Indonesian governance.

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Rural Thailand: Change and Continuity

PORPHANT OUYANONT

Trends in Southeast Asia, No. 8. Singapore: ISEAS–Yusof Ishak Institute, 2016, 31pp.

Rural Thailand is a slim, 25-page publication in the ISEAS–Yusof Ishak Institute’s Trends in Southeast Asia series. The aim of the series is to “act as a platform for serious analyses . . . [that encourage] policy makers and scholars to contemplate the diversity and dynamism of this exciting region.”

In this issue, Porphant Ouyyanont seeks to explain how and why Thailand’s agricultural sector has remained such a significant player in the Thai economy, notwithstanding half a century of rapid and deep social and economic transformation. Not only does agriculture provide work for one-third of the Thai labor force and contribute significantly to national exports and output, but “rather surprisingly, village communities did not decline to the extent that one might have expected” (p. 2). In 1990 agriculture contributed 12.4 percent of GDP and 22.6 percent of exports. In 2014, almost a quarter of a century later, the respective figures were 10.4 percent and 17.8 percent. This, then, provides the context for the author to explore the “change and continuity” theme of the publication’s subtitle.

Given that the paper is only a short exposition, it is inevitable that the discussion is generalized in tone and aggregate in formulation. This is a big-picture description of agrarian change in Thailand over the modernization period, one where ethnographic or regional detail is eschewed in the interests of marking out a wider case. The empirical material, which is secondary, and the argument are not new; what is valuable, however, is to have the argument encapsulated in this succinct and clear manner. If a policy maker or student wished quickly to get to grips with the evolution of the Thai agricultural sector over the last half century, this would be as good a place as any to start.

Part of the reason for the persistence of agriculture can be understood in terms of a shift from