DEDICATION

for Meilanie, Raissa and Zetta
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In the name of God, the most gracious, the dispenser of grace. Alhamdulillahi rabbi-
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STATEMENT OF AUTHENTICATION

The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text. I hereby declare that I have not submitted this material, either in full or in part, for a degree at this or any other institution.

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March 2010
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<tr>
<td>2SLS</td>
<td>Two Stage Least Square</td>
</tr>
<tr>
<td>BPS</td>
<td>Badan Pusat Statistik (Central Statistical Agency)</td>
</tr>
<tr>
<td>CSCW</td>
<td>Centre for the Study of Civil War</td>
</tr>
<tr>
<td>CDG</td>
<td>Centre for Global Development</td>
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<tr>
<td>DAK</td>
<td>Dana Alokasi Khusus (Special Allocation Fund)</td>
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<tr>
<td>DAU</td>
<td>Dana Alokasi Umum (General Allocation Fund)</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DI</td>
<td>Darul Islam</td>
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<tr>
<td>DOM</td>
<td>Daerah Operasi Militer (Military Operational Zone)</td>
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<td>DPRD</td>
<td>Dewan Perwakilan Rakyat Daerah (Regional Parliament)</td>
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<td>EHI</td>
<td>Electoral Hostility Index</td>
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<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<tr>
<td>FENB</td>
<td>Fixed Effects Negative Binomial</td>
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<td>GAM</td>
<td>Gerakan Aceh Merdeka (Free Aceh Movement)</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HCR</td>
<td>Head Count Ratio</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>HPI</td>
<td>Human Poverty Index</td>
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<td>HRW</td>
<td>Human Rights Watch</td>
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<td>ICG</td>
<td>International Crisis Group</td>
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<td>ICRG</td>
<td>International Country Risk Guide</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>Inpres</td>
<td>Instruksi Presiden (Presidential Instruction)</td>
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<tr>
<td>KIP</td>
<td>Komite Independen Pemilu (Elections Independent Committee)</td>
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<tr>
<td>KKR</td>
<td>Kongres Rakyat Riau (Riau People Congress)</td>
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<tr>
<td>KPCS</td>
<td>Kimberley Process Certification Scheme</td>
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<tr>
<td>KPPU</td>
<td>Komisi Komisi Pengawas Persaingan Usaha (Commission to Monitor Business Competition)</td>
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<td>KPUD</td>
<td>Komisi Pemilihan Umum Daerah (Regional Elections Commission)</td>
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<tr>
<td>MPRS</td>
<td>Majlis Permusyawaratan Rakyat Sementara (Provisional Peoples Representative Assembly).</td>
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<td>OLS</td>
<td>Ordinary Least Square</td>
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<td>OPM</td>
<td>Organisasi Papua Merdeka (Free Papua Organization)</td>
</tr>
<tr>
<td>PDIP</td>
<td>Partai Demokrasi Indonesia Perjuangan (Indonesian Democratic Party of struggle).</td>
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<tr>
<td>PDP</td>
<td>Presidium Dewan Papua (Papuan Presidium Council)</td>
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<tr>
<td>Permesta</td>
<td>Perjuangan Rakyat Semesta</td>
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<tr>
<td>PILKADA</td>
<td>Pemilihan Kepala Daerah (Local elections for local executive)</td>
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<tr>
<td>PPK</td>
<td>Panitia Pemilihan Kecamatan (Sub-district Ballot Committee)</td>
</tr>
<tr>
<td>PRIO</td>
<td>Peace Research Institute Oslo</td>
</tr>
<tr>
<td>PRRI</td>
<td>Pemerintahan Revolusioner Republik Indonesia (Revolutionary Government of Republic of Indonesia)</td>
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<tr>
<td>PSI</td>
<td>Partai Sosialis Indonesia (Indonesian Socialist Party)</td>
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<tr>
<td>Puskesmas</td>
<td>Pusat Kesehatan Masyarakat (Community Health Centre)</td>
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<td>RENB</td>
<td>Random Effects Negative Binomial</td>
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<tr>
<td>RGDP</td>
<td>Regional Gross Domestic Product</td>
</tr>
<tr>
<td>RMS</td>
<td>Republik Maluku Selatan (South Maluku Republic)</td>
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SUSENAS : *Survei Sosial Ekonomi Nasional* (National Socio-economic Survey)
UNDP : United Nations Development Programme
UNSFIR : UN Support Facility for Indonesian Recovery
UNU : United Nations University
ABSTRACT

Violent conflict, which has significantly marked Indonesia’s democratic transition since late 1990s, may threaten the development of viable democracy. The key research objective, as well as the moral appeal of this thesis is to discover what developments may mitigate the tendency for various types of conflict and violence to emerge in contemporary Indonesia, and make the country’s transition to democracy safe for its constituents. This thesis is the first coherent study of social conflict in Indonesia that empirically evaluates the grievance, greed and social contract theories of conflict. It provides a historical overview of conflict and development since Indonesia’s independence and simultaneously undertakes empirical analyses of four types of conflict – separatist, ethnic, routine-everyday and electoral – in contemporary Indonesia. It also extensively surveys the theoretical and empirical literature on the economics of conflict to locate the present research within a broader context. The thesis utilizes a variety of research methodologies in its data collection and empirical exercises. The data section of this study has specifically constructed an electoral hostility index across 282 of Indonesian districts, based on a database on electoral conflict compiled mainly from newspaper reports. The empirical sections employ several different regression techniques, including Poisson, Negative Binomial, Logistic, Ordered Logistic, Ordinary Least Square (OLS) and Two-Stage Least Square (2SLS).

Grievance is found to be the most powerful explanation of the origin of social conflict in Indonesia. Ironically, both centre–region (separatist) conflict and ethnic conflict are rooted in the socio-economic convergences (of regions and of ethnic groups) achieved during the three decades of development under the autocratic regime of President Suharto. In contrast to the prediction of grievance theory, convergence rather than divergence fuelled a sense of relative deprivation among richer regions and previously privileged ethnic groups. Although this may appear as a reflection of ‘greedy’ behaviour, the grievances were mainly due to imposed convergence, where groups had no say in the development strategy of the centrist state, which was dominated by Javanese elites. This conclusion seems logical as the country's democratic consolidation and decentralization have been able to transform the previously non-cooperative behaviour of regions and ethnic groups into cooperation. The vertical nature of the social contract under Suharto was not
sustainable, and has been replaced by a horizontal one under a democratic and decentralized setting of polity and governance.

Routine violence can be explained by the relative deprivation of the community at large in terms of unfulfilled expectations commensurate with their level of education or other human capital attributes. This study finds empirical evidence of a neo-Malthusian conflict scenario, where population pressure-induced resource scarcity may cause conflict. The effect becomes worse when higher population density coincides with higher population growth. However, the neo-Malthusian outcome is not inevitable; it can be mitigated by improvements in socioeconomic condition, or inclusive growth.

Although the role of vertical inequality in conflict has been largely discounted in empirical cross-country studies, this study finds empirical evidence for a violence-inducing effect of vertical inequality in the case of routine violence. This finding is based on the apparent presence of an inverted-U relationship between inequality and income al la Kuznets. This finding helps explain the inverted-U relationship between income and routine violence. The effect of income on violence is channelled through inequality.

Electoral violence reflects the lack of democratic maturity in socio-economically poorer regions, giving some validity to the modernization theory in the context of a within-country analysis. Two results are particularly important, namely the negative effect of income and the positive effect of poverty, on electoral hostility. This leads to a general implication that the country needs to achieve nationally consistent improvements in terms of people prosperity and overall quality of life while consolidating its democracy. The need becomes more urgent from the perspective of local democracy, especially considering that local democratic events tend to be more hostile than national ones. Therefore, while consolidating democracy as a key element of institution building requires huge national energy and resources, it must not be achieved at the expense of improvement of people’s welfare. The masses, who are the ordinary participants in as well as the main beneficiaries of democracy, will be quick to recognize the democratic dividends if they are linked to improved life. This will deepen their faith in democracy, lowering any risks of democracy draw-back.

The findings of this study have a number of key policy messages. First, the overall process of Indonesia’s democratization and decentralization serves as a
means to construct a new horizontal social contract, replacing the previous vertical social contract that operated under Suharto. To maintain this, Indonesia’s democracy needs to be further consolidated. Secondly, a key element that should be achieved while moving forward with democracy is across-the-board improvement in the socio-economic life of average citizens. However, there is a danger that Indonesia could allocate most of its limited energy and talent to the democracy project, leaving only a little for improvements in socio-economic life of its citizens. With the right balance, democratic consolidation and socio-economic development will reinforce each other.

Thirdly, inequality and demographic change are two factors that require a good deal of attention in the process of development, especially in densely populated areas. Inequality, for example, can be seen as an unintended outcome of the development progress that has the potential to spoil the development itself. It becomes more delicate if it coincides with population pressure. Such understanding should be taken into consideration when designing development policies for particular regions.

Finally, Indonesia should be aware of a resource curse that may one day be faced by its resource-rich regions. Three channelling mechanisms leading to the curse can be listed: bad governance, internal conflict and ‘Dutch disease’. In particular, highly competitive electoral processes lacking in checks and balances in resource-rich regions may result in local politicians behaving as ‘roving bandits’ under the shadow of democracy and thereby inviting the resource curse.
Chapter One

INTRODUCTION

1.1. SETTING THE CONTEXT: A STUDY OF INDONESIA

This thesis is about the political economy of violent conflict during Indonesia’s transition to democracy starting in the late 1990s. Indonesia witnessed a surge in violent conflict after the sudden economic collapse precipitated by the Asian financial crisis of 1997-98, resulting in the fall of the authoritarian, centralist Suharto regime and the breakdown of the social contract of the ‘New Order’.¹ This triggered a process of systemic transition – from autocracy to democracy, from a centrist state to a decentralized state and from an oligarchic economy to a rule-based economy.² As has been evidenced in other parts of the world, transition is a very delicate process. In Indonesia, although it was not very smooth, the transition did not result in a total breakdown of the country. However, the surge in various kinds of violence during the initial phase of transition led some observers to portray Indonesia as a potential Balkan of Southeast Asia, referring to the risk of disintegration that the

¹ Suharto distinguished his regime from that of Sukarno as ‘New Order’. The social contract of the New Order was based on the principles of Pancasila (Five postulates), which consist of (1) Ketuhanan Yang Maha Esa (Belief in the one and only God), (2) Kemanusiaan Yang Adil dan Beradab (Just and civilized humanity), (3) Persatuan Indonesia (The unity of Indonesia), (4) Kerakyatan Yang Dipimpin oleh Hikmat Kebijaksanaan, dalam Permusyawaratan Perwakilan (Democracy guided by the inner wisdom in the unanimity arising out of deliberations amongst representatives) and (5) Keadilan Sosial bagi seluruh Rakyat Indonesia (Social justice for all the Indonesian people). Suharto came to power through a military coup against the threat of a communist take-over, as Indonesia was seen as the last bastion of the anti-communist front in Southeast Asia. Thus, against the Godless communists, belief in God was the first postulate of Pancasila. At the core of the new social contract is the belief that to work for social and economic justice is also to serve God; but to achieve social and economic justice, the country must achieve economic development, as the ideal or goal is not to suffer poverty together, but rather to share prosperity. This core principle provided the basis for Suharto’s growth and redistribution policies.

² As a part of International Monetary Fund’s (IMF) bailout requirements in the wake of the 1997–98 economic crisis, a law on competition policy was passed by the parliament in 1999 (Law no 5) and the Indonesian competition commission (Komisi Pengawas Persaingan Usaha/ KPPU—Commission to Monitor Business Competition) was established through a presidential decree in the following year (Pangestu et al., 2002; Thee, 2002). Although there have been some reforms aimed at breaking the hold of the economy by a few connected families, their influence has not fully diminished. Nonetheless the economy did recover from its worst decline, albeit slowly. Indonesia managed to grow at an annual rate of around 5 percent since 2003, but it is uneven across the regions and decent jobs growth in the formal sector remains a challenge, making it very difficult for poverty reduction. This thesis, however, does not deal with the transition of the economic system directly. It seeks to relate social conflicts to democratic transition and decentralization – the transition to which is undisputable – and to the over-all social economic progress.
country faced. In some quarters, comparisons were drawn between Indonesia and Nigeria, and the idea that Indonesia might become a ‘failed state’ was taking root. There were suggestions that Indonesia was not ready for democratic transition. Democracy can be a painful medicine, and can paralyze the patient if taken in the wrong dosage and at the wrong time. This study is intended to uncover the root causes of violence, and to determine what development can do to overcome various kinds of conflict and violence in contemporary Indonesia, to make the country’s transition to democracy safe for its citizens.

Post-independent Indonesia witnessed internal conflicts of various kinds and in varying intensities. Soon after the war of independence, a series of regional rebellions took place in the 1950s. They included armed struggles in several areas, aimed at establishing an Islamic state. The 1960s were marked by communist upheaval and anti-communist violence. President Suharto, who came to power through a military coup that toppled President Sukarno, imposed stability and peace in the following three decades, although some violent conflicts still occurred, particularly in Aceh, Papua and East Timor. However, the image of peace and stability disappeared with the fall of Suharto in 1998. During the early years of democratic transition, latent conflicts became open, manifested in civil riots between different ethnic groups as well as in armed revolts against the centre in some regions, partly due to the legacy of past resistance against the authoritarian regime.

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3 See Booth (1999) and Cribb (1999).

4 According to a widely noted report by the Washington-based Centre for Global Development, a ‘struggling state like Indonesia, whose weakness has allowed terrorism, corruption, and civil conflict to take root in alarming ways’ has performed only slightly better than the comprehensively failed states of Afghanistan, Haiti, or Somalia (CDG, 2004: 7).

5 For example, Zakaria (2003) maintains that given its income level, Indonesia in 1998 was not an ideal candidate for democracy. Instead, he says that the ideal contender is Indonesia’s neighbour, Malaysia, which has reached a per capita income of US$ 5,000, which is assumed to be the income threshold for democracy to be safe.

6 This stability and peace, however, were achieved at the cost of approximately half a million people who were banished by the military in the name of purging the country of communists and their sympathizers (Cribb, 2001).

7 More than one thousand people were killed in a two-day anti-Chinese riot in Jakarta only a week before President Suharto was removed from office. After that, armed separatist struggles in Aceh, Papua and East Timor intensified. Muslims and Christians killed each other in several hot-spots in the eastern part of the country. Even the much lower profile routine-everyday violence increased markedly. See Tadjoeddin (2002) and Varshney, Panggabean and Tadjoeddin (2008).

8 See Bertrand (2004).
Since the rise of inter-ethnic and centre-regional conflicts as well as routine, everyday violence coincided with Indonesia’s transition to democracy, a question arises as to whether there is a link between the rise of violence and democratic transition. There is a reasonably strong argument in the literature that transition to democracy is usually accompanied by socio-political turbulence (internal conflicts) with widespread violence.\(^9\) There is also the modernization hypothesis that links income levels to democratic transition and argues that prosperity breeds democracy, not the other way round.\(^10\) At a low level of income, democracy is more likely to generate technical \textit{regression in repression}, rather than \textit{accountability} (which is more likely to happen in a more affluent society, and is expected to bring peace). Democratic transition in a poor or lower-middle income country, like Indonesia, is expected to increase the risk of violence.\(^11\)

The hypothesized link between democratic transition in a low- or middle-income country and violence becomes complicated when democratic transition takes place in the middle of market liberalization. Democratic transition and market liberalization can be a deadly mix, breeding ethnic hatred and violence (Chua, 2002). This occurs when the poor majority who suddenly feel empowered due to democratization attack the wealthy minority who have benefited from market liberalization. This suggests that while democratic transition is problematic in itself, the risks of conflict and violence are even greater if it takes place in low income countries and/or when market liberalization is in place. Casual observations across the globe provide instances in the former Soviet Union, Rwanda, The Philippines, and Venezuela, as well as in Indonesia.

The road to democracy can be arduous, and violent conflicts adversely affect the economy. In particular, they affect the poor disproportionately, as the poor cannot protect themselves against the loss of property, life or livelihood. When the welfare of the people hardly seems to improve and conflict and violence are intensified, people become impatient to see the benefits of democracy. This can turn into mass frustration at unfulfilled expectations.


\(^11\) See Collier and Rohner (2008) for theoretical and empirical findings on democratic transition and violence in poor and lower-middle income countries.
Embracing democracy is like letting a genie out of the bottle. After it gets out it is not easy to get it back in, and might not even be wise— it may be counter-productive as well. The best way of mitigating undesirable outcomes is by managing the transition carefully, providing favourable structural socio-economic and political foundations: something that is quite feasible in the short to medium term. However, this requires a careful analysis of the political economy of conflict, particularly in a diverse country like Indonesia.

Research on this aspect of Indonesia is still very limited. Although the volume of studies of conflict in Indonesia has grown considerably in the past decade, these are dominated by historical, cultural and political approaches, with rather less emphasis on economic aspects— although socio-economics, in interaction with other factors, are found to play a role in conflicts in Indonesia.\(^\text{12}\)

Quantitative empirical research on conflict is overwhelmingly cross-country in nature, analyzing a large number of conflicts in many countries in one sample. This research is also dominated by studies of civil war.\(^\text{13}\) While important lessons can be learned from these studies, it may not always be legitimate to lump all the world’s civil wars together. After all, they take place in different societies characterized by diverse histories, polities and levels of economic development. When viewed through the prism of a detailed case study, different results emerge, even when similar statistical (econometric) methodologies are applied. For example, when a cross-country methodology is employed, the desire to control natural resource rents becomes the principal determinant of conflict, while in a single-country analysis, detailed quantitative analyses of socio-economic phenomena point to grievance-related causes of conflict. Therefore, there are arguments for shifting the cross-country focus to sub-national entities within a particular country, especially in large countries like Indonesia where there are different forms of conflict (sectarian, separatist and routine) taking place simultaneously in different parts of the country. A sub-national approach will help uncover different types of conflict dynamics, acknowledging country-specific socio-political settings. Such analyses are expected


\(^{13}\) See Collier and Hoefler (1998, 2004) and Fearon and Laitin (2003) for the three most influential studies.
to yield much richer results and policy lessons that cannot be derived from cross-
country research.

The rest of this introductory chapter proceeds as follows: Section 2 states the
main objectives of the study. Section 3 deals with the study’s approach and
methodology. Section 4 highlights the running theme of the thesis regarding the
relevance of grievance, greed and social contract explanations of conflicts. Section 5
lists the thesis’ key contributions. Finally, a brief tour of the remaining chapters is
provided in the last section.

1.2. RESEARCH OBJECTIVE
This thesis aims to examine the political economy of conflict and violence in the
context of Indonesia’s move towards democracy. This study seeks to discover what
socio-economic development can do to overcome any sorts of conflict and violence
in Indonesia and to make the country’s transition to democracy safe for its people.
First, through the greed and grievance framework, it examines socio-economic
reasons behind the four kinds of conflicts: (1) centre–region (separatist) conflict, (2)
ethnic conflict, (3) routine-everyday violence and (4) electoral conflict. At the end,
the research answers the key question: how to make democracy safe for its own
constituents.

1.3. APPROACH AND METHODOLOGY
To achieve the objective, the first important step is to unpack conflict in Indonesia
into four classifications. This is done by following previous research on the typology
of conflicts in Indonesia. The four types of conflict are centre–region, ethnic,
routine-everyday and electoral. Given the different nature of each conflict type, this
study employs different sets of a detailed framework for each conflict variant.
However, a coherent theory is offered in terms of relative deprivation or grievances
that binds the four types of conflict.

A quantitative large-sample empirical investigation and a descriptive
comparative case study approach are simultaneously utilized. For the first type of

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15 However, they can also fall within the rational choice approach to conflict: that is, conflict is an
optimal option for the conflicting parties, given the socio-economic circumstances at the time.
Interestingly this relates to Marx’s famous quote, ‘the proletariat have nothing to lose but their chains.
They have a world to win.’
conflict – centre-region conflict – a comparative case study approach is used, given the limited availability of observations. Estimation techniques for the other three conflict variants depend on the nature of the measurement of conflict as the dependent variable. For the second conflict type – ethno-communal conflict – inter-district cross-sectional (ordered) logistic regression is used. The choice of this technique is governed by the nature of measurements used for ethno-communal conflict. There are two alternatives: (a) Logistic model for the presence of deadly ethno-communal conflict (dummy measure) and (b) Ordered Logistic for ordinal scale measurement of the severity of ethno-communal conflict. Logistic regression is a technique for estimating limited dependent variables. The third type – routine-everyday violence – is measured by the number of incidents or casualties. Therefore, ‘count data’ regression is the most suitable estimation technique. For the fourth type – electoral conflict – we employed ordered logistic regression. It is used for estimating determinants of the maturity of local democracy (measured by intensity of conflict and violence at direct local elections), constructed in the form of ordinal scale.

1.4. GRIEVANCE, GREED AND SOCIAL CONTRACT: A RUNNING THEME

Two phenomena have been utilized by rational choice theorists to explain the onset of conflict: greed and grievance.16 From the greed perspective, conflict reflects elite competition over valuable point-sourced natural resource rents, concealed by the fig leaf of collective grievance (Collier and Hoeffler, 2002, 2004). Rebellions need to be financially viable: civil wars are more likely to occur when they are supported by natural resource-based rents like blood diamonds or oil, or by sympathetic diasporas providing finance. Collier et al. (2003) emphasize the poverty trap: poverty makes soldiering attractive, generally by lowering the opportunity cost of war in poor nations. In turn, conflict serves to perpetuate poverty because of war’s destructiveness: a vicious cycle of poverty-conflict-poverty ensues.

The grievance explanation for conflict, which is more attuned to group motivation, is the feeling of a group or groups—sharing a similar identity—that they are being unjustly treated; this can be referred to as a justice-seeking motivation.

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Central to such grievances are identity and group formation. An individual’s utility may be related to his/her identity, specifically the relative position of the group he/she identifies with in the social pecking order (Akerlof and Kranton, 2000).

Ultimately, greed and grievance motivations for conflict may be inseparable in the sense that even if one is better at explaining the onset of a conflict, the other is sure to be involved. Furthermore, in most cases, once conflicts start and as they evolve, the two phenomena almost always become intertwined. Thus, for example, it is not uncommon for a conflict linked to palpable grievances to mutate into a state where the rebels become greedy; and greed and grievance can be seen to co-exist (Murshed, 2010).

However, as Murshed and Tadjoeddin (2009) and Murshed (2010) argue, the presence of neither greed nor grievance is sufficient for the outbreak of violent conflict. It also requires institutional breakdown, called the failure of social contract. In most cases, violent conflict is not about the absence, but more about the breakdown of social contract, and is more likely to occur in the context of poverty and economic decline.

The above frameworks can be nicely applied to various categories of conflict in contemporary Indonesia. The two highest-profile conflicts are: (1) secessionist or, in general, centre–region conflicts; and (2) ethno-communal conflicts. In addition, there are also (3) low-intensity routine-everyday violence and (4) electoral conflict.

The secessionist sentiments expressed by the four resource-rich provinces in the country (Aceh, Riau, East Kalimantan and Papua) were rooted in regional grievances against the distribution of natural resource rents generated from their regions. Suharto’s three-decade-long centralistic New Order regime collected the resource rents, mainly from hydrocarbon, minerals and timber, and used them to subsidize resource-poor regions. This policy was the key for the country’s success in achieving growth with equality, invalidating the so-called Kuznets (1955) inverted-U-shape hypothesis for Indonesia. The fall of Suharto in mid–1998 amid an economic crisis, and the replacement of the regime by a seriously weakened central government, created an opportunity for the resource-rich provinces to openly express their secessionist demands. In a rush response driven by fear of national disintegration à la former Yugoslavia (Balkanization) in 1999, the weakened central government
offered regional autonomy, and the sharing of resource rents between central and local governments.\(^\text{17}\) Such a decentralization policy appears to have been successful in addressing local grievances towards the centre. However, the greed factor may now play a role in new kinds of internal conflicts as local elites compete for the newly empowered local top executive posts that will enable them to take control of the lucrative resource rents. They are the same local elites who previously voiced grievances toward the centre over the distribution of resource rents.

The worry about the Balkanization of Indonesia in the late 1990s was aggravated by outbreaks of inter-ethnic violence in different parts of the country. In contrast to the vertical (political) disintegration of secessionist aspirations, ethnic violence involved the horizontal (social) disintegration of communal groups in the ethnically diverse country. Narratives of key episodes of ethnic violence during the transition reveal the centrality of each group’s relative deprivation, which was based on perceptions of changing position during the economic upswing of the New Order. Interestingly, changes in the relative position of various ethno-religious groups did not result in a deepening of inequality among them. Instead, in most cases, the development policies of the New Order government of Suharto caused a convergence of the socio-economic conditions of different ethno-religious groups, causing a sense of deprivation among previously privileged groups. In a way, this sense of deprivation can be regarded as a greedy behaviour of the previously privileged groups.

However, in the aftermath of the key episodes of ethnic violence until recently when direct elections for local executives were introduced, the newly empowered ethnic groups have engaged in political struggle to control local government and politics. In most cases they succeeded and were able to turn the clock back, as the Christians have regained control in Maluku province and Poso district, and the Dayaks have achieved political leadership in districts and provinces of Kalimantan. In many cases, the previously warring ethnic groups are now paired on the coalition

\(^{17}\) In fact, tensions toward the centre were not only evident in regions with secessionist aspirations; others, mainly in outer islands, also openly expressed their resentments, tired of the three decades of centralistic polity and governance.
ticket, contesting control over local executive leaderships à la Lijphart’s (1999) famous idea on consociational democracy.\(^{18}\)

How does the sufficient condition postulated above for overt conflict to happen, namely the breakdown of social contract, play a role in these two high-profile internal conflicts? The decline of social contracts that bind elements in the country vertically as well as horizontally is inevitable preceding conflict, and they need to be renegotiated from the perspective of social change. For example, Suharto came to power at the height of about a decade-long economic and political chaos that disillusioned the people about the promises made by the architects of independence. Thus, the demise of the Sukarno regime was the breakdown of the social contract of the independence era that had promised a prosperous society. Suharto promised growth and stability. He also created a sense of shared growth through various transfer and transmigration programs. Thus, initially, the Suharto’s developmentalist and centralistic New Order enjoyed widespread popular support from diverse regions and from politicians, the military, student activists and so on. All were drained when the economy collapsed, but support had begun to erode much earlier for various reasons. Corruption and cronyism were seen as betrayals of justice and fairness embodied in *Pancasila*.\(^ {19}\) Economic collapse removed the legitimacy of the regime, leading to the breakdown of the social contract. Secessionism peaked when the right moment came, when economic decline and a weakened central government followed in the wake of the East Asian financial crisis.\(^ {20}\)

A similar case seems to be true for inter-ethnic relations. The convergence of the socio-economic conditions of different ethno-religious groups and the socio-economic dislocation of certain marginalized groups, both the result of policies of the New Order government, changed previously settled inter-ethnic constellations. For example in Maluku, the prevailing order, where the more educated Christians dominated local politics and bureaucracy and the less educated Muslims were concentrated in trade and other informal sectors, could no longer be maintained. New

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18 Consociational democracy is a power-sharing democracy among all groups in a multiethnic society, which is the opposite of the majoritarian Westminster-style democracy where the winner takes all (Lijphart, 1999).

19 *Pancasila* is the Indonesian state philosophy that literally means ‘five postulates,’ see footnote 1.

20 This is in line with Ferguson’s (2006) hypothesis on the lethal coincidence of three forces (economic volatility, ethnic disintegration and end of empires) in explaining why 20th century wars were concentrated in east and central Europe.
Order development succeeded in empowering the Muslims in Maluku. They acquired more education, moved beyond their traditional occupations and were able to challenge the Christians’ traditional domination of local politics and bureaucracy. This was a clear case of inter-ethnic convergence: seen as a success from one perspective, it was the theatre for one of the bloodiest ethnic conflicts in the country’s history.

In addition to episodic secessionist and ethnic violence, low-intensity routine—everyday violence, centred on group brawls and vigilante violence, must also be considered. This kind of violence characterizes the densely populated and homogenous island of Java. Routine violence is closely linked to widespread social frustration related to grievance, for example resulting from weak law and order as in the case of popular justice (Welsh, 2008). It may be caused by socio-economic decline and low levels of human development. Both are likely to create a situation where the opportunity cost of engaging in violence is low. This encourages people—especially unemployed youth—to participate in violence. Routine violence is also linked to relative deprivation. This can happen when, for example, an increase in income level lags behind expectations commensurate with an increased education level. Another possibility is that an increase in education makes societal groups more dynamic, with ability to express their grievances, perhaps resulting in higher levels of violence until a turning point is reached. A downswing of violence at a higher level of income reflects the high opportunity cost of engaging in violence.

The link between greed and grievance can also be observed in the last variant of conflict studied in this thesis: electoral conflict. This relates to the most recent political development in Indonesia, direct election of local executive heads since 2005. Direct local elections are seen as the mark of true political decentralization. In these events, political dynamics and constellations at local levels are barely related to those at the national level, and should be seen as part of the overall democratic transition experienced by the country since the fall of the authoritarian regime in 1998. Decentralization is essentially a central government response (an offer of a framework for a new social contract) to address various grievances and keep the country together. However, local direct elections have provided an avenue for local elites to compete for power that will enable them to control state resources at the

21 As in the case of the upswing part of the inverted-U-shaped relationship between education and routine violence: see Tadjoeddin and Murshed (2007).
local level, either from resource rents or transfers. Sometimes the competition involves violent conflict—in fact, there have been significantly more conflicts and violence during local elections than during the two national elections (Parliamentary and Presidential), which were generally peaceful. This reveals another situation where grievance soon evolves into greed.

1.5. KEY CONTRIBUTIONS OF THE THESIS
This study advances research on the political economy of conflict from the perspective of a single country. Several key contributions of this study can be summarized as follows:

First, this is the first coherent study of social conflict in Indonesia that evaluates the grievance, greed and social contract theories of conflict. In doing so, this study simultaneously provides empirical analyses of four types of conflict in contemporary Indonesia, while most studies only focus on a single conflict typology.

Second, this study demonstrates how socio-economic convergences achieved through an authoritarian political regime have led to grievances making the previous vertical social contract untenable, from which conflict is a clear outcome. It also shows how a new horizontal social contract has been achieved, through repeated games experience within a democratic framework.

Third, although the role of vertical inequality in conflict has been largely discounted in cross-country exercises, this study finds empirical evidence for a violence-inducing effect of vertical inequality in the case of routine-everyday violence. This finding is linked to the apparent presence of the so-called Kuznets inverted-U relationship between inequality and income.

Fourth, this study, for the first time, constructs an electoral hostility index for a large sample of Indonesian districts. Thus, from the perspective of electoral conflict, this thesis is the first study to provide some evidence in support of Lipset’s modernization hypothesis in a single country context: Indonesia.

1.6. A BRIEF TOUR OF THE THESIS
After this introductory chapter, Chapter 2 provides a critical survey of the growing body of both theoretical and empirical studies of internal conflict, using the political economy of conflict framework. Chapter 3 serves as a background chapter on the country by presenting a brief historical and analytical narrative of different kinds of
conflict in Indonesia since independence. **Chapter 4** offers a coherent theory of conflict and cooperation in post-independent Indonesia that binds together the four empirical chapters that follow. An attempt is made to systematically unpack various typologies of conflict, to serve as a foundation for the subsequent analyses.

**Chapter 5** deals with the centre–regional conflict unique to the four resource-rich Indonesian provinces. It advances the thesis of ‘aspiration to inequality’ or ‘the rage of the rich regions’, and evaluates the state of such logic nearly a decade after decentralized governance and polity were introduced. The desire of rich regions to retain their own wealth conflicts with the national goal of sharing social welfare for equitable development across the country.

**Chapter 6** examines the grievance and greed explanations of ethnic violence, and how previously warring ethnic groups end up cooperating with each other. The empirical results show strongly the presence of relative deprivation-related grievance, in the sense of ‘being educated but still poor’. Education raises people’s expectations about earnings and welfare. Failure to realize their expectations leads to a sense of deprivation. However, there is no empirical evidence that the greed of local elites competing for the expected future value of state resources at the local level leads to violence. As the state regains its strength through a successful transition to democracy and decentralized governance, previously warring groups realize that they cannot eliminate their opponents. Instead, they may lose by continuing violence. A win-win outcome is to cooperate, to increase bargaining power with the central government. Thus, the post-decentralization allocation of central government transfers can be treated as a reward for post-violence inter-ethnic cooperation as well as a response to local level pre-decentralization relative deprivations. The overall process of democratic consolidation in a decentralized setting should be seen as a path to a more durable horizontal social contract for socio-economic and political harmony.

**Chapter 7** examines the role of population pressure and vertical inequality, and their possible joint effects on routine violence across Javanese districts. It looks at violence from the neo-Malthusian and social justice perspectives. These issues are highly relevant for Java. Inhabited by 128 million people, it is the most populous island on earth and the most densely populated island in Indonesia, making it classically Malthusian. Furthermore, the effects of global climate change (e.g. rising sea level) and environmental degradations are likely to deepen the Malthusian
scenario for Java. Count panel data regression technique is employed to determine the causes of routine violence in 98 Javanese districts from 1994–2003. Some evidence of the neo-Malthusian conflict scenario can be found when population density is used as an indicator for population pressure. The effect is greater if higher population density coincides with higher population growth. Although the role of vertical inequality in conflict has been largely discounted in empirical cross-country studies, there is empirical evidence for a violence-inducing effect of vertical inequality. This finding is based on the apparent presence of Kuznets hypothesis of an inverted-U relationship between inequality and income. Inequality-induced grievances are more intense and spread quicker in densely populated localities, pointing to an unsafe mixture of vertical inequality and population pressure. However, neo-Malthusian outcomes are not inevitable; they can be avoided by socio-economic progress, marked by high income and low inequality.

Chapter 8 constructs an electoral hostility index for 282 district elections (PILKADA) during 2005–07 and examines the socio-economic determinants of local democratic maturity by way of testing the validity of the modernization hypothesis in the context of Indonesia’s local democracies. There are 67 PILKADAs (out of 282) categorized as having medium, high or very high levels of electoral hostility. The picture is dominated by hostilities directed towards the local elections commission after voting day. The large sample quantitative analysis employs ordered logistic regression. The results show some evidence in support of the modernization hypothesis in the context of Indonesia’s local democracies. Higher PILKADA hostility or less mature local democracy tends to be experienced by districts with lower income. Higher PILKADA hostility also positively correlates with poverty incidence, implying that democracy cannot be deepened in the absence of economic development. This, however, does not necessarily mean that these poorer districts should wait for practicing democracy until their socio-economic conditions improve sufficiently.

The final chapter (Chapter 9) offers a concise conclusion for the entire study and suggests some policies to minimize possibilities of violent conflicts and manage democratic transitions in low- and middle-income countries.
Chapter Two

THE ECONOMICS OF CONFLICT:
A SURVEY OF LITERATURE

This chapter provides a survey of the literature related to the present study. In particular, it surveys theoretical and empirical literature dealing with the socio-economic causes of violent conflict. Most of these studies fall within the rational choice framework. However, some of the studies also fall within the domain of political economy in so far as socio-economic factors responsible for triggering and sustaining conflicts are analyzed as a failure of peaceful bargaining or social contract, requiring some sort of political response to deal with them. The chapter starts by discussing different kinds of conflict, followed by a discussion of the economics of conflict.

2.1. WHAT CONFLICT?
Conflict is a common human or social phenomenon. In most cases, conflicts are resolved in a peaceful manner. Social scientists and thinkers have researched various models of peaceful conflict resolution. This survey is about economics of violent social conflicts—socio-economic causes and damages of conflicts.

2.1.1. Inter vs. Intra-state Conflicts
There are two main classifications of violent conflict: inter-state (international) conflict and intra-state (internal) conflict. The former is conflict between two or more states, while the latter is conflict between components within a country’s boundaries. In addition, a third category may be added: internationalized internal conflict, where foreign powers are clearly involved in an internal conflict (civil war). These three classifications are used by the highly respected PRIO-Uppsala Armed Conflict Dataset. They define armed conflict as ‘contested incompatibility that concerns government and/or territory where the use of armed forces between two parties, of which at least one is the government of a state, results in at least 25 battle-related fatalities’.

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22 Internationalized internal conflict was common during the Cold War period.
deaths’ (Harbom and Wallensteen, 2007: 632). Civil war is a subset of internal armed conflict with a higher threshold of casualties: according to the definition commonly agreed by scholars, civil war takes place when an identifiable rebel organization challenges the government militarily and the resulting violence causes more than 1,000 combat-related deaths, with at least 5 percent on each side (Collier et al., 2003).  

From the end of World War II, there was a steady rise in the number of intrastate armed conflicts, reaching a peak in 1990–91, which coincided with the end of the Cold War (see Figure 2.1). At that time, internal armed conflicts affected nearly one quarter of all countries in the world. The year 2006 witnessed 32 incidents of active armed conflict, of which 27 were internal, five internationalized internal and none inter-state. Since the end of the Cold War, between 1989 and 2006, there have been 89 internal, 27 internationalized internal and only seven intra-state conflicts (Harbom and Wallensteen, 2007).

Figure 2.1. Number of armed conflicts by type (1946–2006)

The recognition of the growing number of internal conflicts and their importance can be seen from the establishment of several key academic and policy research

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23 Such definitions of internal armed conflict have been used as the basis for the growing cross-country quantitative studies on conflict. However, they omit other types of internal (violent) conflict such as (minor or major) ethno-communal conflict and minor routine-everyday violence between different groups in the society in which the state is not directly involved, as well as (usually) minor violence between state and community that has nothing to do with identifiable rebel groups.
initiatives to deal mainly with these issues. The World Bank created a Post-Conflict Unit in 1997, and throughout the late 1990s increasingly focused research and development on conflict. In 2001 the Post-Conflict Unit was renamed the Conflict Prevention and Reconstruction Unit. The World Bank continues research on post-conflict transitions, exploring the political, security and economic dimensions of post-conflict developments. United Nations Development Programmes (UNDP) founded the Bureau for Crisis Prevention and Recovery in 2001 to deal with issues of internal conflicts and natural disasters. The Centre for the Study of Civil War (CSCW) was established in 2003 within the Oslo-based International Peace Research Institute (PRIO), the oldest centre of peace research in the world, which initially focused on inter-state conflict after World War II. Government aid agencies have institutionalized conflict analysis. For example, the UK’s Department for International development (DFID) established CHAD (Conflict and Humanitarian Affair Department), and also instigated ‘conflict in development’ analytical initiatives; and in 2002 the United States Agency for International Development (USAID) created the Office of Conflict Management and Mitigation in the Bureau for Democracy, Conflict and Humanitarian Assistance. Among Non-Governmental Organizations (NGOs), International Alert was established in 1985 to address the root causes of violence and to contribute to the just and peaceful amelioration of violent internal conflict. INCORE (International Conflict Research) was founded in 1993 as a joint project of the United Nations University (UNU) and the University of Ulster in Northern Ireland; Conciliation Resources (an international service for conflict prevention and resolution) was founded in 1994, and the International Crisis Group (ICG) was created in 1995.

Almost all conflict in Indonesia’s post-independent history can be categorized as intra-state, with only a few cases of inter-state conflict. There was an indication of foreign intervention in a case of internal conflict in the country in late 1950s, but there was no evidence of foreign troop involvement (more on this in Chapter 3). However, the scope of contemporary internal conflict in Indonesia— the focus of this study— is wider than the current PRIO-Uppsala definition. In the Indonesian context, cases involving only non-state actors such as ethno-communal conflict, and low-intensity routine-everyday violence, are also included. Thus, this study covers a wider set of internal conflict in Indonesia.
2.1.2. Classifying Internal Conflict and Violence

Considering the Indonesian case, the following forms of internal conflict are worth mentioning: civil war (or secessionist movement or centre–regional conflict), ethno-communal violence/riot, routine-everyday social violence, electoral conflict, terrorism and pogrom.

_Civil war_: Besancon (2005) disaggregates civil war or internal armed conflict into three distinct types: ethnic war, revolution and genocide. Civil wars are now far more common than interstate wars. According to the PRIO-Uppsala dataset, of 123 armed conflicts during 1989–2006, 116 occurred within national boundaries (Harbom and Wallensteen, 2007). In Indonesia, only the violent conflicts in Aceh and Papua fall into this category. If the definition of civil war is broadened to include centre–regional conflicts or secessionist movements, the recent development in the resource-rich provinces of Riau and East Kalimantan can be also included in the list (Tadjoeddin, Suharyo and Mishra, 2001).

_Ethnic violence_ occurs among communal groups clearly divided along ethnic lines. Following Horowitz (1985) ‘ethnic’ is broadly defined as _ascriptive_ (birth based) group identities: race, language, religion, tribe, or caste can be called ethnic. Ethnic violence tends to be episodic in nature, such as the outbursts in Maluku, Poso in Sulawesi, and Sambas and Sampit in Kalimantan, to name a few examples from Indonesia.

_Routine-everyday_ social (or group or collective) violence is obviously neither civil war nor ethno-communal. Neither is it terrorism, nor simply crime, though it may have criminal dimensions. It refers to group violence that is not episodic in nature. Civil war, ethno-communal violence and terrorism are high-profile violent conflicts that attract attention; everyday violence is the opposite. It tends to be low-profile in nature and is less likely to produce headlines. In Java particularly (or Indonesia in general), routine-everyday violence is centred on vigilante violence and inter-neighbourhood or group brawls.

_Electoral conflict_ refers to conflict and violence related to electoral processes (national and local parliamentary elections, presidential elections and district head elections). Here in particular, this study is interested to further examine the

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24 For more discussion on this, see Horowitz (1985) and Varshney (2002).
economics of electoral conflict during the local direct elections of sub-national executive chiefs in 2005–07. As a young democracy, Indonesia was highly praised by the international community for successfully holding relatively peaceful democratic multiparty elections (the first in four decades) in 1999 and the 2004 parliamentary and direct presidential elections; however, the 2005–07 round of local elections of district heads was marked by a number of violent incidents and some sort of (healthy and unhealthy) conflict and dispute. This study specifically examines the socio-economic determinants of electoral conflict, focusing on the direct elections of district heads within the framework of local democratic maturity.

For terrorism, the most commonly accepted definition is focused on politically-motivated violence directed against non-combatants (Burgoon, 2006). Studies of the socio-economic determinants of terrorism and its economic impacts have been growing rapidly, especially since the September 2001 terrorist attack on New York’s World Trade Centre (WTC). In the past few years, Indonesia has experienced several terrorist attacks, most notably the bombings of a night club in Kuta-Bali (October 2002), the Marriott Hotel (August 2003), the Australian Embassy (September 2004) and the Marriott and Ritz-Carlton Hotels (July 2009).

The last type of social violence to consider is the pogrom, which is defined as attacks upon the persons and property of a particular ethnic, racial or communal group in which the state and/or its agents are implicated to a significant degree but which are given the appearance, by design of the authorities or otherwise, of a riot (Brass, 1996). For Indonesia, the best example of a pogrom is the killings of hundreds of thousands of suspected communists in the mid 1960s.

Using different variants of theoretical framework, this project will deal with the first four types of conflict and violence: separatism, ethno-communal, routine-everyday and electoral, which are the most important ones in contemporary

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25 Originally, the word ‘pogrom’ is rooted in the history of anti-Jewish violence in Russia: the Oxford English Dictionary defines a pogrom as ‘an organized massacre in Russia for the destruction or annihilation of any body or class.’ However, it has been used in the English-speaking world since 1905–6 mainly to apply to attacks directed against the Jews.

26 In Java, the killings were mainly undertaken by Anshor, the youth wing organization of Nahdhatul Ulama, backed by the military (Sulistyo, 2000). In West Kalimantan, the Indonesian military incited the Dayaks against the rural Chinese in order to quash the communist (PKI) guerrilla movement in West Kalimantan through a series of kidnappings and falsely attributed massacres of the two ethnic groups (Kammen and Davidson, 2002)
Indonesia. The last two, terrorism and pogrom, which are rare events in Indonesia, are left for other studies.

2.2. THE ECONOMICS OF CONFLICT

The economics of conflict and violence tries to seek economic explanations of conflict and violence on the one hand and peace on the other. It also examines the socio-economic consequences of conflict and measures the magnitude of conflict risks. This kind of studies helps in identifying what can be done to minimize the risk of violent conflict and its recurrence. However, it should be noted that this study does not deal with all aspects of the economics of conflict; it does not investigate the socio-economic consequences of conflict; instead the study limits itself to empirically examining the socio-economic causes of specific types of conflict in Indonesia.

2.2.1. Modelling Conflict

In a general formulation, conflict must relate to the trade-off between production and predation. Agents, apart from being able to produce and trade to make a living, can also engage in appropriation, grabbing the production of others or defending what they themselves have produced. Correspondingly there are two separate technologies, namely a technology of production and a technology of appropriation, conflict and struggle. This is to differentiate, for example, ways of tilling the land from ways of capturing land and securing it against intruders (Hirshleifer, 1991). Violence is one means of appropriating the resources of others. It should be noted that armed conflict implies the absence of contractual interaction (Edgeworth, 1881), and is in stark contrast to the alternative method of benefiting from the endowments of others via peaceful and voluntary exchange (trade) between economic agents, groups or nations. This implies that one needs to specify the conditions under which violence becomes a viable or attractive option relative to other alternatives.

A variety of game theoretic models exist to describe non-cooperative and conflictive interactions among groups where the object is to capture the rival’s endowment by force. In the Hirshleifer (1995) model, each group has a fixed resource endowment, which can be used to produce either goods for consumption or armaments to fight the other group. Groups exist in a state of non-contractual anarchy vis-à-vis each other; this also implies the absence of enforceable property
rights. The object of fighting is to capture some of the rival’s endowment. Success in war is uncertain, and the probability of victory is given by a Tullock (1980) contest success function, based on any group’s military expenditure relative to the total fighting outlay made by all protagonists. Additionally, there is a military effectiveness parameter (akin to what is known as a force multiplier in military establishments): something that raises the effectiveness of each unit of fighting effort. In the absence of increasing returns to scale in military effectiveness, and if a minimum subsistence income is present, then there will be a Nash non-cooperative equilibrium associated with some fighting. In other words, in the equilibrium both (or all) parties will be engaged in some fighting with each other, as well as some productive activities, unless one side manages to conquer others because of its individual military superiority. Hirshleifer (1995) describes this as a state of anarchy— something analogous to primitive tribal warfare. It should be noted that no trade is permitted between groups.

Hirshleifer (1995) concludes that anarchic systems are fragile. They are always liable to ‘break-down’ due to (a) dynamic instability resulting from an increasing return to fighting efforts and (b) income inviability resulting from Malthusian pressures at work diluting per capita income. An anarchic system, to be sustained, must be dynamically stable and viable. A ‘break-up’ of the anarchy may possibly form an organization if necessary conditions are met. Group formation may yield the following benefits: (a) reduced fighting within, (b) complementarities in production and (c) enhanced ability in fighting outsiders. But the greatest challenge to group formation is the problem of collective action: how to reach an agreement on social contract and, more importantly, how to enforce it. In this regard, Hirshleifer distinguishes between vertical and horizontal social contracts. The vertical is represented by hierarchical dominance/setting and the horizontal corresponds to more egalitarian arrangements.

A similar model with fixed resource endowment which can be devoted to either production or armament is outlined by Skaperdas (1992). The probability of success in war depends on a similar contest success function. Skaperdas (1992), however, allows for a peaceful trading cooperative equilibrium when there is no fighting. The parties simply share the sum of total resources in proportion to the contest success function, or in accordance with what would have been the equilibrium outcome of war. This is likely when the probability of military success for either side is low, and
both parties are matched in their peaceful productive capacities. Secondly, there is a possible outcome where one side only produces, while the other party does some fighting and some production. This is a more likely outcome when the more pacific side is more productive, and the side that chooses fighting is more efficient at it. Finally, both sides may choose a mix of fighting and production. As with the first possibility, each side must be matched in their economic productivity and fighting effectiveness, but here the technology of war is such that it raises the possibility of victory for either side: hence the presence of fighting. In many ways, Skaperdas’s (1992) model puts the trade-off between fighting and predation into a sharper perspective, and explicitly mentions the absence of contract or respect for property rights.

Skaperdas (2002) models a situation of warlord competition, a setting that is similar to what Hirshleifer (1995) calls an anarchic system since there is no binding power/rule higher than the warlord. Because war is destructive but human beings are typically risk averse, and because there exist many complementarities in production and consumption, one can expect peace in the shadow of war— termed ‘armed peace’. Armed peace is preferable to all parties, since cooperation, akin to horizontal social contracts as in Hirshleifer (1995), can be more optimal than fighting. However, overt war can occur because of incomplete information about the preferences and capabilities of the adversaries and if the shadow of the future is sufficiently long. In such outcomes the expected long-run profits could be higher in the event that opponents are permanently eliminated or conquered.

On the state-society relation in a more traditional setting, Grossman (1991) develops a theoretical model of insurrection against the state with the peasantry reacting to overtaxation, where the state is interested in maximizing the income of the rentier class. A peasant farmer household has the choice of agricultural production, soldiering for the state or engaging in rebellion against the state. A lot depends on the probability of the success of rebellion. If this is substantial, along with a high enough tax rate on peasant output, a rebellion occurs. Even though it reduces overall production and average income, it can increase the expected income of the rebel-peasantry.

On rebel group-government setting, Addison and Murshed (2001) propose a model of utility function of central government over the choice between fighting the rebel group or fiscal transfer to the rebel group; and of the utility function of the
rebel group in optimizing their expected return from victory against the legitimate state and the cost for rebellion. They maintain that a feasible social contract favouring peace must give the rebels as much utility via a credible transfer as they would get in the event of a (probability weighted) overthrow of the state. To achieve this, Addison and Murshed (2002) emphasize credibility and reputation in the context of peace negotiations, since there are empirical regularities for a danger of conflict breaking out again when peace agreements break down, leading to civil war.

2.2.2. The Economic Causes of Conflict

The growing literature on the structural socio-economic causes of conflict can be grouped into two approaches: (a) the greed and grievance dichotomy and (b) individual socio-economic indicators or level of development. The two are not mutually exclusive, although the former focuses on using two different sets of competing logic to explain conflict, and the later on empirical findings on the causes of conflict. The following discusses them in turn.

2.2.2.1. Greed and Grievance Approach

In recent years, two phenomena have been utilized by rational choice theorists to explain conflict onset: greed and grievance. The former is the contribution of Paul Collier (see Collier and Hoeffler, 2002, 2004). According to this view, conflict reflects elite competition over valuable point-sourced natural resource rents, disguised as collective grievance. Rebellions need to be financially viable: civil wars are more likely if there is financial support from resource rents or outside financial assistance. Originally it was asserted that that inequality played no part in adding to the risk of civil war, but recently Collier et al. (2003) have emphasized the poverty trap: poverty makes soldiering more attractive, lowering the opportunity cost of war in poor nations. In turn, conflict serves to perpetuate poverty because of war’s destructiveness; a vicious cycle of poverty-conflict-poverty ensues.

In many ways, Collier’s (Collier and Hoeffler, 2002, 2004; Collier et al. (2003) views go against the grain. There is a long-standing position in political science that relative deprivation and the grievances it produces fuels internal violence (Gurr, 1970). Identity is also crucial to intra-state conflict. This is due to the collective action problem, as discussed in Olson (1965). It is difficult to mobilize large groups to undertake collective action because of mutual mistrust, monitoring difficulties and
the free-rider problem. Ethnic identity, whether based on race, language, religion, tribal affiliation or regional differences, may serve as a more effective amalgam for groups than other, more transient similarities, such as the socioeconomic class that is traditionally stressed by Marxist writers. The formation of enduring identities is therefore central in mobilizing groups, including the machinations of conflict entrepreneurs who organize men to fight each other.\footnote{27} This usually happens when the 'solitarist' approach to human identity, which sees human beings as members of exactly one group, is used (Sen, 2006).\footnote{28} Conflict cannot proceed without the presence of palpably perceived group differences or grievances, which may have historical dimensions.

Frances Stewart (2000) has introduced the notion of horizontal inequality, the inequality between groups, rather than the inequality that may exist in an ethnically homogenous population (vertical inequality). Indeed, it may be the case that vertical inequality in a homogenous population, despite the class differences it engenders, does not seriously increase the risk of conflict (Collier and Hoeffler, 2004); but that could still leave a role for group inequality (for which data are scarce).

Ultimately, the greed and grievance motivations for conflict may be inseparable in the sense that even if one theory is better at explaining the onset or start of conflict, the other phenomenon may also exit. Furthermore, in most cases, as conflicts evolve, the two phenomena can become intertwined. Thus, for example, it is not uncommon for a conflict linked to palpable grievances to mutate into a state where the rebels become greedy, and both greed and grievance can be seen to co-exist. Examples are, among others, conflict over diamonds in Liberia, Congo and Sierra Leone.

**Greed explanation for conflict**

The greed motivation behind civil war has been disseminated and popularized by mainly empirical studies, where a cross-section of conflicts in different nations are analyzed econometrically, and greed is proxied by the availability or abundance of

\footnote{27} See Tilly (1978) and Gurr (2000) on this.

\footnote{28} Furthermore, Sen (2006) argues that the 'solitarist' approach to human identity is not only morally undesirable, but descriptively wrong. While 'a Hutu laborer from Kigali may be pressured to see himself only as a Hutu and incited to kill Tutsis . . . he is not only a Hutu, but also a Kigalian, a Rwandan, an African, a labourer and a human being' (p. xx). Instead, Sen invokes the countless identities within each individual: human beings should choose among their identities, emphasizing those they share with others rather than those they do not.
capturable natural resource rents. In Collier and Hoeffler (2004), civil wars stem from the greedy behaviour of a rebel group in organizing an insurgency against the government. Greed is about opportunities faced by the rebel group. The opportunities can be classified into three components: financing, recruitment and geography. The most common sources of rebel finance are the appropriation of natural resources, donations from sympathetic diasporas and contributions either from foreign states hostile to the government or multinational companies interested in the region. Natural resource wealth is the chief among the three in terms of relative importance. Recruitment is the opportunity to induct fighting manpower— easy when there is a high proportion of young unemployed males in a setting of endemic poverty and poor education. Geographical situations favourable to rebel groups are mountainous terrain and other safe havens for insurgents. War can yield individual benefits in many ways, offering employment for soldiers, creating opportunities to loot, benefiting from shortage or relief aid, trading arms, carrying out illicit production and trading in drugs and other resources such as diamonds or timber (Keen, 1998).

In short, greed simply means the ‘economic opportunity’ to fight, and should be distinguished from socio-political grievances. Collier and Hoeffler (2004) conclude that the set of variables representing rebel opportunity or greed, such as loot-seeking, are the main reasons for civil war; they are superior to the sets of variable representing grievance. Natural resource rents constitute 'booty', and this fact has been used to emphasize the greed or criminal motivation for civil war. Central to Collier and Hoeffler’s testing for the greed hypothesis is the role of primary commodities in the economic structure. They measure the dependence on natural resources by the share of primary commodity exports in Gross Domestic Product (GDP). However the validity of this metric as well as the statistical robustness of the relationship between resource rents and the risk of conflict has been called into question.29

Any theorizing about greed must be based on the economic motivations for violence and criminality. Belligerents in the wars of natural resource-rich countries could be acting in ways close to what Olson (1996) referred to as 'roving bandits', who have no encompassing interest in preserving the state or its people but are simply intent on loot. They are different from 'stationary' bandits who take control of

29 See for example, Fearon and Laitin (2003), Ross (2004a), Fearon (2005) and Brunnschweiler and Bulte (2009).
the state and seek to maximize their own profit by encouraging stability and growth in their new domain. Civil wars motivated by the desire to control natural resource rents could also mirror ‘warlord competition’, a term that owes its origins to the violent competition between leaders attempting to control economic resources in medieval Europe (Skaperdas, 2002). A proper greed-based theory of civil war must relate to the trade-off between production and predation in making a living.

**Grievance as a conflict driver**

The grievance explanation for conflict is generally attached to group motivation—the feeling of being unjustly treated—by groups that share a similar identity. It can also be referred to as justice seeking. Central to grievances is identity and group formation. An individual’s utility may be related to his/her identity, specifically the relative position of the group he/she identifies with in the pecking order (Akerlof and Kranton, 2000). An individual may derive utility from certain normative forms of behaviour appropriate to his/her identity and may even face sanctions from like-minded group members if he/she deviates from them, but be considered deviant because of these same behaviours by other groups. This type of behavioural paradigm may be related to solving the collective action problems (Olson, 1965) without which organized large-scale violence is impossible, even if one believes conflict is primarily motivated by greed. As noted above, some appropriate definition of ethnicity may be a more lasting basis for group formation than social class in an ethnically homogenous society.

The grievance approach to conflict is subdivided into relative deprivation, polarization and horizontal inequality. While it is important to differentiate these, some overlap among the three is inevitable.

**Relative deprivation**

The notion of relative deprivation dates back to the work of Ted Gurr (1970), who defines it as the discrepancy between what people think they deserve and what they actually believe they can get; in short, the disparity between aspiration and achievement. It is not the same as a state of absolute deprivation, which occurs in situations characterized by endemic poverty and where no group may feel relatively deprived, so the forces of rebellion may be more muted. Relative deprivation is more likely to arise when the situation is improving for some and not for others. It is the
difference between what ‘ought’ to be, and what actually ‘is’, according to Gurr (1970). Thus, educational achievements may raise the aspirations of young people, and they will become frustrated if unemployed, occasionally venting their feelings in mass political violence. Gurr (1970) puts forward the hypothesis that ‘the potential for collective violence varies strongly with the intensity and scope of relative deprivation among members of a collectivity’ (p.24). This lays down the notion of relative deprivation as the micro-foundation for conflict. Relative deprivation is considered to be a major cause of civil war, as well as of sectarian and routine violence, since it can stimulate general frustration or be used by conflict entrepreneurs as a unifying tool or as a means for group mobilization for collective action.

The applications vary across ethno-communal lines, regional boundaries, societal class, or just the feeling of being relatively deprived vis-à-vis the general situation. For example, in the eastern Indonesian province of Maluku, the traditionally privileged Christians group felt relatively deprived against the rising Muslim community, both economically and politically, and this resulted in the bloodiest Muslim-Christian conflict in the country’s history (Tadjoeddin, 2003). Similar observations centring on unemployment could be made about the Catholic-Protestant cleavage in Northern Ireland. In Nepal, the lack of development in remote rural districts of the country fuelled the Maoist insurgency against the state (Murshed and Gates, 2005). The conflict between East and West Pakistan was rooted in the feeling of the East that they were not receiving an equitable share commensurate with what they had contributed for the country: this eventually led to the creation of the East as a separate country, Bangladesh.

Another form of conflict where relative deprivation may be identified concerns ‘routine’ violence, where the conflict is not chiefly directed against the state. It centres on vigilante violence/popular justice and inter-group/neighbourhood brawls. Routine violence covers group or collective violence, and is different from individual violence, domestic violence or homicide, which can simply be labelled as crime. The theoretical underpinnings of routine violence are similar to those utilized to explain mass political violence short of internal war (in Hibbs, 1973). Historical accounts suggest that in early stages of development violence and increasing prosperity initially go hand in hand, but decline thereafter (Bates, 2001). Traditional societies may have rules and norms that manage and contain violent behaviour. An increase in
Prosperity may encourage predatory behaviour in the form of private violence. Once growth progresses further, violence has to decline to sustain the security of investment. Using panel data analysis of count data, Tadjoeddin and Murshed (2007) examine the relationship between routine violence on the one hand and growth, poverty and level of development (including education) on the other. According to their findings, in Java, the relationships between violence and levels of education and income are non-linear, in the form of inverted–U–shape curves. The reason for this is as follows: when low levels of average income and educational attainment rise slightly, there is much to compete over and quarrel about; this tendency, however, declines with further increases in income and education, as there is much more to lose from violence. Additionally, with further rises in economic growth, opportunity for all expands, reducing the need to compete. There are also civilizing impacts of higher educational attainment contributing to the eventual declines in violence. The upswing can also be explained by the feeling of being relatively deprived, since rising education is not automatically accompanied by rising income. The downswing happens when the sense of relative deprivation abates.

Polarization

A related notion is that of polarization.\(^{30}\) Polarization occurs when two or a few groups exhibit great inter-group heterogeneity combined with intra-group homogeneity. In other words, in any given distribution of characteristics, polarization refers to ‘the extent to which the population is clustered around a small number of distant poles’ (Esteban and Schneider, 2008:133). This means that a society is more polarized: (i) the wider the gaps between groups; (ii) the closer the population distribution is to perfect bimodality (demographic polarization), meaning that there are roughly groups of equal size with different characteristics; and (iii) the more internally homogenous each group is (lower within-group inequality). Economic polarization, based on high vertical income or wealth inequality, can occur in culturally homogenous societies. The same argument may be applied to social polarization, which is based on other social indicators such as health or educational attainments. Ethnic polarization (based on how society is divided up into different ethnicities) could, in principle, exist along with a degree of economic equality. In

\(^{30}\) See Esteban and Ray (1994) and Duclos, Esteban and Ray (2004).
their original work on polarization, Esteban and Ray (1994) and Duclos, Esteban and Ray (2004) focus on identification and alienation as the defining factors of polarization. Their idea is as follows: polarization is related to the alienation that groups of people feel from one another, and this alienation is fuelled by feelings of within-group identity. Furthermore, traditional measures of inequality are only concerned with interpersonal alienation, and so fail to capture the dimension of group identity. It is important to note that a high degree of ethnic polarization requires two or few ethnicities. When a society has a very large number of identities, the term ‘ethnic fractionalization’ is more appropriate. Polarization, rather than fractionalization and/or overall vertical (inter-individual) inequality, may lead to conflict.

Montalvo and Reynal-Querol (2005) find that ethnic polarization is a very robust determinant of the incidence of civil war, while ethnic fractionalization is not. Furthermore, Montalvo and Reynal-Querol (2007) find that more ethnically polarized societies experience lengthier civil wars, while the degree of ethnic fractionalization does not matter. Other studies, such as Fearon and Laitin (2003) on the onset of civil war, and Fearon (2004) on the duration of civil war, only consider ethnic fractionalization and do not include a measure of ethnic polarization, and they too find that ethnic fractionalization affects neither the onset nor duration of civil war. Collier, Hoeffler and Soderbom (2004) find that the effect of ethnic fractionalization is non-monotonic: the duration of conflict is at its maximum when ethnic fractionalization is around 50 on its 0–100 range. Although Collier, Hoeffler and Soderbom (2004) do not specifically include polarization measures, their result is consistent with the Montalvo and Reynal-Querol (2007) finding on polarization, since the relationship between ethnic fractionalization and ethnic polarization is curvilinear: ethnic polarization is low in the extreme high or low ends of fractionalization, and the peak of ethnic polarization coincides with median values of fractionalization.

In their seminal article on polarization, Esteban and Ray (1994) state, ‘it is our contention that the phenomenon of polarization is closely linked to the generation of tensions, to the possibilities of articulated rebellion and revolt, and to the existence of social unrest in general’ (p. 820). This idea can be traced back to Marxian social class theory, as can be seen from the following account:
As the struggle proceeds, the whole society breaks up more and more into two hostile camps, two great, directly antagonistic classes: ‘bourgeoisie and proletariat’. The classes polarize, so that they become internally more homogeneous and more and more sharply distinguished from one another in wealth and power (Deutsch, 1971:44, quoted in Esteban and Ray, 1994).

On the differences between demographic polarization and fractionalization, consider the following description given by Montalvo and Reynal-Querol (2007). Let us take a hypothetical example of two countries, A and B, each of which has three ethnic groups, 1, 2 and 3. In country A the distribution of the ethnic groups is 49 percent for group 1, 49 percent for group 2, and 2 percent for group 3; while in country B the distribution is virtually equal among the three ethnic groups, 33 percent, 33 percent, and 34 percent respectively. Which country will have a higher probability of social conflict? Country A is more polarized, whereas ethnic fractionalization is greater in country B. Montalvo and Reynal-Querol (2005, 2007) cross-country empirical regressions find that polarization is more relevant to conflict risk.

**Horizontal inequality**

The notion of horizontal inequalities between groups, classified by ethnicity, religion, linguistic differences and tribal affiliations, is thought to be an important cause of contemporary civil war and sectarian strife. The expression ‘horizontal inequality’ originates in the work of Frances Stewart (see Stewart 2000, 2008), and should be distinguished from vertical inequality, which is the inequality within an otherwise homogenous population. Vertical inequality, say in income or wealth, exists across a group assumed to be culturally homogenous. It is also the most commonly measured type of inequality. The well-known Gini, Theil-T and Theil-L measures of income inequality define inequality across economic groups that differ from each other in one aspect only: income; they are otherwise assumed to be homogenous.

Horizontal inequality aims to measure inequality across groups based on an ethnic identity, as in Catholics relative to Protestants, Hutus relative to Tutsis, and so on. Within each group there will be rich and poor individuals or households. For example, if one is considering the Catholic-Protestant divide, within both the Catholic and Protestant groups there will be some rich and some poor individuals and
households. What really matter are the differences between the two groups, not the within-group inequalities of Catholics or Protestants.

In vertical inequality, within-group inequalities are often as important as between-group differences in decomposing changes in overall inequality between different time periods. It has to be remembered, however, that vertical inequality pertains only to one difference: income, wealth or some other social dimension such as health or education status.

Thus, the differences between horizontal and vertical inequality mainly relate to group definition. In the horizontal case, ethnic groupings (based on racial, tribal, linguistic or confessional lines) are explicitly considered. This raises the issue of how to define ethnic groups, as in some countries groups can differ along several overlapping bases, such as language, religion and tribal affiliation. For example, two households in Indonesia may belong to the same linguistic group, but have different religious identities. With regard to vertical inequality, groups are defined only on the basis of a single socio-economic indicator; there will be richly and poorly endowed groups, but the only characteristic that distinguishes them are relative differences in the appropriate socio-economic indicator. Vertical inequality is, therefore, more related to traditional socio-economic class differences; and a very unequal society based on this definition may be polarized in the economic or social sense (à la Marx’s class), but not necessarily along ethnic lines.

Horizontal inequality usually stems from historical discrimination, and can fuel group grievances. Stewart (2000) argues that it is group horizontal inequality that really matters in causing violent conflict, not vertical inequality. A combination of inequality and poverty measures tied to identity-based group differentiation would be a more comprehensive way to explain violence (Sen, 2008). This is the reason why almost all cross-country conflict regressions, including two influential studies by Collier and Hoefler (2004) and Fearon and Laitin (2003), fail to find any significant relationship between vertical inequality and conflict. However, there is support for positing a significant relationship between conflict and horizontal inequality, in Ostby (2006 and 2008) on a cross-country basis and Mancini (2008) on a cross-section regression at sub-national level in a single country (Indonesia). It must also

31 It should be noted that, in addition to socio-economic dimensions, the concept of horizontal inequality also encompasses political aspect. For example, decentralization involves power-sharing thus reduces political horizontal inequality. As a result, decentralization has the potential to reduce conflict.
be considered that the idea of horizontal inequality may overlap with the notion of relative deprivation and polarization.

2.2.2.2. Social Contract as a Synthesis

Pure versions of the greed or grievance hypothesis are, on their own, unsatisfactory explanations for the causes of conflict. Addison, Le Billon and Murshed (2002), and Addison and Murshed (2003) construct a game-theoretic model of contemporary conflict involving the competition for resources combined with historical grievances, and a possible transfer from those in power that assuages the grievances of the excluded. In addition to resource rents or greed, grievances also play their part in fuelling conflict by fostering inter-group non-cooperation and lowering the cost of participation in conflict. Conflict can increase because of heightened intrinsic grievances, or because there are more lootable resources. Similarly, conflict may decline if historical grievances are assuaged by transfers from the party in power to potential rebel groups. In short, greed and grievances may exist simultaneously. Even if a conflict is initially based on grievance, it can acquire greedy characteristics; and the converse is also true. For example, a civil war originating in demands for land reform (Colombia, Nepal) can acquire greed-based characteristics once the rebels begin to enjoy ‘narco-rents’ or taxes from the peasantry. Conversely, a civil war based on a desire to control lootable revenue rents may generate grievances as people are killed.

In reality, competing greed-versus-grievance hypotheses may be complementary explanations for conflict. In so far as they do provide alternative views, a fair test for their relative explanatory powers is best conducted at the level of a quantitative country-case study, because cross-country comparisons of horizontal inequality are still at very early stages of development, due to a lack of data. Indonesia’s resource-rich regions that have had separatist conflicts with the federal government offer us striking contrasts when we try to gauge the relative explanatory power of greed-versus-grievance. When viewed via the lens of a detailed quantitative case study, grievance and horizontal inequality explanations dominate any greed motivation; yet when looked at through the prism of a cross-country study, these regions display a modified form of the greed theory (resources helping to prolong the duration of conflict and encouraging secession). It would appear, therefore, that the greed explanation for conflict duration and secessionist wars works better in cross-country
studies, but has to make way for grievance-based arguments in quantitative country-based case studies.\textsuperscript{32} It appears that grievances and horizontal inequalities may be better at explaining why conflicts begin, but they do not necessarily explain why they persist. Moreover, neither greed nor grievance alone is sufficient to initiate conflict: that requires institutional breakdown, or a failure of the social contract.

As yet, no empirical models at the level of cross-national analysis exist that properly test for the relative power of greed \textit{vis-à-vis} horizontal inequality-type grievances in explaining the onset of conflict. This is not just a result of constraints posed by insufficient data. Greed and grievance can and do co-exist; because one breeds the other, a model of their simultaneous determination is required. So is an understanding of the contribution of poverty (which is chiefly about the lack of growth) and institutional quality. The existing econometric literature regarding the causes of conflict allows us to infer little about the true nature of the causal links between the phenomena examined. Tests for causality require sufficiently long time series data; unless techniques of time series econometrics are employed, inferences about causality will necessarily remain limited.

### 2.2.2.3. Socio-economic Indicators Approach

The greed versus grievance approach can be unpacked into more specific socio-economic indicators permitting observations of how each might be related to conflict at the empirical level. Logics for many possible relationships and causalities have been established, and many empirical regularities have been found. They can be organized under the following headings: natural resources, income and education (prosperity), inequality and trade. Of these, the link between natural resources and conflict is the most controversial, and has been widely scrutinized.

**Natural Resources and Conflict**

It is said that a country with a high reliance on natural resources is more prone to civil violence. Collier and Hoefler (2002, 2004) find resource dependence, measured as the share of primary commodity export to GDP, to have a strong explanatory

\textsuperscript{32} However, there are some empirical supports for the grievance explanation in cross-country studies, such as Barrows (1976), Cederman, Wimmer and Min (2010) and Ostby (2008). Like-wise, country studies, such as David Keen’s on Sudan and Sierra Leone (Keen, 2001, 2004) find evidence of the greed hypothesis... Therefore, greed or grievance can be simultaneously found both in cross-country and country studies.
power in their conflict onset model, and they argue for the greedy rebel mechanism, linking natural resources and conflict. They conclude, ‘we have interpreted this as being due to the opportunities such as commodities provide for extortion, making rebellion feasible, and perhaps even attractive’ (Collier and Hoeffler, 2004: 588). However, this finding and interpretation have generated fierce controversy based on questions about the saliency of measurement issues, the problem of reverse causality, possible mechanisms between natural resource rents and conflict, and the choice of estimation techniques.

On the matter of measurement, two broad sets of issues need to be considered. First is the measure of natural resource wealth/abundance and resource dependence. While Collier and Hoeffler (2002, 2004) use the primary commodity export share in GDP to measure resource wealth, different proxies have been used by other studies, including (a) specific measures of oil dependence/wealth focusing on per capita oil rents/production/reserves (Humphreys, 2005; Ross, 2006), off-shore or on-shore types of exploitation (Ross, 2006; Lujala, Rød and Thieme, 2007), an oil exporter dummy where oil exceeds one-third of total exports (Fearon and Laitin, 2003), oil exports as a percentage of total exports (Fearon, 2005), (b) diamond wealth measures expressed in diamond production per capita (Humphreys, 2005), further disaggregated into primary and secondary diamonds (Ross, 2006), and a dummy for the presence of diamonds, disaggregated into primary and secondary types (Lujala, Gleditsch and Gilmore, 2005). These proxies have led to different, conflicting results.

These conflate resource dependence and resource abundance, a methodology criticized by Brunnschweiler and Bulte (2009), who clearly differentiate between resource dependence and abundance, and use them simultaneously in their cross-country conflict regressions. They take the share of primary commodity exports in GDP as their measure of resource dependence and the aggregate measure of the net present value of rents (in US$ per capita) of a country’s total natural capital stock as their measure of resource abundance; and they focus on two disaggregated measures: sub-soil mineral resources and land (crop and pastureland, protected areas and forest resources).

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33 In 2005, an entire issue of the *Journal of Conflict Resolution* 49 (4), called Paradigm in Distress, was devoted to demonstrating the non-robustness of this finding.
The second issue is the selection of the relevant conflict dependent variable in econometric analyses; it can be either the onset or the duration of civil war. With regard to onset, the question is whether natural resource wealth increases or decreases the risk or likelihood of civil war; and with duration, whether or not it prolongs civil war. Collier and Hoefler (1998, 2002, 2004) claim that resource dependence, measured by primary commodity exports share in GDP, in increasing the likelihood of civil war onset, is both significant and robust; others deny that it is significant (Fearon and Laitin, 2003; Fearon, 2005; Montalvo and Reynal-Querol, 2005; Brunnschweiler and Bulte, 2009) or robust (Ross, 2004b). On duration, the results are clearly contradictory: Collier, Hoefler and Soderbom (2004) find that the presence of primary commodities has no significant effect on the duration of conflict; but that decreases in primary commodity prices do shorten conflict since they squeeze rebel finances when the level of dependence upon primary commodity exports is high. Using contraband dummy measures, Fearon (2004) and Ross (2006) find that natural resources lengthen civil war duration; while using diamond production per capita, Humphreys (2005) finds that this reduces war duration.

When the onset of civil war is a dummy (0, 1) variable, an additional complication arises, regarding the appropriate fatality threshold for coding a case as a civil war/conflict. There are three variants employed: (a) 1000 battle-related deaths annually (Collier and Hoefler, 2004), (b) 1000 battle-related deaths during the course of the conflict (Fearon and Laitin, 2003; Fearon, 2005), and (c) 25 battle-related deaths annually (de Soysa, 2002a).

Any measure of natural resource dependence may be endogenous to conflict, and this has two implications: (a) that there is a reverse causality, in which civil wars might cause resource dependence by reducing the size of a country’s non-resource sector (e.g. manufacturing); and (b) that there is a spurious correlation where both civil war and resource dependence may be independently caused by an unmeasured third variable, such as poor property rights or the weak rule of law.

Brunnschweiler and Bulte (2009) consider reverse causality by treating resource dependence, together with per capita income, as endogenous independent variables in their conflict regression; previous studies had assumed resource dependence to be truly exogenous. The set of instruments they use to measure both resource dependence and income includes resource abundance, trade openness, the constitution (presidential versus parliamentarian systems), absolute latitude,
percentage of land in the tropics and distance from the nearest coast or navigable river. They find that when it is treated as endogenous, resource dependence loses its significance. Resource abundance, however, has a negative indirect effect on conflict through income. Based on these findings, they reject previous arguments for fingering natural resource wealth or dependence as the principal culprit in civil war. They speculate that resource dependence (a reliance on primary goods exports) may be a manifestation of the failure to grow and diversify as a consequence of conflict, but does not contribute directly to conflict. In a related paper, Brunnschweiler and Bulte (2008) argue that resource abundance may actually promote good institutional development.

Humphreys (2005), who investigated the mechanisms of the relationship between conflict and resource dependence, argues that other factors may also be present. First is the greedy outsider mechanism: the existence of natural resources may be an incentive for third parties — states and corporations — to engage in or indeed foster civil conflict. Second is the grievance mechanism: natural resource dependence may in fact be associated with grievance rather than greed. There are at least four variants of the relationship between conflict and resource dependence: (a) countries with middle levels of dependence on natural resources may be experiencing transitory inequality as part of the development process; (b) economies that are dependent on natural resources may be more vulnerable to trade shocks; (c) the process of extraction may produce grievances — for example, through forced migration; and (d) natural resources wealth may be seen as more unjustly distributed compared to other forms of wealth. Third is the weak state mechanism, also emphasized by Fearon and Laitin (2003). Natural resource-dependent economies may have weaker states, stemming from dependence on resource rents. In these states, untaxed citizens have less ability or incentive to monitor state activity while the governments, relying on natural resource rents more than taxation, have weak incentives to create strong and accountable bureaucratic structures.34

On estimation techniques, Fearon (2005) provides the strongest challenge to Collier and Hoeffler’s (2002, 2004) empirical findings on the links between primary commodity exports and civil war. Fearon, who re-estimates Collier and Hoeffler’s model using country-year observations, as opposed to the country-five year

34 This is similar to the logic of no accountability without taxation, as in Ross (2004b).
observations employed by Collier and Hoeffler, finds that the significance of statistical associations between primary commodity exports and civil war onset vanish in the country-year regression, meaning that the previous claim of such a relationship is not robust. In other words, this cross-country result will not withstand variation in sample and data coverage. More recently, in their cross-country conflict regression, Brunnschweiler and Bulte (2009) also find that the primary commodity export loses its significance when treated as an endogenous variable — a view shared by Ross (2004a), who reviews 14 cross country empirical studies on natural resource and civil war, complemented with many qualitative study reports.

These studies varied in terms of time coverage, estimation procedures, resource measure, dependent variable construction (different conflict databases and thresholds) and sets of independent variables used, yielding varying results. Thus Ross (2004a) concludes that the claim that primary commodities are associated with the onset of civil war does not appear to be robust: oil dependence appears to be linked to the initiation of conflict but not its duration, and illicit gemstones and drugs seem to lengthen pre-existing wars. Fearon (2005) shows that the effect of primary commodity exports is confined to oil, by adding the variable (oil exports to total exports) into the country-year regression. Humphreys (2005) checks the effect of past oil exploitation (oil production per capita) on the onset of civil war and finds it positively significant. However, he asserts that such a relationship works through the weak state mechanism; he reaches this conclusion by adding interaction terms between measures of natural resource wealth and state strength. In a similar vein, Fearon (2005) interprets the oil effect as a weak state mechanism rather than a greedy rebel hypothesis. Fearon uses the correlation between oil export and state weaknesses, measured by government observance of contracts.

Levels of Development (Prosperity) and Conflict
Income level (per capita GDP) is the most straightforward proxy of development, prosperity or wealth. Most empirical investigations find a negative association between income and violence. Countries with higher income are less prone to violence compared to those with lower income; see Collier and Hoeffler (2004) and Fearon and Laitin (2003) for the two most influential studies. There are many

35 According to the Collier and Hoeffler model, a country with GDP per person of just $250 has a predicted probability of war onset of 15 percent over the next five years. This probability of war
determinants of civil war, but there is a consensus that the level of income (per capita GDP) is the most robust predictor of civil war risk, and it is almost always included in any conflict regression; see Hegre and Sambanis (2006) and Ross (2004a). However, a historical account reveals that, while in an early stage of development violence and prosperity may go hand in hand, a rise in prosperity may also bring an increase in political violence (Bates, 2001). These contrasting views may be reconciled by postulating an inverted-U-shape relationship between violence and income, like Kuznets’ (1955) finding of an inverted-U-shape relationship between income and inequality. As has been mentioned before, an increase in prosperity may encourage predatory behaviour in the form of private violence. Once growth progresses further, violence must decline to sustain the security of investment, and the state has to perform regulatory functions. The inverted-U-shape relationship may also be mediated through an underlying inverted-U-shape relationship between income and inequality. As the inequality rises in the initial stage, it causes grievance, which in turn leads to violence. This mechanism disappears as inequality declines with further rises in income. Tadjoeddin and Murshed (2007) provide empirical support for such an inverted-U-shape relationship, based on panel data observation in a single country, Indonesia.

Growth rate of income may be considered as another indicator: empirical evidence suggests that higher growth has a conflict-reducing impact (Blomberg and Hess, 2002; Collier and Hoeffler, 2004; Urdal, 2005; and Tadjoeddin and Murshed, 2007). Collier (2007) argues that conflict is about level, growth and structure of income, the last of which refers to natural resources, as discussed above.

Education level may also represent level of development. Some empirical results show a linear negative relationship between education and conflict: Urdal (2004) and Murshed and Gates (2005) respectively use literacy rate and years of schooling to proxy education, while another study using schooling to measure education finds an inverted-U-curve, as in the case of income (Tadjoeddin and Murshed, 2007). These

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reduces by half for a country with a GDP of just $600 per person, and is reduced by half again to below 4 percent for a country with an income per person of $1,250. Countries with an income per person of over $5,000 have a less than 1 percent chance of experiencing civil conflict, all else being equal. The Fearon and Laitin model predicts that countries with around $600 per capita GDP have a 18 percent chance of civil war within the next decade, dropping to 11 percent for countries with incomes of $2,000 per capita and less than 1 percent for countries with incomes of $10,000.
varied empirical regularities imply that, in the long run, better education results in less violent conflict.

Inequality and Conflict
The link between inequality and conflict is an age-old concern. Many theorists have suggested that the former breeds the latter, including Gurr (1970), Huntington (1968) and Russet (1964). In an excellent review of the subject, Cramer (2005:1) concludes, ‘it is almost a universal assumption that an inequitable distribution of resources and wealth will provoke violent rebellion’. Kanbur (2007:5) states that ‘it seems to be generally accepted that poverty and inequality breed conflict.’ In general, inequality creates a sense of injustice that is central to the grievance motive for any violent conflict. Nafziger and Auvinen (2002) find that large income inequality increases the vulnerability of populations to humanitarian emergencies. Muller (1997:137) argues that ‘a high level of income inequality radicalizes the working class, enhances class polarization, and reduces the tolerance of the bourgeoisie for political participation by the lower classes.’ In a cross-country study, he shows a positive correlation between income inequality and the binary variable of stability and instability of democracy between 1960 and 1980.

These studies are in support of Alesina and Perotti (1996), who find that income inequality is associated with social discontent and political instability, which in turn are correlated with lower investment. However, the two most widely cited cross-country empirical studies on civil war by Fearon and Laitin (2003) and Collier and Hoeffler (2004) largely dismiss the role of inequality in conflict. Working from the perspective of political science, Fearon and Laitin imply that inequality does not matter because of state capacity (the suppressive power of the state). Economists Collier and Hoeffler seem not to see anything except greed as a rational explanation of conflict: that is, to them the root cause of conflict is not social pathology (e.g. inequality) but individual pathology (e.g. greed). They ignore collective action problems as discussed in Olson (1965), because Fearon and Laitin are drawn to

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36 Since Aristotle, social philosophers have speculated that economic inequality is a fundamental cause of political violence and revolution. De Tocqueville ([1835] 1961:302) stated the classical hypothesis succinctly: ‘Almost all of the revolutions which have changed the aspect of nations have been made to consolidate or to destroy social inequality. Remove the secondary causes which have produced the great convulsions of the world, and you will almost always find the principle of inequality at the bottom.’
considerations of political power and economists like Collier see humanity actuated only by greed. Moreover, since Fearon and Laitin (2003) and Collier and Hoeffler (2004) use the Gini index, their conclusions relate to *vertical* income inequality that measures inequality between individuals across an entire country, and refers to inequality in a population.\(^{37}\)

*Vertical* inequality must be differentiated from *horizontal* inequality that focuses on inequality between groups within a country.\(^{38}\) However, as Stewart (2000, 2008) argues, it is the latter (horizontal inequality) that matters when considering conflict, not the vertical concept. A group’s horizontal inequalities help build in-group solidarity, and in turn solve the collective action problem. Stewart presents several case studies in support of her argument. The horizontal inequality argument has received empirical support in a recent cross-country study of civil war (Ostby, 2008), as well as of deadly ethnic conflict across districts in Indonesia (Mancini, 2008).

Another strand of study relates the role of *vertical* inequality in conflict to the democratization movement. For example, Acemoglu and Robinson (2006) believe that the demand for democracy is partly driven by aspirations for redistribution. In most cases, the democratization movement in its early phases involves violent action against authoritarian regimes. The violence involves not only the citizens and the security apparatus, but also the beneficiaries of the system (the elites and their private armies) and the general public.

It would be unwise to totally discount the role of *vertical* inequality in conflict and solely focus on *horizontal* inequality. Both kinds of inequality create a sense of

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\(^{37}\) The Gini coefficient is the most commonly used measure of inequality. The coefficient varies between 0, which reflects complete equality, and 1, which indicates complete inequality (one person has all the income or consumption, all others have none). The Gini coefficient is not additive across groups, i.e. the total Gini of a society is not equal to the sum of the Ginis for its sub-groups. Another widely used measure of vertical inequality is the decile dispersion ratio, which presents the ratio of the average consumption or income of the richest 10 percent of the population divided by the average income of the bottom 10 percent. This ratio can also be calculated for other percentiles (for instance, dividing the average consumption of the richest 5 percent — the 95\(^{th}\) percentile — by that of the poorest 5 percent — the 5\(^{th}\) percentile). This ratio is readily interpretable, expressing the income of the rich as multiples of that of the poor. It indicates how the bottom decile of the population (in terms of income) fares in comparison with the top decile.

\(^{38}\) Horizontal inequality refers to inequality between different ethno-social groups or regions. It can be measured simply by the ratio of mean or average incomes of two groups (or regions). It can also be measured by the relative size of different groups’ (or regions’) income shares in the total Gross National Income (GNI). Horizontal inequality, thus, shows the relative welfare of different socio-economic or ethno-religious groups or regions. Horizontal inequality generates a sense of relative group deprivation, while vertical inequality causes a general sense of personal deprivation among poor and lower-middle income people.
frustration that fuels grievances among the general population and socio-economic/ethno-religious groups. We argue that the opposing findings may be due to the different types of conflict under study. Studies that do not find much support for vertical inequality look at the high-profile violent conflicts such as civil war and ethnic conflict, or what is termed episodic violence; but this study includes low-intensity routine violence, where a general sense of deprivation caused by high inequality of income and assets may be significant. Routine violence is, to some degree, a manifestation of frustration, but can also be seen as competition among lower socio-economic strata and hence reflects some kind of greedy behaviour.

Trade and Conflict
The relationship between trade and conflict is related to the argument of liberal peace within the context of international relations. The heart of the argument is that both parties gain from trade, which is mutually beneficial; to fight with a trading partner is to commit commercial suicide. A related argument maintains that, through exchange, trading partners develop greater understanding for each other’s culture. Political philosophers suggest that trade reduces the risk of conflict because trade adjusts cultures: that there is something about trade that makes people less violent.

The proposition that international trade specifically, and economic interdependence in general, reduce conflict between nations has a long tradition in the history of economic thought. It can be traced back to Baron de Montesquieu, who in 1750 claimed that ‘peace is the natural effect of trade’ because ‘two nations who traffic with each other become reciprocally dependent’, leading to ‘their union…founded on their mutual necessities’ (quoted in Polachek and Seiglie, 2006: 7). The argument is supported by many empirical cross-country evidences, including Polachek (1997), Oneal and Russet (1999), Hegre (2000), and Polachek and Seiglie (2006); while Murshed and Mamoon (2010) provide empirical evidence for the liberal peace argument based on a two-country (India-Pakistan) dyadic time series relationship for nearly half a century. It is important to review the link, as it is related

39 Although the notion of liberal peace is often conjoined with democratic peace, the two are different. The idea of democratic peace postulates that democracies will not fight each other because they share similar cultural norms that stand against forceful resolution of dispute. Liberal peace stresses the importance of inter-country economic interdependence, as Polachek (1997) argues: that advanced democracies cooperate not because of their similar political systems, but because of their vast, multiply-intersecting economic interdependence.
to the notion of liberal peace found in the democratic peace argument in the context of inter-state conflict. This is relevant as the transition to democracy together with decentralization in Indonesia seems to have yielded peace dividends in the case of both separatist and ethno-communal conflicts, after peaking during the early phase of transition.

2.3. DEMOCRACY, INSTITUTIONS AND CONFLICT

Level of democracy is the next important variable to consider. While the two leading empirical studies on civil war show that the level of democracy has no explanatory power on the probability of civil war (Collier and Hoeffler, 2004; Fearon and Laitin, 2003), others find that middle-level democracies (often referred as countries in transition) are more prone to civil wars than mature democracies or strong autocracies (see Hegre et al., 2001; Sambanis, 2001; and Reynal-Querol, 2002). Snyder’s (2000) comparative case study also argues for a higher risk of conflict faced by countries in transition towards democracy.

In the presence of a market-dominant ethnic minority, the transition to democracy may trigger ethnic hatred if it coincides with the embracing of market liberalism (Chua, 2002). Democracy politically empowers the poor ethnic majority, which attacks the rich ethnic minority that benefits from market liberalism. Chua supports her hypothesis with anecdotal evidence such as the treatment of the Chinese in Indonesia and the Philippines, the Indians in West Africa, and Whites in Venezuela. However, Bezemer and Jong-A-Pin (2009) who empirically test the Chua hypothesis in a cross-country setting, find support only in Sub-Saharan Africa, such as Ethiopia, Nigeria and Uganda, and not generally in developing economies.

A recent inquiry by Djankov and Reynal-Querol (2007) moves beyond democracy and emphasizes the role of institutions in fomenting civil wars. Institutions are proxied by (a) the protection of property rights\(^\text{40}\) and (b) the rule of law and the efficiency of the legal system.\(^\text{41}\) Institutions are endogenized, and colonial origins affect civil wars through their legacy on institutions. The instruments

\(^{40}\) The protection of property rights is measured by the average protection against expropriation risk. This variable captures the risk of expropriation of private foreign investment by government, and goes from 0 to 10, where a higher score means less risk. The source of this data is Acemoglu et al. (2001).

\(^{41}\) It measures the strength and impartiality of the legal system, and the popular observance of the law. The law and order variable can take values from 0 to 6. Higher numbers indicate a stronger legal system. The source for this variable is the International Country Risk Guide (ICRG).
for institutions are colonial origin dummies and the settler mortality rate, similar to Acemoglu, Johnson and Robinson (2001). Djankov and Reynal-Querol find that once institutions are included in their purely cross-sectional conflict regressions, the initial level of per capita income becomes insignificant. This does not, however, invalidate the saliency of (the lack of) growth in determining conflict, because institutional quality and growth go hand in hand. In other words, institutions and per capita income are highly co-linear.\footnote{It does not necessarily imply causality from institutions to growth. Empirical investigations on this link remain inclusive; see for example Acemoglu et al. (2001, 2002, 2005), Dollar and Kraay (2003) and Glaeser et al. (2004).}

2.4. CONFLICT IMPACTS, POST-CONFLICT RISKS AND POLICIES

The impact of violent conflict (civil war) is enormous. On the economic side, it results in physical and human destruction and resource diversion from productive activities to destruction, creating a double loss to the society. Conflict disrupts economic activities and shortens the time horizon for all economic agents. It also weakens the constraints on opportunistic and criminal behaviour (Collier et al. 2003). Collier (1999) finds that during a civil war, per capita GDP declines at an annual rate of 2.2 percent relative to its counterfactual, i.e. compared to the growth rate had there been no civil war. Murdoch and Sandler (2004) assess the adverse impact of civil war on growth performance at home as well as in neighbouring countries. They find that a civil war at home can reduce a country's growth by 31 percent in the long run and 85 percent in the short run. This difference in impact highlights how time allows an economy to adjust itself. Moreover, a civil war can lower growth of a neighbour country by approximately 30 percent in the long run and 24 percent in the short run. Thus, a country in a region with three or more adjacent civil wars may be affected as much as the countries experiencing the civil wars. Koubi (2005) combines inter-state war with civil war and finds that the severity of war has a negative effect on growth generally. The severity and the duration of war, however, are positively correlated with post-war medium-term growth, which is termed the Phoenix factor (Organski and Kugler, 1977), and may be due to the reconstruction-induced spurt in growth that follows the cessation of hostilities. Socially, conflict weakens institutions, erodes social trust and displaces people. Altogether, violent conflict leaves the population...
under conditions that increase the risk of disease, crime, political instability and further conflict.

Attention to the economics of inter-state conflict can be traced to the famous work of John Maynard Keynes (1920) in *The Economic Consequences of Peace*, where he criticized the Versailles Peace Treaty that ended World War I. According to Keynes, the treaty, which he called a Carthaginian peace, was an unfair treatment of Germany, forced to pay the victors very large sums in reparation. He argued that this would lead to the ruin of the German economy and result in further conflict in Europe. His analysis was prophetic: peace was not sustained in Europe, and the Versailles treaty gave rise to the National Socialist movement in Germany that brought Adolf Hitler to power.

Keynes' concern of nearly a century ago still has strong relevance. Nowadays, problems related with post-conflict fragility attract a lot of attention, and internal conflict receives the most, as it is most prevalent. Post-conflict societies face two interrelated challenges: economic recovery and risk reduction. Civil war damages the economy; and it is estimated that during the first five post-conflict years there is a 44 percent risk of reversion to conflict (Collier et al., 2003). Ending conflict and reaching a peace agreement are important achievements, but building and sustaining peace is another matter altogether. In the long run, steady inclusive economic development is the key to sustaining peace, and eventually lowering the risk of relapse into conflict.

The growing body of research on the economics of conflict has been directly or indirectly linked to various policy initiatives, both at the global level and the single-country level. Findings by authors (e.g. Collier et al., 2003; Collier and Hoeffler, 2004) as noted earlier on the close association between high reliance on natural resources and high probability of conflict have led to a major policy recommendation to encourage economic diversification for countries still heavily dependent on natural resources. More specifically, Collier (2007) and Collier and Venables (2007) suggest that developed countries should offer African countries preferential trade to facilitate diversification of their economies. At the global level, two major policy initiatives, namely the Extractive Industries Transparency Initiative (EITI) and the Kimberley Process Certification Scheme (KPCS) for diamond trade, take steps in this direction.

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43 A Carthaginian Peace refers to any brutal peace treaty demanding total subjugation of the defeated side.
The EITI is a coalition of governments, companies, civil society groups, investors and international organizations who aim to support improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining. KPCS is a joint government, industry and civil society initiative to stop the flow of conflict diamonds — rough diamonds used by rebel movements to finance wars against legitimate governments.

Reward and punishment, or carrot-and stick-policies, can also be considered in dealing with or lowering the risk of conflict. It is argued that reward is more effective in the long run, while punishment only works in the short run. Justino (2007) provides empirical evidence in support of this argument when she considers the use of policing (stick) and redistributive transfers (carrot) in the context of civil unrest across 14 Indian states.

In sum, it is suggested that violent conflict can be dealt with and peace can be achieved through inclusive development. Therefore, it is imperative to have higher income, better education, reductions in poverty and better human development (Collier at al., 2003; Urdal, 2004; Tadjoeddin and Murshed, 2007).

On inequality, it is widely accepted now that what matters for conflict is the horizontal inequality, not the vertical one. In this connection, Stewart, Brown and Langer (2007) lay down key recommendations, which include affirmative actions to correct socio-economic horizontal inequalities, inclusive political settings and power-sharing arrangements for dealing with political horizontal inequality.

At the single country level, a few policy imperatives have also been suggested. In Indonesia, a radical decentralization that consists of power-sharing and revenue-sharing agreements between the political centre and the regions have helped the country mollify separatist movements posed by some few resource-rich provinces (Tadjoeddin, 2007). In Nepal, equitable human development across regions has been suggested as a way to overcome the Maoist insurgency (Murshed and Gates, 2005).

2.5. SUMMARY: ECONOMICS OF CONFLICT AND DEVELOPMENT
The economics of conflict has a very high relevance to the development process. As the process of development causes dislocation and changes in relative positions, it is an inherently conflictual process. However, these have to be managed in order to
achieve positive, non-violent outcomes, and economics of conflict provides a systematic framework to analyze conflict in the course of development. It tries to understand the logic, assess the causes, estimate the impacts and formulate possible interventions to avoid or minimize conflict risks. However, this should not treat conflict from the perspective of a single discipline perspective. That is, economics, and the economics of conflict must not be applied in a vacuum, but should be contextualized within the broader aspects of development which includes historical and political factors, especially in a single country analysis.

44 See among others Lederach (1995, 1997), Gleditsch et al. (2003). For evidence on this in Indonesia, see Barron, Diprose and Woolcock (2007).
Chapter Three

CONFLICT AND VIOLENCE IN INDONESIA:
A BACKGROUND

3.1. INTERNAL CONFLICT SINCE INDEPENDENCE

Indonesia unilaterally declared its independence on 17 August 1945, during a vacuum of power, just two days after the Japanese surrender to the Allied forces in World War II. The response of the Dutch, who wanted to re-establish control over their former colony, led to the revolutionary war of independence, which ended four years later with the Round Table Conference in The Hague in December 1949. The Dutch officially recognized the independence of and transferred sovereignty to an entity called the Republic of United States of Indonesia. This entity consisted of sixteen ‘federal’ states, most of which were created by the Dutch since 1945 to weaken the revolution; the Republic of Indonesia was only one of them, but accounted for almost half the federation’s population. These states were dissolved into the Republic during the first half of 1950, and Sukarno proclaimed the Republic of Indonesia as a unitary state on 17 August 1950, in conjunction with the fifth anniversary of Indonesian independence.

The Indonesians exercised a Western-style liberal parliamentary democracy during 1950–57. Sukarno was president, and the cabinet was headed by a prime minister. The first multi-party election was held in 1955, and four dominant parties emerged, representing three main political streams: the nationalist, the Islamic (both traditionalist and modernist) and the communist. The dynamic of internal politics was very unstable, with six cabinets under different prime ministers in a space of less than seven years; there were several regional revolts launched by the Republic of South Maluku (RMS) in eastern Indonesia, Darul Islam (DI) in Aceh, West Java, South Kalimantan and South Sulawesi, and PRRI-Permesta in West Sumatra and

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45 The Dutch did not want Indonesia to be a unitary state, in order to weaken the newly established country. Indonesia diplomatically accepted it. The other fifteen constituent states were the puppet or semi-puppet states (negara) and special territories (daerah istimewa) originally set up by the Dutch to weaken the revolution (Kahin, 1952). They were Eastern Indonesia, Pasundan, Eastern Java, Madura, Eastern Sumatra, Southern Sumatra, Central Java, Western Kalimantan, Greater Dayak, Banjar, South-eastern Kalimantan, Bangka, Belitung and Riau.
North Sulawesi. In 1957, Sukarno ended the parliamentary democracy by dissolving the *Konstituante*, an upper house whose main role was to rewrite the constitution, and moved to an authoritarian ‘guided democracy’ in which he wished to balance the three main political streams: nationalism, Islam and communism.

After the unsuccessful communist-linked coup in 1965, Sukarno lost power. He was officially removed from office two years later and General Suharto was installed as the new president. Backed by the West in the Cold War setting, Suharto led the country in a militaristic, authoritarian fashion until the collapse of his New Order regime in May 1998. The country embarked on a new journey: a transition toward democracy.

### 3.1.1. Early Independence

After independence, all the supporters of the various independence movements, who had fiercely fought the Dutch, had to manage the newly declared country. Internal divisions ran deep and centred on differences in ideological aspirations at the level of political leadership, and on different treatment experienced by the widespread guerrilla troops lower down. Some internal divisions were managed peacefully, but some resulted in civil war. The two most important ones were the 1948 communist uprising and the Islamic State of Indonesia (*Darul Islam [DI]*) revolt. Other regional revolts were the PRRI-Permesta — rooted in the internal division within the army, and the South Maluku Republic (RMS) revolt, aimed at preserving the federal style of government imposed by the Dutch.

### 3.1.1.1. The 1948 Communist Uprising in Madiun

In August 1948 one of the left factions of the military, linked to a loose collection of militias, political groups, unionists and sympathizers, seized control of the city of Madiun in East Java, calling on other leftist groups to rally there. President Sukarno and his vice-president, Mohammad Hatta, declared the uprising illegal and ordered the republican army to crush it. The army was joined by Muslim militias moved to Madiun from all sides as the fierce social divisions between the Islamist *santri* faction and the communist *abangan* component in the Javanese society remained in force (Vickers, 2005).

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*Santri* is devout Muslims, while *abangan* is socio-economically lower class nominal Muslims who mix their religious practice with Hinduism. The last category is *priyayi*, which refers to nominal

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At least two contrasting versions regarding this revolt exist (Swift, 1989). The central government viewed the revolt as a Moscow-inspired coup designed to create a Soviet-style regime, not just in Madiun but in all Indonesia. On the other hand, the Indonesian Communist Party claimed that it was a provocation inspired by the US, designed to force the communists into revolt so that they could be crushed by the troops of a reactionary government.

Essentially, the Madiun affair was a social revolution, not a secessionist attempt, resulting from internal ideological divisions among the different factions of the independence movement. Estimated casualties were about 24,000 in total (8,000 in Madiun, 4,000 in Cepu and 12,000 in Ponorogo, as the affair affected neighbouring areas). In addition, 14,000 members of the Left were jailed in Yogyakarta and 900 in Solo (Vickers, 2005). Ironically, in this very short-lived civil war, casualties were greater than those suffered in the famous Surabaya battle of October 1945, fought against the British and Dutch Armies. Indeed, 1948 has been described as the darkest of the Indonesian revolutions (Swift, 1989). Because of the revolt, the Indonesian Communist Party (PKI) came into ill repute for having stabbed the revolution in the back as the country was struggling to consolidate its independence.

3.1.1.2. The Revolt of South Maluku Republic (RMS)

The Republic of South Maluku (RMS) was proclaimed in Ambon on 25 April 1950 as a reaction against the Indonesian nationalists’ drive to transform the federal structure, stipulated in the sovereignty transfer from the Dutch in December 1949, into a unitary state. The armed forces of the RMS were defeated after rather heavy fighting in November 1950 and their remnants, together with the political leaders of the movement, fled to the island of Seram. According to the Uppsala-PRIO dataset, the conflict resulted in an estimated 5,000 battle-related deaths. The following year some 12,000 RMS soldiers accompanied by their families migrated to the Netherlands, where they established an RMS government-in-exile.

Muslims with Hinduism influence, who enjoy a higher socio-economic status. Such social stratification of Javanese society was introduced by Geertz (1976).
3.1.1.3. The Islamic State of Indonesia (Darul Islam-DI) Revolt\textsuperscript{47}

The area covered by Darul Islam (DI) included West Java (and parts of Central Java), South Kalimantan, South Sulawesi and Aceh. DI activities were also reported in Nusatenggara, Maluku and Halmahera, and took the form of infiltration from South Sulawesi; however, these activities did not develop into a full-scale guerrilla war and were not as widespread as in other regions. In 1955, the government of Indonesia was confronted by a rival government, the Islamic State of Indonesia (DI), with Sekarmadji Maridjan Kartosuwiryo (West Java) as president, Daud Beureueh (Aceh) as vice president, Kahar Muzakkar (South Sulawesi) as vice minister of defence and Ibnu Hadjar (South Kalimantan) as minister without portfolio. In terms of area coverage, DI was the most widespread rebellion in Indonesian history.

The DI revolt in each region had its own local context, but, united by ideology, local groups formed a common front across regions. Dijk (1981) puts forward four reasons why people joined the DI movement. First was the division between the official army and guerrilla units. Many guerrilla groups participated in the independence revolution, but after the revolution not all could be accommodated in the official army of the newly independent state; most had to be demobilized. The guerrilla groups were (a) purely local, with the sole concern of fighting the Dutch, (b) ideological, with a national perspective, of which the religious aspect (Islam) was the most dominant — most were linked to or sponsored by a political party (e.g. Hizbullah and Sabillah), and (c) ethnic. Demobilization, and disillusionment with the slow emergence of the expected benefits of independence, created widespread dissatisfaction. Dijk’s second point concerned the expansion of central control over regions, in administrative as well as economic spheres, which created regional resentment toward the centre. Third was the agrarian structure: DI was a rural-based rebellion in relatively prosperous agricultural areas. The revolts allowed many landless farmer labourers or share-croppers to rise against the ruling class of landlords and the priyayi remaining from colonial times. Fourth, and by no means least, was Islam, the unifying factor of DI, rooted in the aspiration for an independent Islamic state for Indonesia.

DI in West Java was proclaimed on 7 August 1949; it ended with the capture of its leader Kartosuwiryo in 1962; he was executed in the same year. Under the

\textsuperscript{47} This sub-section draws largely on Dijk (1981).
leadership of freedom fighter Kahar Muzakar, South Sulawesi officially joined the DI in January 1952. Uniting the many disaffected guerrilla troops in the region, the South Sulawesi DI also reached a formal agreement with the North Sulawesi’s Permesta rebellion, in which the two rebel governments agreed to cooperate in opposing their common enemies: the Indonesian Government and the communists. The Sulawesi DI struggle continued until the death of its leader in an armed fighting in 1965.

In South Kalimantan, Ibnu Hadjar led a DI revolt built upon disappointed guerrilla fighters, starting in 1950. Later on, in late 1954, he joined the Kartosuwiryo-led DI, headquartered in West Java. The South Kalimantan DI revolt was considered minor (compared to those in West Java, Aceh and South Sulawesi), it did not end until its leader was captured in 1963 and sentenced to death.

In 1953, the respected Islamic scholar Daud Beureueh declared the Islamic State of Aceh; this was part of DI. The local context for this revolt was the amalgamation of Aceh with the province of North Sumatra. This undermined the leading role played by Aceh during the struggle for independence, and caused local resentment against the increasingly centralistic national government. After a series of fighting, the revolt was ended with a negotiated settlement in 1959, in which Aceh was granted the status of special region in terms of religion, culture and education. Daud Beureueh was pardoned. In this respect, the Aceh DI differed from the other DIs, which all ended with the total military victory of the central government.48

3.1.1.4. PRRI-Permesta Revolt

The PRRI-Permesta rebellion was a movement to change national policy, and did not aim to secede from the Indonesian state. It was organized by regional army commanders in collaboration with dissatisfied national politicians mainly from the Masyumi — an Islamist party — and the Indonesian Socialist Party (PSI). It was rooted in genuine grievances: a reaction to the collapse of parliamentary democracy in 1957, the growing influence of the communist party after the 1955 election, army

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48 However, there some attempts at a negotiated settlement. For example, in 1950 a team of central government envoys led by Wali al-Fatah was dispatched to meet Kartosuwiryo, the DI president; however, Kartosuwiryo refused to talk. This was because the central government army continued to attack the DI rebels while the envoy was attempting to develop contact with DI leaders, and Kartosuwiryo was reluctant to sit in a negotiation with the relatively unimportant representative of central government (Dijk, 1981).
restructuring, economic mismanagement and objections to the growing centralistic, authoritarian and corrupt nature of the central government. It was an alternative government, not an alternative state for Indonesia (Mossman, 1961; Harvey, 1977; Leirissa, 1991).

In a move supported by regional military commanders from Central Sumatra, North Sumatra, South Sumatra and North Sulawesi, and national politicians from Masyumi and the socialist party PSI in the interior West Sumatra, in February 1958 the PRRI-Permesta officially presented an ultimatum to the central government. They asked the central government for changes in national policy and political constellations. The government rejected the ultimatum and the rebels formed an alternative government for Indonesia called the Revolutionary Government of Republic of Indonesia (PRRI). Armed conflict continued until 1961, when the rebels surrendered and were given amnesty.

The PRRI-Permesta briefly received support from the US through the CIA, in the forms of arms, fighter planes and training. In fact, a Permeza plane piloted by a CIA agent was shot down in Ambon and the pilot arrested (Doepers, 1971; Harvey, 1977). This was an embarrassment for the US, who subsequently withdrew their support. The revolt was an amalgam of disparate groups that brought together the disappointed regional army commanders and national politicians, and US interests, to bring the left-oriented Sukarno down.

The 1950s saw the widest geographical spread of regional revolts in the country, with wide variation of causes. The revolts affected most of Sumatra and Sulawesi, significant parts of Java and Kalimantan and parts of the eastern Indonesian islands. The Uppsala-PRIO conflict dataset estimates that during 1950–61, the series of internal conflicts in Indonesia cost 40,000 lives: 35,000 from the Darul Islam and PRRI-Permesta revolts and 5,000 from the RMS rebellion.

3.1.2. The Fall of Sukarno

The series of post-independence civil wars in Indonesia were virtually ended in the early 1960s by the defeat of PRRI-Permesta and Darul Islam. After the collapse of

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49 Their principal demands were the ouster of the cabinet led by Premier Djuanda with its unnamed ‘communist sympathizers’, its replacement by a government without communist participation headed by Hatta and the Sultan of Yogyakarta, President Sukarno's return to a constitutional position, and the abandonment of his efforts to implement Guided Democracy. Note that, Hatta was resigned as the vice president in 1956 due to his deep disagreement with Sukarno’s policy.
Western-style parliamentary democracy in 1957 when Sukarno instated what he called a ‘guided democracy’, Indonesia became an authoritarian presidential regime with Sukarno himself at the centre of power. His intent was to bring together the three main ideological political streams: nationalism, religion (Islam) and communism; but the following years saw a growth of communist power, while Sukarno moved left. The guided democracy (1957–65) was accompanied by insensitivity to regional needs, bureaucratic inefficiencies and the deterioration of economic conditions. Sukarno spent much of the country’s resources on huge and unproductive national monuments and extravagant world tours, while inflation soared and tensions increased among the major political groupings. Indonesian politics, bureaucracy, military and society at large were polarized into pro- and anti-communists.

Tension reached its peak in the pro-communist abortive coup of 30 September 1965, called ‘the 30 September movement’. The failed coup was followed by a backlash in which hundreds of thousands of alleged communist supporters were killed in army-supported massacres. The bloodletting was the greatest in syncretic (nominal) Muslim Java, and extensive killing also took place in Hindu Bali and North Sumatra; outer islands witnessed far fewer deaths. This event coincided with the peak of the Cold War, and the West did not want to see Indonesia became another Vietnam.

This marked the beginning of Sukarno’s gradual loss of power. Under the leadership of General Suharto, the army took control after the failed coup. In the following year, on 11 March 1966, Sukarno signed a letter giving Suharto authority to take whatever measures he ‘deemed necessary’ to restore order. The following day, the army banned the Indonesian Communist Party. A year later, the Provisional Peoples Representative Assembly (MPRS) officially removed Sukarno from office and appointed Suharto as acting president.

3.1.3. State Violence in Suharto’s Indonesia

During the relatively stable New Order Suharto regime (1967-98), internal conflict was significantly lower than under Sukarno’s administration. However, internal conflicts during the army-dominated period and the increasingly authoritarian New

50 Estimates of casualties of the anti-communist killing lay between 200,000 and 800,000, with a figure of 500,000 the current most plausible estimate (Cribb, 2001).
Order were dealt with in the form of state-sponsored violence, to silence political opponents and thereby achieved stability as the basis for initiating economic development. Like Augusto Pinochet of Chile and other leaders of the developing world, Suharto was a protégé of the West who successfully stopped communism in his country. He received much support from the West, at least until the end of the Cold War, at which time Suharto shifted his alignment from the army to Muslim groups in order to maintain his political power base.

Suharto took many repressive measures to silence his opponents. Students were forced out of politics after a January 1974 student demonstration in Jakarta, protesting economic policy relating to foreign investment and the regime’s corruption, turned riotous. Dozens of students and other leaders were arrested, and it was made clear that overt criticism of the regime would no longer be allowed. Media were placed under tight censorship; many licences were revoked. Dissenters were denied expression and were subject to arbitrary arrest. Labour unions were suppressed. The regime committed a series of human rights abuses in carrying out such policies. Minor challenges were posed by a secessionist group in Papua during the time of the regime. Backed by the West, Suharto’s takeover of East Timor in 1975 was the greatest war the regime became involved in; and in 1976 a secessionist movement was launched by a newly formed rebel group in Aceh.

The sudden outburst of violence across the country after the fall of Suharto in May 1998 and for the few years following created a strong nostalgia for peace and stability among Indonesians. However, the late New Order period (1990-97) was not entirely peaceful (Varshney et al., 2008): state control had been less effective since the early 1990s, and the New Order often used state-perpetrated violence as a principle mechanism to bring order (Anderson, 2001).

3.2. CRISIS, TRANSITION AND CONFLICT

This section briefly discusses the macro picture of the political economy during Indonesia’s systemic transition. It started with the financial crisis, a result of regional contagion from integrated capital markets. Then the sharp decline of the domestic

51 For instance, in July 2000, when Lorraine Aragon was doing research on Muslim-Christian violence in Poso, she was repeatedly, and wistfully, told by some citizens of Sulawesi that ‘for thirty-three years under Suharto Indonesia was a peaceful place, but now….there are disturbances everywhere’ (Aragon, 2001: 78). Such views are not uncommon in Indonesia today. A longing for the ‘stability’ of the New Order is unmistakably present in some circles.
currency value became a multi-dimensional crisis — economic, social and political. The outbreak of social violence in the country was an important feature of the transition itself.

3.2.1. Crisis and Transition

Indonesia in 1998 experienced the worst economic crisis in its post-independence history. The national economy contracted by more than 13 percent as a result of the problems stemming from the East Asian financial crisis in mid-1997. In terms of movements in stock prices, the magnitude of the post-1997 economic crisis was equivalent to the impact of the Great Depression following the 1929 stock market crash in the USA (Mishra, 2002). The national poverty rate doubled, from its historically lowest point of around 15 percent at the onset of the crisis in mid-1997, to a high around 33 percent towards the end of 1998 (Suryahadi, Sumarto and Pritchett, 2003). The deep recession triggered a systemic transition. The long-standing military-backed New Order collapsed, culminating in the resignation of President Suharto in May 1998. A year after that, the country held its first free and democratic multi-party elections in more than four decades.

The Indonesian transition was, however, multidimensional in nature. It can be better understood by looking at systemic transitions, as in the former USSR or in countries of Eastern Europe (Mishra, 2002). The transition consisted of at least three major changes. The first was from an autocratic system of politics and governance to a democratic one. The second was from a patron–client and crony-capitalist economic system to a rules-based market economy. The third was from a centralized socio-political and economic system to a decentralized one (Tadjoeddin, 2002). The economic crisis served as both a catalyst and a trigger, in line with Haggard and Kaufman’s (1995: 26) observation that ‘the probability of a democratic transition increases during periods of economic distress.’ In the case of Indonesia, this tendency was noted by McBeth (1999: 22), who wrote, ‘without the collapse of the economy…there would not have been the opportunity for political change.’ It would have been difficult to predict the fall of Suharto as the first step to transition while the nation was experiencing high, stable economic growth.

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52 Dhanani and Islam (2002) estimate that the poverty rate increased from 29 percent in February 1997 to 44 percent in September 1998.
Transition (democratization) is very likely to be accompanied by widespread social unrest and violence (see Snyder, 2000; Hegre et al., 2001). It seems that massive social violence is more likely to occur in the middle of a turbulent situation, and not in stable periods when the economy grows steadily, the degree of welfare increases and all things are well ‘ordered’. The economic and political turbulence caused at least two new developments: a diminished national output while the number of people competing for it increased; and a significant change in the distribution of power. Both increased the likelihood of violence.

3.2.2. The Outbreak of Violence

Figure 3.1 depicts all incidents of collective violence in the country during 1990–2003. The peak came after the crisis and the fall of Suharto, in 1998.\textsuperscript{53} Violent conflict pervaded the nation: the violent secessionist challenges of Aceh and Papua, the Christian and Muslim violence of Maluku, North Maluku and Poso, the anti-Madurese violence of Sambas and Sampit, the anti-Chinese riots of Jakarta and Solo, and so on.

**Figure 3.1. Deaths and incidents of (non-separatist) violence in Indonesia (1990–2003)**

Source: Varshney et al. (2008: 377)

\textsuperscript{53} Separatist violence in Aceh and Papua is not included, owing to unavailability of data. However, the intensity of violence in those two regions significantly increased after the fall of Suharto (Tadjoeddin, 2002).
The Aceh secessionist challenge was the most high-profile case, and a clear case of civil war. It was equipped with an organized military wing and an articulated domestic and international political campaign. The secessionist challenge of the Free Aceh Movement (GAM) that started in 1976 went into different phases until the 2005 Helsinki accord that ended the three-decade-long rebellion. In the first phase of the struggle (1976-79), GAM active memberships are estimated to have been between two dozen and 200, led by well educated elites. By the end of 1979, GAM was totally crushed by Indonesian counter-insurgency operations. Its leaders were exiled, imprisoned or killed and its followers dispersed and pushed underground. GAM started to re-emerge in 1989 after hundreds of its fighters underwent military training in Libya in 1986–87; the ‘Libyan graduates’ trained hundreds more guerrilla fighters on the ground. The period of 1989–1998 in Aceh was known as the Daerah Operasi Militer: DOM (military operational zone/martial law) era, with heavy-handed reprisals against villagers believed to be supporting the insurgents. The third phase was during 1998–2005. The main source of GAM recruitment during the period, especially between 1999 and 2003, was families who had been victimized by Indonesian military violence during the 1989–1998 period of martial law (Schulze, 2004; Ross, 2005).

Taking the advantage of the momentum of the late 1990s democratization, there was a significant renewal of secessionist challenge in the eastern-most Indonesian province of Papua; but it was not as organized or as massive as in Aceh. With the demise of the authoritarian regime in 1998, Papuan civil society began to mobilize. A team of 100 Papuan leaders openly demanded to secede from Indonesia in a February 1999 dialogue with President Habibie in the state palace. The second Papuan Congress in 2000 formed Presidium Dewan Papua-PDP (Papuan Presidium Council) as a new political wing of their independence agenda. This was in addition to the Organisasi Papua Merdeka — OPM (Free Papua Organization), a weak military wing that has been active since it proclaimed Papuan independence in 1971. More

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54 GAM received Libyan support as part of Muammar Gaddafi’s chairmanship of the ‘Mathaba Against Imperialism, Racism, Zionism and Fascism’, an organization set up in 1985 to supply moral and financial support to liberation movements around the world (Kell, 1985).

55 While the first and second generations of GAM membership (1970s and 1980s) were mainly driven by ideological motives.

56 Sponsored by Dutch colonial rulers who wanted to see a West Papua separate from Indonesia, the first Papuan Congress was held in October 1961 and resulted in a political manifesto calling for an independent West Papua.
importantly, since 1998, the push for Papuan independence has used popular civic society dynamics utilizing all possible democratic means.

The spectre of the Balkanization of Southeast Asia after Indonesia’s loss of East Timor in 1999 and the renewed secessionist challenges of Aceh and Papua became more frightening when minor secessionist aspirations were expressed in Riau and East Kalimantan. Coincidentally, these four regions (Aceh, Papua, Riau and East Kalimantan) are rich in natural resources. The second Riau People’s Congress (KKR-Kongres Rakyat Riau), held in Pekan Baru in January 2000, issued a decree calling for Riau’s independence from Indonesia.\(^{57}\) In a roughly similar tone, in November 1999 the provincial parliament of East Kalimantan officially issued a decree demanding a federal state for Indonesia.\(^{58}\)

Why was the level of conflict significantly lower in Riau and East Kalimantan than in Aceh and Papua? The answer lies in their lack of any history of independence movement, or of military abuses, charismatic leaders or significant diaspora communities. The leaders of Riau were also, perhaps, aware that their prosperous and more powerful neighbour, Singapore, would not tolerate any arms struggle or destabilization that might spill over to the island state.

There were no serious political consequences of these demands in Riau and East Kalimantan, but, they occurred in the period when renewed rebel movements in Aceh and Papua were on the rise, and when the strength and the confidence of the state was at its worst in the country’s history\(^{59}\) and the fear of Balkanization was strong. The country had just lost its youngest province, East Timor, following a UN-organized referendum in August 1999. In response, and under strong donor pressures, the government of Indonesian passed a set of laws on regional autonomy (Laws no 22 and 25/1999) which served as the basis for a radical ‘big bang’ decentralization of the country.

Since the general impression about violence in the country is dominated by high-profile forms of violence — separatist violence and ethno-communal violence, either

\(^{57}\) The first Riau People’s Congress in 1956 demanded the creation of Riau as a separate province. At that time, Riau (together with the current West Sumatra and Jambi provinces) was part of the province of Central Sumatra with Bukittinggi as its capital city. The arguments for the case of independence for Riau can be found in Rab (1999).

\(^{58}\) Decree no 28/1999 of the Dewan Perwakilan Rakyat Daerah – DPRD (provincial parliament) of East Kalimantan.

\(^{59}\) See Tadjoeddin (2002) for a brief discussion on an evolutionary shifting pattern of the strengths and weaknesses of state and society in Indonesia.
inter-religious (Christian–Muslim) or inter-ethnic (Dayak–Madurese, anti-Chinese and so on) – it is important to examine the macro pattern of this kind of collective violence in Indonesia.

First, using a death measure, non-separatist collective violence in Indonesia is found to be highly localized. During 1990–2003, as many as 85.5 percent of all deaths in collective violence were found in 15 regions,\(^{60}\) inhabited by only 6.5 percent of the country’s total population (Varshney et al., 2008). These regions experienced deadly ethno-communal violence, encompassing the May 1998 anti-Chinese riot in Jakarta a few days preceding the resignation of President Suharto; the series of incidents against Madurese migrants in West Kalimantan (in early 1997 and early 1999) and Central Kalimantan’s town of Sampit (February 2001); and incidents of Christian–Muslim violence in Maluku, North Maluku and Poso. This pattern of high regional concentration of collective violence does not change even if we consider separatist violence, since it is confined to Aceh and Papua.

Second, violence in the country in the past decade can be divided into two very broad classifications: episodic and routine. The former consists of separatist and ethnic violence, and the latter centres on group brawls and vigilante violence. While the episodic type of violence is associated with a high number of deaths and a relatively low number of incidents, the routine variety is characterized by the converse.\(^{61}\) Episodic violence has had a major economic impact and internally displaced many people,\(^{62}\) while routine violence tends to cause minor damage and is less likely to displace inhabitants. Interestingly, while routine violence occurs in almost all areas of Java, episodic violence is concentrated in a few regions in the outer islands.

\(^{60}\) Deaths due to separatist violence in Aceh and Papua are not included here. The 15 regions are the capital city Jakarta; the districts of Sambas, Bengkayang, Pontianak, Landak and Sanggau in West Kalimantan; the districts of Kotawaringin Timur (Sampit) in Central Kalimantan; the district of Poso in Central Sulawesi; the districts of Maluku Tengah, Maluku Tenggara, and Buru, and the city of Ambon in Maluku province; the districts of Maluku Utara and Halmahera Tengah, and the city of Ternate in North Maluku province. This refers to conditions in 2000. Several of the districts have since been split into new districts.

\(^{61}\) Between 1990–2003, ethno-communal violence accounted for 89 percent (or 9,612 casualties) of total deaths in collective violence, but only 17 percent of incidents, while the rest, routine violence, accounted for 11 percent of deaths but 83 percent of total incidents (Varshney et al., 2008, Table 2, p.379).

\(^{62}\) In 2001, the Ministry for Health and Social Affairs released the figure of 1.3 million internally displaced persons (IDPs) spread across 19 provinces due to violence in the country (The Jakarta Post, 24 August).
3.2.3. Explaining the Conflict

The sudden outbreak of different kinds of violent conflict across the country after the fall of Suharto created the momentum for a new area of study in Indonesia: conflict studies. New funding initiatives, conferences and workshops were organized, and the volume of studies of conflict has grown considerably in Indonesia in the past decade. As in other parts of the world, early conflict studies were dominated by the historical, cultural and political approaches used by social scientists, with rather less emphasis placed on multi-disciplinary perspectives — including economics. In fact, socio-economic factors have played a significant role in causing conflict in Indonesia, although these aspects are still under-studied compared with cultural and historical factors.

Two types of study dominate the growing inquiry into contemporary conflict in Indonesia. The first type provides detailed ethnographic or political accounts of particular episodes of violent conflict. Human Rights Watch (HRW) and ICG reports and other ethnographic studies are usually located within this category. This type of study has been widely available; it is not uncommon to have a good account of the factual events of a particular conflict in the early stages of an inquiry.63 The second tries to explain conflict from socio-political and historical perspectives. The theoretical literature that has emerged on group violence in Indonesia since the fall of Suharto has gone in three directions (Varshney et al., 2008). The first follows the popular view that Indonesia under Suharto was, on the whole, relatively peaceful because it had the political, administrative and military mechanisms to discipline eruptions of social disaffection, and that the end of the New Order and the collapse of its disciplinary mechanisms accounts for the violence of recent years. A second view focuses on a longer time period. Some scholars suggest that ‘violence is embedded’ in Indonesian society and history and that ‘the present violence is not simply, or not only, the legacy of the New Order’ (Colombijn and Lindblad, 2002: 3). In this view, the New Order is an instance in a long historical tradition of violence. A third argument contends that violence did not erupt after 1998 because

the New Order’s disciplinary mechanisms collapsed, but was, indeed, one of the pillars on which the New Order rested. In the end, the problem of legitimacy led to the collapse of the New Order — a moment seen as a ‘critical juncture’ — which left a violent trail. The New Order, in short, was itself the cause of the violence, both during its life span and after its death (Bertrand, 2004). Klinken (2007), who considers the major episodes of ethnic violence, argues for the role of middle class ethnic elites in small provincial towns in the outer islands in mobilizing violence: that it was the elites’ response to opening opportunities provided by the movement toward democratization, the collapse of centralistic polity and the initiation of decentralization.

The third argument derives from a political economy explanation of conflict and, so far, has been rather underutilized. The next section discusses the issue in more detail.

3.3. THE CASE FOR THE ECONOMICS OF CONFLICT IN INDONESIA

Approaching different types of conflict from an economic perspective is highly revealing. Practical generalizations and empirical regularities can be derived by analyzing a large cross-section of incidents of conflict. Such an approach can view conflict from a broad socio-economic-politico-development perspective and yield plausible practical policy innovations. It goes a step further than blaming history and culture for violent conflict by offering the possibility of change: for culture does not change overnight and the past cannot be altered.

However, so far only few inquiries are available. On secessionist or centre-regional conflict, Brown (2008) argues for the role of horizontal inequalities in fomenting the renewed secessionist challenge in the resource-rich province of Aceh. He asserts that the region experienced a ‘double whammy’ of horizontal inequalities: (a) spatial inequality between the region and the rest of the country and (b) ethnic horizontal inequality in the region between native Acehnese and migrant Javanese.

Spatial inequality refers to the relative poverty of Aceh as a province compared with the rest of the country (Brown, 2008). In 1980, Aceh was a mid-income province (ranked tenth out of 27 provinces according to per capita regional GDP).

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64 Brown (2008) places Aceh in a comparative study of three secessionist movements in Southeast Asia. The other two cases are southern Thailand, the Mindanao region of the southern Philippines.
with a very low poverty rate (only two provinces had lower poverty than Aceh). By 2000, Aceh’s per capita regional GDP rose to the fourth out of 30 provinces, but its poverty rank increased to the fifth position. Between 1980 and 2002, the poverty rate in Aceh was more than doubled, while Indonesia as a whole cut its poverty rate by nearly half (Brown, 2008). In a comparative study of the four resource-rich provinces in Indonesia, Tadjoeddin et al. (2001) point out discrepancies/incompatibilities between measures of regional prosperity (per capita regional GDP) and measures of human development (education, health, purchasing power and overall human development index - HDI). They argue for the aspiration to inequality, or the rage of the potentially rich, as a conflict driver. Looking at the role of natural resources in different actor-based conflict categories, Tadjoeddin (2007) contends that it is grievance resulting from the management of natural resources that matters, not greed over natural resources.

On ethnic horizontal inequality in Aceh, Brown (2008) exploits the socio-economic horizontal inequality between native Acehnese and migrant Javanese to explain the renewed secessionism in the region. He compares the situation in Aceh with horizontal inequalities between native Batak and migrant Javanese in Aceh’s neighbouring province of North Sumatra: Javanese is the second largest ethnic group in these two provinces and, at the same time, is the dominant ethnic group of the country. Javanese in Aceh are relatively more advance than the native Acehnese in terms of employment and education in the urban sector, and land holding in the rural sector; while in North Sumatra, the native Batak is more advanced than the Javanese.

Brown (2008) argues that the relative poverty of Aceh as a province (spatial inequalities) resulted in in-migration of educated non-Acehnese mainly in response to the growing oil and gas sector. This in-migration in turn exacerbated local ethnic horizontal inequalities between the Acehnese and the Javanese. Although the latter (ethnic horizontal inequality) is less severe than the former (spatial inequality), it is closer to people’s daily life: making it more instrumental in aggravating grievances.

The notion of ethnic horizontal inequalities in the context of secessionist/centre-regional conflict is quite appealing; however, the approach seems unsuitable for the other three resource-rich regions of Riau, East Kalimantan and Papua, which also posed some degree of secessionist challenges to the central government. The

65 The actor-based conflict categories are centre vs. region, state vs. society, inter-ethnic and company vs. community.
comparison of ethnic horizontal inequalities between native ethnic groups (Acehnese in Aceh and Batak in North Sumatra) and migrant Javanese is possible because of the significant presence of the Javanese in these provinces. Javanese are the second-largest ethnic group in both provinces as the result of past national demographic policies such as the transmigration programme. In Aceh, animosity towards the Javanese as the dominant ethnic group of the country to some extent reflected dissatisfactions with the central government. However, this was not the case in Riau and East Kalimantan since secessionist sentiment in the two regions was minor. The ethnic composition of Papua (and of its neighbouring provinces of Maluku and North Maluku) is significantly different from the other three resource-rich regions.

Discussing ethnic violence, Mancini (2008) employs the concept of the grievance of ethnic horizontal inequalities to explain deadly ethnic violence. He finds the positive significant effect of ethnic horizontal inequality only in terms of the measurement of child mortality, while other more direct measures of group horizontal inequalities (income, education, land holding, young male unemployment and government employment) are insignificant. He uses a dummy dependent variable of ethnic conflict (1 if the district had deadly ethnic conflict, 0 otherwise) and measures horizontal inequality among all ethno-linguistic and ethno religious in a particular district with group-weighted coefficient of variation.

Tadjoeddin and Murshed (2007) did a pioneering empirical study on routine violence across Javanese districts. They find an inverted-U-shape relationship between violence and levels of development measured by income and education, a violence-inducing effect of poverty and a violence-reducing effect of overall human development. Their finding on the inverted-U association between violence and income, in particular, is interesting; however, their explanation is intuitive only, and less than satisfactory due to the absence of a mechanism in between. In a related study, Murshed, Tadjoeddin and Chowdhury (2009) find a positive externality of (fiscal) decentralization having a violence-reducing effect.

While the above studies have independently dealt with the three types of conflict in contemporary Indonesia, this thesis will study the four main types of conflict (the three conflict types cited above and electoral conflict) in a coherent manner, making it the most comprehensive extant large-sample empirical study of socio-economic determinants of conflicts in Indonesia. First it will provide a coherent economic framework to explain the four conflict types. The framework begins with the
‘success’ of the authoritarian New Order regime in achieving socio-economic convergence across regions and ethnic groups. Primarily due to the regime’s authoritarian nature, this convergence led to the collapse of a previous vertical social contract, making way for fresh eruptions of violent conflict during the early phase of democratic transition. The conflicts ended in cooperation, and different components of the country were able to reach a new horizontal social contract in a democratic setting.

On secessionist conflict, in line with Brown’s (2008) work on spatial inequality, this study will advance Tadjoeddin et al’s (2001) argument on the aspiration to inequality-related grievances of four resource-rich regions, link it with recent political developments in Indonesia and its localities and finally assess the risk of resource curse these regions may face. On ethnic violence, in contrast to Mancini’s (2008) work, this thesis will examine group grievances caused by groups’ changing relative positions in the context of converging horizontal inequalities, and show inter-ethnic cooperation after decentralization. On routine violence, this thesis will advance Tadjoeddin and Murshed’s (2007) finding on the relationship between violence and income by bringing the inequality variable into the picture as a mechanism in between, and will assess the neo-Malthusian conflict scenario. On electoral conflict, this thesis will offer a new inquiry testing the modernization hypothesis in a within-country setting by treating levels of electoral hostility as an inverse indicator of democratic maturity at the local level.

Finally, it is hoped that this thesis will shed light on what initiates conflict. This is particularly important given that the country is still at an early stage of democratic consolidation.
Chapter Four

A COHERENT THEORY OF CONFLICT AND COOPERATION FOR POST INDEPENDENT INDONESIA

4.1. INTRODUCTION

Indonesians spent most of their energy in the first two decades after independence in 1945 in settling their ideological differences through a series of heightened internal conflicts, most of which fell within the category of civil war. The period overlapped the advent of the Cold War. During this time, the country joined the second wave of post-World War II democratization, but this was short-lived. It was the country’s first experiment in democracy and lasted from just after Independence until the advent of ‘guided democracy’ in 1959. Following the trend of post-war, newly independent third world countries, the Sukarno regime moved to the left. The period (1945–67) recorded very poor socio-economic progress: the standard of living of most citizens barely improved, and mass poverty was widespread.

After a failed coup and the killing of around half a million alleged communist followers, the period concluded with a kind of new ‘social contract’ in the late 1960s, ending the significant influence of communism and any leftist ideologies. Thus, the

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66 See Chapter 3 for a more detailed discussion.
67 See Mishra (2002) and Feith (1962). The second short wave of democratization refers to the period between 1943 and 1962, experienced by a group of around 30 countries. Indonesia was among them. However, when President Sukarno dissolved the democratically elected Indonesian parliament in 1957, just two years after the free and fair multi-party elections, the country became one of a group of 22 democratic governments that experienced reversals from democratization to authoritarian regimes (Huntington, 1991).
68 A few examples: Nehru’s India, Nasser’s Egypt, Lumumba’s Zaire, Mengistu’s Ethiopia and Allende’s Chile.
69 It is argued that the country had become a national economic entity only since 1970 (Hill, 2000). In the mid 1960s, Indonesia was a ‘basket case’ that shared the characteristics of today’s Sub-Saharan Africa’s least developed countries: civil-war ridden, very poor, without the presence of any significant natural resource exploitation. When taking over the presidency in 1967, the first task of the Suharto’s administration was to stabilize the economy, which included controlling the inflation as a chief priority, balancing the budget, re-establishing ties with international donor communities and rehabilitating physical infrastructure. It was quite successful: inflation fell from 635 percent in 1966 to 112 percent, 85 percent and 17 percent in 1967, 1968 and 1969 respectively, and the first Indonesia’s 25-year long-term development plan began in 1969.
Suharto regime was called a ‘New Order’. This was at the peak of the cold war; and with strong backing from the West, Indonesia embraced an era of development under the military dictatorship of General Suharto. The New Order replaced Sukarno’s ‘guided democracy’ with a political system which can be regarded as ‘controlled democracy’. Elections were regularly held, without fair competition and with the presence of a very powerful government party, to legitimize the regime. For the first few years, the new arrangement received popular support from various religious groups, student activists, technocrats and, importantly, the military.

The first major challenge to the regime was the 1974 student riot protesting the country’s liberal foreign investment policies. The next was the 1980 petition signed by fifty prominent Indonesians, including a former army chief and several former ministers, protesting President Suharto's use of the state philosophy *Pancasila* against political opponents. Despite such opposition, the new social contract lasted for three decades until its breakdown in the wake of the 1997 East Asian financial crisis.

Despite a record of human rights abuses, the achievements of the Suharto regime were remarkable. Unlike his counterparts in Africa, such as President Mobutu Sese Seko of Zaire (now the Democratic Republic of the Congo), Suharto deliberately opted for socio-economic development and economic diversification, moving away from dependence on primary commodities. Socio-economic development was the glue of the new social contract, and hence provided legitimacy for the regime. The option was economically rewarding, but turned out to be politically costly. The drive for socio-economic development and economic diversification created societal bases of power outside the control of the political elite (Dunning, 2005) and aided the rapid rise of an Indonesian middle class that in the late 1990s demanded genuine democratization. Such independent bases of power allowed challenges to the

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70 See footnote 1 on the ‘philosophical’, social, economic and political foundations of the New Order, embodied in the state principle of *Pancasila*. Sukarno also used *Pancasila*, but Suharto significantly redefined it with more emphasis on socio-economic development and shared prosperity, by linking them to religious duties.

71 Suharto rose to power in the mode as, and roughly at the same time as, Zaire’s Mobutu (1965) and Chile’s Pinochet (1973). They were military generals, anti-communist and autocratically ruled their countries with strong supports from the West.

72 By providing legitimacy, development and diversification, reduced political risks. By contrast, Mobutu of Zaire did not opt for development and diversification since he faced a high degree of societal opposition, which led him to believe that investments in infrastructure and other public goods would pose a threat to his grip on political power.
incumbent political power, especially during economic downturns. Thus, Indonesia’s current democratization is an endogenous process, created from within the system.

From the 1960s to the mid-1990s, average per capita income more than quadrupled, the poverty head count dropped from 70 percent to only 13 percent, infant mortality dropped from 159 to 49 per thousand live births, the adult illiteracy rate fell from 61 percent to 14 percent and inequality, measured by the Gini coefficient of expenditure, was broadly stable, varying between 0.32 and 0.35 in the period 1976-1996: low by international standards. Over the period 1971–97, agriculture’s contribution to GDP fell from 53 percent to 15 percent, while manufacturing rose from 8 percent to 25 percent. These achievements were widely acknowledged as a success story by the international community (World Bank, 1993; ADB, 1997). Furthermore, the achievements brought about favourable initial conditions for democracy, especially rising education levels and a growing middle class, and in the late 1990s led to the democratic transition that brought Suharto’s authoritarian regime down.

4.2. TWO CONVERGENCES

4.2.1. First Convergence: Across Regions

Many of these achievements were possible because revenues derived from extractive national resources. Unlike its African counterpart, Nigeria, which experienced a similar resource boom in the 1970s, the Indonesian policy makers used the resource windfalls to spread social services widely, especially in education and health, and to develop infrastructure especially in agriculture, and transportation. At the same time, macro-economic policies encouraged expansion of export-oriented, labour-intensive industries.

Revenues from natural resources were particularly important during the first half of the Suharto regime, when the country enjoyed the oil bonanzas of the 1970s. President Suharto, through his equalization scheme — called Inpres (Instruksi Presiden: Presidential Instruction) — used resource windfalls for the socio-economic

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73 See UNDP (2001).
74 See Pinto (1987), Bevan, Collier and Gunning (1999) and Lewis (2007).
development of poorer regions, especially in Java island which has the highest concentration (about 70 percent) of population. Four regions (Aceh, Riau, East Kalimantan and Papua), rich in natural resources such as oil, gas and mining, contributed significantly to the central government’s resource revenues. Despite the four regions’ recording significantly higher regional per capita regional GDP (RGDP) mainly due to the resource extractions, when compared with the rest of the country the regions’ achievements in terms of people welfare measured by human development indicators showed no significant differences from other regions (see Table 4.1). In other words, the regions’ achievements in terms of community welfare did not match their levels of regional prosperity. As can be seen from Table 4.1 for example, in 1996, the per capita GDP of Aceh was 42 percent higher than the national average, but its purchasing power was 2 percent below the national average and its HDI was only 2 percent higher than the overall national figure. Although Riau’s per capita GDP was more than twice the country average, its purchasing power was 1 percent below and its HDI only 4 percent higher than the national figures. We call this the first convergence.

Table 4.1. Regional prosperity and community welfare

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Aceh</td>
<td>142</td>
<td>98</td>
<td>72</td>
<td>63</td>
<td>102</td>
</tr>
<tr>
<td>(Aceh Utara)</td>
<td>350</td>
<td>96</td>
<td>87</td>
<td>75</td>
<td>103</td>
</tr>
<tr>
<td>Papua</td>
<td>170</td>
<td>97</td>
<td>241</td>
<td>234</td>
<td>89</td>
</tr>
<tr>
<td>(Fak-Fak)</td>
<td>1616</td>
<td>92</td>
<td>278</td>
<td>242</td>
<td>97</td>
</tr>
<tr>
<td>Riau</td>
<td>241</td>
<td>99</td>
<td>72</td>
<td>60</td>
<td>104</td>
</tr>
<tr>
<td>(Bengkalis)</td>
<td>435</td>
<td>97</td>
<td>77</td>
<td>74</td>
<td>103</td>
</tr>
<tr>
<td>(Kepulauan Riau)</td>
<td>283</td>
<td>96</td>
<td>54</td>
<td>42</td>
<td>101</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>404</td>
<td>100</td>
<td>55</td>
<td>86</td>
<td>105</td>
</tr>
<tr>
<td>Resource-poor non-Java provinces</td>
<td>71</td>
<td>99</td>
<td>118</td>
<td>104</td>
<td>99</td>
</tr>
<tr>
<td>Java provinces (excluding Jakarta)</td>
<td>80</td>
<td>102</td>
<td>104</td>
<td>111</td>
<td>101</td>
</tr>
</tbody>
</table>

Note: column (2) is a measure of regional prosperity, while columns (3)–(6) reflect community welfare. Purchasing power is based on household expenditure data, covered in the National Socio-economic Survey (SUSENAS: Survei Sosial Ekonomi Nasional).
Source: Calculated from BPS data.

The following facts are further evidence of convergence during the Suharto administration: despite the uneven resource endowment across provinces affecting
regional productive capacity, Figure 4.1 shows a clear pattern of income convergence across provinces during 1976–96. Initial income levels in 1976 in the horizontal axis negatively correlate with the annual growth of per capita GDP during 1976–96. This means that poorer provinces (with lower initial per capita GDP) grew faster than richer ones (which had higher initial per capita GDP) over the course of two decades. In this regard, Hill (2000: 235) notes, ‘there is no case of a high-income province growing much faster than the national average, or conversely of a poor province falling sharply behind.’

**Figure 4.1. Inter-provincial regional income convergence (1976-96)**

A similar pattern during the period can also be observed in terms of poverty reductions across provinces. Figure 4.2 depicts provincial poverty rates (HCR – head count ratio) for 1976 and 1996, where the standard deviation of HCR in 1996 is much lower than that in 1976. Figure 4.3 shows the convergence of poverty across provinces during the period. The initial 1976 poverty rates in the horizontal axis positively correlate with the total reduction in poverty (during the period) in the vertical axis. This implies that the poverty levels in poorer provinces fell at a much faster rate than in their richer counterparts.
Figure 4.2. Poverty HCR (1976 and 1996)

Figure 4.3. Convergence in poverty reduction (1976-96)

Source: Calculated from BPS data.

Source: BPS data.
Hill (2000) praises this period of Indonesia for being able to achieve low inter-regional inequality as the government delivered a measure of economic and social progress across all regions. Figure 4.4 presents the Theil-L index measure of inter-district inequalities. It shows the relatively low levels of inter-district inequalities in 1996 in terms of several human development indicators. On the other hand, the inter-district inequality of per capita regional GDP is quite high, relative to those of human development indicators. However, if oil, gas and the thirteen richest enclave districts are excluded, the inter-district inequality of per capita GDP reduces by 60 percent from 0.277 to merely 0.11 (Figure 4.4). These low inequality figures are consistent with Hill’s observation.

**Figure 4.4. Regional inequalities of regional prosperity and community welfare**

(Theil-L index measure, # 1996)

Notes:
- # Theil-L index in this case is a measure of inter-district inequality of the relevant indicators. Higher index means higher inter-district inequality.
- *) Without oil and gas and thirteen richest districts.

Source: Calculated from BPS data.

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Theil-L index is a variant of the Theil index measurement of inequality (the other is Theil-T index). Unlike the more popular Gini coefficient, the Theil index is decomposable into ‘within’ and ‘between’ components. In this case, we use the ‘between’ component of Theil-L index. The formula is given below:

\[
\text{Theil} - L_{\text{Between}} = \sum_{i=1}^{n} \left( \frac{p_i}{P} \ln \left( \frac{\bar{y}_i}{\bar{y}} \right) \right)
\]

where \( p_i \) is population in a district \( i \), \( P \) is Indonesia’s total population, \( y_i \) is per capita income of district \( i \) and \( \bar{y} \) is per capita income of Indonesia.

That is, according to the Theil-L measure, oil and gas, and few enclave districts, contribute to 60 percent of the overall inter-district income inequality.
The regime took serious measures of equalization after the 1974 student riots protesting the country’s liberal foreign investment policy. The equalization scheme was particularly emphasized in the third Five-Year Development Plan (1979–84) under the so-called development trilogy that consisted of dynamic stability of national security, high economic growth and equalization of development and its results. As noted earlier, the main vehicle for equalization has been Inpres (Instruksi Presiden: Presidential Instruction), an instrument for inter-governmental fiscal transfer.

The Inpres was introduced in the early 1970s at the beginning of the first Five-Year Development Plan. The most important rationale for the program was to enhance the financial capacity of regional governments to achieve socio-economic development. The scaling up of the program was made possible mainly by the surplus of oil revenue following oil price surges in the mid-1970s, and by the flow of foreign aid (Azis, 1990). However, a major deficiency of the Inpres was its centralistic and homogenous features. Embedded in the autocratic style of the Suharto regime, the Inpres was centrally and technocratically designed, without proper public deliberation or consultation across a highly culturally and ethnically heterogenous archipelago. Despite its achievements, the measure caused various regional discontents. Geertz (1971: 19) astutely warned of this trend when he noted that ‘archipelagic in geography, eclectic in civilization, and heterogenous in culture, [Indonesia] flourishes when it accepts and capitalizes on its diversity and disintegrates when it denies and suppresses it.’

Indonesia’s sub-national entities showed varying degrees of discontent towards the Suharto’s central government, although all benefited from the growth it delivered. By positioning the regions vis-à-vis central government, the way in which sub-national entities reacted to the centralistic nature of the Suharto government’s equalization policy can be classified into three groups. First is the industrialized,

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77 The equalization component of the trilogy was specified in the ‘eight paths of equalization.’ They are equalizations of (1) basic needs, (2) access to educations, (3) income distribution especially through labour-intensive economic activities, (4) employment opportunities though regional development, (5) entrepreneurship opportunities through credit access to economically disadvantage groups, (6) participation especially for youths and women, (7) population distribution through government-sponsored transmigration and (8) access to justice.

78 However, Ravallion (1988) believes that the centre–region fiscal flows were mildly equalizing.

79 Throughout its existence, there were seven types of Inpres, which were divided into block types for province, district and village, and categorical types for elementary school, health development, environmental development and reforestation and road development.
resource-poor Java region that enjoyed benefits during the New Order authoritarian past. The idea of power in Suharto’s New Order regime was very much derived from the Javanese culture of paternalistic relationship. Second are Non-Java resource-poor regions that felt unhappy with the centralistic and autocratic style of the regime but acknowledged the benefits of central government subsidies. Third are non-Java resource-rich regions that felt unjustly treated because they were subsidizing the equalization policy scheme and had no say in it.

Each of these groups had different utility functions in their regional development and showed diverse responses in dealing with the central government: they were happy under the authoritarian rule (the resource-poor Java); happy, but wanting more autonomy (the non-Java resource-poor); or unhappy and, in some areas, wishing to secede from the federation (the non-Java resource-rich). Therefore, the degree of regional discontent toward the centre depended on their underlying characteristics.

The Inpres was replaced by a new fiscal balance between the centre and regions (Dana Perimbangan Pusat dan Daerah) when the country adopted decentralization by passing two key decentralization laws in 1999. This brought in a new era of regional development under a democratizing decentralized polity and governance.

4.2.2. Second Convergence: Across Ethnic Groups

The second convergence is among (ethnic) groups within sub-national units. In most cases, it coincided with the socio-economic progress made by poor migrants, who achieved a standard of living comparable with native populations, especially in the outer islands: that is, previously disadvantaged groups made significant progress in matching previously privileged groups. Between 1976 and 1996, the population of most provinces outside Java, Bali and Nusatenggara grew at a faster rate than the national population growth rate (Table 4.2, column 4). This was primarily due to migration, particularly from the densely populated Java, and to differences in fertility rates.

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80 The fiscal balance consists of the General Allocation Fund (DAU-Dana Alokasi Umum), the Special Allocation Fund (DAK-Dana Alokasi Khusus) and the revenue sharing of taxes and natural resources (Bagi Hasil Pajak dan Sumberdaya Alam).
<table>
<thead>
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<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
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<tr>
<td></td>
<td>Gini</td>
<td>Pop. growth</td>
<td>Pop. density (per km2)</td>
<td>Avg. growth per capita GDP</td>
<td>Per capita GDP (1973 prices)</td>
<td></td>
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</tr>
<tr>
<td>1</td>
<td>Aceh</td>
<td>0.296</td>
<td>0.259</td>
<td>2.4</td>
<td>36</td>
<td>7.3</td>
<td>95,188</td>
</tr>
<tr>
<td>2</td>
<td>North Sumatra</td>
<td>0.276</td>
<td>0.301</td>
<td>1.9</td>
<td>93</td>
<td>5.9</td>
<td>100,069</td>
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<td>West Sumatra</td>
<td>0.268</td>
<td>0.278</td>
<td>1.4</td>
<td>56</td>
<td>6.2</td>
<td>74,688</td>
</tr>
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<td>4</td>
<td>Riau</td>
<td>0.342</td>
<td>0.300</td>
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<td>17</td>
<td>-2.9</td>
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<td>Jambi</td>
<td>0.289</td>
<td>0.246</td>
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<td>22</td>
<td>3.1</td>
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<td>0.306</td>
<td>0.300</td>
<td>3.0</td>
<td>33</td>
<td>3.0</td>
<td>154,301</td>
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<td>7</td>
<td>Bengkulu</td>
<td>0.306</td>
<td>0.273</td>
<td>4.0</td>
<td>24</td>
<td>4.6</td>
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<tr>
<td>8</td>
<td>Lampung</td>
<td>0.332</td>
<td>0.276</td>
<td>2.8</td>
<td>83</td>
<td>5.2</td>
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<tr>
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<td>Jakarta</td>
<td>0.392</td>
<td>0.363</td>
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<td>7762</td>
<td>6.1</td>
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<td>West Java</td>
<td>0.298</td>
<td>0.356</td>
<td>2.5</td>
<td>467</td>
<td>5.6</td>
<td>77,499</td>
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<tr>
<td>11</td>
<td>Central Java</td>
<td>0.314</td>
<td>0.291</td>
<td>1.2</td>
<td>640</td>
<td>6.7</td>
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<tr>
<td>12</td>
<td>Yogyakarta</td>
<td>0.372</td>
<td>0.378</td>
<td>0.7</td>
<td>785</td>
<td>5.4</td>
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<td>13</td>
<td>East Java</td>
<td>0.334</td>
<td>0.311</td>
<td>1.0</td>
<td>532</td>
<td>6.3</td>
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<td>14</td>
<td>Bali</td>
<td>0.227</td>
<td>0.309</td>
<td>1.3</td>
<td>381</td>
<td>8.5</td>
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<td>0.309</td>
<td>0.286</td>
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<td>West Kalimantan</td>
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<td>2.5</td>
<td>14</td>
<td>5.5</td>
<td>82,573</td>
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<td>Central Kalimantan</td>
<td>0.271</td>
<td>0.271</td>
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<td>5</td>
<td>5.6</td>
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<td>19</td>
<td>South Kalimantan</td>
<td>0.285</td>
<td>0.292</td>
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<td>45</td>
<td>5.1</td>
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<td>4.2</td>
<td>4</td>
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<td>21</td>
<td>North Sulawesi</td>
<td>0.413</td>
<td>0.344</td>
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<td>90</td>
<td>7.5</td>
<td>73,990</td>
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<td>Central Sulawesi</td>
<td>0.377</td>
<td>0.302</td>
<td>3.0</td>
<td>13</td>
<td>5.3</td>
<td>55,975</td>
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<td>23</td>
<td>South Sulawesi</td>
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<td>0.323</td>
<td>1.5</td>
<td>71</td>
<td>5.7</td>
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<td>24</td>
<td>Southeast Sulawesi</td>
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<td>51,908</td>
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<td>Maluku</td>
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<td>0.269</td>
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<td>4.8</td>
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<td>Irian Jaya</td>
<td>0.386</td>
<td>0.386</td>
<td>3.2</td>
<td>2</td>
<td>2.6</td>
<td>233,481</td>
</tr>
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</table>

Source: Calculated from BPS data.
The main impetus for migration from Java was the government-sponsored trans-migration program,\(^{81}\) which in turn encouraged large-scale voluntary migration. The significant improvement in transportation achieved during the Suharto regime made this voluntary migration easy. The main source of permanent in-migrants in Sumatra, Kalimantan and Sulawesi was Java; the figures were around 90 percent, 70 percent and 60 percent respectively (Table 4.3).

Table 4.3. Permanent in-migration from Java (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumatra</td>
<td>92.8</td>
<td>93.7</td>
<td>95.3</td>
<td>93.8</td>
</tr>
<tr>
<td>Kalimantan</td>
<td>73.2</td>
<td>70.0</td>
<td>74.7</td>
<td>72.1</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>64.8</td>
<td>61.1</td>
<td>59.7</td>
<td>51.6</td>
</tr>
</tbody>
</table>

Source: BPS data (Population Censuses).

During this period, all regions benefited from high economic growth, but the Gini coefficients of those provinces with high in-migration rates were either stable or declined, except in East Kalimantan (Table 4.2, column 3). This means that everybody in those provinces benefited, indicating a convergence between migrants and native populations. Migrants, who sought a better life in new regions, were initially much poorer. However, they were able to catch up through hard work, supported by overall government policies.\(^{82}\)

Maluku and Poso offer two good examples of cases of converging horizontal inequality that served as a pretext for inter-ethnic strife during the transition. The convergence in educational attainment between Christians and Muslims is depicted in Figures 4.5 and 4.6 for Maluku and Poso respectively.

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\(^{81}\) In the first four periods of the New Order Five-Year Development Plan (1969-89), 919,484 families, involving 4,249,240 people, were moved (Adhiati and Bobsien, 2001)

\(^{82}\) Most migrants are generally found to be hard-working as they are driven by hardship in their own land, and take the decision to leave and try a new life in a new land. They have to start from scratch and work hard to fulfil their dream of a better life.
In 1971, Christians were the majority in Maluku, accounting for 50 percent of the province’s population. The proportion declined to 43 percent in 1990 and 39 percent in 1995. During the same period, the Muslim population increased from 49 percent to 56 and 61 percent respectively. The population shift was mainly due to in-migration, partly sponsored by the government. Rooted in the colonial history the Christians were the privileged group in the province, enjoying better socio-economic status as well as political and bureaucratic influence, while the Muslims were disadvantaged (Bertrand, 2002; Klinken 2007); however, during Suharto’s New Order, Muslims made significant progress in improving their socio-economic and political standing. Bertrand (2002) argues that Christian-Muslim violence in Maluku had its roots in the
mid-1980s and 1990s, when Suharto shifted to Islamic groups for political support. The first important change was the appointment of a Muslim Ambonese as the governor in 1992: all district heads were Muslim in 1996. By the mid-1990s, Christians felt that they were left with very little control over top positions, although they still made up the majority of bureaucrats in the province.

The district of Poso in Central Sulawesi saw a similar trend. Human Rights Watch (2002:8) notes, ‘the available information indicates a shift from a slight Christian majority to a Muslim one in the top fifty or so positions in the office of the bupati, the heads of offices (kantor), agencies (dinas), divisions (bagian), and sub-districts (kecamatan). During the 1990s Christians went from holding 54 percent of these key posts to 39 percent, while Muslim numbers rose accordingly.’ These developments show groups’ changing relative positions in the context of converging horizontal inequalities.

Three decades of rapid growth and development resulted in economic and social dislocation for certain groups, and significantly downgraded their relative positions, as in the case of the Dayaks in Kalimantan (see Davidson 2008; Klinken, 2007; and Peluso and Harwell, 2001). Interestingly, changes in the relative positions of various ethno-religious groups did not result in a widening of inequality among them. Instead, in most cases, the development policies of the New Order caused a convergence of the socio-economic conditions of different ethno-religious groups. Groups tend to fight as they become more equal, as the previously privileged group resents the others and tries to protect its position (Besancon, 2005).

4.3. GRIEVANCES OF RELATIVE DEPRIVATION
Relative deprivation is a psychological concept. Gurr (1970) defines it as the discrepancy between what people think they deserve and what they get. It relates to the disparity between aspiration and achievement. It has to be differentiated from absolute deprivation or endemic poverty, where no group may feel relatively deprived and so there is little ground for rebellion. Relative deprivation tends to arise when the situation progresses for some and not for others; or when the improvements in one group are slower than in another group. It can also occur when improvements do not match expectations. For example, improvements in education may raise the expectations of young people for a better life, but they will become upset if unemployed; occasionally violence becomes an expression of frustration.
As explained earlier, Gurr (1970) hypothesizes that the potential for collective violence depends on the intensity and scope of relative deprivation among members of a collectivity. This forms the basis for the idea of relative deprivation as the micro-foundation for conflict. According to Gurr (1993), relative deprivation is the necessary precondition for civil strife of any kind. Following Gurr, we hypothesize that relative deprivation is a major cause of civil war (secessionist conflict, in the case of Indonesia), as well as of ethnic and routine violence, since it can stimulate general frustration or can be used by conflict entrepreneurs as a unifying tool or as a means for group mobilization for collective action.

In general terms, convergence is a desirable outcome of the development process. However, as the Indonesian case shows, it may create problems if it is achieved through a non-democratic process. The equalization scheme was an initiative of the central government without much political participation of the regions or other stakeholders. Moreover, it was implemented by and large as a discretionary power of the patriarch, President Suharto. In some sense, the convergences led to the emergence of ‘aspiration to inequality’ or grievances of relative deprivation felt by certain rich regions or particular groups who were previously, socio-economically, better off. Therefore, it seems that in the Indonesian case, whether of secessionist or ethnic conflict, the widening of inter-regional or group horizontal inequalities as advocated by Stewart (2000, 2008), did not play any significant role. Instead, it was central, autocratically-imposed convergence that fuelled the sense of relative deprivation and sowed the seeds of conflict. The first convergence resulted in grievances among local people in the sense of ‘the rage of the rich’. The second convergence caused groups’ relative deprivation-related grievances in the sense of ‘the rage of the previously rich’. It was grievance caused by the loss of a group’s relative (superior) position vis-à-vis a previously downtrodden group. It is hypothesized in this thesis that the ‘rage of the rich’ can partly explain the emergence and renewal of secessionist conflicts or

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83 The term of ‘aspirations to inequality’ was first introduced by Tadjoeddin et al. (2001) in the context of centre-regional conflict in Indonesia.

84 The concept of horizontal inequality has its roots in Gurr’s concept of relative deprivation, see Gurr (1970), and the discussion in the following sub-section. In the case of Indonesia, the sense of relative deprivation has not been the result of one group simply comparing its socio-economic position with another group; but it arose from a situation when one group compared themselves with their past privileges. This has motivated them to try to regain political control when situation permitted. This is different from relative deprivation due to widening horizontal inequalities as argued by Stewart (2000), which is a genuine or pure grievance that can be more easily isolated from greed.
aspirations in four resource-rich regions during the transition, and that the ‘rage of
the previously rich’ triggered a wave of ethnic strife in some ethnically polarized
regions. Both convergences created a sense of relative deprivation among certain
groups — enough to cause the groups’ grievances to trigger violent conflicts. This
argument is more closely related to the grievance explanation of conflict by Stewart
(2000, 2008) than to its rival explanation, greed, by Collier and Hoeffler (2004), even
though the sources of grievance here differ from Stewart, as noted above.

Where and when such grievances turn into violence depends on the availability
of enabling factors. When conditions permit, if supported by leadership, middle class
and historical factors, grievances can be articulated in organized secessionist
challenges, as was the case in the first convergence. When organizational aspects are
not strong enough and lack the historical factors to challenge the central government,
situation permitting, grievances are manifested in the form of inter-ethnic violence,
as was the case in the second convergence. Since both types of violent conflict—
secessionist and ethnic — mainly took place in the Indonesian periphery, the most
important permitting factor refers to something external to the troubled regions,
namely the weakening of the central state and the breakdown of the social compact
in the wake of the economic crisis.85 The window of opportunity, thus, came during
the early phase of a systemic transition.

4.3.1. Centre–Regional (Secessionist) Conflicts
The focus here is on the troubled relationship between the central government and
the four regions rich in natural resources: Aceh, Papua, Riau and East Kalimantan.
To varying degrees, they have each posed a secessionist challenge to the central
government. It has been manifested in political and armed struggle in Aceh and
Papua, whose secessionist challenges were significantly renewed when the country
embarked on democratic transition in the late 1990s, while Riau and East Kalimantan

An alternative explanation might be that the state repression in the past has prevented violent
conflict emerging, and it is the relaxation of this, which caused or allowed conflict to occur. The sharp
decline of violence a few years later was not due to the return to repression (a la New Order), but was
due to a new social contract. The relaxation of repression was due to mounting social and political
pressures on the regime indicating that the regime’s three decades old repressive political setting could
not be sustained any longer. In close connection with other factors, the relaxation of repression
brought the transition, which can be seen as a change in the social contract. The previous social
contract (Suharto’s New Order) had to be broken-down first, followed by the turbulence. Since then
Indonesia has been consolidating a new social contract in the form of a new democratic and
decentralized Indonesia, which is different from the past autocratic and centralistic Suharto’s
Indonesia.

85
demonstrated only short-lived secessionist aspirations during the very early stage of the country’s democratic transition. The conflict and other characteristics of the four provinces are summarized in Table 4.4 and Figure 4.7 locates the regions on a map. Political secessionist movements complemented with organized rebel wings were clearly presence in Aceh and Papua. They are categorized as having high and medium levels of secessionist conflict respectively. However, the story was different in Riau and East Kalimantan; they showed only minor secessionist sentiments when the central government was weak, in the early phase of the transition.

Table 4.4. The four rich regions: Characteristics of resources and conflicts

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Main resources</th>
<th>Level of conflict</th>
<th>Manifestation of conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aceh</td>
<td>Natural gas, timber</td>
<td>High</td>
<td>▪ Well articulated secessionist political movement&lt;br&gt;▪ Significant violent insurgency by an organized rebel group (GAM)</td>
</tr>
<tr>
<td>Papua</td>
<td>Oil, copper, gold, natural gas, timber</td>
<td>Medium</td>
<td>▪ Fragmented and poorly articulated secessionist political movement&lt;br&gt;▪ Minor violent insurgency by a less organized rebel group (OPM)</td>
</tr>
<tr>
<td>Riau</td>
<td>Oil, natural gas, minerals, timber</td>
<td>Low</td>
<td>▪ Minor political secessionist sentiment</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>Oil, natural gas, minerals, timber</td>
<td>Low</td>
<td>▪ Minor political secessionist sentiment</td>
</tr>
</tbody>
</table>
Figure 4.7. Map of secessionist conflicts (marked in red)
The detailed dynamic of the aspirations in each region vary according to local conditions. In the case of Aceh, the renewed secessionist challenge, according to Robinson (1998), was the outcome of (a) the central government’s approach to the region’s natural resource exploitation and the distribution of its benefits; and (b) the armed force’s ruthless security approach in the region to ‘safeguard’ resource exploitation. In a comparative perspective of secessionism in Southeast Asia, Brown (2008) suggests the socio-economic horizontal inequalities between the native (Acehnese) and migrants (Javanese), which was relatively higher than those of its neighbouring province of North Sumatra, fomented the region’s renewed violent secessionist challenge. Such arguments are rooted in Suharto’s New Order developments, and are applicable to Papua as well (ICG, 2002a; Chauvel and Bhakti, 2004).

The region has a long history of conflict with the centre. In the 1950s, Aceh joined the Darul Islam movement, wanting to install Indonesia as an Islamic state. The Aceh rebellion was triggered by the amalgamation of Aceh into the province of North Sumatra. It was ended in the early 1960s with the defeat of DI, and Aceh was granted a special region status; this, the earlier conflict, was based on political grievance. The 1976 GAM, however, was more about economic grievance. It was rooted in the disparity between Aceh’s liquid natural gas (LNG) wealth and the continued impoverishment of large sections of its population, especially on the northern coast of the province where LNG was being exploited; this was the heartland of the rebellion (Kell, 1985; Ross, 2005). The district of Aceh Utara, where the LNG plant and other gas related industries were located, was among the poorest districts in Aceh. The 1976 GAM declaration of Acehnese independence claimed that the region’s resource revenue was ‘used totally for the benefit of Java and the Javanese’ (ASNLF, 1976). Furthermore, Aceh had long been described as a centre of resistance to outside authority, primarily due to the region’s three-decade-long war (1873–1903) against the Dutch colonial occupation (Robinson, 1998).

In its 1945 declaration of independence, Indonesia claimed the ethnically and racially different West Papua as part of its territory since it was part of the

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86 Robinson (1998:128) claims that his argument for Aceh fits Papua, despite fundamental differences in culture, ethnicity, religion and political history.

87 See Chapter 3 for discussions on spatial horizontal inequality and inter-ethnic horizontal inequality.
Netherlands Indies, but only took full control in 1963 after a low-intensity military conflict and a series of political battles against the Dutch. In the 1969 UN-sponsored ‘Act of Free Choice,’ Papuans opted to be part of Indonesia. However, the decision was taken under military intimidation, by asking 1025 ‘selected’ Papuan tribal leaders. The US and Western governments supported Indonesia, with one eye on regional communist movements and the other on Papua’s vast natural resources. This led to a more serious independence declaration by OPM in 1971. The second Papuan Congress in 2000 rejected the results of the 'Act of Free Choice', claiming that 'it was conducted to the accompaniment of threats, intimidation, sadistic killings, military violence and amoral deeds that gravely violated humanitarian principles.' Apart from its historical legacy, Papua’s renewed secessionist challenge is rooted in central government resource extraction since early 1970, the marginalization of native Papuan ethnic groups and harsh military treatment (ICG, 2002a; Chauvel and Bhakti, 2004).

The Papuan conflict could be considered an intermediate case. Although both political and military wings of the rebel group exist, there has been no civil war according to the commonly agreed definition. Compared with Aceh, the secessionist movement in Papua, which still exists, is significantly weaker since it is fragmented and less organized. It has to deal with animosities among hundreds of tribal groups; and it has no charismatic leaders to unite the community (like Hasan Tiro or Daud Beureueh in Aceh) and no strong diasporic community to provide support. Its military wing, OPM, has only been able to launch sporadic violence directed against the Indonesian army or police, foreign companies and migrant groups, rather than full-scale civil war.

The centre–regional conflicts in Riau and East Kalimantan may be considered minor since no rebel groups existed and only relatively minor secessionist sentiments were put forward. As explained earlier, in 1999 the provincial parliament of East

88 This is cited from the congress’ official resolution. Furthermore, ‘this resolution was truthfully and earnestly drawn up at the Papuan Congress 2000 which was attended by 501 lawfully chosen representatives of West Papuan society from all corners of the Papuan land and from abroad, and which was also attended by 21,000 Papuans and non-Papuans. This Congress is the highest democratic vehicle of the Papuan people and, as such, it is the only authority entitled to adopt lawful political decisions of the Papuan Nation’.

89 In 2000, there were 772,684 migrants (non-native Papuans) constituting 35 percent of Papua’s population, while in 1960 migrants were just 18,600 or 2.5 percent of an estimated population of 736,700 (Chauvel and Bhakti, 2004).
Kalimantan issued a decree demanding a federal state for Indonesia; and in 2000 the second Riau People’s Congress released a decree calling for Riau’s independence. The demands from these two regions were the climax of growing secessionist sentiments made possible by democratization. Central to their argument was dissatisfaction with the way the central government managed resource revenues extracted from their regions, and demands for a much greater share. According to the head of East Kalimantan Provincial Parliament (DPRD) — who was a key player behind the decree 28/1999 — their demand for a federal government was a political psycho-war to inflate the province’s bargaining power relative to the centre. The federal demand was the last of four points in the decree, while their main objective was the first point: demanding 75 percent of resource revenue allocated to their province (interview with Erlan Agussalim, head of East Kalimantan DPRD, Samarinda, 25 November 2008).

In sum, a general pattern emerged from the secessionist challenges posed by the four resource-rich regions: local grievances originated from the fact that the wealth of their regions was not commensurate with the expected general welfare of ‘their’ people — a grievance of relative deprivation.

4.3.2. Ethnic Conflict

The contemporary ethnic strife in Indonesia has not been satisfactorily explained, although several attempts have been made using quantitative as well as qualitative approaches, in addition to ethnographic accounts of key episodes. The narratives of key episodes of ethnic violence during transition in the post-Suharto era point to the central role of groups’ relative deprivation, caused by changes in their relative socio-economic positions during the previous period of rapid economic transformation, as described earlier.

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91 For such ethnographic explanations of Christian and Muslim violence in Malukus and Sulawesi, see Klinken (2007), Bertrand (2002, 2004) and Aragon (2001). However, none of these studies are in the form of a systematic large sample quantitative study. To the best of my knowledge, Mancini (2008) is the only available quantitative study on ethnic strife in Indonesia that focuses on the role of horizontal inequality.
The key argument put forward here is on groups’ relative deprivation in the context of narrowing horizontal inequalities (socio-economic gaps) between competing groups and the desire to regain political control whenever an opportunity arises. This is different from relative deprivation due to widening horizontal inequalities as argued by Stewart (2000, 2008), which is a genuine or pure grievance that can be more easily isolated from greed.

Inter-ethnic conflict arising from narrowing of horizontal inequality or converging gap between two competing ethnic groups is not unique to Indonesia. It is also the case in India, where Hindu is the traditionally privileged group and Muslim is a relatively disadvantaged group: Mitra and Ray (2010) find that an increase in Muslim well-being, proxied by Muslim per-capita expenditures, leads to a large and significant increase in future Hindu-Muslim violence, while an increase in Hindu well-being has no significant effect on future conflict. They interpret this as Hindus act as the aggressor against the downgraded group (Muslims) who are trying to make a catching up progress. In the case of convergence, we may see that the traditionally-privileged groups may act as the aggressor. On the other hand, in the case of divergence, the marginalized group becomes the aggressor, as in the case of 1969 race riot in Malaysia when the marginalized and poorer Malay attacked the wealthier Chinese. The marginalized may also become aggressor in the case of vertical inequality.

Perhaps due to the convergence of socio-economic conditions of various groups, during the second convergence, Mancini’s (2008) econometric work finds hardly any convincing explanations of horizontal inequality to account for deadly ethnic violence in Indonesia. His cross-district logistic regressions come out with only the horizontal group inequality of child mortality, which has significant positive associations with deadly ethnic strife. Other measures of group horizontal inequalities in terms of income, education, land holding, young male unemployment and government employment do not show any significant relationship with ethnic violence. Mancini’s finding appears to have a limited intuitive appeal; it is rather

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92 In fact, Mancini initially finds that government employment and education were also significant, but the child mortality variable dominates; so when it is included, the other variables lose significance.
hard to believe that groups’ differences in terms of child mortality alone can be instrumentally used by ethnic elites to mobilize co-ethnics.\textsuperscript{93}

The presence of relative deprivation can cause anger against the state (akin to centre–region conflict). However, since the ethnic groups in the conflict-ridden districts were not as politically organized, for example as in the provinces of Aceh and Papua, they could not manifest their rage in the form of a separatist movement. Instead, their expression of anger was chaotic and manifested itself in ethnic violence. The previously privileged group saw the newly empowered groups (migrants) as representing the centre and therefore as legitimate targets for reprisal. For example, in Maluku, migrant Muslims were associated with the defenders of the republic, while Christians were accused of having separatist aspirations (Klinken, 2001; ICG, 2002b).

4.3.3. Possible Elements of Greed

Although the main trigger for violent conflicts, whether centre–region or ethno-religious, was relative deprivation-related grievance, the presence of ‘aspiration to inequality’ showed some elements of greed. In the case of the first convergence causing secessionist conflict, resource-rich regions wanted to capitalize more resource rents extracted from their regions, and protested the central government’s equalization policy. They became less willing to share resource rents extracted from their regions, as the Suharto regime had compelled them to do for three decades.

In Aceh, the ironic situation of poor people living in a rich area was frequently put forward, with speakers and pamphlets commonly suggesting that, if independent, Aceh would be as wealthy as Brunei, the oil-rich sultanate in the northern part of Kalimantan (Jones, 1997; Ross, 2005). The key objective of the second Riau Congress and Decree 28/1999 of the East Kalimantan parliament was to inflate the province’s bargaining power to gain a dominant share of resource revenues for its significantly less-populated regions.

However, such greed is different from the widely known greed in the context of civil war \textit{à la} Collier and Hoeffler (2004). In the case of aspirations to inequality in the four resource-rich regions, there was no evidence for the case of greedy warlords

\textsuperscript{93} Child mortality can be an outcome of poverty, unemployment, lack of services and other capabilities. One wonders why, when direct measures — such as education, income, unemployment and land-holdings — of horizontal inequalities fail to indicate any relationship with ethnic violence, the indirect outcome-based measure of child mortality should.
capturing natural resources as is the case in Africa’s diamond conflict. Natural resource-related financing only accounted for a small portion of GAM’s overall revenue. The main portion derived from taxes and the Acehnese diaspora’s voluntary donations. In Papua, there are no accusations or reports of looting natural resources (timber or mining) committed by rebel groups in the region, although Presidium Dewan Papua (PDP: Papua Presidium Council) — a newly created political wing for the Papua independence movement — has been receiving funds from Freeport, a copper and gold mining company (ICG, 2002a). Riau and East Kalimantan, which have no secessionist rebel groups, are irrelevant in this respect.94

Ethnic violence is essentially a non-cooperative behaviour of grievance expression, which may also be contaminated by greed. Klinken (2007) relates the explosion of ethnic violence to the period of decentralization reforms during 1999–2000. The period can essentially be seen as a moment of opportunity for local actors to take control of political and financial resources soon to be transferred to local entities under the decentralization scheme. A move toward decentralization would significantly inflate the expected benefits of controlling local power, over which conflict and violence would be highly possible. The expected gains from conflict arise either from an increasing return to fighting efforts (à la Hirshleifer, 1995) or from the elimination or conquering of opponents (à la Skaperdas, 2002). Both relate to the greed explanation of conflict. Therefore, decentralization may lead to local conflict in ethnically heterogenous or polarized societies since it brings political and economic power down to the local level, where different groups may compete for it. In contrast, decentralization leads to peace if the regions are relatively ethnically homogenous, as in Java and Sumatra.

Privileged groups who lost their relative position under the New Order regime’s equalization schemes, and did not like the convergence of their socio-economic positions with the other groups, have in effect also displayed an element of greed in the sense that they did not want to share the fruits of development with others, especially when the sharing mechanism was imposed from the centre. When the sharing is done on their terms, however, or through a democratic mechanism, parties

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94 Other country case studies provide less support to the greed theory. For example, the collection of country case studies sponsored by the International Peace Academy (Ballentine and Sherman, 2003) concludes that rebels’ incentives for self-enrichment (greed hypothesis) for insurgent mobilization, created by access to natural resources, were neither the primary nor the sole cause of either separatist or non-separatist conflicts.
that have to give something up can feel good at least on moral grounds or from the satisfaction that they get out of political participation in the decision-making process. This compensates for ‘raw’ greed.

The greed element argued here, in both cases, is different from the commonly understood greed in the context of cross-country studies of civil war (Collier and Hoeffler, 2004), which focuses on the role of warlords trying to capture non-renewable resources. In this work, greed refers to a group’s effort to correct the perceived injustices they experienced under the regime’s equalization schemes, temporarily expressed by non-cooperative behaviour in the form of secessionist challenge and inter-ethnic violence. The resultant violence was, thus, not as violent as, nor as protracted as, the violence of warlords aiming to capture non-renewable natural resources by eliminating opponents. The violence of greedy warlords is about zero-sum games, while our case is closer to a non-zero sum game that potentially ends with groups’ cooperation, yielding a win-win solution.

4.4. REPEATED GAMES, COOPERATION AND SOCIAL CONTRACT
Although violent conflict is essentially a manifestation of non-cooperative behaviour, through the repeated games experience, contending parties realize that non-cooperative strategies only result in ‘lose-lose’ outcomes, as none can eliminate the others. Over the course of democratic consolidation and decentralization, resulting conflicts, especially secessionist and ethnic conflicts, can be more or less settled under the cloak of a new social contract. Previously warring groups, centre versus regions or ethnic groups, now seem able to cooperate for a win-win outcome. It appears, therefore, that the overall process of democratization and decentralization (political, fiscal and administrative) has become a major force in catalyzing the transformation of non-cooperative behaviours of secessionist and inter-ethnic violence to cooperative interactions of centre–regional relations and inter-ethnic political coalitions. This shift can be explained by the theory of repeated games, where, at the end, each group tends to arrive at an optimal strategic behaviour of cooperation that reflects Nash equilibrium. However, before they reach that stage (the good cooperative behaviour), they do try different forms of non-cooperative strategies resulting in violence that comes at a cost. Repeated non-cooperative games
between the same players lead eventually to cooperative behaviour. In a cooperative game, players try to alter each other’s objectives or preferences.95

Regions and ethnic groups during Indonesia’s transition period found that the state, although weakened, quickly recovered through successfully organizing free and fair elections and implementing decentralization. The economy, too, recovered reasonably quickly after a sharp decline. These experiences convinced regions and ethnic groups to cooperate, ensuring ‘win-win’ solutions under the decentralized arrangements of local governance, including special autonomy.

In the process from the non-cooperative violent behaviour to the cooperative end, carrot and stick policies played an important role as well. Military, civil emergency and other security measures were part of the stick, while the special autonomy scheme and transfers were the carrot. However, it seems that the stick is effective only in the short run and can hurt the wielder if used continuously. On the other hand, a carrot is effective in the long run. Justino (2007) finds a similar pattern in India when she considers the use of policing (stick) and redistributive transfers (carrot) in the context of civil unrest across Indian states.

4.4.1. Centre–Regional Cooperation
Directly after the collapse of the Suharto regime, the restive regions saw an opening to increase their bargaining powers: the central government was seriously weakened during the chaos of transition. Recognizing the country’s irreversible move towards democratic polity and its own weakness, the central government under President Habibie quickly offered decentralization to sub-national entities. The offer was formalized in the two decentralization laws passed by the Indonesian parliament in late 1999, and special autonomy laws for Aceh and Papua passed in early 2001.

The results were mixed. The decentralization laws of 1999 and their subsequent revisions in 2004 effectively addressed the secessionist aspirations of Riau and East Kalimantan, and these aspirations quickly evaporated. A roughly similar result can be observed in the case of the 2001 special autonomy law for Papua. The violent secessionist challenge there has been significantly reduced, and the Papuans are now busy with internal political and economic affairs, exercising their special autonomy. However, the special autonomy offered to Aceh in 2001 failed to silence the

95 See Mailath and Samuelson (2006) for a comprehensive treatment of repeated games.
politically more organized, militarily much stronger and strategically more articulated rebel group of the Free Aceh Movement (GAM). This inspired the central government to implement a strategy of carrot and stick. While imperfectly implementing the special autonomy, transferring more money and authority to the region, the central government launched a more vigorous military campaign in mid-2003 to crush the rebels. The war lasted for two years. It was ended through the Helsinki Peace Accord signed by the Indonesian government and GAM in August 2005. The deal was not reached until the GAM rebels were significantly weakened and the central government army seriously exhausted. It seems that GAM understood that it could not win, and the central government army, too, realized that it would not be able to totally eliminate the rebels.

The deal could only be concluded by a more politically legitimate central government administration, under the popularly elected president of Susilo Bambang Yudhoyono (SBY). The agreement laid down the basic features for the new Law on Governing Aceh, passed by the Indonesian parliament in 2006. Since then, peace has held in the province and local democracy has deepened. The Aceh peace agreement is regarded as a success story, and partly contributed to the Nobel Peace Prize for 2008 awarded to President Martti Ahtisaari of Finland who brokered the deal.

If contending parties in the case of a complicated problem like Aceh’s could finally agree to cooperate according to the modalities laid down in the Helsinki Accord and the subsequent Law on Governing Aceh, one can expect a similar outcome in the restive region of Papua. Indeed, a similar process is being initiated to have a more comprehensive and durable solution to Papua’s secessionist inclinations.96

Repeated games experience in this way led to cooperation between the centre and the regions, ousting non-cooperative behaviour in favour of win-win outcomes.

4.4.2. Inter-ethnic Coalitions

Inter-ethnic violence did not last long, warring groups finding ways to cooperate in the form of political coalitions. A number of factors may have contributed to this cooperative behaviour. First, while democracy allowed various groups to express their grievances, decentralized administration allowed them to address grievances at

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96 See also Chapter 5 on this.
a local level. Second, through repeated games, warring groups recognized that they could not totally eliminate the other. As the state regained its strength, they also risked losing democratic control of the local government if violence continued. Moreover, inter-ethnic cooperation placed groups in a stronger position to negotiate with the centre. It seems that the overall process of democratization and decentralization (political, fiscal and administrative) has become a major force in catalyzing the transformation of non-cooperative behaviours of inter-ethnic violence into cooperative interactions of inter-ethnic political coalitions. Thirdly, the warring groups know from three decades of experience that peace and stability can produce significant economic benefits which can be shared among them, now on the basis of a negotiated formula and not unilaterally dictated by the centre. Cooperation in the context of economic growth results is a win-win situation. The negotiated formula for sharing a growing pie between ethnic groups at the local level ensures that the absolute position of each group improves. This is very similar to what was observed in Malaysia following the 1969 race riots.\textsuperscript{97}

Thus one can see the emergence of cooperative behaviour in the new democratic and decentralized era. When the previously relatively deprived ethnic groups regained their political influence, at least partially,\textsuperscript{98} they were willing to share with other groups. In many cases, previously warring ethnic groups now engage in a cooperative game by pairing up on coalition tickets contesting control over local executive leaderships, \textit{à la} Lijphart’s (1999) famous idea on consociational democracy.\textsuperscript{99}

The role of shared economic growth and democratic consolidation in achieving the optimal end-game of cooperative behaviour is critical. Apart from the role played by decentralization, the central government, which regained its strength in the process of democratic consolidation, encouraged competing groups to cooperate through stick and carrot policies. Additionally, economic growth provided an

\textsuperscript{97} After exercising non-cooperative behaviour in the 1969 racial riots, Malaysia’s major ethnic groups (Malay, Chinese and Indian) came to an agreement in the form of the New Economic Policy. They cooperated to form a consensual political entity, the \textit{Barisan Nasional} coalition, to execute the new social compact. It worked, demonstrating that everyone gained from such cooperation — but only after experiencing losses from their non-cooperative behaviour in the riots. See Chowdhury and Islam (1996).

\textsuperscript{98} For example, the Christians regained control in Maluku province and Poso district, and the Dayaks now enjoy political leadership in districts and provinces in Kalimantan.

\textsuperscript{99} See Table 6.2 for examples of inter-ethnic political coalition in Indonesia’s localities.
important enabling condition. Inter-ethnic cooperation is the response of warring ethnic groups to new incentives made possible by transition (democratization and decentralization) and economic growth.

4.5. ROUTINE-EVERYDAY VIOLENCE

After providing a unified theory to explain the two most important variants of social violence — secessionist and ethnic — in contemporary Indonesia, now we turn to the third (residual) variant, namely routine-everyday violence. As noted earlier in Chapter 2, routine social (or group or collective) violence is neither civil war nor ethno-communal violence. It does not have the explicit political aim of overthrowing the state as in the case of civil war, or of the emasculation of a rival group as in the case of ethno-communal violence. It is also not simply crime, although it may have criminal dimensions. It refers to regular group violence that is not episodic in nature. While ‘episodic’ violence (secessionist and ethnic) is highly concentrated in a few regions outside Java, ‘routine’ violence is common to almost all districts on the densely populated and ethnically homogenous island of Java. The two most important variants of everyday social violence are vigilante violence and inter-neighbourhood/ village/ group brawls.

Routine violence is primarily rooted in the weaknesses of the state, as in the case of popular justice or vigilantism. Instead of utilizing the institutionalized justice mechanism, people take justice in their own hands. In the case of group brawls, the role of the state in maintaining law and order is undermined. This reflects low public trust in the state apparatus/ system on the one hand, and underlines state weaknesses on the other. Since the organizational aspect of this violence is virtually non-existent, it is mainly manifested in the sporadic and spontaneous acts of youth brawls and popular justice.

As noted earlier, Gurr (1970) emphasized the role of relative deprivation in explaining violent conflict, specifically noting the role of any disparity between aspiration (brought about by economic progress) and reality in producing conflict. This, for example, can occur when increasing numbers of youth face a shrinking employment market. As can be seen from Table 4.5, while annual economic growth in Indonesia was around 4 and 5 percent and in fact showed an increasing trend during 2002–06, youth and educated people continued to dominate unemployment figures. Such relative deprivations may be inferred from the empirical models of
routine violence using socio-economic variables and an interaction term between population pressure and inequality. It is commonly believed that inequality can serve as a proxy for grievance.

Table 4.5. Growth and employment structure in Indonesia (2002-06)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>4.4</td>
<td>4.7</td>
<td>5.1</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Open unemployment</td>
<td>9.1</td>
<td>9.7</td>
<td>9.9</td>
<td>11.2</td>
<td>10.3</td>
</tr>
<tr>
<td>By age</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>27.9</td>
<td>28.1</td>
<td>29.6</td>
<td>33.4</td>
<td>30.6</td>
</tr>
<tr>
<td>25-49</td>
<td>4.5</td>
<td>4.6</td>
<td>4.7</td>
<td>5.7</td>
<td>5.5</td>
</tr>
<tr>
<td>50+</td>
<td>3.1</td>
<td>5.8</td>
<td>5.1</td>
<td>4.3</td>
<td>3.2</td>
</tr>
<tr>
<td>By education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary or less</td>
<td>5.5</td>
<td>6.3</td>
<td>5.8</td>
<td>6.6</td>
<td>6.1</td>
</tr>
<tr>
<td>Lower secondary</td>
<td>12.3</td>
<td>11.7</td>
<td>12.7</td>
<td>14.1</td>
<td>12.9</td>
</tr>
<tr>
<td>Upper secondary</td>
<td>16.8</td>
<td>16.9</td>
<td>17.6</td>
<td>19.9</td>
<td>17.8</td>
</tr>
<tr>
<td>Tertiary</td>
<td>10.6</td>
<td>9.7</td>
<td>10.7</td>
<td>11.9</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: BPS data

Tadjoeddin and Murshed (2007) find an inverted-U-relationship between income and routine violence across Javanese districts. That is, violence initially increases with an increase of income, and then declines. Using district level data, we also find support for the Kuznets’ inverted-U hypothesis that inequality initially rises with a rise of income and then falls. Thus, vertical inequality that can lead to frustration may be a mechanism that fuels grievance in the upswing portion of the curve relating income and violence found in Tadjoeddin and Murshed.

4.6. SHARED GROWTH AND DEMOCRATIC MATURITY

We have provided a unified theory of violence in Indonesia in terms of the relative deprivation of socio-economic groups, regions or individuals. However, such relative deprivations seem temporary, since the continuous progress of socio-economic developments through shared growth would be violence-reducing. This is in line with historical accounts suggesting that in early stages of development violence and increasing prosperity initially go hand in hand, but decline thereafter (Bates, 2001). Furthermore, fiscal decentralization would have violence-reducing effects (Murshed, et al., 2009). Therefore, shared growth becomes the glue for the new social contract in the context of decentralized governance and democratic polity. However, only

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100 See Chapter 7 on this.
well-functioning democratic polity can take into account such situations and
articulate them at the forefront of policy agenda, urging inclusive economic growth.
This requires issues-based political discourse.

From the perspective of the political economy of conflict and development, it
seems that the current process of Indonesia’s democratic consolidation, together with
the decentralization policy in terms of its three dimensions (political, fiscal and
administrative), is on the right path. Democratic polity and decentralized governance
have provided an avenue for peacefully settling various conflicting interests, as in the
case of secessionist violence, ethnic as well as routine. It is a ‘horizontal’ social
contract à la Hirshleifer (1995) that corresponds to the more egalitarian arrangements
of a democratic setting, and must be distinguished from the vertical social contract
extant at the beginning of Suharto regime and represented by hierarchical
dominance/ setting. One may expect that the horizontal social contract will be more
durable than the vertical alternative.\textsuperscript{101}

Having arrived at the conclusion that democratic consolidation is the right answer
to the problem, this does not mean that there is no more complication. In fact, the
road to democracy and its consolidation can be bumpy and fraught with the risk of
reversal. Democracy is essentially a non-violent mechanism of conflict resolution.
Democratic polity can settle conflicting interests of different groups in society
through an institutionalized mechanism. However, it is not an instant achievement.
The chance of violently exercised democracy (or illiberal democracy à la Zakaria,
2003) in a poor society is high. The electoral violence in Pakistan that took the life of
its main contender, Benazir Bhutto; and in Bangladesh prior to the aborted elections
of 2007; and the post-election violence and disputes in Kenya and Zimbabwe are
recent examples. However, it would be hard to imagine such election-related
violence in rich, mature democracies such as Australia or Sweden. Another claim
asserts that democracy is a painful medicine. If not taken in the right doses and at the
right time, it could be poison. The probability of partial democracy (also referred to
as anocracy or illiberal democracy) is high in a poor and underdeveloped society.

\textsuperscript{101} Within a society, contracts can be vertical if they are authoritarian in the sense of Thomas Hobbes,
or they may be horizontal if fashioned by a greater degree of consent, as advocated by John Locke;
see Sabine (1961). The former may be described as autocratic and the latter as a more democratic
contract. According to Hobbes, the alternative to a social contract is a state of war where all fight each
and every one.
There is a minimum threshold of income at which democracy can be a successful endeavour (Przeworski et al., 2000; Zakaria, 2003).

The climax of political decentralization and democratization in Indonesia is the introduction of local direct elections for the heads of local executives (PILKADA – Pemilihan Kepala Daerah). There were significantly more conflicts and violence during local elections than during the two national elections for parliament and president (during the period covered by this study), which were generally peaceful. Between 2005 and 2007, violent attacks took place in 41 local direct elections, four offices of district election commission were burned down and eighteen others were damaged; furthermore, four offices of district heads (bupati) and three district parliament buildings were set on fire. Such incidents were simply not present in the last two series of parliamentary and presidential elections in 2004 and 2009. The intensity of conflicts during local elections may indicate immaturity of democracy at a low or medium level of economic and human development (Lipset, 1959).

As noted earlier, Indonesia’s transition towards democracy, starting with the fall of Suharto in 1998, is a case of endogenous democratization. In a sense, there was a strong demand from the masses and the growing middle class emerging from three decades of unprecedented economic growth and social development. It seems that the elite deliberately opted to end the dictatorship. The three pillars of the New Order (strongman Suharto, the military and the ruling party GOLKAR) did not resist the highly popular demand for democratization. The military was not ordered to silence student demonstrations, as was done in China’s Tiananmen Square incident in 1989. Indonesia seemed to be following South Africa’s path, transforming itself from a long-standing dictatorship to stable democracy. Although violence erupted at the peak of the transition, the first free and fair multiparty national elections in 1999 were a success, and fairly peaceful. The same was true of the 2004 national parliamentary and first direct presidential elections.

However, the national picture differs from the local level. After the national consensus to embark on democratization, the way democracy was exercised at the local level can best be seen through the lens of the direct local elections introduced

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102 The South Africa path is one of four scenarios of dictatorship and democracy offered by Acemoglu and Robinson (2006). The other three are the UK, which gradually moved toward democracy without significant resistance from the elites; Argentina, where the elites strongly resisted democratic demands, resulting a long period of instability moving from dictatorship to democracy and vice-versa; and Singapore, which ended up with a stable and happy anocracy.
nationally in 2005. Each sub-national entity, province and district (sub-province) held its own local direct election according to its own timetable. Following the modernization hypothesis, one might expect that regions with higher levels of development (being richer and more educated, urbanized and industrialized) would be able to exercise democracy better at the local level and hence would experience less electoral violence.

Assessing local-level democracy in Indonesia through the lens of local direct elections is related to the *exogenous* democratization variant of the modernization hypothesis. In other words, we are not dealing with the move towards democracy. Instead, our objective is to examine how democracy is exercised in different localities with diverse socio-economic characteristics.

Development and democracy go hand in hand. Almost all today’s developed countries are mature democracies. The relationship between development and democracy was first investigated by Lipset (1959), and is known as the modernization hypothesis. In short, prosperity breeds democracy. In a famous quotation, Lipset writes, ‘the more well-to-do a nation, the greater the chances that it will sustain democracy’ (1959: 75). According to Lipset, the level of economic development and its associated variables such as the levels of education and urbanization drive institutional change. They in turn shape the possibilities of the creation and the consolidation of democracy, which are then respectively referred to as endogenous and exogenous democratization. Thus, the current practice of local democracy must be accompanied by shared growth, to minimize the risks of electoral hostility during the course of democratic consolidation.

**4.7. CONCLUSION**

The theory advanced in this thesis relates to the role of relative deprivation as a micro-foundation of violent conflict, as put forward by Gurr (1970). While Stewart (2000, 2008) focuses on relative deprivation in the context of widening horizontal inequalities, this thesis emphasizes the relative deprivation-related grievances of groups within a country in the context of converging horizontal inequalities. The convergences can be observed first in the inter-regional setting that prepared the ground for secessionist violence, and then from the perspective of inter-ethnic relationships that triggered strife.
Widening and converging horizontal inequalities both result in relative deprivation. While previous studies show that widening horizontal inequalities cause violent conflicts (Stewart, 2000, 2008), as the Indonesian case displays, achieving convergence of horizontal inequality does not necessarily reduce the risk of violence. In fact, convergence in an authoritarian setting can intensify the rage of the potentially and the anger of the previously rich, as argued in this thesis; these can lead to open conflict, especially when growth collapses or favourable preconditions for conflict arise. Given this, convergence measures or policies should be carefully planned and mediated among various regional or ethnic groups, so that democratization and decentralization offer better alternatives.

Under the current democratic polity and decentralized governance, one can witness that centre–regional tensions have more or less settled and previously warring ethnic groups have engaged in political coalition in local elections. Furthermore, economic growth, socio-economic improvement and fiscal decentralization have taken a conflict-abating role by inflating the opportunity cost of engaging in violence. These developments point to the cooperative behaviour shown by different parties after experiencing repeated games.

However, nearly a decade after the transition, one can also observe a considerable level of hostility surrounding the conduct of local direct elections, the climax of political decentralization. Local direct elections are one of the key elements in consolidating democracy. The degree of electoral hostility reflects the maturity level of local democracies. In this regard, the celebrated modernization hypothesis has a very strong appeal. The theory predicts that the chance for the success of both the creation and the consolidation of democracy is higher in more prosperous societies, and that democracy cannot be safe without shared growth and overall socio-economic development.

As Sen (1999a) points out, it would be wrong to see democracy as the end product of a largely economic process. He argues that it is wrong to ask if a country is ‘fit for democracy’: the correct way to look at the issue of economic and social development is to understand that a country becomes ‘fit through democracy.’
5.1. INTRODUCTION

As argued in the previous chapter, a general pattern emerged from the secessionist challenges posed by the four resource-rich regions (Aceh, Riau, East Kalimantan and Papua): local grievances originated from the feeling that the perceived or actual wealth of the regions was not commensurate with the expected general welfare of ‘their’ people, given their resource base. As they expected higher welfare, there developed a grievance of relative deprivation. One can regard this as an ‘aspiration to inequality’—a desire to be above those not so richly endowed with resources. The aspiration to inequality may therefore reflect an element of greed.

The resource-rich regions wanted to capitalize more resource rents extracted from their regions, and protested the central government’s equalization policy. In Aceh, for example, local leaders in their orations and leaflets frequently cited the ironic situation of poor people living in a rich area, and claimed that, if independent, Aceh would be as rich as Brunei (Jones, 1997; Ross, 2005). The key objective of the second Riau Congress in 2000 and Decree 28/1999 of the East Kalimantan parliament was to increase the provinces’ bargaining power to gain a larger share of resource revenues for their significantly under-populated regions.

The fall of Suharto’s regime and the democratic transition of the late 1990s provided the opportunity for these regions to articulate their longstanding grievances. As explained in Chapter 4, the grievances were due to the convergence of socio-economic development across regions in Indonesia despite highly uneven natural resource potential, achieved through an imposed transfer mechanism of the autocratic regime. Together with the separation of East Timor from the country in 1999, these articulated grievances threatened the integrity of the Indonesian nation state with disintegration, and created the spectre of the would-be Balkanization of Southeast Asia (Booth, 1999; Cribb, 1999). This, however, did not materialize. Peace has been restored to the troubled regions and Indonesia seems to have further consolidated its
democracy. However, could other forms of grievance emerge even under the new democratic and decentralized set-up? Could there be any danger of mass disillusionment with democracy in the absence of material progress, which might sow the seeds for renewed social unrest?

This chapter extends the arguments of the previous chapter and provides further evidence of natural resource-related grievance and ‘aspiration to inequality’ in the case of the centre–regional conflict. In particular, it looks at the inter-linkages between resource rents and local democracy and assesses the risk of future resource curse in the resource-rich regions.

5.2. ASPIRATION TO INEQUALITY AND DECENTRALIZATION

5.2.1. Aspiration to Inequality and Grievance
How rich are the four regions? This can be gleaned from their per capita regional GDP. As can be seen from Table 4.1 and Figure 5.3, the per capita regional GDP in these four regions is much higher than the national average. The contribution of mining (oil, gas and minerals) to GDP explains the high figures for regional GDP per capita. The four provinces have the highest mining contributions to their provincial GDP (Figure 5.1). However, over time the share of mining in regional GDP has declined, in line with the trend in the country as a whole (Figure 5.2), although this is not the case in Papua where the share of mining in regional GDP increased slightly between 1983 and 1996.
How better off are these regions? The relative community welfare of these regions can be identified by household consumption expenditure. Nationally, the ratios of local household consumption expenditure to GDP are relatively small.
averaging 0.32. However, as can be seen from Figure 5.3, regions with higher per capita GDP have lower per capita expenditure to GDP ratios. The ratios for the four resource-rich provinces are as follows: Aceh (0.19), Papua (0.18), Riau (0.16), and East Kalimantan (0.11). Thus, the welfare of the population in resource-rich regions appears to be generally below national average. In addition, the poverty rates in these regions increased between 1976 and 1996. In the case of Papua, the rate is higher than the national rate (Table 5.1). In the midst of widespread poverty and subsistence livelihoods, a well-defined group or ethnicity may not feel inclined to subsidize other groups, even if they feel charitable to its own group members.

Figure 5.3. Per capita GDP and household consumption expenditure of Indonesia’s provinces, 1996 (current prices)

Lines denote the country’s average values

Source: BPS data.

One explanation for the common driver behind secessionist sentiment in the four rich regions is the phenomenon of the ‘aspiration to inequality’, which could be described as ‘the rage of the rich.’ Regional prosperity may or may not result in community welfare. Therefore, the differentiation between the two has to be clearly highlighted. The former refers to regional output represented solely by the GDP.

\[103\] The expenditure covers more than 300 items of household consumption including food and non-food items, including clothing, housing, health, education, transportation, recreation, etc.
measure, which calculates productive capacity or added values in monetary terms derived from a region or geographical unit (district, province or country) in a year, while the latter points to the welfare indicators of people actually living in the region.\textsuperscript{104} As demonstrated in Figure 5.3, community welfare, proxied by household consumption, lagged behind regional prosperity, measured by regional per capita GDP. While regional per capita GDP of resource-rich regions is much higher than the national average, the size of per capita household consumption expenditure relative to per capita regional GDP in these regions is far below the national average. This establishes \textit{prima facie} the working hypothesis for this chapter: that the ‘aspiration to inequality’ may cause centre-region or separatist conflict.

Community welfare, measured by regional per capita consumption expenditure, however, may be regarded as inadequate or narrow. It fails to capture public provisioning of basic services, such as primary healthcare, education, which positively impact on well-being. Therefore, following Sen’s (1999b) capability approach, one may argue that community welfare should focus more on the well-being of the people. Hence the measurements of community welfare should include consumption expenditure and indicators of health, education, and poverty — all human development measures. Over time, levels of inter-regional income (regional GDP) inequality have been substantial, mainly because oil, gas and key minerals are concentrated in a few regions;\textsuperscript{105} but in terms of community welfare, the degrees of inter-regional inequality have also been extremely low, due to the success of New Order equalization policies.\textsuperscript{106} The Theil-L index measurement of between-district regional output inequality is almost four times higher than that of regional consumption expenditure inequality (see Figure 4.4 in previous chapter). This contrasts with neighbouring Thailand, for example, where the Theil-L index figure of regional output inequality is 0.43, and consumption expenditure inequality is 0.40.\textsuperscript{107}

\textsuperscript{104} Often, the GDP measure has no relation to local people. Take the case of foreign direct investment (FDI) in the mining sector in Riau as an example. The bulk of the income derived from the economic activities in a particular year belongs to the foreign investors as the return for their investments, but would be accounted as added value derived from Riau and contribute to Riau’s GDP in that year.

\textsuperscript{105} Other studies make a similar finding; for example, see Esmara (1975a), Akita and Lukman (1995) and Resosudarmo and Vidyattama (2006).

\textsuperscript{106} Under a centralized system, the central government collected all revenues from natural resources and made equal distribution across regions, mainly in the forms of agricultural development and basic social expenditures (basic education and health).

\textsuperscript{107} Based on 1995 provincial data of Thailand, extracted from the \textit{Human Development Report of Thailand 1999} (UNDP, 1999).
Compared to the distribution of regional output, Figure 4.4 also shows a much more even distribution of education, health and HDI. It can be concluded that there is virtually no relation across regions between community welfare indicators and the regional prosperity, measured by regional GDP.

The aspiration to inequality is a response to the people’s first-hand experience of their community welfare being reduced to, or even lowered below, the national average, even though their regions are rich in natural resources. We can discern the following realities from Table 4.1, presented in the previous chapter: despite the fact that the regions are extremely rich compared to the country as a whole (Column 2), they are deprived. In terms of household purchasing power, they are in a poor situation, with all regions having a lower purchasing power than the national average (Column 3). More strikingly, even the richest districts in the provinces (Aceh Utara in Aceh; Fak-Fak in Papua; Bengkalis and Kepulauan Riau in Riau) have lower household purchasing power than the average in their respective provinces. Furthermore, in 1996, in terms of the poverty head count measure, all resource-rich provinces were relatively poorer (in terms of their relative position vis-à-vis average Indonesia) compared with their situation two decades earlier in 1976, before their natural resources were massively exploited; the poverty rate in Papua was three times higher than the national average (Table 5.1). This is despite the fact that the poverty rate declined significantly in Indonesia as whole during this period.

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108 Aceh Utara is where all Aceh’s natural gas reserves exploited by the US Exxon Mobil are and one of GAM’s strongholds. Fak-Fak is where the US Freeport McMoran Copper and Gold Inc has been operating since the late 1960s. Bengkalis is where the majority of Riau’s oil fields are located. Now the three districts have been split into several districts each. Kepulauan Riau has some off-shore oil fields and is where Exxon Mobil-controlled and newly discovered natural gas reserve in Natuna is located. Kepulauan Riau has become a new province, separated from Riau in 2004.

109 In the case of Aceh, for example, two decades ago Dawood and Sjafrizal (1989) expressed a similar concern. Although by 1985 Aceh together with Riau and East Kalimantan were the largest three provinces contributing to Indonesia’s export, ‘benefits to local economy have been much smaller and cost benefit calculus more problematic, [so that] perhaps ironically one of the most staunchly independent regions, long in conflict with the central government, is now subsidizing that government and the rest of the country’ (p.115).
Table 5.1. Poverty in resource-rich regions (1976 and 1996)
(Indonesia=100)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>1976</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aceh</td>
<td>27</td>
<td>72</td>
</tr>
<tr>
<td>Papua</td>
<td>219</td>
<td>241</td>
</tr>
<tr>
<td>Riau</td>
<td>61</td>
<td>72</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>12</td>
<td>55</td>
</tr>
<tr>
<td>Resource-poor non-Java provinces</td>
<td>102</td>
<td>118</td>
</tr>
<tr>
<td>Java provinces (excluding Jakarta)</td>
<td>106</td>
<td>104</td>
</tr>
</tbody>
</table>

Source: Calculated from BPS data.

How can one express the aspiration to inequality in a measurable term? A welfare gap can be used as a proxy and at the same time reflect relative deprivation. It measures the gap between regional prosperity and community welfare. Per capita GDP is used as the single measure of regional prosperity. For community welfare, there are several options. We take three measures, namely human development index (HDI),\(^\text{110}\) capability poverty (human poverty index-HPI)\(^\text{111}\) and consumption poverty (poverty head count ratio: HCR),\(^\text{112}\) as the proxies. Then all three indicators are indexed by using the value of 100 for the national average. For poverty HCR and HPI, the indices have to be used in reverse to give the measurement a positive meaning: if a region has an index above 100, it means that the region is relatively more affluent than the national average, and vice-versa. Table 5.2 shows that regional prosperity and community welfare gaps are positive for the four regions and negative for the others. On average, regional prosperity in the resource-rich provinces are much higher than community welfare, while the opposite is true for other provinces. As noted before, this is the outcome of redistributive policies that aimed to equalize, resulting in rich regions subsidizing poorer ones. The rich regions

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\(^{110}\) Human development index (HDI) measures the overall achievements of three basic dimensions of human development in a particular region, namely longevity (health), knowledge (education) and a decent standard of living. In Indonesia, the indicators used are life expectancy (longevity), literacy rate and years of schooling (education/knowledge) and consumption-based purchasing power parity (standard of living); for details see (UNDP, 2004).

\(^{111}\) Human poverty index (HPI), a composite index ranges from 1–100 and measures deprivations in three dimensions: longevity, as measured by the probability at birth of not surviving to age 40; knowledge, as measured by the adult literacy rate; and overall economic provisioning, public and private, as measured by the percentage of people without access to safe water and health facilities, and the percentage of children under five who are underweight (UNDP, 2004).

\(^{112}\) Poverty head count ratio (HCR) measures the proportion of the population that falls below a certain poverty line. The HCR calculation is based on the national household consumption survey.
aspired to reverse this. They articulated their aspiration in the form of centre-regional conflict and Indonesia was in danger of disintegration.

Table 5.2. Prosperity-welfare gap, 1996

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Income-HDI gap</th>
<th>Income-HPI gap</th>
<th>Income-HCR gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aceh</td>
<td>39</td>
<td>11</td>
<td>57</td>
</tr>
<tr>
<td>Riau</td>
<td>137</td>
<td>154</td>
<td>164</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>299</td>
<td>344</td>
<td>283</td>
</tr>
<tr>
<td>Papua</td>
<td>81</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td>Average four provinces</td>
<td>139</td>
<td>143</td>
<td>151</td>
</tr>
<tr>
<td>Average other provinces</td>
<td>-13</td>
<td>-22</td>
<td>-11</td>
</tr>
</tbody>
</table>

Note: The widening of Income-HCR gap in Aceh is due to the increase of poverty after the war and the 2004 tsunami. In 2007, Riau consisted of Riau and Riau Islands provinces; Papua consisted of Papua and West Papua provinces. Source: Calculated from BPS data.

5.2.2. Grievance vs. Greed

As explained earlier, the greed theory of conflict emphasizes the self-enriching, loot-seeking behaviour of rebel groups, usually applied to lootable natural resources. If secessionist movements are disproportionately found in resource-rich regions, can one argue, following Collier and Hoeffler (1998, 2004), that in the Indonesian case, the greed (loot-seeking) hypothesis is a superior explanation to the grievance (justice-seeking) hypothesis? The short answer is no, even though all regions that are well endowed with natural resources experienced political violence.

The greed motivation is unlikely to be found in the dynamics of rebel groups in Aceh and Papua. The first and second generations of GAM (1970s and 1980s) were mainly driven by ideological motives, while the huge GAM recruitment in the third generation (1999–2003) mainly came from families who had been victimized by Indonesian military violence during the 1989–1998 time of martial law, known as DOM (Daerah Operasi Militer). Furthermore, natural resource-related financing only accounted for a small portion of GAM’s overall revenue. The bulk of GAM

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113 The argument for the superiority of the greed hypothesis (loot-seeking) based on the positive association between the share of primary commodity export to total export and the onset of civil war against the grievance hypothesis (justice-seeking) can be found in Collier and Hoeffler (1998, 2004), Collier (2000), Collier et al. (2003) and Collier and Sambanis (2005).

114 Ross’s (2005) field interview finds that by mid-2000, children of DOM victims (Anak Korban DOM) constituted a significant corps of GAM fighters. On 30 July 2000, The Jakarta Post reported that most of GAM’s new recruits were children of DOM victims.
In Papua, there are no accusations or reports of looting natural resources (timber or mining) against the rebel groups—although Presidium Dewan Papua (PDP-Papua Presidium Council), a recently formed political arm for the Papua independence movement, has been receiving finances from the Freeport, an American copper and gold mining company. The greed hypothesis cannot be applied to Riau and East Kalimantan either, since there was no secessionist rebel group in the regions, but only minor political movements articulating secessionist sentiments.

Conversely, there were widespread accusations of greedy behaviour against the Indonesian army, which prolonged conflict for personal economic gains. For example, McCulloch (2006) and Kingsbury and McCulloch (2006) detail military businesses in Aceh during the conflict, while in Papua, ICG (2002a) points out the direct involvement of the military in the timber business and in providing security for mining companies for huge monetary reward. If there was any greed, it was not of the rebels, but of the personnel in the security apparatus, that contributed to the dynamics of the conflict. Greed certainty does not appear to have acted as a trigger factor.

In sum, the way the natural resource rents were managed by the central government was the driver for secessionist sentiments through the logic of aspiration to inequality. As argued in Chapter 4, the central government used resource rent to ‘equalize’ welfare across the country, which created the perception of exploitation on the part of people of resource-rich regions, especially when they were not consulted on the mechanism of resource sharing and nation building. Given this, the natural resources impact is rather indirect and should be seen from a macro perspective. The logic is closely related to the notions of relative deprivation, marginalization and exclusion that can be found in all four rich regions, and have been mentioned widely.

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115 According to Indonesian intelligence sources interviewed by Schulze (2004), by 2003 GAM had collected about IDR 1.1 billion (approximately USD 120,000) a month through an extensive tax system called Pajak Nanggroe, levied on personal income, business income, and schools across the province. Funds were also collected from Acehnese living in Malaysia, Thailand, and other parts of Sumatra, often under the threat of violence (ICG, 2001b; Schulze, 2004). It is estimated that in 2001, between 2,000 and 3,000 Acehnese lived in Malaysia, while 7,000 to 8,000 were in Thailand, Australia, Europe and North America (Gunaratna, 2001).

116 The company pays a salary and travel expenses to Tom Beanal, who has sat on its board of commissioners since 2000 as part of a settlement between Freeport and the Amungme ethnic group, of whom Beanal is a leader. Beanal says he combines Freeport business with campaigning. The company has also paid travel expenses for Presidium supporters (ICG, 2002a).
in the literature. Not only was the level of community welfare relatively deprived in relation to their region’s extremely rich natural resources, but part of the community was also marginalized. For example, the standard of living of the local population has generally lagged behind that of migrant groups (Brown, 2008).

5.2.3. The Decentralization Response

The decision to decentralize was central government’s response to the separatist challenge to address the ‘aspiration to inequality’ or ‘the rage of the rich’ in particular, by allocating a substantial proportion of resource rents to local governments. The main features of this policy were put forward in the following regulations: the two decentralization laws passed in 1999 (Law No. 22/1999 on Regional Governance and Law No. 25/1999 on Fiscal Balance between the Centre and the Regions), which were fully implemented in 2001;¹¹⁷ the two special autonomy laws passed in 2001 for Aceh (Law No. 18/2001) and Papua (Law No. 22/2001), which provided greater autonomy for those two provinces that contained separatist movements; the 2004 revisions of the previous decentralization laws into Law No. 32/2004 and Law No. 33/2004 respectively. The former laid out the basis for direct elections of heads of provinces (Governors) and districts (Regents and Mayors). Last is the recently passed Law on Governing Aceh (LoGA), Law No. 11/2006, which is one of the stipulated clauses in the August 2005 Helsinki Peace Agreement between GAM and the Government of Indonesia.

Decentralization (or federalism) has been a popular policy option to deal with secessionist challenge (Brancati, 2006; Tranchant 2007, 2008; Murshed, 2010). The Indonesian experience is not an exception. Brancati (2006) distinguishes between economic and political decentralization, and the decentralization-related regulations listed above contain both aspects of decentralization.¹¹⁸ Political decentralization implies federalism, and in the Indonesian context the process of decentralization can be categorized as a process of ‘holding together’ federalist policy responses, devised

¹¹⁷ The two Laws were rushed through by the Habibie administration in 1999 due to the threat of disintegration faced by the country, but mainly due to political developments in East Timor surrounding the 1999 referendum.

¹¹⁸ For various types of decentralization in developing and transition economies, see Bardhan (2002) and Bardhan and Mookherjee (2006).
by the unitary state to counter threats of secession through greater decentralization. Economic decentralization can lead to either revenue or expenditure decentralization, or both. The revenue aspect may be important, particularly for regions with natural resources like Indonesia or Nigeria, as it appeases local discontent about regionally generated revenues siphoned off to central government. Other regional governments may be better able to raise local revenues, or even conduct their own borrowing. Decentralization may also increase the utility of regions that can make their own decisions about local public expenditure. It is important, therefore, to distinguish between the revenue and expenditure sides of fiscal decentralization and their relation to conflict, although the two are always connected in practice.

Many local government services, especially under decentralization, are closer to the characteristics of club goods (or at least impure public goods) than to pure public goods. Outcomes close to the club goods optima may be achieved with greater local control over public expenditure. Since this implies volition, it may be conflict reducing. Decentralized spending at local level is also closer to Tiebout’s (1956) theory on the optimal size of jurisdictions providing local public goods. If individuals can choose, they will live in areas that provide a set of local services corresponding to their personal utility, and they will form local collectives based on these similar preferences with like-minded individuals, minimizing per capita average cost of provision. This argument is similar to those of Oates (1972) and Triesman (2007), that administrative decentralization permits differentiation of policies among heterogeneous local communities. If tastes for public services vary among citizens, then those with similar tastes can cluster in local government areas that provide public services closer to their preferences. This move makes them better off than in a

\[119\] ‘Holding together’ federation is one of three processes of federalism identified by Stepan (1999). The other two are: (i) independent states which ‘come together’ by ceding or pooling sovereign powers in certain domains for the sake of benefits otherwise unattainable, such as security or economic prosperity; and (ii) ‘put together’ federations with a strong centre like the former Soviet Union.

\[120\] As the name suggests, club goods are excludable and voluntary. Only members can benefit from the club good, and membership is voluntary. The provision of club goods does not always require state intervention, as members’ incentives do not lead to under-provisioning. As with a public good, members of a club share something, so the rule for the optimal provision of public goods based on the vertical summation of individual preferences for the common good or service applies. But here there is an additional requirement, related to membership. This is to do with the fact that on the one hand increased membership can reduce per unit costs (because of economies of scale or scope); but on the other hand, more people sharing leads to congestion and may crowd out benefits. Both of these factors need to be taken into account in the pricing and provision of club goods. See Cornes and Sandler (1996) for a succinct survey of club goods.
centralized situation where they have to endure public services that are not to their liking. That is, decentralization can lead to outcomes closer to the Tiebout optima. Another theory that merits mention is the theory of associations (Basu, 1989), where members’ preferences and willingness to pay are often at variance. This implies that the composition of the club or association or locality is heterogeneous. Optimal membership rules would need to trade off taste differences among members with their differential abilities to pay. Greater local control over public expenditure produces greater homogeneity over the preferences for goods, especially when different jurisdictions vary in willingness to pay for different ranges and quantities of services. In other words, the gap between preferences of members and their willingness to pay is bridged to a larger extent when there is greater local fiscal autonomy, and hence may abate conflict.

Decentralization policies have been effective in dealing with separatist demands in both Aceh and Papua. Since the signing of the Helsinki Agreement, peace has held in Aceh, whereas earlier decentralization laws proved ineffective in curbing separatist conflict. The 2001 Special Autonomy Law for Papua has effectively calmed the separatist movement. Furthermore, the 2006 direct elections for the Papuan governorship opened political divisions among different factions along political and sub-regional affiliations within the province and weakened separatist sentiments (Mietzner, 2007).

It has been suggested that the Government of Indonesia should follow decentralization strategies similar to those in Aceh for addressing separatist pressures in Papua. If the contending parties in the case of the more complicated problem in Aceh could finally agree to cooperate according to the modalities laid down in the Helsinki Accord and the subsequent Law on Governing Aceh, one may expect a similar outcome in the restive region of Papua. Thus a similar process is being initiated to have a more comprehensive and durable solution to settle Papua’s secessionist aspirations.

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121 This suggestion is argued in an East West Center’s Policy Studies (Kivimaki, 2006) written by Timo Kivimaki, a Finnish political scientist who was an adviser to the former Finnish president Martti Ahtisaari during the Helsinki talks between the GAM and the Indonesian government.

122 The recent visit to Indonesia by the co-founder of the Free Papua Movement (OPM) Nicholas Jouwe, can be seen as a part of the process. The 85-year-old Papuan leader, who has been living in exile abroad for the past 40 years, met the Indonesian president Susilo Bambang Yudhoyono and visited his Papuan homeland (The Jakarta Post, 23 March 2009). Before, pro-independent components of the Papuan were asked to appoint a widely accepted representative leader to hold talks
Problems in the other two rich regions were less complicated. The provinces of Riau and East Kalimantan, which raised strong demands for autonomy, have been happy with the two decentralization laws passed in 1999 and their subsequent 2004 revisions. Since then they have been preoccupied with exercising political and fiscal power at local level. However, there was recently a minor political move in Riau asking for special autonomy status as in Aceh and Papua. The demand was officially voiced in the May 2005 Pekan Baru meeting by a group of prominent Riau figures that included a former cabinet minister, retired army generals, a former governor, senators, the head of the Malay Customary Council (Lembaga Adat Melayu), the head of a university student association, NGO, youth leaders and highly ranked provincial bureaucrats.\(^{123}\) As in the case of East Kalimantan, such a move can be understood as a way to increase the region’s bargaining power vis-à-vis the centre.

The four rich regions have recorded the highest incremental increases in their local government (provincial and districts) revenues due to fiscal decentralization (Table 5.3). Seven years after decentralization, which took effect in January 2001, the local governments’ revenues on average became 19 times larger than before decentralization, while revenues in other regions only increased by a factor of 9. In the four rich regions, the increase primarily originated from the sharing of natural resource rents between the central and regional governments, which is the main instrument of addressing the rich regions’ aspiration to inequality and their relative deprivation. Between 1996 and 2007, Aceh and Papua showed improvements in terms of income–HDI gap, although the gap widened in Riau and East Kalimantan (Table 5.2).

For other regions the local budget increases are mainly due to central government subsidies, which are now managed by local governments. The subsidies are called General and Specific Allocation Funds, and are intended to act as a balancing factor to somehow retain equalization policy à la Suharto. While initially there were worries regarding the effectiveness of central government subsidies as the balancing factor (see for example Suharyo, 2002), a recent World Bank assessment (Fengler, 2009) concludes that decentralization in Indonesia has been equalizing, since poor provinces have been the main beneficiaries of decentralization, particularly in the last

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\(^{123}\) Media Indonesia, 5 May 2005.
five years. As Figure 5.4 shows, between 2006 and 2008 linear associations of poverty head count and per capita central government block transfer (DAU) across districts have become steeper.

The sharing of resource rents seems to have succeeded in achieving the political objective of quelling secessionist conflict. Nevertheless, longer-term governance and capacity-development needs in relation to political and administrative decentralization in the four resource-rich provinces still pose daunting challenges. Although the rich regions seem to be politically satisfied now, being able to exercise political and fiscal power in their respective regions as the rulers in their own land, in the long run they may become disillusioned. This is because the large public funding they now receive may not lead to an increase in general welfare and sustainable economic development of the regions as experienced by Riau and East Kalimantan. Between 1996 and 2007, the prosperity-welfare gaps in these regions, in fact, have become wider (Table 5.2). The next section briefly outlines this issue.

**Figure 5.4. Transfer to poor regions (2006-08)**

![Graph showing linear associations of poverty head count and per capita central government block transfer (DAU) across districts from 2006 to 2008.](image)

Source: Fengler (2009).
Table 5.3. Total governments’ (province and districts) revenue
(Rp. million – current)

<table>
<thead>
<tr>
<th>No</th>
<th>Provinces</th>
<th>1999/2000</th>
<th>2003</th>
<th>2008</th>
<th>Incremental increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1999-2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fiscal year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,288,480</td>
<td>5,844,423</td>
<td>20,046,616</td>
<td>1,456</td>
</tr>
<tr>
<td>1</td>
<td>Aceh</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Riau</td>
<td>1,464,041</td>
<td>10,878,183</td>
<td>26,032,025</td>
<td>1,678</td>
</tr>
<tr>
<td>3</td>
<td>East Kalimantan</td>
<td>1,333,636</td>
<td>11,714,964</td>
<td>28,047,257</td>
<td>2,003</td>
</tr>
<tr>
<td>4</td>
<td>Irian Jaya</td>
<td>1,207,415</td>
<td>7,405,232</td>
<td>24,711,645</td>
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<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>1,771</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>North Sumatra</td>
<td>2,155,053</td>
<td>8,151,301</td>
<td>18,890,065</td>
<td>777</td>
</tr>
<tr>
<td>6</td>
<td>West Sumatra</td>
<td>1,076,203</td>
<td>3,761,205</td>
<td>10,496,387</td>
<td>875</td>
</tr>
<tr>
<td>7</td>
<td>Jambi</td>
<td>624,967</td>
<td>2,880,481</td>
<td>6,478,605</td>
<td>937</td>
</tr>
<tr>
<td>8</td>
<td>South Sumatra</td>
<td>1,335,826</td>
<td>5,380,020</td>
<td>17,739,211</td>
<td>1,228</td>
</tr>
<tr>
<td>9</td>
<td>Bengkulu</td>
<td>424,084</td>
<td>1,345,052</td>
<td>4,503,061</td>
<td>962</td>
</tr>
<tr>
<td>10</td>
<td>Lampung</td>
<td>981,507</td>
<td>3,890,957</td>
<td>8,506,581</td>
<td>767</td>
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<tr>
<td>11</td>
<td>Jakarta</td>
<td>4,178,545</td>
<td>9,982,372</td>
<td>20,591,942</td>
<td>393</td>
</tr>
<tr>
<td>12</td>
<td>West Java</td>
<td>5,105,699</td>
<td>19,186,308</td>
<td>41,282,796</td>
<td>709</td>
</tr>
<tr>
<td>13</td>
<td>Central Java</td>
<td>4,361,287</td>
<td>15,246,730</td>
<td>32,088,728</td>
<td>636</td>
</tr>
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<td>Yogyakarta</td>
<td>658,359</td>
<td>2,501,544</td>
<td>5,455,666</td>
<td>729</td>
</tr>
<tr>
<td>15</td>
<td>East Java</td>
<td>5,098,667</td>
<td>18,827,008</td>
<td>36,494,085</td>
<td>616</td>
</tr>
<tr>
<td>16</td>
<td>Bali</td>
<td>1,486,334</td>
<td>3,207,857</td>
<td>6,967,960</td>
<td>369</td>
</tr>
<tr>
<td>17</td>
<td>West Nusatenggara</td>
<td>821,712</td>
<td>2,437,403</td>
<td>6,045,559</td>
<td>636</td>
</tr>
<tr>
<td>18</td>
<td>East Nusatenggara</td>
<td>803,929</td>
<td>3,302,133</td>
<td>8,121,252</td>
<td>910</td>
</tr>
<tr>
<td>19</td>
<td>West Kalimantan</td>
<td>935,856</td>
<td>3,091,219</td>
<td>8,449,259</td>
<td>803</td>
</tr>
<tr>
<td>20</td>
<td>Central Kalimantan</td>
<td>824,267</td>
<td>2,685,369</td>
<td>8,574,721</td>
<td>940</td>
</tr>
<tr>
<td>21</td>
<td>South Kalimantan</td>
<td>1,021,200</td>
<td>2,821,024</td>
<td>8,506,795</td>
<td>733</td>
</tr>
<tr>
<td>22</td>
<td>North Sulawesi</td>
<td>688,372</td>
<td>2,623,557</td>
<td>7,968,904</td>
<td>1,058</td>
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<tr>
<td>23</td>
<td>Central Sulawesi</td>
<td>523,820</td>
<td>2,202,392</td>
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</tr>
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<td>24</td>
<td>South Sulawesi</td>
<td>1,643,995</td>
<td>6,152,855</td>
<td>16,419,637</td>
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<td>25</td>
<td>Southeast Sulawesi</td>
<td>562,274</td>
<td>1,728,039</td>
<td>5,539,171</td>
<td>885</td>
</tr>
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<td>26</td>
<td>Maluku</td>
<td>435,056</td>
<td>2,658,487</td>
<td>8,625,514</td>
<td>1,883</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>852</strong></td>
</tr>
</tbody>
</table>

Note: In 2008, Indonesia consists of 33 provinces; the changes are as follows: Riau (Riau, Kepulauan Riau), South Sumatra (South Sumatra, Kepulauan Bangka Belitung), West Java (West Java, Banten), North Sulawesi (North Sulawesi, Gorontalo), South Sulawesi (South Sulawesi, West Sulawesi), Maluku (Maluku, North Maluku, Papua (Papua, West Papua). Source: Calculated from Ministry of Finance’s data.
5.3. POTENTIAL GREED AND A FUTURE RESOURCE CURSE

5.3.1. Democracy in a Resource-rich Society

Democracy has a distinct feature in resource-rich societies. In contrast to the modernization theory, postulating that democracy is more viable in rich societies, Ross (2001a; 2009) shows that resource-rich countries are systematically less democratic. Ross (2001a) also proposes the following three causal mechanisms that link resource rents and authoritarianism. First is the rentier effect, through which governments use low tax rates and high spending to dampen pressures for democracy. Second is the repression effect, by which governments build up internal security forces to ward off democratic pressures. Third is the modernization effect, in which the failure of the population to move into industrial and service sector jobs renders them less likely to push for democracy. In addition, three other causal mechanisms have been identified: asset specificity (Boix 2003),

124 The elite will only agree with democratization if they can protect their wealth from seizure by the newly empowered masses. If their wealth is in form of mobile assets that can easily be transferred abroad, they do not need to worry about the assets’ seizure, and will agree with democratization. However, if their wealth is based on oil or other minerals, which is in the form of ‘fixed’ assets and subject to seizure by a newly democratic government, they will oppose democratization since they cannot protect their wealth by sending it abroad (Boix, 2003).

125 Fish (2005) argues that corruption can help explain the connection between petroleum (and other mineral wealth) and the absence of political freedom, both in Russia and around the world.

126 Ross (2009) argues that oil-rich governments are less accountable to their citizens because they receive exceptionally strong backing from foreign powers like the US, Britain, France, and (during the Cold War) the Soviet Union.

and foreign support (Ross, 2009)— although Ross (2009) finds cross-country statistical support only for the rentier effect.

In this connection, how democracy affects growth is another important aspect to consider. Although it has been widely scrutinized, the issue remains inconclusive. A group of scholars argues that democracy is good for growth. For example, Rodrik and Wacziarg (2005) find that major democratic transitions have a positive effect on economic growth in the short run. From the opposite perspective, a study by Persson and Tabellini (2008) finds that a reversal from democracy negatively affects growth. Furthermore, it has been argued that growth in democracies tends to be less volatile and that democracies diversify their economy better than autocracies, which in turn is good for sustained growth (Rodrik 2000; Cuberes and Jerzmanowski, 2009). However, another group of pundits argue that democracy can be bad for growth. For
example, Papaioannou and Siourounis (2008a) find that growth is slow during a transition, but stabilizes at a higher level in the medium and long run. Based on anecdotal evidence, several influential commentators have also suggested that democratization in developing countries produces poor economic outcomes, political instability and ethnic conflict (Kaplan, 2000; Chua, 2002; and Zakaria, 2003). This has some affinity to Lee Kuan Yew’s ‘cruel choice’ hypothesis between two ‘Ds’—democracy and discipline. This is because democracy at the initial stage of development is hostile to rapid economic growth; what a country needs instead is discipline.127

The ‘neocon agenda’ of the United States has increased the prevalence of resource-rich democracies.128 Assessing this, Collier and Hoeffler (2009) suggest that, in developing countries, the combination of high natural resource rents and open democratic systems has been growth-reducing. Checks and balances offset this adverse effect; thus, resource-rich economies need a form of democracy with particularly strong checks and balances. Unfortunately, this is rare: checks and balances are public goods and so are liable to be undersupplied in new democracies. This is largely because the necessary institutional mechanisms to ensure such checks and balances are weak both inside the government and in civil society’s ability to act as watchdogs over the government. Those oversight mechanisms which might exist are eroded by resource rents or, read differently, by corrupt government behaviour and self-interested client-patron networks between government and civil society.

The decentralization that officially took effect in January 2001 was primarily administrative and fiscal, and true political decentralization has only taken place since the introduction of direct elections of local executives (PILKADA) in mid-2005.129 Since then, Indonesia’s sub-national entities, including the resource-rich regions, have been exposed to aggressive local electoral competition. The significant increase in the size of local government budgets, a result of decentralization, has created a situation where the appetite to control local power becomes high. The


128 The agenda diagnosed the perceived ills of the Middle East as being due to its lack of democracy. Thus, Selden (2004) defines the neocon agenda as ‘American power to reshape the global environment in the name of a set of liberal democratic ideals. It is their belief that this will make the United States more secure by reducing the seemingly intractable problems of the Middle East, thus getting at some of the root causes of terrorism.’

129 See also Chapter 8 on this.
appetite is significantly higher in resource-rich regions, since the elected leaders will have control over much larger local government revenues. The current setting of electoral competition in Indonesia could create a high discount rate for those who are in power (at district or provincial level), particularly in resource-rich regions. This means public officials may not be motivated to maximally utilize public funds derived from natural resources for the development of an industrial base, or to spend on social development promoting people’s general welfare. Instead, they may be short-sighted during a five-year term in office, focusing on short-term gains by allocating public funds to personal patronage networks, or long-sighted in promoting various forms of corruption in order to win future elections (e.g. on unproductive pork barrel projects). The ultimate goal of electoral contestants thus becomes capturing public resources to distribute various rents to cronies.

The major part of provincial/district funding is derived from natural resource rents under the natural resources revenue sharing scheme, not by taxing the voters/population. This creates a situation where winning politicians are less accountable to voters and voters devote less willingness/ability to scrutinize the acts of politicians in power (i.e. there is not much incentive since voters do not pay direct taxes). Following Olson (1993), the politicians act as ‘roving bandits’ under the shadow of democracy, rather than as ‘stationary bandits’ under autocracy.

The incompatibility between the source of legitimacy, which results from popular votes in direct elections, and the source of budget, from the sharing of resource rents with the central government, not from taxation, could potentially result in lack of accountability. Local elites or elected leaders might use resource rents for bribing the poor in the electorate with pork barrel projects or white elephant spending. In these cases, resource rent is not used to improve the performance of the non-resource sector for the sake of sustainability and the overall economic development. In such a situation, the introduction of democracy (from the perspective of electoral competition only, but lacking in checks and balances) in a resource-rich society could retard development (Collier and Hoeffler, 2009).

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130 Allocating government contracts to businesses that are politically connected to those in power.

131 At cross-country level, Ross (2004b) argues that resource-rich countries that impose low taxes tend to have less representative and accountable governments through the logic of no representation without taxation. Their polities are also more likely to be less democratic (Ross 2001a); furthermore, Ross (2001b) argues that there tends to be institutional breakdown due to negative government responses to the resource boom’s positive revenue shocks.
5.3.2. Post-transition Socio-economic Performance, 1999–2008

During the post-decentralization period (1999–2008), there have been extraordinary increases in the budget managed by local governments of the four resource-rich regions (as presented in Table 5.3). However, their latest socio-economic status in terms of community welfare/standard of living and economic growth, and improvements are evidently not remarkable. In fact, their socio-economic achievements are much poorer, despite their large budgets since decentralization (Tables 5.4 and 5.5). These tables compare the resource-rich Aceh, Riau, East Kalimantan and Papua with their resource-poor counterparts, North Sumatra, West Sumatra, South Kalimantan and Maluku respectively. In some aspects, the socio-economic achievements of the four resource-rich regions are below national average and even worse than their resource-poor neighbouring provinces. It appears that resource-rich regions have spent local government budgets inefficiently and ineffectively.

Where did the money go? Apart from speculations of local corruption, pork barrel projects and white elephant spending, an alternative explanation could be over-expansion of the resource sector at the expense of other high-productivity tradable sectors which are more sustainable. In other words, it could be due to inability to achieve structural transformation of local economies, popularly known as the ‘Dutch disease syndrome’.\(^\text{132}\) This can happen due to the tendency to over-exploit the ‘golden goose’ if the leaders have a short time horizon. The next section elaborates on this issue.

\(^{132}\) The term Dutch disease was coined in 1977 by *The Economist* (26 November) to describe the decline of the manufacturing sector in the Netherlands after the discovery of natural gas in the North Sea in the 1960s. The classic economic model describing Dutch disease was developed by Corden and Neary (1982).
Table 5.4. Progress in social indicators (1999–2008)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Poverty HCR</th>
<th>% Reduction of HCR</th>
<th>Human Dev. Index (HDI)</th>
<th>% Increase of HDI</th>
<th>IMR</th>
<th>% Reduction of IMR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource rich</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aceh</td>
<td>12.7</td>
<td>14.7</td>
<td>23.5</td>
<td>65.3</td>
<td>70.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Riau</td>
<td>12.6</td>
<td>14.0</td>
<td>10.6</td>
<td>15.7</td>
<td>67.3</td>
<td>74.4</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>9.7</td>
<td>20.2</td>
<td>9.5</td>
<td>2.2</td>
<td>67.8</td>
<td>73.8</td>
</tr>
<tr>
<td>Papua</td>
<td>42.3</td>
<td>54.7</td>
<td>36.6</td>
<td>13.4</td>
<td>58.8</td>
<td>64.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>17.6</td>
<td>23.4</td>
<td>15.4</td>
<td>12.1</td>
<td>64.3</td>
<td>70.6</td>
</tr>
<tr>
<td><strong>Resource poor neighbours</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Sumatra</td>
<td>13.2</td>
<td>16.7</td>
<td>12.6</td>
<td>5.1</td>
<td>66.6</td>
<td>72.8</td>
</tr>
<tr>
<td>West Sumatra</td>
<td>9.8</td>
<td>13.2</td>
<td>10.7</td>
<td>65.8</td>
<td>72.2</td>
<td>9.8</td>
</tr>
<tr>
<td>South Kalimantan</td>
<td>8.5</td>
<td>14.4</td>
<td>6.5</td>
<td>24.0</td>
<td>62.2</td>
<td>68.0</td>
</tr>
<tr>
<td>Maluku</td>
<td>44.6</td>
<td>46.1</td>
<td>21.9</td>
<td>50.8</td>
<td>67.2</td>
<td>69.1</td>
</tr>
</tbody>
</table>

Note: as Table 5.3.
Source: Calculated from BPS data.

Table 5.5. Annual economic growth (2000–07)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Annual RGDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Aceh</td>
<td>0.1</td>
</tr>
<tr>
<td>Riau</td>
<td>3.9</td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>2.7</td>
</tr>
<tr>
<td>Papua</td>
<td>1.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.5</td>
</tr>
<tr>
<td>North Sumatra</td>
<td>6.3</td>
</tr>
<tr>
<td>West Sumatra</td>
<td>6.3</td>
</tr>
<tr>
<td>South Kalimantan</td>
<td>7.2</td>
</tr>
<tr>
<td>Maluku</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Note: as Table 5.3.
Source: Calculated from BPS data.

5.3.3. A Future Resource Curse?

The central argument of the natural resource curse is that, in the longer term, resource abundance is not translated into overall community welfare, economic growth and sustainability through the development of non-resource sectors (Auty, 1993). Pioneering cross-country empirical evidence on this hypothesis was put forward by Sachs and Warner (1995), who found that resource-rich countries, measured by the ratio of natural resource exports to GDP, tended to grow relatively
slowly. As literature on resource curse grows, at least three channelling mechanisms of the curse can be identified. The first mechanism linking resource dependence and growth failure is through economic disruption, which consists of at least two economic processes, namely Dutch disease and sectoral imbalance/disincentive to entrepreneurship (Neary and Wijnbergen, 1986; Baland and Francois, 2000). The second channel concerns institutional failure resulting in bad governance, which includes the presence of the rentier effect, corruption and authoritarianism (Ross 2001a, 2001b; Jensen and Wantchekon, 2004). The third channel is conflict (civil war), as the presence of natural resources on one hand may create the appetite to control resource rents (Collier, 2007), and on the other hand may result in grievances based on inequitable access to the resources (Stewart, 2008).

By international standards, Indonesia is one of the few countries in the world that avoided the Dutch disease variant of resource curse during the Suharto regime (Rosser, 2007; Gelb and Glassburner, 1988). At national level, the era of heavy reliance on natural resources in Indonesia has gone, as its export-oriented manufacturing base has expanded and its agricultural productivity grown. This has been achieved by carefully managing the real exchange rate and the spending of its resource windfall (oil) on infrastructure, particularly in agriculture. Indonesia’s record is superior to many African and Latin American countries, such as Nigeria and Bolivia, which experienced similar resource booms in the 1970s. However, in the radically newly decentralized Indonesia, there is a fear that the country may soon experience the resource curse in its four resource-rich regions. The worry is based on the following preliminary political economy explanations, which are adopted from the three channelling mechanisms of the resource curse explained above.

5.3.3.1. Bad Governance

Bad governance in resource rent-dominated local government revenue results primarily in inefficient and ineffective uses of public funds through corruption, pork barrel projects and white elephant spending.

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133 This highly influential empirical work was followed by a series of updated versions, i.e. Sachs and Warner (1999, 2001).

Corruption

Corruption has been rampant in the four resource-rich regions. Former governors of Aceh (Abdullah Puteh), Riau (Saleh Djasit) and East Kalimantan (Suwarna Abdul Fatah) have been jailed on corruption charges. The same has happened to the current regent and vice-regent of the richest district in Indonesia, Kutai Kartanegara of East Kalimantan. The post-conflict political economy of Aceh has been labelled as a predatory peace, because of extensive extortion and other predatory activities targeting local government projects, especially in the construction sector (Aspinall, 2009b). The predatory behaviour is common to all ranks of former rebel combatants, perhaps facilitated by the fact that the GAM-supported candidates have been successful in winning the seats of provincial governor and ten heads of district since the December 2006 Aceh direct local elections (PILKADA): that is, the former rebel soldiers still receive patronage from their former leaders, who are now in government and not serious about controlling their former followers’ corruption. The predatory behaviours of demobilized rebel combatants worsen the already corrupt practices in Indonesia’s public fund management. Although Aspinall (2009b) believes that predatory peace is potentially stable despite its undesirability, it may not be tolerated by a future central government keen to improve governance. More importantly, the lack of development due to corruption may lead to disillusion among local people, and hence to social and political instability.

Although much less exposed, corruption in Papua has also been rampant, especially after the region began to receive a huge increase in local revenues with the sharing of resource rents and provision through the special autonomy fund (Heidbüchel, 2007). Conversations with leading NGO figures in Papua during my fieldwork in Jayapura in November 2008 strongly support this observation. As in the case of post-conflict Aceh, the central government does not appear concerned about local corruptions in Papua at this moment, since to intervene might disturb the current calming of secessionist challenges.

135 The district of Kutai Kartanegara is scheduled to hold local direct elections in 2010 to elect a new regent.

136 According to Heidbüchel (2007), at the district level a huge sum of funds seem to disappear in forms of travel expenses for local government officials and into the private pockets of district heads. She mentioned a case as an example; the corruption of the regent of Wamena district reached such a dimension that the district was nearly bankrupt and electricity was shut down.
Pork barrel projects and white elephant spending

A pork barrel project is a government project that is directed to a particular segment favoured by the ruling elite, for electoral advantage in an upcoming election, as in the case of an ethnically divided society or as a pay-off for investors who made political donations in previous elections. White elephant spending is expensive public spending that is not economically productive and requires a high cost for its maintenance, as the name suggests (Robinson and Torvik, 2005). Certainly it is a misallocation of investment, and such public spending is prone to predatory and rent-seeking practices or corruption (Tanzi and Davoodi, 1997).

In post-conflict Aceh, many local government projects have been channelled through former rebel connections. The phrase ‘peace building’ has been appropriated to justify various predatory behaviours on local government spending (Aspinall, 2009b). In Riau, the newly built nine-floor governor’s office may well be the most luxurious in Indonesia. In late 2009, the provincial government of Riau allocated a luxury official car (Toyota Crown), with a budget of IDR 1.8 billion (USD 195,000) for the head of its provincial parliament, and an official car for the governor was budgeted at IDR 2.3 billion (USD 250,000). In 2005, the governor of Riau purchased two brand-new Mercedes Benz sedans stationed in Jakarta for himself and his deputy as their official cars when visiting the national capital city.

The currently jailed regent of Kutai Kartanegara district (Syaukani H.R.) gained an advantage in the 2005 direct local elections through the highly populist project of Gerbang-Dayaku, introduced in 2001. The regent also developed a Disneyland-type recreational facility in the district capital, which is little more than a mark in the jungle. The regent’s ambition to have an airport in the district was halted after corruption charges involving his children. New sports facilities in East Kalimantan, specially constructed for hosting the 2008 national sports competition, can also be considered white elephant spending. They became useless soon after the competition.

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138 The two cars were bought at the price of IDR 2 billion (USD 218,000), http://www.detiknews.com/read/2005/04/28/174537/350624/10/anggota-dprd-riau-minta-mercy-gubernur-di-jakarta-dilelang, accessed 30 October 2009.

139 The project allocated IDR 2 billion (USD 220,000) block grant per village per year since 2001.

140 When I visited the Kutai district in November 2008, the ‘Disneyland’ was abandoned, and its cable car was not operating.
since such facilities have no connection with the region’s long-term vision on sports development, or with the province’s local economy.\footnote{This concern was voiced by several key local politicians I met during my visit to the province in November 2008.}

\subsection*{5.3.3.2. Internal Conflict}

Since decentralization and the provision of special autonomy appear successful in dealing with secessionist challenges of the resource-rich regions, the focus now should be on internal (elite) conflicts within each region. Direct elections of local executives in particular have significantly transformed the vertical nature of previous conflict (between centre and region) into political competition among factions within each region. In Papua, for example, electoral competition has exposed internal divisions within Papuan society. In addition to newly opened tensions between natives and migrants, the internal divisions in Papua are manifested in the antagonism between the coast and the central highlands, the demand by several regions to establish separate provinces and the debate about ‘Papuanness’ that emerged as an important element of the democratic competition in Papua. All of these have undermined the very concept of pan-Papuan unity that formed the backbone of the separatist agenda, and has the potential to rupture the society if not managed well.

To some extent, Aceh shows a similar trend. Different factions and different layers of the former rebel entity (GAM) have been in fierce competition. The old and new generations of GAM supported different gubernatorial candidates in the 2006 direct local elections, and violent clashes did occur on the ground during the local election process (Clark and Palmer, 2008). Through 2007, a series of grenade attacks on the residences and offices of the newly elected district government officials who had GAM backgrounds, in the former rebel stronghold areas of Bireuen, Lhokseumawe and Aceh Utara, are widely suspected to have been carried out by former rebel cadres angered by their lack of access to government contracts and their failure to secure top bureaucratic positions (Aspinall, 2009b). In East Kalimantan, political rivalry between the two most prominent local politicians, Suwarna AF (the governor of East Kalimantan) and Syaukani HR (the regent of Kutai Kartanegara), led them to reveal each other’s corruption to the National Anticorruption Commission (Morishita, 2008), resulting in both being jailed on corruption charges.
5.3.3.3. Dutch Disease

Some indications of Dutch disease are observable in all four resource-rich regions. As Table 5.6 shows, the share of the non-resource tradable sector that consists of agriculture and the non-oil and gas manufacturing sectors was relatively stable, indicating a lack of structural transformation. The sector’s recent growth rates were generally lower than both the overall RGDP growth and the growth of the non-tradable sector, and it experienced higher inflation. In Aceh, for example, although the shares of the resource sector dropped from 47 percent to 29 percent during 2000–07, the shares of the non-resource tradable sector were stagnant and the sector experienced the highest inflation. Riau shows a similar trend. The relative size of the non-resource tradable sector in East Kalimantan and Papua has not expanded for the past 25 years.

### Table 5.6. Sectoral regional GDP: Tradable and non-tradable

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tradable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aceh Tradable</td>
<td>Resource</td>
<td>66</td>
<td>67</td>
<td>47</td>
<td>29</td>
<td>-5.5</td>
<td>2.1</td>
</tr>
<tr>
<td></td>
<td>Non resource</td>
<td>21</td>
<td>19</td>
<td>26</td>
<td>27</td>
<td>0.4</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>Non tradable</td>
<td>14</td>
<td>14</td>
<td>27</td>
<td>45</td>
<td>9.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Total RGDP</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>0.1</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>Tradable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Riau Tradable</td>
<td>Resource</td>
<td>87</td>
<td>80</td>
<td>55</td>
<td>41</td>
<td>-0.8</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>Non resource</td>
<td>5</td>
<td>8</td>
<td>30</td>
<td>34</td>
<td>6.3</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Non tradable</td>
<td>8</td>
<td>12</td>
<td>14</td>
<td>25</td>
<td>17.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Total RGDP</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>3.9</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Tradable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Kalimantan</td>
<td>Resource</td>
<td>76</td>
<td>59</td>
<td>72</td>
<td>66</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>Non resource</td>
<td>9</td>
<td>18</td>
<td>12</td>
<td>12</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>Non tradable</td>
<td>15</td>
<td>23</td>
<td>16</td>
<td>22</td>
<td>8.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Total RGDP</td>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Tradable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Papua Tradable</td>
<td>Resource</td>
<td>51</td>
<td>37</td>
<td>61</td>
<td>45</td>
<td>-2.5</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>Non resource</td>
<td>22</td>
<td>24</td>
<td>19</td>
<td>24</td>
<td>5.4</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Non tradable</td>
<td>27</td>
<td>39</td>
<td>19</td>
<td>31</td>
<td>11.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Total RGDP</td>
<td></td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>1.8</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Notes:

5) In 2007, Riau included the provinces of Riau and Riau Islands, Papua included the provinces of Papua and West Papua.

7) GDP deflator reflects the total inflation of each sector during 2000–07. Its formula is nominal GDP in 2007 divided by real GDP in 2007, according to 2000 constant prices.

Source: Calculated from BPS data.
5.4. CONCLUSION

This brief chapter has detailed the argument for the economic origin of the secessionist challenge posed by four resource-rich regions in Indonesia. The argument of relative deprivation due to incompatibility between regional prosperity and community welfare and the phenomenon of aspiration to inequality is more relevant to the grievance (justice-seeking) theory than to greed. The grievances of relative deprivation and aspiration to inequality were related to the distribution of resource rent by the autocratic regime of Suharto. Democratic transition opened up political space in which the resource-rich regions addressed their grievances, pushing the country to the edge of disintegration. The main policy response to the problem was decentralization as part of the overall democratization process. The policy has been successful so far in achieving its political objective; however, in the long run, people of the rich regions may be disillusioned since there is a risk that the supposed economic benefits of decentralization may not materialize. This may jeopardize social stability and give rise to violence, such as routine violence or even ethnic or regional cleavages, or a renewed secessionist challenge.\[^{142}\] Electoral violence may also rise as elite competition for power and resources intensifies in a stagnant society. Such peril is particularly worth considering, given the delicate nature of democratic transition if it has to run the gauntlet of unfulfilled public expectations.

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\[^{142}\] In Papua for example, Frans Wospakrik, a leading Papuan intellectual, voices such a concern. In 10–15 years’ time, a renewed secessionist challenge might arise if the current Special Autonomy fails to deliver significant improvements in the socio-economic life of the average Papuan (the masses). The Papuan elite and the masses will be united in fighting against Jakarta, although the failure of Special Autonomy would largely be due to faults committed by the Papuan elites for sucking up resource rents through corruption and pork barrel spending (interview, Jayapura, 6 November 2008).
6.1. INTRODUCTION

Indonesia was rocked by a sudden outbreak of a series of ethnic clashes when the country embarked on its new journey towards democracy in the aftermath of the Asian financial crisis. Although violent internal conflict is not new in the country, there had never previously been any serious ethnic violence. Ethnic violence reached its peak in 1999–2000 and claimed around 10,000 lives (Varshney et al., 2008). It was the period between the severest economic crisis in the country’s post-independence history, followed by the fall of Suharto in 1998 and the full adoption of decentralization in 2001 — at the peak of transition with all its uncertainties.

The country held its first democratic multi-party elections in mid-1999, and passed two radical laws on decentralization in late 1999, followed by rushed technical preparation for decentralization in the subsequent year (year 2000) before its full implementation on 1 January 2001. Bertrand (2004) calls such situations critical junctures, when several important political shifts take place at the same time and new boundaries are being negotiated. A clear implication of becoming democratic and decentralized is the significant distribution of power. During such a fragile situation, different kinds of violence are likely to erupt, as predicted by Snyder (2000) and Hegre et al. (2001). Table 6.1 lists all key episodes of ethnic strife during Indonesia’s systemic transition.\(^{143}\)

The systemic transition with all its turbulences brought the country to a critical juncture. Ethnic violence did not take place in all localities of the country, as was

\(^{143}\) With regard to anti Chinese violence, there might be interconnectedness among pogrom, governance and ethnic violence. Although the killing of (communists) Chinese by Dayaks in West Kalimantan in the late 1960s/early 1970s would appear as an inter-ethnic violence, however this was a clear case of pogrom, since the Dayaks was backed/ supported by the army (Kammen and Davidson, 2002). This is similar to the general pattern of the anti communist killing in the mid 1960s in Java and Bali. There are also indications that the anti-Chinese riot in Jakarta, few days before the fall of Suharto in May 1998, might be considered a pogrom since it was linked to the problem of internal factions within the army (Mietzner, 2009; Rinakit, 2005), not simply a case of ethic violence as it has been commonly treated in literature.
frequently portrayed by outsiders at that time, but was locally concentrated. Fifteen districts (sub-provincial units) in which a mere 6.5 percent of the country’s population lived in 2000, accounted for as much as 85.5 percent of all deaths in group violence (Varshney et al., 2008), although less severe incidents of ethnic strife also occurred in regions such as Luwu (South Sulawesi), Sumba (East Nusatenggara), Banjarmasin (South Kalimantan), and Central Lampung in Sumatra. Some very minor ethnic clashes were also reported in a few districts in Java and other provinces. Figure 6.1 locates the fifteen districts on a map.

Table 6.1: Major episodes of ethnic violence in contemporary Indonesia

<table>
<thead>
<tr>
<th>Main cleavages</th>
<th>Provinces</th>
<th>Affected districts/localities</th>
<th>Time span</th>
<th>Estimated casualties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malay-Madurese</td>
<td>West Kalimantan</td>
<td>Sambas</td>
<td>19 Jan–26 Apr 1999</td>
<td>481</td>
</tr>
<tr>
<td>Dayak-Madurese</td>
<td>Central Kalimantan</td>
<td>Kotawaringin Timur, Kotawaringin Barat, Kapuas, Palangkaraya</td>
<td>2 Dec 2000 – 6 Jul 2001</td>
<td>1,255</td>
</tr>
<tr>
<td>Christian-Muslim</td>
<td>Maluku</td>
<td>Ambon, Maluku Tengah, Maluku Tenggara, Buru</td>
<td>15 Jan 1999 – 2 Nov 2002</td>
<td>2,023</td>
</tr>
<tr>
<td>Christian-Muslim</td>
<td>North Maluku</td>
<td>Ternate, Tidore, All Halmahera</td>
<td>19 Aug 1999 – 7 Dec 2000</td>
<td>2,782</td>
</tr>
<tr>
<td>Christian-Muslim</td>
<td>Central Sulawesi</td>
<td>Poso</td>
<td>Apr – July 2000</td>
<td>613</td>
</tr>
<tr>
<td>Anti Chinese</td>
<td>Jakarta</td>
<td></td>
<td>May 1998</td>
<td>1,206</td>
</tr>
<tr>
<td>Anti Chinese</td>
<td>Central Java</td>
<td>Solo</td>
<td>May 1998</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total deaths</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>9,399</strong></td>
</tr>
</tbody>
</table>

Note: The peak of the violence was in the third week of Feb 2001 in Kotawaringin Timur that claimed 1,200 lives.
Source: Summarized from UNSFIR conflict database.

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144 Many western countries issued travel warnings to their citizens wanting to visit Indonesia, and international tourists almost disappeared. It seemed that the whole country was torn by violence.

145 Smaller acts of violence may be widespread, as is true of many parts of the world, but large-scale collective violence was not. This result is consistent with data on group violence in several other parts of the world: Africa (Laitin and Fearon, 1996); the Hindu-Muslim conflict in India (Varshney, 2002), racial violence in the US in the 1960s (Horowitz, 1983), and Catholic-Protestant violence in Northern Ireland (Poole, 1990). Klinken (2007) provides a comparative case study of major episodes of ethnic violence in Indonesia.
Figure 6.1. Map of ethnic violence (marked in red)
While a few districts were ravaged by severe ethnic strife, most Indonesian localities remained peaceful. What was the particular blend at the local level that rendered some districts more vulnerable to ethnic violence than others? Identification of local-level issues is crucial for understanding and explaining spatial variations in ethnic conflict during the period of transition. The current state of knowledge points to two possible explanations: grievance and greed.

Ethnic violence subsided with the full implementation of the decentralization policy. Interestingly, the previously clashing ethnic groups have engaged in new cooperative arrangements of political coalitions at the local level after decentralization, in which districts received a much bigger budget allocation and assumed significantly increased local authority. Transfer was the main instrument of the budget allocation and may be seen by the local elites as a reward for cooperation. It is also possible that elites realized that violence was detrimental to economic growth and not to the benefit of any group, forcing them to cooperate.

Based on this background, this chapter has two specific, interrelated and sequential, objectives. Firstly, it aims at examining the factors that have led to deadly ethnic violence, in a systematic way, through a large sample quantitative approach. It focuses on the two possible explanations of grievance and greed. This involves a careful examination of districts’ socio-economic conditions at the end of the Suharto era or prior to major episodes of ethnic violence. Secondly, it examines to what extent post-decentralization transfer allocation was a response to the severity of ethnic strife, as the proxy for pre-decentralization socio-economic conditions.

The rest of the chapter proceeds as follows: Section 2 discusses the framework of the study, from the relative deprivation-related grievances of local communities, possibly contaminated by elements of greed, to inter-ethnic cooperation after ethnic clashes. Section 3 outlines the research methodology. Section 4 reports the results. The last section provides a brief discussion and conclusion.

6.2. THE FRAMEWORK

6.2.1. Relative Deprivation and Conflict
As explained in Chapter 4, relative deprivation is the necessary precondition for civil strife of any kind, including ethnic violence. However, the contemporary ethnic strife
in Indonesia has not been satisfactorily explained. The narratives of key episodes of ethnic violence during transition in the post-Suharto era point to the central role of groups’ perceptions of their relative deprivation, caused by changes in their relative socio-economic positions during the previous three decades of rapid growth and development, which resulted in the economic and social dislocation of certain groups and significantly downgraded their relative positions *vis-à-vis* others, as in the case of the Dayaks in Kalimantan.\(^{146}\)

Interestingly, the changes in the relative position of various ethno-religious groups did not result in the widening of inequality among them. Instead, in most cases, the development policies of Suharto’s New Order caused a convergence of the socio-economic conditions of different ethno-religious groups. It seems that what matters for ethnic strife in the Indonesian case is not widening inter-group horizontal inequality but loss of group’s relatively superior position over another group, that acted as a trigger for ethno-religious violence.\(^{147}\) Such grievance over losing power by the ‘relatively rich’ can be seen as a new interpretation of horizontal inequality in terms of ‘the rage of the *previously* rich.’\(^{148}\)

### 6.2.2. A Possible Element of Greed

Klinken’s (2007) comparative case study, which analyses the six major episodes of ethnic strife listed in Table 6.1 (except anti-Chinese violence), provides an interesting explanation of ethnic strife. Using an approach based on social movement theory, Klinken suggests that, in a cruel sense, violence is part of normal politics, and that the major episodes of ethnic violence were rooted in the competition of local elites to control the state at local level, at a particular critical juncture of the country’s history, by mobilizing fellow ethnic members. The mobilizations were led by urban middle class elements in small towns outside Java, in Eastern Indonesia in particular, which were particularly dependent on central government subsidies. These areas are typically poor, so their local economies have a relatively high reliance on the state. Klinken (2007) presents provincial-level data from the 1990 population census on the ratio of civil servants to non-agriculture workers, and interprets it as

\(^{146}\) See Davidson (2008), Klinken (2007) and Peluso and Harwell (2001).

\(^{147}\) This is consistent with the situation of Hindu and Muslim in India (Mitra and Ray, 2010)

\(^{148}\) The logic of ‘the rage of the rich’ is also applicable to the case of secessionist sentiments expressed by several resource-rich provinces in Indonesia; see Chapter 5 of this thesis.
indicating the degree of local reliance on state resources at local level. This ratio for four provinces (West and Central Kalimantan, Central Sulawesi and Maluku), where the major ethnic clashes occurred, is found to be high: it seems that high local dependency on the state renders a particular region vulnerable to inter-ethnic competition as they have limited economic options available. Furthermore, Klinken (2007: 44) provides a vulnerability index for ethnic strife by multiplying the ratio of civil servants to non-agricultural workers and the increase in non-agriculture workers during the past two decades. The four provinces show high vulnerability indexes. Klinken (2007) does not proceed beyond presenting such figures at the provincial level and providing a generalization from the key episodes of ethnic strife.

Although the argument of groups’ relative deprivation of changing relative position is within the grievance argument as a conflict driver, it might also contain elements of greed, as argued by Klinken (2007). In other words, ethnic violence is essentially a non-cooperative behaviour of grievance expression, which might be contaminated by greed. Ethnic violence peaked during the period of decentralization reforms in 1999–2000. The period can essentially be seen as a moment of opportunity for local actors to take control of the political and financial resources soon to be transferred to local entities under the decentralization scheme. Previously privileged groups, who had lost their relative position under the New Order equalization schemes and did not like the convergence of their socio-economic positions with the other groups, also displayed an element of greed. However, the greed element argued here is different from the commonly understood greed à la Collier and Hoeffler (2004), referring instead to a group’s effort to correct the perceived injustice they experienced under the regime’s equalization schemes, temporarily expressed in non-cooperative behaviour which took the form of inter-ethnic violence.

6.2.3. Inter-ethnic Cooperation after Violence

Interestingly cooperative behaviour among the warring ethnic communities emerged in the new democratic and decentralized era. When previously relatively deprived ethnic groups regained their political influence, at least partially, they were willing

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149 The North Maluku province was part of Maluku in 1990.

150 For example, the Christians regained control in Maluku province and Poso district, and the Dayaks now enjoy political leadership in districts and provinces in Kalimantan.
to share with other groups. This is manifested in their willingness to pair on coalition tickets contesting for local executive leaderships, à la Lijphart’s (1999) famous idea on consociational democracy (see Table 6.2).

Shared economic growth and democratic consolidation helped to achieve the optimal end-game of cooperative behaviour. The central government’s stick and carrot policies forced competing groups to cooperate. The imposition of civil emergency status, as was the case in Maluku, and the strong presence of security forces, can be regarded as the stick, while political and fiscal decentralization in the forms of local elections and transfers are the carrot. Furthermore, economic growth provided the enabling condition for inter-ethnic cooperation, which became the response to the new conditions provided by democratization and decentralization.

**Table 6.2: Inter-ethnic political coalitions in ethnic violence ridden regions**

<table>
<thead>
<tr>
<th>Provinces/Districts</th>
<th>Regional leaderships before Decentralization</th>
<th>Governor/Regent after Decentralization</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prop. Maluku</td>
<td>1992-97: Akib Latuconsina was appointed as the first Muslim governor. 1997-02: the province had another Muslim governor (Saleh Latuconsina). When he appointed a non-Protestant deputy governor and provincial secretary (both were Catholics), the Protestant elite felt frozen out of the three most powerful jobs.</td>
<td>The provincial parliament elected a Christian governor in 2003 (with a Muslim as deputy). A pair of Christian and Muslim won the top posts in the 2008 provincial direct elections. All four pairs contesting the direct elections consisted of Christian-Muslim coalitions.</td>
<td>In 1999, Maluku was split into two provinces: Maluku (slightly predominantly Christian) and Maluku Utara (predominantly Muslim).</td>
</tr>
<tr>
<td>Kab. Halmahera Utara</td>
<td>In 1994–1999, the district had a Muslim Bupati named Arif Patanga. The district secretary was a Christian named Yahya Patiro, who was expected to be given the Bupati post after Patanga completed his term in 1999.</td>
<td>A Christian Bupati (with a Muslim as deputy) won the 2005 district PILKADA. Each of five pairs contesting the 2005 PILKADA was a mixed-religious pair (Christian-Muslim).</td>
<td>Halmahera Utara is a predominantly Christian district with a significant Muslim minority. The district experienced the severest Christian-Muslim violence in North Maluku in 1999–2000</td>
</tr>
<tr>
<td>Kab. Poso</td>
<td>In 1994–1999, the district had a Muslim Bupati named Arif Patanga. The district secretary was a Christian named Yahya Patiro, who was expected to be given the Bupati post after Patanga completed his term in 1999.</td>
<td>A Christian Bupati (with a Muslim as deputy) won the 2005 district PILKADA. Each of five pairs contesting the 2005 PILKADA was a mixed-religious pair (Christian-Muslim).</td>
<td>Poso conflict has its roots in the unfair distribution of political posts in late 1990s under Bupati Muin Pusadan (1999–2004). The three top posts (bupati, deputy bupati and district secretary) were allocated to Muslims.</td>
</tr>
<tr>
<td>West Kalimantan</td>
<td>The province had a Dayak governor (JC Oevaang Oeray)</td>
<td>The provincial parliament elected a Malay-Dayak</td>
<td></td>
</tr>
<tr>
<td>Kab. Pontianak</td>
<td>In 1999, the district was divided into the predominantly Malay district of Pontianak and the predominantly Dayak district of Landak. Each has a regent and deputy from the dominant ethnic group.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kab. Sambas</td>
<td>In 1999, the district was divided into the predominantly Malay district of Sambas and the predominantly Dayak district of Bengkayang. Each has a regent and deputy from the dominant ethnic group.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prop. Central Kalimantan</td>
<td>The province used to have Dayak governors, but during the Suharto era, Javanese held the post most of the time. In 2000, the provincial parliament elected a Banjarese as the governor and a Dayak as its deputy. In the 2008 provincial direct elections, a Dayak governor won (with a Javanese long-term career bureaucrat as deputy).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.2.4. Grievance, Greed and Cooperation
The previous discussion points to the mixture of grievance and greed explanations of conflict; the two, in fact, can interact. It emphasizes, in the first place, the central role played by relative deprivation in fuelling groups’ grievances, and also highlights the inadequacy of grievance and greed explanations of violent conflict as a third mechanism is required as a catalyst: the breakdown of the social contract (Murshed and Tadjoeddin, 2009). In the context of contemporary ethnic violence in Indonesia, the catalyst mechanism can be attributed to the democratic transition itself. The glue for the earlier social contract was economic growth. Suharto lost legitimacy and the
social contract broke down with the economic crisis.  

The transition also served as a critical juncture in the country’s history, when many political and institutional aspects were renegotiated as previous arrangements could not be maintained. In such a situation, the power of the central government sharply declined and local entities became very aggressive, encouraging violent behaviour among various ethnic groups.

When the state (centre) regained its strength after the implementation of decentralization and democratic polity, warring groups quickly adjusted to the new environment. In light of the knowledge that no one group could eliminate the opposite group, and that the continuation of violence would result in the loss of newly found political influence, they became willing to cooperate. Their cooperative behaviour may also have been driven by the prospect of better economic outcomes in a situation of peace and stability. The democratic and decentralized Indonesia can be seen as a newly agreed horizontal social contract that has replaced the previous, broken-down vertical social contract of the Suharto regime. The deepening process of the new social contact is still under way.

Fiscal decentralization in Indonesia actually had nothing to do with those regions torn by ethnic violence: it was primarily designed to mollify ‘secessionist’ tendencies posed by several resource-rich regions in a newly emerging, ‘holding together’ federation. However, decentralization tempted local elites to bid for local political power in a pre-mature democratic setting, which engendered violence. This can be seen as a negative externality of decentralization in its infancy, although it is very much a temporary phenomenon. This is in contrast to Murshed, Tadjoeddin and Chowdhury’s (2009) finding of a positive externality of fiscal decentralization in the context of routine violence in the densely populated and homogenous Java.

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151 Suharto, after 30 years in power, was losing his grip, and became excessively corrupt and less politically astute.

152 In this regard, an edited volume on local politics in Indonesia during the height of the democratic transition (1998–2004) is nicely and appropriately titled ‘Renegotiating boundaries: Local politics in post-Suharto Indonesia’ (Nordholt and Klinken, 2007).

153 See also Chapter 5.

154 It should be noted that routine violence is different from ethnic or secessionist violence; see Chapter 7 on routine violence.
6.3. METHODOLOGY

6.3.1. Operationalizing Relative Deprivation

*The First Manifestation*

As argued earlier, relative deprivation may be the entry point to explain the eruption of ethnic violence during the transition. Relative deprivation can manifest at least in three different ways: first is relative deprivation, related to groups’ changing relative positions. This mechanism looks at the inter-group horizontal inequality (à la Stewart, 2000; 2008) of two warring ethnic groups and its movement over time. According to Stewart, a widening of horizontal inequality may trigger ethnic violence. However, in the case of Indonesia, it was the convergence of horizontal inequality under the equalization schemes of the Suharto era that sowed the seeds of ethnic violence. Both widening and converging horizontal inequalities can cause a sense of relative deprivation in one group, comparing itself with another, and trigger violence.

*The Second Manifestation*

Following Gurr (1970), the second manifestation of relative deprivation is the discrepancy between what one group thinks that its members deserve and what they actually get. An application of this mechanism was used in the previous chapter of this thesis to explain centre–regional conflict where regional discontent is fuelled by the lack of human development in resource-rich regions. This approach can also be applied in the case of ethnic violence, by comparing regional welfare and people’s prosperity (human development).

*The Third Manifestation*

A third possible approach to operationalize relative deprivation is to look at positive and negative indicators of human development simultaneously. This is when a society looks at any inconsistencies, however temporary, in its internal conditions. The presence of all three kinds of relative deprivation can cause anger against the state, akin to centre–region conflict, especially if they are perceived as the results of state policies.
Since ethnic groups in the conflict-ridden districts were not politically well organized, as in the case of Aceh and Papua, they could not manifest their rage in the form of a separatist movement. Instead, their expression of anger was chaotic and manifested in ethnic violence. The previously privileged group saw the newly privileged groups (mostly migrant Muslims) as representing the centre (state), and targeted them for reprisal through violence. In Maluku, Muslims were associated with the defender of the Republic, while Christians were accused of having separatist aspirations (Klinken, 2001; ICG, 2002b).

Due to the difficulty in generating a large sample of panel data for the first kind of relative deprivation, this study will use the second and third measures of relative deprivation to analyze ethnic violence. It will also be hard to arrive at a consistent measure of horizontal inequality of two warring ethnic groups and observe their changing relative positions over time in a large sample of districts. The contribution of the first kind of relative deprivation to major ethnic violence in Indonesia can be assessed using ethnographic and historical accounts and comparative case studies, but these are outside the scope of this study.

The presence of the second mechanism (relative deprivation in terms of lagging in human development despite living in a richer region) can be tested by putting together districts’ indicators on regional prosperity and human development, for

155 The National Socio-economic Surveys (SUSENAS) during the Suharto era did not differentiate socio-economic data according to ethnicity or religion. This may have done deliberately in order to eliminate the association of socio-economic outcomes with ethnicity in an attempt to create an Indonesian identity. This is consistent with Suharto’s equalization schemes.

156 Mancini (2008) attempts to measure inter-group horizontal inequality within districts in the context of ethnic violence in Indonesia. He employs the group-based coefficient of variation weighted by group size (GCOV) to measure horizontal inequality based on ethno-linguistic groups and ethno-religious groups. Note that only one basis, either ethno-linguistic or ethno-religious, can be applied at once.

\[
GCOV = \frac{1}{\bar{y}} \left( \sum_{r=1}^{R} p_r (\bar{y}_r - \bar{y})^2 \right)^{\frac{1}{2}}, \quad r=1, \ldots, R
\]

where R is the number of ethnic groups in the district, \( \bar{y} \) is the district sample mean of variable y, \( \bar{y}_r = \frac{1}{n_r} \sum_i y_{ir} \) is group r mean value of y in the district, and \( p_r \) is group r district population share. Ostby (2008) uses a similar approach in a cross-country setting. We cannot use Mancini’s approach as we do not have data to measure the changes over time; see the previous footnote. Mancini uses data for only one year (1995).
which data are available. The third mechanism (relative deprivation due to inconsistencies between human development measures and expectations) can be identified by investigating relationships among human development indicators, such as the relationship between education and poverty indicators, and their relationships with ethnic violence. For these purposes, we need a measurement of relative deprivation to confirm its presence and to gauge its magnitude.

6.3.2. Measuring Relative Deprivation

The first critical task is to investigate whether any forms of relative deprivation are present, and to measure them. If their presence can be confirmed, then we move to the next step by investigating whether such relative deprivation plays any role in ethnic violence. We are sure about the presence of the first form of relative deprivation, groups’ changing relative positions, and its role as an underlying cause of ethnic violence; however, this cannot be econometrically tested since we do not have data by ethnic breakdown with sufficient length. Our focus now is on the second and the third forms of relative deprivation, as explained below.

6.3.2.1. Richer Regions with Lower Human Development

The second mechanism of relative deprivation indicates a situation where there is an incompatibility between community welfare and regional prosperity; in other words, poor people living in rich regions. In this regard, a district would compare its level of regional income and community welfare against other districts. We use per capita regional GDP (RGDP) to measure regional income and the Human Development Index (HDI) to represent community welfare.

To investigate the presence of relative deprivation in our sample districts we need to calculate indexes for income and welfare, and then calculate the gap between the two indexes, which is our relative deprivation measure.

Let us start with the Income Index \( I_{\text{INDEX}} \). Districts are ordered from lowest to highest according to their per capita RGDP (income) and indexed, according to real value, between 0 (the lowest) and 100 (the highest). A similar process is applied to welfare (HDI); let us call it the Welfare Index \( W_{\text{INDEX}} \). The process is as follows:

Let \( I_i \) denote the district regional income (per capita RGDP).
$I_i = I_{1,2,3,...,n}$ where $I_i =$ district with the lowest PCRGDP,

$I_n =$ district with the highest PCRGDP.

and let $W_i$ denote the district welfare in terms of Human Development Index (HDI).

$W_i = W_{1,2,3,...,n}$ where $W_i =$ district with the lowest HDI,

$W_n =$ district with the highest HDI.

Then,

$$I_{INDEX} = \left[ \frac{(I_i - I_{\text{min}})}{(I_{\text{max}} - I_{\text{min}})} \right] \times 100 \tag{6.1}$$

$$W_{INDEX} = \left[ \frac{(W_j - W_{\text{min}})}{(W_{\text{max}} - W_{\text{min}})} \right] \times 100 \tag{6.2}$$

The numerator is the gap between the individual region and the most deprived region, which is equal to 0 for the poorest region; while the denominator signifies the maximum deviation. Therefore, the index is a ratio of actual deprivation over maximum deviation, which is 0 for the most disadvantaged region.

Next we measure the distance between the two indexes (Income Index and Welfare Index), and obtain a measure of relative deprivation (RD) in terms of Income-Welfare Gap (IWG); let us label this kind of relative deprivation $RD_{IWG}$. A district is said to experience such relative deprivation if it has a positive value of $RD_{IWG}$; if it is negative, this suggests that the district is relatively pampered.

The formula of the relative deprivation measure in terms of income-welfare gap ($RD_{IWG}$) can be written as follows:

$$RD_{IWG} = I_{INDEX} - W_{INDEX} \tag{6.3}$$

$$RD_{IWG} = \left[ \frac{(I_i - I_{\text{min}})}{(I_{\text{max}} - I_{\text{min}})} - \frac{(W_j - W_{\text{min}})}{(W_{\text{max}} - W_{\text{min}})} \right] \times 100 \tag{6.4}$$

$RD_{IWG}$ stands for relative deprivation in terms of income-welfare gap. $I$ represents income (per capita RGDP) and $W$ denotes welfare in terms of HDI.\(^{157}\) Typical values

\(^{157}\) One might wonder that regional income ($I$) and HDI as a welfare measure ($W$) are correlated since national income-based purchasing power is one of three components of HDI, as in the case of cross-country HDI. This is not the case in the inter-district HDI in Indonesia, which uses household
of $RD_{IWG}$ take a range between -100 and 100. A district may have the highest value of 100 if it has the highest value of per capita RGDP, but at the same time have the lowest HDI. If the opposite situation applies, the district will have the lowest $RD_{IWG}$ value of -100.

Our calculation shows that only two districts, Kediri and Sampang, both in East Java, experienced such relative deprivation in 1996. However, this result seems to be driven by the extremely high income level of the district of Kota Kediri.\footnote{Kediri had the highest per capita RGDP of IDR 20 million in 1996, while the second richest district in the sample only had IDR 5.5 million (all are in 1993 constant prices).} After removing Kota Kediri from the sample, we find 10 districts that experienced this kind of relative deprivation (Table 6.3); however, none of the key districts severely torn by ethnic violence are on the list.

Table 6.3. Relative deprivation in terms of Income-Welfare/HDI Gap ($RD_{IWG}$)

<table>
<thead>
<tr>
<th>No</th>
<th>Districts</th>
<th>Ethnic violence severity index</th>
<th>Income–Welfare Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kab Sampang</td>
<td>3</td>
<td>5.6</td>
</tr>
<tr>
<td>2</td>
<td>Kab Cilacap</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>3</td>
<td>Kota Surabaya</td>
<td>1</td>
<td>14.8</td>
</tr>
<tr>
<td>4</td>
<td>Kab Kudus</td>
<td>0</td>
<td>25.6</td>
</tr>
<tr>
<td>5</td>
<td>Kab Indramayu</td>
<td>0</td>
<td>22.5</td>
</tr>
<tr>
<td>6</td>
<td>Kab Badung</td>
<td>0</td>
<td>18.8</td>
</tr>
<tr>
<td>7</td>
<td>Kota Tangerang</td>
<td>0</td>
<td>18.5</td>
</tr>
<tr>
<td>8</td>
<td>Kab Serang</td>
<td>0</td>
<td>3.5</td>
</tr>
<tr>
<td>9</td>
<td>Kab Kota Baru</td>
<td>0</td>
<td>2.3</td>
</tr>
<tr>
<td>10</td>
<td>Kab Barito Kuala</td>
<td>0</td>
<td>0.7</td>
</tr>
</tbody>
</table>

6.3.2.2. Unfulfilled Expectations

The third mechanism of relative deprivation can be observed when a society looks at internal conditions to discover any consistencies between what they expect and what they actually get. This kind of relative deprivation can be readily gleaned from people having high education but still living in poverty (educated but poor). Lack of poverty reduction amid educational progress can create a sense of relative deprivation. This is akin to relative deprivation when economic progress is not commensurate with advances in education, as in Tadjoeeddin and Murshed (2007). Figures 6.2 and 6.3 visually map such possibilities by presenting scatter plots of expenditure-based purchasing power as the proxy for standard of living in the Indonesian HDI (UNDP, 2004).
schooling against two poverty measures: poverty head count ratio (HCR) and Human Poverty Index (HPI) for 55 districts that experienced ethnic strife (score 1-6) during 1997–2002. Education and poverty are indexed between 0–100 from lowest to highest. The scatter plots are divided into four quadrants separated by the national average values of each variable. Districts that fall within quadrant 2 have the deadly mixture of being educated but poor. A total of nine districts belong to this group, including Poso, Maluku Utara and Maluku Tenggara. All were severely affected by the episodes of ethnic strife listed in Table 6.1. Other districts listed in Table 6.1 such as Maluku Tengah, Halmahera Tengah and Sampit (Kotawaringin Timur) had a considerably high education level. Their years of schooling fell just below the national average, but they recorded relatively much higher poverty measures. In short, these districts have achieved a considerably high level of education, but are still relatively poor.\footnote{This is part of the success of New Order development on education. The Inpres emphasized broad-based health and education development through the massive introduction of Pusat Kesehatan Masyarakat (Puskesmas: community health centre) and primary schools all over the country, reaching even the most of remote places in eastern Indonesia, where most of the severe ethnic strife occurred. Another New Order development priority was rural agricultural infrastructure.} They, too, were ravaged by severe ethnic violence.

As with the previous algebraic procedures, we calculate relative deprivation (RD) in terms of the education-poverty gap (EPG), labelled $RD_{EPG}$. The gap compares districts’ levels of education and poverty against other districts. $RD_{EPG}$ is the gap between the Education Index ($E_{INDEX}$) and Poverty Index ($P_{INDEX}$). The details are as follows:

Let $E_i$ denote a district’s education level in terms of schooling years.

$$E_i = E_{1,2,3,...,n}$$

where $E_1$ = district with the lowest education,

$$E_n = district with the highest education.$$

and let $P_i$ denote a district’s poverty level in terms of HCR or HPI.

$$P_i = P_{1,2,3,...,n}$$

where $P_1$ = the poorest district,

$$P_n = the least poor district.$$

Then,
Therefore,

\[ RD_{EPG} = E_{index} - P_{index} \]  

(6.7)

\[ RD_{EPG} = \left[ \frac{(E_i - E_{\min})}{(E_{\max} - E_{\min})} - \frac{(P_{\max} - P_i)}{(P_{\max} - P_{\min})} \right] \times 100 \]  

(6.8)

RD\textsubscript{EPG} stands for relative deprivation in terms of the education-poverty gap. \( E \) represents years of schooling and \( P \) denotes the poverty measure. The values of \( RD_{EPG} \) take a range between -100 and 100. If a district has a positive \( RD_{EPG} \) it means that the district experiences the relative deprivation of being educated but poor. The magnitudes of the relative deprivation correspond with the value of \( RD_{EPG} \). Districts that do not experience relative deprivation are assigned 0 values. Two measures of poverty are exercised: consumption poverty, measured as the percentage of population below the poverty line; or head count ratio (HCR) and capability poverty, measured in term of the Human Poverty Index (HPI).

In 1996, a total of 32 districts experienced the relative deprivation of being educated but poor, based on the consumption poverty measure. The list includes several high-profile hot spots of ethnic violence (Table 6.4). According to the capability poverty measure, 101 districts experienced such relative deprivation. The list includes 20 districts which scored 3 or more on the ethnic violence severity index (Table 6.5). Well-known sites of severe ethnic strife, such as Sambas, Sampit, Maluku, North Maluku and Luwu, are on the list. It is safe to conclude that there is a clear presence of the relative deprivation of being educated but poor in several regions severely torn by ethnic violence.

The next task is to examine how such relative deprivation systematically affects the severity of ethnic violence, through the econometric model explained in the following section.
Figure 6.2. Education and consumption poverty (indexed between 0–100)

Figure 6.3. Education and capability poverty (indexed between 0–100)
Table 6.4. Relative deprivation in terms of Education-Poverty Gap ($RD_{EPG}$) (Consumption poverty-HCR, 1996)

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>Ethnic violence severity index</th>
<th>Education-Poverty Gap (HCR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kab Maluku Tengah</td>
<td>6</td>
<td>51.3</td>
</tr>
<tr>
<td>2</td>
<td>Kab Maluku Utara</td>
<td>6</td>
<td>20.3</td>
</tr>
<tr>
<td>3</td>
<td>Kota Ambon</td>
<td>6</td>
<td>13.1</td>
</tr>
<tr>
<td>4</td>
<td>Kab Maluku Tenggara</td>
<td>5</td>
<td>49.7</td>
</tr>
<tr>
<td>5</td>
<td>Kab Halmahera Tengah</td>
<td>5</td>
<td>48.2</td>
</tr>
<tr>
<td>6</td>
<td>Kota Palangka Raya</td>
<td>3</td>
<td>8.7</td>
</tr>
<tr>
<td>7</td>
<td>Kota Palu</td>
<td>3</td>
<td>6.8</td>
</tr>
<tr>
<td>8</td>
<td>Kota Makassar</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>9</td>
<td>Kab Belu</td>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>10</td>
<td>Kota Medan</td>
<td>3</td>
<td>5.1</td>
</tr>
<tr>
<td>11</td>
<td>Kab Sikka</td>
<td>2</td>
<td>27.5</td>
</tr>
<tr>
<td>12</td>
<td>Kab Kupang</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>13</td>
<td>Kab Timor Tengah Selatan</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>14</td>
<td>Kab Gorontalo</td>
<td>1</td>
<td>9.9</td>
</tr>
<tr>
<td>15</td>
<td>Kab Alor</td>
<td>0</td>
<td>28.1</td>
</tr>
<tr>
<td>16</td>
<td>Kab Nias</td>
<td>0</td>
<td>19.7</td>
</tr>
<tr>
<td>17</td>
<td>Kab Lampung Utara</td>
<td>0</td>
<td>19.0</td>
</tr>
<tr>
<td>18</td>
<td>Kab Sangihe Talaud</td>
<td>0</td>
<td>17.9</td>
</tr>
<tr>
<td>19</td>
<td>Kab Kendari</td>
<td>0</td>
<td>15.6</td>
</tr>
<tr>
<td>20</td>
<td>Kab Banjarmenegara</td>
<td>0</td>
<td>12.7</td>
</tr>
<tr>
<td>21</td>
<td>Kab Ende</td>
<td>0</td>
<td>12.4</td>
</tr>
<tr>
<td>22</td>
<td>Kota Sibolga</td>
<td>0</td>
<td>10.6</td>
</tr>
<tr>
<td>23</td>
<td>Kab Buton</td>
<td>0</td>
<td>7.5</td>
</tr>
<tr>
<td>24</td>
<td>Kota Pematang Siantar</td>
<td>0</td>
<td>7.4</td>
</tr>
<tr>
<td>25</td>
<td>Kab Muna</td>
<td>0</td>
<td>6.4</td>
</tr>
<tr>
<td>26</td>
<td>Kota Manado</td>
<td>0</td>
<td>5.8</td>
</tr>
<tr>
<td>27</td>
<td>Kota Bengkulu</td>
<td>0</td>
<td>5.1</td>
</tr>
<tr>
<td>28</td>
<td>Kab Dompu</td>
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<td>4.7</td>
</tr>
<tr>
<td>29</td>
<td>Kab Manggarai</td>
<td>0</td>
<td>3.5</td>
</tr>
<tr>
<td>30</td>
<td>Kota Yogyakarta</td>
<td>0</td>
<td>3.1</td>
</tr>
<tr>
<td>31</td>
<td>Kab Flores Timur</td>
<td>0</td>
<td>1.7</td>
</tr>
<tr>
<td>32</td>
<td>Kota Tebing Tinggi</td>
<td>0</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Table 6.5. Relative deprivation in terms of Education-Poverty Gap ($RD_{EPG}$) (Capability poverty-HPI, 1996)

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>Ethnic violence severity index</th>
<th>Education-Poverty Gap (HPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kab Pontianak</td>
<td>6</td>
<td>28.5</td>
</tr>
<tr>
<td>2</td>
<td>Kab Maluku Utara</td>
<td>6</td>
<td>22.4</td>
</tr>
<tr>
<td>3</td>
<td>Kab Poso</td>
<td>6</td>
<td>18.7</td>
</tr>
<tr>
<td>4</td>
<td>Kota Ambon</td>
<td>6</td>
<td>15.5</td>
</tr>
<tr>
<td>5</td>
<td>Kab Kotawaringin Timur</td>
<td>6</td>
<td>9.8</td>
</tr>
<tr>
<td>6</td>
<td>Kab Sambas</td>
<td>6</td>
<td>5.7</td>
</tr>
<tr>
<td>7</td>
<td>Kab Maluku Tenggara</td>
<td>5</td>
<td>6.5</td>
</tr>
<tr>
<td>8</td>
<td>Kab Sanggau</td>
<td>4</td>
<td>30.0</td>
</tr>
<tr>
<td>9</td>
<td>Kab Kapuas</td>
<td>4</td>
<td>8.8</td>
</tr>
<tr>
<td>10</td>
<td>Kab Luwu</td>
<td>4</td>
<td>0.8</td>
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<tr>
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<td>Kota Palangka Raya</td>
<td>3</td>
<td>40.4</td>
</tr>
<tr>
<td>12</td>
<td>Kota Palu</td>
<td>3</td>
<td>36.7</td>
</tr>
<tr>
<td>13</td>
<td>Kab Mamuju</td>
<td>3</td>
<td>27.7</td>
</tr>
<tr>
<td>14</td>
<td>Kota Pontianak</td>
<td>3</td>
<td>18.3</td>
</tr>
<tr>
<td>15</td>
<td>Kota Medan</td>
<td>3</td>
<td>12.3</td>
</tr>
<tr>
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<td>Kab Donggala</td>
<td>3</td>
<td>9.9</td>
</tr>
<tr>
<td>17</td>
<td>Kab Sumbawa</td>
<td>3</td>
<td>7.9</td>
</tr>
<tr>
<td>18</td>
<td>Kota Mataram</td>
<td>3</td>
<td>6.4</td>
</tr>
<tr>
<td>19</td>
<td>Kab Lombok Timur</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
<td>20</td>
<td>Kota Makassar</td>
<td>3</td>
<td>0.6</td>
</tr>
</tbody>
</table>

6.3.1. The Model

The theoretical section has shown the relevance of both relative deprivation-related grievance and greed over the expected future size of the state at the local level after decentralization. We posit that ethnic violence can be a function of grievance as well as greed at the local level. For empirical tests, we develop two models, one each for grievance and greed, as given below.

\[
VIO_i = \alpha_0 + \alpha_1 \text{GRIEVANCE}_i + \alpha_2 \text{POP}_i + \alpha_3 \text{JAVA}_i + \alpha_4 X_i + \epsilon_i \quad (6.9)
\]

\[
VIO_i = \beta_0 + \beta_1 \text{GREED}_i + \beta_2 \text{POP}_i + \beta_3 \text{JAVA}_i + \beta_4 X_i + \epsilon_i \quad (6.10)
\]

The two are combined in the following grievance and greed model:

\[
VIO_i = \sigma_0 + \sigma_1 \text{GRIEVANCE}_i + \sigma_2 \text{GREED}_i + \sigma_3 \text{POP}_i + \sigma_4 \text{JAVA}_i + \sigma_5 X_i + \epsilon_i \quad (6.11)
\]
The dependent variable is \( VIO \), which stands for ethnic violence, measured by a severity index between 0-6; therefore the model is estimated with ordered logistic regression. The severity of ethnic violence refers to the cumulative severity (according to human and material damage) during the transition and decentralization reform (1997–2002). It is explained by two main explanatory variables, \textit{grievance} and \textit{greed}. 

Grievance is measured in terms of the \textit{relative deprivation} measure of being educated but poor. If ethnic violence is rooted in relative deprivation, we can expect the sign of the grievance variable to be positive and significant. \textit{Greed} is the desire to control the expected future value of district revenue. We use total district revenue after decentralization as a proxy for the expected value. Evidence for greed will be shown by a positive and significant coefficient of this variable.

Two control variables are included, namely \( POP \) (number of population) and \( JAVA \) (a dummy for Java island). The latter is particularly important given the fact that ethnic violence occurred disproportionally outside Java, mainly in eastern Indonesia. Furthermore, Java is densely populated and ethnically homogenous, in contrast to the rest of the country.

A set of additional explanatory variables is added (\( X \)). First is \textit{income}, measured by per capita regional GDP (RGDP). An income variable is always included in any conflict regressions, and hence our model is consistent with other studies of conflict. Second is \textit{recession}, the magnitude of recession during the 1998 economic crisis.\textsuperscript{160} Third is \textit{growth}, the pre-crisis growth performances of local economies. Fourth is \textit{primary commodity}, the local economy’s reliance on primary commodities (agriculture, mining and quarrying) in terms of their share in regional GDP (RGDP). This is an important variable in conflict regression, since its significance forms the basis of the Collier and Hoeffler (2004) greed hypothesis. These additional variables serve the following two purposes: testing the relevance of other possible variables widely used in the growing empirical literature on conflict, and testing for robustness.

From this we develop a model to explain inter-ethnic cooperation in the form of political coalitions in the post-decentralization setting. The model is aimed at

\textsuperscript{160} Recession here is defined as when district’s RGDP contracts or experience a negative growth. It is expressed as a positive value of contraction magnitude; therefore, districts that did not experience recession or had positive growth in the 1998 crisis year will have a negative value.
investigating how post-decentralization fiscal dimensions at the local level, transfer in particular, responded to the pre-decentralization ethnic strife. The cooperation model can be formally expressed as follows:

\[ \text{TRANSFER}_i = \phi_0 + \phi_1 \hat{VIO}_i + \phi_2 \text{INC}_i + \phi_3 \text{HDI}_i + \epsilon_i \]  \hspace{1cm} (6.12)

\( \text{TRANSFER} \) represents local dependency on transfer from the central government, measured as the ratio of transfer revenue to RGDP. \( \hat{VIO} \) is the predicted value of the violence index, taken from the most appropriate grievance and greed models (6.9, 6.10, 6.11), estimated in the first stage. This means that there is some simultaneity between the grievance and greed models and the cooperation model. \( \text{INC} \) denotes income (per capita RGDP), which is an important variable to include since transfer allocation at sub-national entities is theoretically intended to address regional variations in terms of local economic strength within a nation–state context. The central government carries its equalization role by asking rich regions to subsidize poorer ones. Last is \( \text{HDI} \), the Human Development Index. This is aimed at examining whether transfer allocation at the local level is responsive to local variations in terms of human development, in addition to being responsive to the regional productive capacity (per capita RGDP). The possibility of a multicollinearity between regional income and HDI can be ruled out, since in the case of Indonesia’s HDI the standard of living component of HDI uses household consumption-based purchasing power, not regional income-based purchasing power.

If the coefficient of \( \hat{VIO} \) is positive and significant, it will lend support to the argument that post-decentralization transfer rewards regions that were previously torn by inter-ethnic violence but since then have been able to cooperate.

### 6.3.2. Estimation Technique

We employ ordered logistic regression to estimate the greed and grievance models (6.9, 6.10, 6.11), and OLS for the cooperation model (6.12). The estimation techniques are dictated by the nature of the dependent variable of each model.

Essentially, we follow a two-stage regression approach due to the sequential nature of the process: cooperation after grievance and greed. The standard estimation technique for such a scenario would be the instrumental variable or 2SLS regressions; however, this cannot be applied here since we are dealing with two
different types of regressions, namely ordered logistic and OLS. The two regressions 
(one after the other) are performed separately, making them a seemingly unrelated 
process. Their simultaneity is maintained by using the predicted values of the 
dependent variable from the first regression as a key independent variable in the 
second one.

While the estimation is purely cross-sectional across districts, the strong sequential and simultaneous nature of the process can address possible endogeneity issues.

6.3.3. Coverage of the Study

Ethnic violence occurs among communal groups, without any formal involvement of the state, with the presence of clear divisions along ethnic lines. Following Horowitz (1985), ‘ethnic’ here is broadly defined as ascriptive (birth based) group identities—race, language, religion, tribe, or caste. This is to differentiate horizontal ethnic violence from vertical secessionist violence like that in Aceh and Papua. These two provinces, together with Riau and East Kalimantan where secessionist sentiments were also present at some points in time, are excluded from the analysis. Jakarta is also excluded because of its nature as the national capital and a metropolitan province, where ethnic competition for local power is rather irrelevant. This study instead covers 255 districts (sub-provincial units) in 26 of the current 33 provinces in Indonesia. We use district boundaries according to the pre-crisis and pre-decentralization situation in 1996. According to the 2000 population census, those districts are home to 93 percent of the Indonesian population, making this study truly national.

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161 The issue of ethnicity does play a role in Aceh and Papua’s secessionist struggles, as ethnicity plays a critical role in much civil war, such as Tamil (Sri Lanka), Kashmir (India) and Mindanao (Philippines). However, ethnicity-based civil war is vertical in nature, which is completely different from our definition of ethnic violence employed in this study.

162 In a similar spirit, anti-Chinese violence preceding the fall of Suharto in May 1998 and the series of food riots that occurred since early 1998 and can be labeled anti-Chinese violence as well, are excluded. This is because anti-Chinese violence was related to the mood at national level surrounding the fall of the New Order regime and is less relevant to the inter-ethnic power struggle at the local level.

163 The excluded provinces are Aceh (1 province), Riau (2 provinces: Riau and Riau Kepulauan), East Kalimantan (1 province), Papua (2 provinces: Papua and Irian Jaya Barat) and Jakarta (1 province).

164 At that time Indonesia had a total of 298 districts. The number increased to 485 in 2008.
6.3.4. The Dependent Variable: The Severity of Ethnic Violence

The focus of the study is the outbreak of ethnic violence at the district level during the democratic transition and decentralization reform, between 1997 and 2002. The severity of ethnic violence at the district level is indexed in an ordinal scale, scored between 0 and 6. Higher scores mean more severe ethnic strife. Such an approach is quite common in the literature.\textsuperscript{165} Score 0 is for districts with no reported incidents of ethnic strife. Scores 1 and 2 are assigned to districts where incidents of ethnic strife were reported, but only resulted in damaged buildings/vehicles or human injuries but no fatalities. This severity is divided into two categories according to levels of damage: namely the number of injured, and material damages to houses, shops and public buildings. Score 1 is for level of damage below or equal to the median of the total damage, and score 2 for damage above the median. Scores 3 to 6 are assigned according to the number of deaths following the arbitrary criteria below:

<table>
<thead>
<tr>
<th>Score</th>
<th>Deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1–10 deaths</td>
</tr>
<tr>
<td>4</td>
<td>11–100 deaths</td>
</tr>
<tr>
<td>5</td>
<td>101-500 deaths</td>
</tr>
<tr>
<td>6</td>
<td>501 or more deaths</td>
</tr>
</tbody>
</table>

Why an ordinal scale? This is an alternative measurement that has not been applied before in Indonesia (see Appendix 6.1 for the complete lists of districts with ethnic violence incidents, 1997–2002). The approach is considered a better option in the case of ethnic strife, compared with the methods used by other studies on Indonesia. The first of these other methods is using a dummy measure for deadly ethno-communal violence, as in Mancini (2008), which assigns 1 for all ethno-communal violence that causes death and 0 otherwise. However, there is a very wide range for the 1 value: from 1 death to, say, 1000 deaths. Such a wide variation cannot be captured by this dummy measure.

The second method employs count data of violent incidents, as in Tadjoeddin and Murshed (2007) who apply the method in the case of low-intensity routine-everyday violence. However, this measure is not appropriate for high-intensity ethno-

\textsuperscript{165} It is similar to Brancati’s (2006) method in coding the severity of ethnic and secessionist conflicts according certain criteria based on the Minorities at Risk (MAR) dataset, and the way the widely-used PRIO-Uppsala conflict dataset classifies internal armed conflict into two categories, namely minor armed conflict and war according to battle-related deaths in a given year (see http://www.prio.no/CSCW/Datasets/Armed-Conflict/UCDP-PRI0/), to mention two examples.
communal violence characterized by a high number of deaths per incident. Tadjoeddin and Murshed (2007) tried death count data for the case of low-intensity routine-everyday violence, but it did not work. Applying this method for ethno-communal violence would create extreme variations, with many zero cases, and extreme values of death figures between dozens and thousands for few observations. Given the options, an ordinal measure is a compromise, located between the two extremes of the reductionist dummy variable and the extreme variation of death count measures.

6.3.5. Data Issue
The dependent variable, the severity index of ethnic violence across districts, is constructed from the two UNSFIR/UNDP collective violence databases (Database I and database II). Database I is based on the two leading national news sources, Kompas and Antara. It covers all provinces for the period 1990–2001 (Tadjoeddin, 2002). Database II is a significant improvement on Database I, and is based on reports in the leading provincial newspapers in 14 provinces for 1990–2003 (Varshney et al., 2008). 166 Each incident of violence is recorded in a template, which covers the following information: place, date, duration, category, fatalities (killed, injured) and property damage (houses, shops, and public buildings). The data can be disaggregated up to the district level; most can be disaggregated up to the sub-district level, and most village names where violence took place can be traced. 167

These databases are the most comprehensive nation-wide data on social violence available in Indonesia. The UNSFIR/UNDP social violence database has been criticized as an underestimate by the World Bank, which in turn developed its own violence database for twelve districts (seven in East Java province and five in East

166 The fourteen provinces are Riau, Jakarta, Banten, West Java, Central Java, East Java, Central Kalimantan, West Kalimantan, South Sulawesi, Central Sulawesi, East Nusatenggara, West Nusatenggara, Maluku, and North Maluku. It is estimated that these fourteen account for 96.4 percent of total deaths in non-separatist violence in Indonesia (see Varshney et al., 2008). It should be pointed out that all conflict data, including the highly regarded PRIO-Uppsala dataset on conflict, is collected from a variety of anecdotal sources comprising the media, human rights groups and the Red Cross. At the country level, as another example, a database on Hindu-Muslim riots in India 1950-95, based on The Times of India, was put together by Steven Wilkinson and Ashutosh Varshney; see Wilkinson (2004) and Varshney (2002).

167 In fact, I was the coordinator for the construction of the UNSFIR/UNDP collective violence databases.
Nusatenggara province, for the period 2001–2003, based on district or sub-provincial newspapers (Barron and Sharpe, 2008). The practical application of the World Bank approach of using district newspapers on a wide scale is highly questionable, given the fact that district newspapers are not evenly available across regions in Indonesia. Another data set was gathered by Bridget Welsh of Johns Hopkins University (JHU) (Welsh, 2008). Welsh collected data on all vigilante violence during 1995–2004 in four provinces (West Java, Bengkulu, Bali and South Kalimantan) from all available provincial and district newspapers, supplemented by data from district police offices. The last dataset available is conflict data at village level, collected by BPS (Badan Pusat Statistik: Central Statistical Agency) through the long-standing PODES — village potential survey — for all 69,000 villages in Indonesia for the year 2002, based on information provided by village heads. This is the first attempt made by BPS to collect conflict data; however, their definition of conflict is somewhat ambiguous, and key informant interviews used in the PODES survey are suspected of under- or over-reporting conflict depending on expectations of how the results will influence policy decisions and resource allocations (Barron, Kaiser and Pradhan, 2009). In sum, the four datasets, UNSFIR/UNDP, World Bank, JHU and BPS, have different approaches to violence — in term of definition and methodology — in constructing their database. For our purpose the two UNSFIR/UNDP datasets seem to be the best choice.

Data on local government expenditure at the district level are obtained from the Ministry of Finance. Data on Regional Gross Domestic Product (RGDP), poverty, education, and population are taken from various BPS publications. The summary statistics and correlation matrix are in Appendixes 6.2 and 6.3.

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168 The twelve districts covered in the World Bank dataset account for only 3.3 percent of Indonesian population. None of them was affected by the six key episodes of ethnic strife listed in Table 6.1.

169 BPS also collected similar data in the next PODES in 2005.

170 In fact, the Indonesian country office of the World Bank is expanding and updating the UNSFIR conflict database (Barron, Jaffrey, Palmer and Varshney, 2009).
6. 4. RESULTS

6.4.1. Grievance and Greed in Ethnic Violence

Empirical tests for the grievance and greed determinants of ethnic violence are reported in Table 6.6. As a starting point, we run the grievance and greed models separately (Columns 1-3), then combine the two in one model (Column 4); lastly, we test the roles of the additional explanatory variables (Columns 5-8).

The grievance model presented in columns (1) and (2) tests the significant effects of the relative deprivation-related grievance for being educated but poor on ethnic violence, according to two measures of poverty, HCR and HPI. The results reveal the highly significant roles of such grievances.

This is a key finding in which districts experience more severe ethnic strife when they have a higher magnitude of relative deprivation, being educated but poor. This is a kind of relative deprivation originating in inconsistencies between a positive indicator of human development (education) and a negative indicator (poverty); both are simultaneously present in a particular local community at the same time. It points to a lag (which may be temporary) between achieving higher education and enjoying higher prosperity. Note that ethnic strife at the local level broke out when the central government was weak and transition was taking place. As expected, education and poverty measures have strong bivariate negative correlations; however, their bivariate relationships with violence are positive. In other words, the severity of ethnic strife is positively correlated with both education and poverty.

171 This pattern of relative deprivation is also found in the case of low-intensity routine violence in Java (Tadjoeddin and Murshed, 2007).
Table 6.6 Grievance and greed models
(Ordered logistic regression, dep. var.: severity index of ethnic violence)

<table>
<thead>
<tr>
<th></th>
<th>1 (Grievance)</th>
<th>2 (Grievance)</th>
<th>3 (Greed)</th>
<th>4 (Grievance-Greed)</th>
<th>5 (+Income)</th>
<th>6 (+Recession)</th>
<th>7 (+Growth)</th>
<th>8 (+Primary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grievance (RD&lt;sub&gt;EPG-HCR&lt;/sub&gt;)</td>
<td>0.078 *** (0.018)</td>
<td></td>
<td></td>
<td>0.081 *** (0.022)</td>
<td>0.078 *** (0.018)</td>
<td>0.078 *** (0.018)</td>
<td>0.077 *** (0.018)</td>
<td>0.078 *** (0.018)</td>
</tr>
<tr>
<td>Grievance (RD&lt;sub&gt;EPG-HPI&lt;/sub&gt;)</td>
<td></td>
<td>0.032 ** (0.016)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greed (Expected Rev.)</td>
<td></td>
<td></td>
<td></td>
<td>0.032 (0.020)</td>
<td>-0.007 (0.023)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (in million)</td>
<td>0.770 *** (0.241)</td>
<td>0.720 *** (0.238)</td>
<td>0.905 *** (0.266)</td>
<td>0.736 *** (0.264)</td>
<td>0.771 *** (0.241)</td>
<td>0.804 *** (0.256)</td>
<td>0.845 *** (0.252)</td>
<td>0.747 *** (0.240)</td>
</tr>
<tr>
<td>Java (dummy)</td>
<td>-1.099 *** (0.401)</td>
<td>-1.106 *** (0.407)</td>
<td>-1.216 *** (0.399)</td>
<td>-1.110 *** (0.402)</td>
<td>-1.098 *** (0.401)</td>
<td>-1.058 ** (0.413)</td>
<td>-1.212 *** (0.415)</td>
<td>-1.171 *** (0.408)</td>
</tr>
<tr>
<td>Income (IDR million)</td>
<td>-0.004 (0.132)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recession</td>
<td></td>
<td>-0.012 (0.029)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.069 (0.057)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary commodity</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.008 (0.009)</td>
<td></td>
</tr>
<tr>
<td>Obs</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.066</td>
<td>0.039</td>
<td>0.037</td>
<td>0.066</td>
<td>0.066</td>
<td>0.067</td>
<td>0.070</td>
<td>0.068</td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses. ***, ** and * indicate 1%, 5% and 10% levels of significance respectively.
An attempt was made to replace the education–poverty gap relative deprivation ($RD_{EPG}$) with the income–welfare gap ($RD_{IWG}$) but, as was anticipated, the coefficient is insignificant. Lack of evidence of relative deprivation originating from the discrepancy between regional prosperity and community welfare in the context of ethnic violence is not surprising. Such a deprivation is more relevant in the case of local grievances directed toward the central government by relatively poor local communities living in resource-rich regions.\(^{172}\) Once we exclude those resource-rich regions from the sample, we find consistent bivariate correlations: regional income is positively correlated with education and overall HDI, and negatively associated with poverty. However, regional income does not matter for ethnic violence (Table 6.6, column 5).

The estimation results for the greed model are presented in column (3). This is based on the argument that violence is a normal part of politics, as when local elites compete to control state resources at local level during a moment of opportunity (Klinken, 2007). Although such logic has a strong intuitive appeal, we find no support for such a greed argument. Even when we combine grievance and greed in a single model (column 4), the greed variable remains insignificant and the grievance variable shows its superiority. The negative and significant coefficient of the dummy variable for Java confirms the structural differences between Java and outer islands with regard to ethnic violence, which is important to control for.

Beyond the main focus on the role of grievance and greed in ethnic violence, we can test other determinants of conflict, following the growing empirical literature, which are highly relevant for Indonesia. They are (a) income, (b) the magnitude of the 1997/98 economic crisis, (c) the pre-crisis growth record and (d) the share of primary commodities in the local economy. They are included in the grievance model (as in column 1), which is the best estimation we have. Results of the tests are reported in Table 6.6, columns (5)–(8) respectively. Contrary to most cross-country conflict regressions, mainly on civil war, none of them is found significant.

The insignificance of regional income (per capita GDP) in ethnic violence regression again is not surprising, although, among the determinants of civil war, there is a consensus that the level of income (per capita GDP) is the most robust predictor of civil war risk. Income is always included in any cross-country conflict

\(^{172}\) See Chapter 5 on the centre–regional conflict.
regression. The result is understandable given the nature of ethnic violence, which is not a conflict directed against the state as is civil war. This points to the importance of carefully disaggregating conflict in any empirical tests, since the underlying processes at work are different.

Ethnic violence is not affected by the magnitude of the economic crisis, the pre-crisis records of economic growth or the economic reliance on primary commodities. These findings point to relative deprivation measured by being educated but still poor as the single most important socio-economic determinant of ethnic violence.

The predicted value of violence from the best parsimonious specification of ethnic violence regression, namely the grievance regression (Table 6.6, column 1), is used as the key independent variable in the cooperation model.

### 6.4.2. The Cooperation Model

Table 6.7 reports the results of the cooperation model. We find a positive and significant relationship between the central government’s transfer allocation to the district level and the predicted value of the violence severity index taken from the grievance regression.\(^{173}\) Transfer allocation is measured by the size of transfer in a district’s revenue relative to its economy: that is, the central government’s response after decentralization was to allocate a higher budget (in relative terms) to regions that experienced a higher severity of ethnic strife. This can be seen as a reward for cooperating after ethnic violence; otherwise the central government will use punitive actions, such as enforcing civil emergency or other security measures.

Alternatively, one can see that the pattern of central government transfer allocations is essentially a response to relative deprivation-related grievance at the local level. However, we use transfer allocations as a function of the predicted values of ethnic violence severity, not of direct grievance measures. This is because according to the results of the first stage estimation results, voicing grievances manifests in ethnic violence.

---

\(^{173}\) Transfers include DAU, DAK, and revenue from province. On average in 2003 in the sample districts, transfers account for 80 percent of total district revenue.
Table 6.7. Cooperation model
(OLS regression, dep. var.: transfer to district government as % of RGDP)

<table>
<thead>
<tr>
<th></th>
<th>Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violence (predicted value)</td>
<td>2.229 ***</td>
</tr>
<tr>
<td></td>
<td>(0.567)</td>
</tr>
<tr>
<td>PCGDP96</td>
<td>-1.342 ***</td>
</tr>
<tr>
<td></td>
<td>(0.321)</td>
</tr>
<tr>
<td>HDI96</td>
<td>-0.197 **</td>
</tr>
<tr>
<td></td>
<td>(0.097)</td>
</tr>
</tbody>
</table>

- Violence variable is the linear predicted values obtained from the parsimonious model of the greed and grievance models (Table 6.6, Column 1).
- Standard errors are in parentheses. ***, ** and * indicate 1%, 5% and 10% levels of significance respectively; each regression has a constant term.

6.4.3. Robustness Tests

As already noted, the grievance regression uses an ordinal measure of violence severity for a compromise approach between two extremes: dummy and death measures. The first robustness test is about the count data nature of the violent death measure. If one sticks to this feature of such a dependent variable, a more appropriate estimation technique would be count data regression, either Poisson or Negative Binomial. Using the parsimonious specification of ethnic violence regression (the first stage), the results of count data regression are presented in Table 6.8. Results of Poisson regression are in Columns (1) and (3), but they suffer from the problem of over-dispersion and seem too good to be true. The alternative negative binomial regressions are reported in Column (2) and (4), each for HCR and HPI measures of relative deprivation. Previous findings on the educated but poor related relative deprivation hold. Furthermore, as have been tested before, such findings are robust after controlling for income, economic crisis, pre-crisis growth, the share of primary commodities in the economy, population size and the structural difference between Java and outer islands with regard to ethnic violence.

The second robustness test is about the simultaneity of cooperation and grievance regressions. The sequential nature of the grievance and cooperation models is quite strong and, to some extent, the simultaneity feature of the process can still be maintained by the use of the predicted value of violence taken from the grievance
regression as an independent variable in the cooperation regression. However, these are essentially two separate regressions, since ordered logistic regression (grievance) and OLS regression (cooperation) cannot be run in a truly simultaneous fashion. As a robustness test to see whether the findings are sensitive to estimation techniques, Table 6.9 reports the results of 2SLS simultaneous regression using both the violence index and the death measure. As can be see, the previous findings hold, indicating the robustness of our findings.

Table 6.8. Count data regression of grievance model (dep. var.: death)

<table>
<thead>
<tr>
<th></th>
<th>1 (Poisson)</th>
<th>2 (NB)</th>
<th>3 (Poisson)</th>
<th>4 (NB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grievance ($RD_{EPG}$ - HCR)</td>
<td>0.060 ***</td>
<td>0.099</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.070)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grievance ($RD_{EPG}$ - HPI)</td>
<td></td>
<td>0.055 ***</td>
<td>0.094 *</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.001)</td>
<td>(0.055)</td>
<td></td>
</tr>
<tr>
<td>Population (in million)</td>
<td>0.798 ***</td>
<td>0.561</td>
<td>0.663 ***</td>
<td>-0.215</td>
</tr>
<tr>
<td></td>
<td>(0.023)</td>
<td>(1.147)</td>
<td>(0.023)</td>
<td>(1.230)</td>
</tr>
<tr>
<td>Java (dummy)</td>
<td>-8.279 ***</td>
<td>-7.458</td>
<td>-8.089 ***</td>
<td>-6.879 ***</td>
</tr>
<tr>
<td></td>
<td>(0.708)</td>
<td>(1.113)</td>
<td>(0.708)</td>
<td>(1.217)</td>
</tr>
<tr>
<td>Obs.</td>
<td>255</td>
<td>255</td>
<td>255</td>
<td>255</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.302</td>
<td>0.061</td>
<td>0.236</td>
<td>0.059</td>
</tr>
<tr>
<td>Alpha</td>
<td>32.828</td>
<td></td>
<td>33.381</td>
<td></td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses. ***, ** and * indicate 1%, 5% and 10% levels of significance respectively; each regression has a constant term.

Our 2SLS regression emphasizes the sequential and simultaneous nature of the process. What we mean by simultaneous is the situation where the first stage of $X = f (m, j, k)$ and the second stage of $Y = f (X, w, z)$, as in the case of our grievance and cooperation equations. It is slightly different from the instrumental variable (IV) approach that is primarily aimed at tackling the problem of endogeneity between the dependent and an independent variable in the second stage regression; see Wooldridge (2006). The use of 2SLS regression is appropriate since both equations in our simultaneous equation system are over-identified.
Table 6.9. 2SLS regression of grievance and cooperation models

<table>
<thead>
<tr>
<th></th>
<th>Violence (index)</th>
<th>Violence (death)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Violence (first)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grievance (R_{DPG})-HCR</td>
<td>0.084 ***</td>
<td>9.282 ***</td>
</tr>
<tr>
<td></td>
<td>(0.011)</td>
<td>(1.751)</td>
</tr>
<tr>
<td>Population (in million)</td>
<td>-0.292 ***</td>
<td>-64.274 ***</td>
</tr>
<tr>
<td></td>
<td>(0.105)</td>
<td>(12.116)</td>
</tr>
<tr>
<td>Java (dummy)</td>
<td>-0.439 ***</td>
<td>-24.169</td>
</tr>
<tr>
<td></td>
<td>(0.148)</td>
<td>(16.986)</td>
</tr>
<tr>
<td><strong>Transfer (second)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Violence</td>
<td>4.832 ***</td>
<td>0.050 ***</td>
</tr>
<tr>
<td></td>
<td>(0.953)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>PCGDP96</td>
<td>-1.253 ***</td>
<td>-1.260 ***</td>
</tr>
<tr>
<td></td>
<td>(0.304)</td>
<td>(0.289)</td>
</tr>
<tr>
<td>HDI96</td>
<td>-0.218 **</td>
<td>-0.221 **</td>
</tr>
<tr>
<td></td>
<td>(0.097)</td>
<td>(0.088)</td>
</tr>
<tr>
<td>Obs.</td>
<td>255</td>
<td>255</td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses. ***, ** and * indicate 1%, 5% and 10% levels of significance respectively; each regression has a constant term.

6.5. DISCUSSIONS AND CONCLUSION

The democratic transition created a fertile ground for ethnic clashes in particular localities. This is not unique to Indonesia, as cross-country studies suggest (Hegre et. al., 2001; Bussman and Schneider, 2007) and other countries’ experiences have shown, as in Yugoslavia. Mansfield and Snyder (2005) argue that countries at an early stage of a move to democracy may be at risk of internal conflict. This is because national as well as local sentiments may rise to the fore in the presence of weak institutions; thing becomes much better once democracy is consolidated and stronger institutions are in place, following a process of learning by doing. The outbreak of ethnic violence during the early phase of transition and its abatement at a later stage in Indonesia generally vindicate the observation of Mansfield and Snyder (2005). Resulting fatalities in ethnic strife may be seen as a price that has to be paid by the nation generally, and by affected regions in particular. The price becomes too expensive if the nation and its respective local communities fail to take the lessons and move towards mature democracy.

Democracy allows the peaceful exercise of greed for local power and a non-violent channel for local grievances. Democratic consolidation following a chaotic transition can be seen as a newly binding social contract that brings peace. The
findings of this chapter imply that there is a limit to authoritarian polity in containing possible grievances while socio-economic situations are changing. Democratic polity should be able to handle such situations better.

Discussing democracy and internal conflict would be incomplete without linking them to the issue of globalization. Indonesia’s move towards democracy in the late 1990s put her among the followers of the third wave of democratization (Huntington, 1991). After free trade and integration with the world economy, democracy is the next item delivered to a country by the process of globalization. Socio-economic conditions at the local level in pre-1997/98 Indonesian crisis were partly the result of the country’s integration into the global economy during the three decades of New Order economic development. As globalization produces winners and losers, groups experiencing relative deprivations are among the losers; therefore globalization has the potential to increase the risk of ethnic conflict. In this regard, Chua (2002) argues that exporting free market democracy (the so-called neo-con agenda) is likely to lead to greater internal conflict and revive old ethnic hatreds.

This chapter has argued for grievance and greed explanations of ethnic violence in Indonesia and how cooperation among previously warring ethnic groups has developed through the repeated games experience. The empirical results show strongly the presence of relative deprivation-related grievance, exactly as Gurr (1970) saw it: education makes people realize that they are not getting their just deserts. However, this chapter finds no empirical evidence for the greed mechanism of local elites competing for the expected value of state resources at the local level. Relative deprivation is the single most important socio-economic determinant of ethnic violence in the course of Indonesia’s democratic transition.

Through the experience of repeated games, previously warring groups end up in cooperation for a win-win outcome with decentralized governance and democratic political settings. The post-decentralization allocations of central government transfers can be seen as a reward for such cooperation as well as a response to pre-decentralization relative deprivations; therefore, overall democratic consolidation should be seen as a process towards achieving a new social contract for socio-economic and political harmony.

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>Violence index</th>
<th>Total death</th>
<th>No</th>
<th>District</th>
<th>Violence index</th>
<th>Total death</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kab Pontianak</td>
<td>6</td>
<td>874</td>
<td>30</td>
<td>Kab Mamuju</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Kab Sambas</td>
<td>6</td>
<td>558</td>
<td>31</td>
<td>Kota Makassar</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Kab Kotawaringin Timur</td>
<td>6</td>
<td>1,219</td>
<td>32</td>
<td>Kab Pasaman</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Kab Poso</td>
<td>6</td>
<td>643</td>
<td>33</td>
<td>Kab Bungo Tebo</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Kab Maluku Tengah</td>
<td>6</td>
<td>765</td>
<td>34</td>
<td>Kab Karawang</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Kota Ambon</td>
<td>6</td>
<td>1,091</td>
<td>35</td>
<td>Kab Tasikmalaya</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Kota Maluku Utara</td>
<td>6</td>
<td>2,476</td>
<td>36</td>
<td>Kota Blora</td>
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<td>0</td>
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<tr>
<td>8</td>
<td>Kota Banjarmasin</td>
<td>5</td>
<td>124</td>
<td>37</td>
<td>Kab Cilacap</td>
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</tr>
<tr>
<td>9</td>
<td>Kab Maluku Tenggara</td>
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<td>167</td>
<td>38</td>
<td>Kota Kebumen</td>
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</tr>
<tr>
<td>10</td>
<td>Kab Halmahera Tengah</td>
<td>5</td>
<td>311</td>
<td>39</td>
<td>Kab Pekalongan</td>
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<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Kab Sumba Barat</td>
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<td>27</td>
<td>40</td>
<td>Kab Kupang</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Kab Sanggau</td>
<td>4</td>
<td>59</td>
<td>41</td>
<td>Kab Sikka</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Kab Kapuas</td>
<td>4</td>
<td>16</td>
<td>42</td>
<td>Kab Timor Tengah Selatan</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Kab Kotawaringin Barat</td>
<td>4</td>
<td>22</td>
<td>43</td>
<td>Kota Kupang</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>Kab Luwu</td>
<td>4</td>
<td>34</td>
<td>44</td>
<td>Kab Bandung</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Kota Medan</td>
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<td>1</td>
<td>45</td>
<td>Kab Ciamis</td>
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<td>0</td>
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<tr>
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<td>Kab Lampung Tengah</td>
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<td>4</td>
<td>46</td>
<td>Kab Garut</td>
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<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Kab Sampang</td>
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<td>2</td>
<td>47</td>
<td>Kab Majalengka</td>
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<td>0</td>
</tr>
<tr>
<td>19</td>
<td>Kab Lombok Barat</td>
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<td>2</td>
<td>48</td>
<td>Kota Bandung</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>Kab Lombok Tengah</td>
<td>3</td>
<td>2</td>
<td>49</td>
<td>Kab Jombang</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Kab Lombok Timur</td>
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<td>5</td>
<td>50</td>
<td>Kab Pasuruan</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>22</td>
<td>Kab Sumbawa</td>
<td>3</td>
<td>1</td>
<td>51</td>
<td>Kab Sidoarjo</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>23</td>
<td>Kota Mataram</td>
<td>3</td>
<td>5</td>
<td>52</td>
<td>Kab Sumenep</td>
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<td>0</td>
</tr>
<tr>
<td>24</td>
<td>Kab Belu</td>
<td>3</td>
<td>9</td>
<td>53</td>
<td>Kota Malang</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>Kota Pontianak</td>
<td>3</td>
<td>9</td>
<td>54</td>
<td>Kota Surabaya</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Kota Palangka Raya</td>
<td>3</td>
<td>3</td>
<td>55</td>
<td>Kab Bima</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>27</td>
<td>Kab Bolaang Mangondow</td>
<td>3</td>
<td>9</td>
<td>56</td>
<td>Kab Timor Tengah Utara</td>
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<td>0</td>
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<tr>
<td>28</td>
<td>Kab Donggala</td>
<td>3</td>
<td>1</td>
<td>57</td>
<td>Kab Barito Utara</td>
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<td>0</td>
</tr>
<tr>
<td>29</td>
<td>Kota Palu</td>
<td>3</td>
<td>3</td>
<td>58</td>
<td>Kab Gorontalo</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Calculated from UNSFIR collective violence databases.

## Appendix 6.2. Summary statistics, ethnic violence

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violence</td>
<td>255</td>
<td>0.6</td>
<td>1.4</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>$RD_{HPR}$ (HCR)</td>
<td>255</td>
<td>1.8</td>
<td>6.6</td>
<td>0.0</td>
<td>51.3</td>
</tr>
<tr>
<td>$RD_{HPI}$ (HPI)</td>
<td>255</td>
<td>4.6</td>
<td>8.7</td>
<td>0.0</td>
<td>46.4</td>
</tr>
<tr>
<td>Population (in million)</td>
<td>255</td>
<td>0.7</td>
<td>0.6</td>
<td>0.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Income (in million)</td>
<td>255</td>
<td>1.6</td>
<td>1.5</td>
<td>0.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Recession</td>
<td>255</td>
<td>6.2</td>
<td>6.2</td>
<td>-28.9</td>
<td>30.6</td>
</tr>
<tr>
<td>Growth</td>
<td>255</td>
<td>8.1</td>
<td>3.2</td>
<td>-3.2</td>
<td>33.1</td>
</tr>
<tr>
<td>Primary commodity</td>
<td>255</td>
<td>33.7</td>
<td>18.3</td>
<td>0.3</td>
<td>73.0</td>
</tr>
<tr>
<td>Total revenue to GDP</td>
<td>255</td>
<td>13.7</td>
<td>8.6</td>
<td>1.0</td>
<td>51.6</td>
</tr>
<tr>
<td>Transfer to GDP</td>
<td>255</td>
<td>11.2</td>
<td>7.6</td>
<td>0.6</td>
<td>46.2</td>
</tr>
<tr>
<td>HDI</td>
<td>255</td>
<td>66.4</td>
<td>4.8</td>
<td>48.2</td>
<td>76.9</td>
</tr>
</tbody>
</table>
### Appendix 6.3. Matrix of correlations, ethnic violence

<table>
<thead>
<tr>
<th></th>
<th>Violence</th>
<th>$RD_{EFG}$</th>
<th>$RD_{EPG}$</th>
<th>Pop</th>
<th>Income</th>
<th>Res</th>
<th>Growth</th>
<th>Primary</th>
<th>Tot. Rev</th>
<th>Transfer</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violence</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$RD_{EFG}$ (HCR)</td>
<td>0.377</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$RD_{EPG}$ (HPI)</td>
<td>0.209</td>
<td>0.064</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>0.002</td>
<td>-0.107</td>
<td>-0.093</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>-0.024</td>
<td>-0.069</td>
<td>0.107</td>
<td>-0.001</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recession</td>
<td>-0.079</td>
<td>-0.029</td>
<td>-0.073</td>
<td>0.386</td>
<td>0.096</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>-0.011</td>
<td>-0.024</td>
<td>0.265</td>
<td>0.082</td>
<td>0.331</td>
<td>0.246</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary commodity</td>
<td>0.023</td>
<td>0.063</td>
<td>-0.055</td>
<td>-0.126</td>
<td>-0.392</td>
<td>-0.376</td>
<td>-0.268</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue to GDP</td>
<td>0.145</td>
<td>0.461</td>
<td>-0.005</td>
<td>-0.493</td>
<td>-0.311</td>
<td>-0.185</td>
<td>-0.147</td>
<td>0.276</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to GDP</td>
<td>0.147</td>
<td>0.473</td>
<td>-0.027</td>
<td>-0.475</td>
<td>-0.326</td>
<td>-0.180</td>
<td>-0.159</td>
<td>0.281</td>
<td>0.985</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>HDI</td>
<td>-0.116</td>
<td>-0.025</td>
<td>0.175</td>
<td>-0.029</td>
<td>0.365</td>
<td>0.171</td>
<td>0.281</td>
<td>-0.561</td>
<td>-0.201</td>
<td>-0.233</td>
<td>1</td>
</tr>
</tbody>
</table>
Chapter Seven

ROUTINE VIOLENCE IN THE JAVANESE DISTRICTS: NEO-MALTHUSIAN AND SOCIAL JUSTICE PERSPECTIVES

7.1. INTRODUCTION

Contemporary violent conflict in Indonesia can be broadly categorized as episodic or routine. While the topics of the previous two chapters — secessionist and ethnic violence — focus on the former, this chapter is about the latter: routine violence. Routine-everyday violence is essentially a residual category of violent conflict. It occurs spontaneously and sporadically without being led by any organized gang. It does not lead to the capture of anyone’s possessions. Routine violence is largely confined among poor- and low-income people. In general, it is a manifestation of frustration by the lower socio-economic segment of society rather than of greed of those involved. It is interesting that routine violence is more common in the ethnically homogenous and densely inhabited island of Java, while episodic violence occurs mainly in the outer islands, which are ethnically very diverse or polarized, but relatively sparsely populated. Thus, it is imperative to consider demographic factors along with socio-economic variables when analyzing routine violence.

A pioneering empirical study of routine violence by Tadjoeddin and Murshed (2007) examines the socio-economic determinants of routine violence in the Javanese districts by focusing on the level and growth of income, education level, poverty rate and human development index. They find an inverted-U-shape relationship between routine violence and levels of development (proxied by income and education): that is, violence initially increases with the increase of income/education and then declines. They also find a violence-increasing effect of poverty and a violence-reducing effect of human development. They attribute the initial positive relation between income and violence to the predatory behaviour of the less fortunate, and the later negative relationship to the higher opportunity cost of engaging in violence, plus better law and order. However, this explanation appears less than satisfactory in light of the fact that routine violence is not led by any
organized gang and does not lead to grabbing or looting of possessions. In a later study, Murshed et al. (2009) find that fiscal decentralization has a violence-reducing effect in the case of routine violence. They argue that fiscal decentralization, and the increased size of local government, can alleviate pent-up frustrations directed at a centralized state, as local government expenditure is seen to satisfy the needs of communities that people identify with more closely. This explanation seems more plausible than Tadjoeddin and Murshed’s (2007), although it applies more to a collective mood than to an individual’s propensity to violent acts triggered by a sense of deprivation. One way individuals’ sense of relative deprivation can be captured is by examining the role of vertical inequality in routine violence.

An important dimension in the analysis of violence and conflict is the perceived and actual equitability of the distribution of the fruits of economic progress. Vertical income inequality does matter, and the link between inequality and violent conflict is an age-old concern. However, its role has not been systematically examined in the context of Indonesia.

Cramer (2005) provides an excellent review of the literature on the link between income (vertical) inequality and violent conflict. Cramer (2005:1) suggests that ‘it is almost a universal assumption that an inequitable distribution of resources and wealth will provoke violent rebellion.’ However, on empirical grounds, there is no consensus about the pattern of the relationship. The range of predictable patterns includes positive linear, U-shape and inverted-U-shape relationships, and some scholars have even suggested that there is no relationship. Thus, as Cramer (2005) points out, some characteristics of inequality, rather than the inequality itself, may be most relevant. These may include the process or causes of inequality and society’s tolerance level (a threshold inequality), determined by socio-political factors. For example, inequality at a lower level of income may be less tolerable than at a higher. Inequality at a lower level of income may be seen as robbing the poor, and lead to violent attacks on the rich or other perceived beneficiaries of the system.

As we have seen in earlier chapters, horizontal inequality between different regions and ethnic groups plays a significant role in separatist and ethnic conflict. Since Java is ethnically homogenous and routine violence has nothing to do with ethnic groupings, horizontal inequality seems to be less relevant in its case. Indonesia, as a country, is ethnically very heterogenous, and some of its areas in the outer islands are ethnically highly polarized; but the issue of vertical inequality
becomes pertinent for Java, given its ethnic homogeneity. The western part of Java is predominantly inhabited by ethnic Sundanese, while the central and eastern parts are dominated by ethnic Javanese. These two groups account for around 85 percent of Java’s population.\footnote{Ethnic Javanese and Sundanese are also the two largest ethnic groups in Indonesia, 43 percent and 17 percent respectively.} High levels of ethnic homogeneity are found at district levels, too; for example, ethnic Javanese account for more than 95 percent in more than two-third of districts in the provinces of Central and East Java. Therefore, it is not surprising that Otsby et al. (2010) find no significant statistical relationship between horizontal inequality and routine violence across Indonesian provinces.

However, in an ethnically homogenous society, \textit{vertical} inequality can be an important factor in aggravating the general sense of frustration manifested in low-intensity routine violence. This is especially so in a densely populated area with a relatively low income level, where competition for resources (survival) can be more intense. It should be mentioned here that except for a few districts such as Jakarta, Surabaya and Kediri, Java is a relatively poor island compared to the resource-rich outer islands.

Of Java’s demographic factors, population density and the dominance of youth in the population distribution are also likely to play a role in routine violence. Mere physical proximity in a densely populated area makes a society more vulnerable to violence. The higher the density, the higher is the possibility of friction among people. Furthermore, the majority of participants in any kind of violence are generally found to be youth aged between 15 and 25. Urdal (2006, 2008) finds that youth bulges correlate positively with conflict in cross-country studies, and in the case of a country-level study—India—respectively. In other words, youth is an important agent of violence (Huntington, 1996). Some impact of youth dominance is likely to be present, especially when their socio-economic achievement is less than their expectations or the national average. If there is a large educated unemployed group in the population, one can expect higher levels or frequencies of routine violence. Education generates the expectation of a decent job and a better life. When that is not fulfilled, young people suffer from a sense of relative deprivation and their anger or frustration may manifest in routine violence. One of the findings of Tadjoeddin and Murshed (2007) on routine violence in Java is the general sense of
grievance in the population, which arises from a situation where progress in education is not commensurate with improvement in income.

Focusing on income inequality and demographic/population factors in the context of routine violence is a relatively new area of inquiry. In a cross-provincial analysis in Indonesia, Ostby, et al. (2010) find that in provinces where population growth is high, greater variations in child mortality between religious groups — an indication of horizontal inequality between them — tend to increase the risk of routine violence. This is based on the significance of the interaction term between population growth and horizontal inequality. However, the variable of horizontal inequality itself has never been found as significant. This raises a doubt about the true effect of horizontal inequality on routine violence. As horizontal inequality is more appropriately located in the context of secessionist and ethnic conflicts, we argue that the more relevant role of vertical inequality is in the case of routine violence.

The present study is aimed at examining the role of population/demographic factors and vertical inequality, and their possible joint effects on routine violence across Javanese districts. It differs from Ostby et al. (2010) who, as mentioned earlier, examine the role of horizontal inequality (proxied by differences in child mortality) among religious groups in political violence across Indonesian provinces. This study limits its observations to across-district routine violence in the densely populated and homogenous Java.

The rest of the chapter proceeds as follows: Section 2 highlights Java’s characteristics relevant for this study. Section 3 presents and discusses the hypotheses. Section 4 explains the model and data issues. Section 5 presents the results; and the conclusion is offered in the last section.

7.2. THE RELEVANCE OF JAVA

Two main characteristics of Java (a densely populated island with a considerably high proportion of youth, and ethnic homogeneity) are highly relevant for routine violence examined in this chapter. Java was inhabited by 128 million people (in 2005), making it the most populous island on earth and the most densely populated island in Indonesia (Table 7.1). 176 On average, the youth population aged between 15

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176 If Java were treated as a single country and small city states were excluded, it would be the second most densely populated area in the world after Bangladesh.
and 25 accounts for around 20 percent of the total population. The figures are more or less similar across provinces but vary across districts, with urban districts tending to have higher proportions of youth. While youths have a generally high educational attainment, the unemployment rate is the highest among this age cohort. This is related to the characteristics of unemployment in Indonesia generally: that is, unemployment rates are higher among youth, educated people and urban populations (Chowdhury, Islam and Tadjoeddin, 2009).

The trends in Gini coefficients are more or less similar across regional aggregations (the provinces of Java Island, and Indonesia as a whole); see Table 7.2. The peak of Gini was reached in 1996, preceding the Asian financial crisis. Then Gini declined, reaching its lowest points in 2000. Thereafter, it showed an increasing trend. The magnitudes of Gini coefficients in the provinces of Java are roughly similar to those of Indonesia as a whole; however, they vary across provinces. The variations are wider across districts (see Appendix 7.1), which are generally poor relative to the Indonesian average: the per capita regional GDP of 83 districts (85 percent) out of 98 districts in our sample is lower than the national average (Appendix 7.1).

There is also the possibility of interactions between population/demographic factors and vertical inequality in routine violence: that is, the impact of inequality on violence is likely to be higher in the presence of high population density and a large youth bulge. It would be an interesting endeavour to analyze how inequality and population variables might interact in aggravating low-intensity routine violence in Java.

**Table 7.1. Population density by main islands, 2005**

<table>
<thead>
<tr>
<th></th>
<th>Number of population</th>
<th>Density (population/km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Java</td>
<td>128,470,536</td>
<td>1.007</td>
</tr>
<tr>
<td>Sumatra</td>
<td>46,029,906</td>
<td>96</td>
</tr>
<tr>
<td>Kalimantan</td>
<td>12,098,036</td>
<td>21</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>15,787,955</td>
<td>82</td>
</tr>
<tr>
<td>Maluku-Papua</td>
<td>4,654,081</td>
<td>10</td>
</tr>
<tr>
<td>Indonesia</td>
<td>218,868,791</td>
<td>116</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>144,319,628</td>
<td>1,063</td>
</tr>
</tbody>
</table>

Source: BPS and World Bank data.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>West Java</td>
<td>0.36</td>
<td>0.33</td>
<td>0.38</td>
<td>0.33</td>
<td>0.33</td>
<td>0.31</td>
<td>0.31</td>
<td>0.31</td>
<td>0.33</td>
<td>0.32</td>
</tr>
<tr>
<td>Central Java</td>
<td>0.31</td>
<td>0.31</td>
<td>0.32</td>
<td>0.30</td>
<td>0.30</td>
<td>0.29</td>
<td>0.30</td>
<td>0.30</td>
<td>0.32</td>
<td>0.29</td>
</tr>
<tr>
<td>East Java</td>
<td>0.33</td>
<td>0.35</td>
<td>0.35</td>
<td>0.35</td>
<td>0.34</td>
<td>0.31</td>
<td>0.32</td>
<td>0.32</td>
<td>0.34</td>
<td>0.32</td>
</tr>
<tr>
<td>Banten</td>
<td>0.34</td>
<td>0.35</td>
<td>0.35</td>
<td>0.32</td>
<td>0.32</td>
<td>0.29</td>
<td>0.33</td>
<td>0.33</td>
<td>0.33</td>
<td>0.31</td>
</tr>
<tr>
<td>Java (4 provinces)</td>
<td>0.34</td>
<td>0.34</td>
<td>0.36</td>
<td>0.33</td>
<td>0.33</td>
<td>0.31</td>
<td>0.32</td>
<td>0.32</td>
<td>0.34</td>
<td>0.32</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.35</td>
<td>0.34</td>
<td>0.37</td>
<td>0.35</td>
<td>0.34</td>
<td>0.32</td>
<td>0.32</td>
<td>0.35</td>
<td>0.33</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Source: Calculated from BPS data.

7.3. HYPOTHESES

7.3.1. Population and Demographic Factors

Some researchers of conflict look at demographic factors, among other things, as a structural cause of conflict, through the notion of resource scarcity induced by population pressure. Increasing numbers in population result in a decline in resource availability on a per capita basis, which creates competition with the potential to result in conflict (Homer-Dixon, 1991, 1994, 1999). This is part of Homer-Dixon’s notion of demand-induced scarcity, which is primarily caused by population growth. \(^{177}\) Supporting this view, in a widely publicized article Kaplan (1994) predicts a coming world anarchy sparked by resource scarcity and environmental degradation. Such a view is often referred to as a neo-Malthusian perspective.

Although Homer-Dixon’s argument is quite appealing, his approach has been criticized for being anecdotal, relying on case study evidence that nicely matches his hypothesis. Using a more systematic approach, however, cross-national quantitative studies employing country-level measures of population pressure and resource scarcity, de Soysa (2002b) and Urdal (2005) find only marginal support for this neo-Malthusian hypothesis of conflict. It has been suggested that the level of analysis may be the cause of the discrepancy between cross-country and case studies. National demographic aggregates tend to hide any local-level diversity of population dynamics. While cross-country studies mostly focus on high-profile armed conflicts such as civil war and ethnic violence, local-level population dynamics may be argued

\(^{177}\) In addition to demand-induced scarcity, Homer-Dixon identifies two other main sources of resource scarcity: supply-induced scarcity resulting from depletion of natural resources and structural scarcity, that applies only to groups that are excluded from equal access to particular resources.
as a cause of local conflicts (Urdal, 2008). Furthermore, as mentioned earlier, the impact of youth bulges on conflict is likely to be greater if there is high unemployment among youth.

Densely populated Java is an ideal place to test the Homer-Dixon hypothesis, since Java is classically Malthusian. Land is a major fixed factor of production. The conditions of diminishing returns to other agricultural inputs and agricultural labour are most likely at work. However, the classic problem in Indonesia, and Java in particular, is that for several reasons the pace of industrialization and the development of other non-agricultural sectors has not been enough to absorb labour from agriculture, so the structural transformation of the Indonesian and the Javanese economies has not matched a similar transformation in employment structure. Between 1971 and 2003, the contribution of agriculture to the Indonesian economy sharply declined, from 53 percent to 17 percent, while the share of labour in the sector fell only from 66 percent to 46 percent.

In addition to population density, Java has a high population growth. Furthermore, as shown in Table 7.3, population pyramids of Javanese provinces and districts reveal a high proportion of youth. Unemployment is also high among the youth.

**Table 7.3. Population pyramid, 2003**

<table>
<thead>
<tr>
<th>Age groups</th>
<th>0-14</th>
<th>15-24</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Java</td>
<td>29.5</td>
<td>18.4</td>
<td>16.4</td>
<td>15.0</td>
<td>10.4</td>
<td>6.0</td>
<td>4.3</td>
<td>100</td>
</tr>
<tr>
<td>Central</td>
<td>27.3</td>
<td>18.3</td>
<td>15.4</td>
<td>14.9</td>
<td>10.7</td>
<td>6.9</td>
<td>6.5</td>
<td>100</td>
</tr>
<tr>
<td>East</td>
<td>25.0</td>
<td>16.8</td>
<td>16.7</td>
<td>15.8</td>
<td>11.9</td>
<td>7.6</td>
<td>6.2</td>
<td>100</td>
</tr>
<tr>
<td>Banten</td>
<td>33.3</td>
<td>19.1</td>
<td>17.8</td>
<td>14.9</td>
<td>8.6</td>
<td>4.2</td>
<td>2.0</td>
<td>100</td>
</tr>
<tr>
<td>Java (4 provinces)</td>
<td>27.4</td>
<td>17.8</td>
<td>16.3</td>
<td>15.2</td>
<td>10.9</td>
<td>6.8</td>
<td>5.6</td>
<td>100</td>
</tr>
<tr>
<td>Indonesia</td>
<td>30.6</td>
<td>18.6</td>
<td>16.5</td>
<td>14.4</td>
<td>9.9</td>
<td>5.7</td>
<td>4.3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Calculated from BPS data.

The following hypotheses are put forward for the three key indicators of population and demographic factors, namely population density, population growth and youth bulges, to explain routine violence:

**H1: Districts that experience higher population pressures tend to experience higher levels of routine violence.**
We test for possible interaction effects among the three indicators of population pressure, and the following set of hypotheses is put forward.

**H2a:** The joint effect of population density and population growth on routine violence is positive

**H2b:** The joint effect of population density and youth bulge on routine violence is positive

**H2c:** The joint effect of youth bulge and population growth on routine violence is positive

### 7.3.2. Inequality

While there has been a fairly convincing argument and evidence for the conflict-inducing effect of horizontal inequality, the role of vertical inequality in conflict remains inconclusive. In this regard, the pioneering work of Tadjoeddin and Mursheed (2007) on routine violence in Java can be extended to study the role of vertical income inequality. One of their findings on the structural factors behind routine violence is the general sense of grievance in the population, which arises from a situation where progress in education is not commensurate with improvement in income. Vertical income inequality can be seen as another potential source of the general sense of grievance. We propose the following hypothesis:

**H3:** Vertical income inequality has a positive effect on routine violence

### 7.3.3. Joint Effect of Population Pressure and Inequality

When we consider potential joint effects between vertical inequality variable and the two population/demographic indicators, it seems highly possible that grievances resulting from vertical inequality become more intense in the presence of population pressure. In other words, the positive effect of a similar level of inequality on violence is higher in a society with higher population density. This is because inequality-induced grievances may be more intense and spread quicker in densely populated localities.

Since youth are the main perpetrators of any kinds of social violence, existing levels of inequality potentially add to their frustration. It may be the case that the
A combination of high inequality and large youth bulge is an undesirable mixture in the case of routine violence. Thus, we propose the following hypothesis with respect to the three indicators of population pressure (population growth, population density and youth bulge):

**H4: The positive effects of vertical inequality are higher in a district (region) with higher degrees of population pressure**

### 7.4. DATA AND METHODOLOGY

#### 7.4.1. Data on Routine Violence

The data on the dependent variable, the number of incidents of routine social violence across districts in Java, are taken from UNSFIR dataset on social violence in Indonesia, referred to as Database II in Chapter 6.

As routine violence is not episodic, all incidents of non-ethno-communal violence in the UNSFIR database are categorized as routine. This database does not include data on separatist violence, which exclusively refers to violence in Aceh and Papua where separatist movements were or are in place. Ethnicity in the UNSFIR database is broadly defined as in Horowitz (1985).

Can ethno-communal violence be routine in nature? This is possible, as in the case of Hindu-Muslim violence in India, and may be argued to be a feature of everyday life in particular Indian localities. However, based on the fourteen years of data available in Indonesia, ethno-communal violence is more appropriately described as episodic, since the incidents are concentrated in particular places and times, and do not occur with enough empirical regularity to warrant description as part of the everyday life of the society. In empirical terms, however, a group brawl may have an ethno-communal dimension. The UNSFIR database carefully considers which incidents belong to the ethno-communal category. An incident of violence (brawls, riots, or vigilantism for example) is coded ethno-communal if ethno-communal symbols were present in the incident — information that is unlikely to be missed in the newspaper report of the event. Furthermore, all available detailed case studies or specialised reports on social violence were consulted in constructing the dataset.
7.4.2. Other Data
Data on population number and population density are derived from population censuses (conducted every 10 years) and inter-census population surveys (conducted between two censuses). Data on the size of young age cohorts relative to adult population (youth bulges) and the Gini coefficient of income are calculated from the yearly National Socio-economic Surveys (SUSENAS). Data on per capita regional gross domestic product are taken from the regional income accounts. All other data are from the BPS.

7.4.3. Estimation Strategy
The unit of analysis is district–year in a panel dataset of 98 Javanese districts over the period 1994–2003. The dependent variable we seek to explain is the number of routine violent incidents across districts in Java. This variable is in the form of count data that may take on any non-negative integer value, including zero; the dependent variable is discrete, and cannot be treated as a continuous random variable.

The most basic model for estimating count data is the Poisson regression model for rare events. However, in most cases, Poisson suffers from the over-dispersion problem, so negative binomial is a better alternative. We stick to the fixed effects variant of negative binomial, since fixed effects help in controlling for time-invariant district characteristics (unobserved heterogeneity) that correlate with the independent variable. Unobserved heterogeneity is particularly acute when modelling social phenomena such as social violence. Many factors contribute to the intensity of violence, but only a few can be included in the model. Factors such as local culture, institutions, policing, and so on are left out simply due to lack of data or difficulties in finding a sensible proxy for inclusion in the model. Moreover, such factors rarely change within a relatively short time period — a decade, in this case. The use of a fixed effects model should help in addressing the problem of omitted variables as has been noted in recent cross country studies; see, for example, Acemoglu et al. (2008) and Papaioannou and Siourounis (2008).

The main explanatory variables are vertical income inequality measured by the Gini coefficient of income, and the three measures of population pressure: population density, youth bulges and population growth. In addition, we consider the interaction

178 For more details on count data regression, one may consult Cameron and Trivedi (1998). Count data regressions are common in certain types of empirical research such as criminology.
terms between inequality and the three measures of population pressure. Following the study by Tadjoeddin and Murshed (2007) and Murshed et al. (2009), we include the following control variables: population, growth of per capita RGDP, level of per capita RGDP and its squared term.

7.5. RESULTS AND DISCUSSION

7.5.1. The Role of Population Pressure
The effects of population pressure on routine violence (H1) are tested in Models 1-3 of Table 7.4 for each of the three indicators of population pressure, namely population density, youth bulges and population growth respectively. We use the standard model of routine violence introduced by Tadjoeddin and Murshed (2007) as the point of departure and we add the three indicators to it. We find only empirical support for the violence-inducing effect of population density (Model 1). In the case of population growth and youth bulge, the coefficients are insignificant, although they point in the expected direction (Models 2 and 3). The results do not change when the three indicators of population pressure are put together (Model 4). The significance of population density is quite logical, as physical proximity has a higher probability of friction or interaction. Youth bulge may become a significant variable in the presence of unfulfilled expectations, such as lack of job opportunities.

Of the interaction terms among the three indicators of population pressure, we find empirical evidence only for a joint effect between population density and population growth (Model 6). It shows that the violence-inducing effect of population density is higher in districts with a higher population growth (H2a). In fact, once we include the interaction term, the variable of population density loses its statistical significance, indicating the more dominant role of the interaction term. This corroborates the findings of Urdal’s (2005) cross-country study that focuses on the higher-profile internal armed conflict with a threshold of 25 battle-related deaths.

The findings confirm Urdal’s (2008) claim that the level of analysis may be a source of discrepancy between cross-country studies and many case studies regarding the conflict-inducing effects of population pressure. While previous cross-country studies have found only moderate support for the idea that population
pressure leads to violent conflict, this study finds statistically significant evidence for the violence-inducing effect of population density, and significant positive joint effects of population density and population growth on routine violence across the Javanese districts of Indonesia. Urdal’s (2008) study across Indian states finds similar effects of population density in the case of armed conflict and of population density-and-growth interaction term in the case of violent political events.

In sum, national demographic aggregates, as in the case of cross-country exercises, may not capture the diversity of local population dynamics (within-country variations) very well, and local processes may be argued to cause local, low-intensity conflicts, as in the case of routine violence. In a cross-country study, Indonesia becomes a single unit of observation that lumps the densely populated Java with the sparsely inhabited outer islands. Therefore, it can be argued that our present study accounts for demographic diversity better, since it limits observations only to low-intensity violence in the densely populated Java.

---

### Table 7.4. Routine violence and population pressure
(Fixed effects negative binomial regression, dep. var.: routine violence)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pop density (000/km²)</td>
<td>0.069**</td>
<td></td>
<td></td>
<td>0.087**</td>
<td>0.087</td>
<td></td>
<td>0.081**</td>
</tr>
<tr>
<td></td>
<td>(0.032)</td>
<td></td>
<td></td>
<td>(0.038)</td>
<td>(0.142)</td>
<td></td>
<td>(0.038)</td>
</tr>
<tr>
<td>Youth bulges (15-25)</td>
<td>0.015</td>
<td></td>
<td>-0.013</td>
<td>-0.013</td>
<td>0.002</td>
<td></td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>(0.023)</td>
<td></td>
<td>(0.026)</td>
<td>(0.033)</td>
<td>(0.026)</td>
<td></td>
<td>(0.032)</td>
</tr>
<tr>
<td>Pop growth (%)</td>
<td></td>
<td>•0.032</td>
<td>0.076</td>
<td>0.076</td>
<td>-0.076</td>
<td>0.323</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.052)</td>
<td>(0.060)</td>
<td>(0.061)</td>
<td>(0.079)</td>
<td></td>
<td>(0.317)</td>
</tr>
<tr>
<td>Density*Youth</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.006)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pop Density*Growth</td>
<td></td>
<td>0.052***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.015)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth*Pop growth</td>
<td></td>
<td></td>
<td></td>
<td>-0.010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.013)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pop (million)</td>
<td>0.357***</td>
<td>0.379***</td>
<td>0.387***</td>
<td>0.353***</td>
<td>0.353***</td>
<td>0.334***</td>
<td>0.337***</td>
</tr>
<tr>
<td></td>
<td>(0.108)</td>
<td>(0.107)</td>
<td>(0.106)</td>
<td>(0.109)</td>
<td>(0.109)</td>
<td>(0.110)</td>
<td>(0.110)</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.034***</td>
<td>-0.035***</td>
<td>-0.034***</td>
<td>-0.032***</td>
<td>-0.032***</td>
<td>-0.034***</td>
<td>-0.032***</td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.005)</td>
</tr>
<tr>
<td>Income (Rp. million)</td>
<td>0.191*</td>
<td>0.247***</td>
<td>0.247**</td>
<td>0.154</td>
<td>0.154</td>
<td>0.198*</td>
<td>0.158</td>
</tr>
<tr>
<td></td>
<td>(0.108)</td>
<td>(0.106)</td>
<td>(0.105)</td>
<td>(0.110)</td>
<td>(0.110)</td>
<td>(0.112)</td>
<td>(0.111)</td>
</tr>
<tr>
<td>Income²</td>
<td>-0.015</td>
<td>-0.016</td>
<td>-0.016</td>
<td>-0.013</td>
<td>-0.013</td>
<td>-0.014</td>
<td>-0.013</td>
</tr>
<tr>
<td></td>
<td>(0.011)</td>
<td>(0.011)</td>
<td>(0.011)</td>
<td>(0.010)</td>
<td>(0.010)</td>
<td>(0.010)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Obs</td>
<td>980</td>
<td>980</td>
<td>980</td>
<td>980</td>
<td>980</td>
<td>980</td>
<td>980</td>
</tr>
<tr>
<td>Wald χ² (p-value)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses, ***, ** and * indicate 1%, 5% and 10% levels of significance respectively and each regression has a constant term.
7.5.2. The Role of Vertical Inequality

In order to test the third hypothesis formulated in the preceding section on the positive effect of vertical inequality on routine violence, we cannot simply add an inequality variable to Tadjoeeddin and Murshed’s (2007) standard model of routine violence, as we did when examining the neo-Malthusian conflict hypothesis. This becomes problematic because of the possibility of a systematic relationship between inequality and income, as postulated by Kuznets (1955).

Given this, Gini and income cannot be placed as independent variables at the same time in the routine violence regression. Therefore, we formulate a two-stage regression process to test the Kuznets hypothesis on the relationship between inequality and income. The first regression is a Kuznets equation postulating an inverted-U-shape between Gini and income; the second one investigates the role of Gini in routine violence. We use the predicted value of Gini from the Kuznets regression to predict violence in the second stage regression. Such a system of two-stage regression tests the link between inequality and violence and at the same time serves to check the presence of the Kuznets curve.

First stage: Kuznets equation

\[ GINI_{\mu} = \phi_0 + \phi_1 INC_{\mu} + \phi_2 INC_\mu^2 + \epsilon_{\mu} \]

Second stage: Routine violence equation

\[ VIOLENCE = \delta_0 + \delta_1 predictedGINI_{\mu} + \delta_2 GROWTH_{\mu} + POP_{\mu} + \epsilon_{\mu} \]

Using the predicted value of Gini obtained from the Kuznets equation, we find a positive effect of inequality on routine violence, which confirms the hypothesis (Table 7.5, Panel A). Furthermore, we find empirical evidence for the Kuznets curve in Java (Table 7.5, Panel B). These findings hold when we employ 2SLS regression as a robustness test (Table 7.6). Another robustness check is done by removing the outlier district of Kota Kediri, which has an extremely high income. Once this is done, the Kuznets curve works well, the predicted Gini retains its significance in the

---

180 The use of 2SLS regression is appropriate since both equations in our simultaneous equation system are over-identified.
random effects negative binomial estimation,\textsuperscript{181} and the 2SLS estimation also performs well.\textsuperscript{182}

The result on the violence-inducing effect of inequality helps to explain Tadjoeddin and Murshed’s (2007) finding on the inverted-U-shape relationship between violence and income better. That is, it seems that at an initial stage, the violence-inducing effect of rising income is driven by an accompanying rise in inequality, as predicted by the Kuznets hypothesis. In other words, the income effect on violence is channelled through inequality. At a higher income level, violence starts to decline since inequality also declines. Therefore, inequality effects work at the upswing as well as at the downswing of the inverted-U-shaped curve of violence and income (see Figure 7.1). The results imply that inequality is not tolerated up to a certain point, as hypothesized by Hirschman (1973).\textsuperscript{183}

**Figure 7.1. Violence, income and inequality**

Tadjoeddin and Murshed (2007:691) intuitively explain their finding as follows: ‘an increase in prosperity may encourage predatory behaviour in the form of private

\textsuperscript{181} In fact, RENB is preferable to FENB according to the Hausman test.

\textsuperscript{182} Detailed results are available from the author.

\textsuperscript{183} Hirschman (1973) explained the notion of tolerance for economic inequality through the workability of a ‘tunnel effect’. The tunnel illustration is originated from Hirschman’s explanatory analogy with traffic in a two-lane tunnel traffic jam. The traffic jam is legally confined to one lane but initially stirred into hope by movement in the second lane; eventually some drivers will illegally cross into that lane, if it seems that the traffic jam appears to be clearing there. In this illustration, the ‘tolerance’ limit is the maximum duration of how long drivers in the first lane are patient before they start to illegally cross lanes. Hirschman argued for the existence of a social mechanism that could contain relative deprivation or envy due to the rise in inequality. As development proceeded, some people’s fortunes improved and others were left behind, and thus inequality typically increased. But the expectations of those left behind might be raised, rather than plagued by anger. Greater inequality gave information about social and economic change that could be interpreted as a signal of hope even for those not immediately benefiting from development.
violence [akin to the concept of routine violence] by the less fortunate. Once growth progresses further, violence has to decline to sustain the security of investment, and the state has to perform regulatory functions.’ The findings of this study shed additional light on the mechanism, namely inequality. Violence-inducing effects of inequality can be interpreted as grievances due to inequitable distribution of income.184

Our findings of the significance of local level inequality in inducing conflict are similar to André and Platteau’s (1998) in Rwanda. Distributional conflicts over a relatively short range of inequality may combine with other causes to induce or spread violence. For example, André and Platteau (1998) argue that although inequality nationally was not the prime source of the paroxysm of violence in Rwanda in 1994, the increasing local-level intensity of distributional tension contributed to the speed with which political violence spread throughout society. They also find evidence of demographic pressure adding to the intensity of local social conflicts and disputes.

Table 7.5. Gini, income and violence: Two-stage regression

<table>
<thead>
<tr>
<th>Panel A: Second stage — Fixed effects NB</th>
<th>Violence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini-predicted value</td>
<td>24.266 **</td>
</tr>
<tr>
<td></td>
<td>(9.681)</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.035 ***</td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
</tr>
<tr>
<td>Pop (mil)</td>
<td>0.388 ***</td>
</tr>
<tr>
<td></td>
<td>(0.106)</td>
</tr>
<tr>
<td>Obs</td>
<td>980</td>
</tr>
<tr>
<td>Wald $\chi^2$ (p-value)</td>
<td>0.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: First stage — pooled OLS</th>
<th>Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>0.0094 ***</td>
</tr>
<tr>
<td></td>
<td>(0.0013)</td>
</tr>
<tr>
<td>Income-squared</td>
<td>-0.0004 ***</td>
</tr>
<tr>
<td></td>
<td>(0.0001)</td>
</tr>
<tr>
<td>Obs</td>
<td>980</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.054</td>
</tr>
</tbody>
</table>

184 The finding on violence inducing effect of inequality is in line with the empirical research on crime, as routine violence and crime have some proximity, although they are conceptually different. Empirical evidence linking vertical inequality and crime is available at both cross-country and country studies (Bourguignon, 2001; Bourguignon, Nunez and Sanchez, 2003).
Note: Standard errors are in parentheses, ***, ** and * indicate 1%, 5% and 10% levels of significance respectively and each regression has a constant term.

Table 7.6. Gini, income and violence: 2SLS regression

<table>
<thead>
<tr>
<th></th>
<th>Violence</th>
<th>Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini</td>
<td>46.4997 ***</td>
<td>(13.7545)</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.0752 ***</td>
<td>(0.0149)</td>
</tr>
<tr>
<td>Pop (mil)</td>
<td>1.8642 ***</td>
<td>(0.1390)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Income</th>
<th>Income-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini</td>
<td>0.0013 ***</td>
<td>-0.0004 ***</td>
</tr>
</tbody>
</table>

| Obs. | 980 |

Note: Standard errors are in parentheses, ***, ** and * indicate 1%, 5% and 10% levels of significance respectively and each regression has a constant term.

7.5.3. Interaction Effects: Inequality and Population Pressure

The test results for the hypotheses on the joint effects of inequality and the three measures of population pressure (H4) are presented in Table 7.7. The three indicators of population pressure interact with the predicted value of Gini from Table 7.5, Panel B. Support for our hypotheses is found in the case of positive joint effects between inequality and population density (Model 2, Table 7.7). This means that the violence-inducing risk of higher inequality is aggravated if it coincides with higher population density.
Table 7.7. Joint effects of inequality and population pressure
(dep. var.: routine violence)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini-predicted value</td>
<td>22.937 **</td>
<td>16.1926</td>
<td>21.728 **</td>
</tr>
<tr>
<td>(9.957)</td>
<td>(10.5498)</td>
<td>(10.545)</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>-0.034 ***</td>
<td>-0.0337 ***</td>
<td>-0.035 ***</td>
</tr>
<tr>
<td>(0.005)</td>
<td>(0.0048)</td>
<td>(0.005)</td>
<td></td>
</tr>
<tr>
<td>Pop (mil)</td>
<td>0.390 ***</td>
<td>0.3587 ***</td>
<td>0.381 ***</td>
</tr>
<tr>
<td>(0.106)</td>
<td>(0.1078)</td>
<td>(0.107)</td>
<td></td>
</tr>
<tr>
<td>Gini-predicted*pop. growth</td>
<td>0.095</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.175)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini-predicted*pop. density</td>
<td>0.0002 **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.0001)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini-predicted*youth</td>
<td></td>
<td>0.051</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.081)</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>980</td>
<td>980</td>
<td>980</td>
</tr>
<tr>
<td>Wald $\chi^2$ (p-value)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses, ***, ** and * indicate 1%, 5% and 10% levels of significance respectively and each regression has a constant term.

7.6. CONCLUSION

This chapter has examined the role of population pressure and vertical inequality, and their possible joint effects on routine violence across Javanese districts. It looks at violence from the perspectives of neo-Malthusian and social justice. These issues are highly relevant for Java. Inhabited by 128 million people, it is the most populous island on earth and the most densely populated island in Indonesia, making it classically Malthusian. Unlike the country as a whole, the island is ethnically very homogenous. We have employed count data panel data regression technique of 98 Javanese districts during 1994–2003.

Using population density as the indicator of population pressure, we have found empirical evidence of the neo-Malthusian conflict scenario. However, the support is only available for the population density indicator. The effect is worse if higher population density coincides with higher population growth.

Although the role of vertical inequality in conflict has been largely discounted in empirical cross-country studies, we find empirical evidence for a violence-inducing effect of vertical inequality. This finding is based on supporting evidence for the Kuznets hypothesis of an inverted-U relationship between inequality and income. It seems that the effect of income on violence, as found in Tadjoeddin and Murshed (2007), is channelled through inequality.
The violence-inducing risk of higher inequality is aggravated if it coincides with higher population density. Inequality-induced grievances are more intense and spread quicker in more densely populated localities, pointing to an unsafe mixture of vertical inequality and population pressure. This also means that the neo-Malthusian outcomes — positive association between routine violence and demographic factors — are not inevitable. They can be avoided by socio-economic progress, marked by high income and low inequality.

Appendix 7.1. Gini and PC RGDP by district in Java

<table>
<thead>
<tr>
<th>West Java</th>
<th>Gini 2003</th>
<th>PCRGDP 2005 (Indonesia=100)</th>
<th>Central Java (Cont')</th>
<th>Gini 2003</th>
<th>PCRGDP 2005 (Indonesia=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bogor</td>
<td>0.279</td>
<td>66</td>
<td>Wonosobo</td>
<td>0.294</td>
<td>24</td>
</tr>
<tr>
<td>Sukabumi</td>
<td>0.260</td>
<td>42</td>
<td>Magelang</td>
<td>0.268</td>
<td>32</td>
</tr>
<tr>
<td>Cianjur</td>
<td>0.258</td>
<td>41</td>
<td>Boyolali</td>
<td>0.283</td>
<td>40</td>
</tr>
<tr>
<td>Bandung</td>
<td>0.260</td>
<td>68</td>
<td>Klaten</td>
<td>0.331</td>
<td>46</td>
</tr>
<tr>
<td>Garut</td>
<td>0.274</td>
<td>50</td>
<td>Sukoharjo</td>
<td>0.259</td>
<td>54</td>
</tr>
<tr>
<td>Tasik Malaya</td>
<td>0.302</td>
<td>43</td>
<td>Wonogiri</td>
<td>0.265</td>
<td>28</td>
</tr>
<tr>
<td>Ciamis</td>
<td>0.313</td>
<td>48</td>
<td>Karanganyar</td>
<td>0.297</td>
<td>56</td>
</tr>
<tr>
<td>Kuningan</td>
<td>0.246</td>
<td>34</td>
<td>Sragen</td>
<td>0.314</td>
<td>32</td>
</tr>
<tr>
<td>Cirebon</td>
<td>0.249</td>
<td>37</td>
<td>Grobogan</td>
<td>0.295</td>
<td>21</td>
</tr>
<tr>
<td>Majalengka</td>
<td>0.269</td>
<td>35</td>
<td>Blora</td>
<td>0.242</td>
<td>24</td>
</tr>
<tr>
<td>Sumedang</td>
<td>0.296</td>
<td>58</td>
<td>Rembang</td>
<td>0.240</td>
<td>34</td>
</tr>
<tr>
<td>Indramayu</td>
<td>0.311</td>
<td>136</td>
<td>Pati</td>
<td>0.244</td>
<td>37</td>
</tr>
<tr>
<td>Subang</td>
<td>0.240</td>
<td>51</td>
<td>Kudus</td>
<td>0.234</td>
<td>207</td>
</tr>
<tr>
<td>Purwakarta</td>
<td>0.241</td>
<td>83</td>
<td>Jepara</td>
<td>0.278</td>
<td>38</td>
</tr>
<tr>
<td>Karawang</td>
<td>0.242</td>
<td>101</td>
<td>Demak</td>
<td>0.290</td>
<td>26</td>
</tr>
<tr>
<td>Bekasi</td>
<td>0.231</td>
<td>217</td>
<td>Semarang</td>
<td>0.268</td>
<td>58</td>
</tr>
<tr>
<td>Kota Bogor</td>
<td>0.341</td>
<td>43</td>
<td>Temanggung</td>
<td>0.260</td>
<td>32</td>
</tr>
<tr>
<td>Kota Sukabumi</td>
<td>0.227</td>
<td>65</td>
<td>Kendal</td>
<td>0.286</td>
<td>52</td>
</tr>
<tr>
<td>Kota Bandung</td>
<td>0.287</td>
<td>119</td>
<td>Batang</td>
<td>0.269</td>
<td>36</td>
</tr>
<tr>
<td>Kota Cirebon</td>
<td>0.322</td>
<td>174</td>
<td>Pekalongan</td>
<td>0.269</td>
<td>38</td>
</tr>
<tr>
<td>Kota Bekasi</td>
<td>0.343</td>
<td>76</td>
<td>Pemalang</td>
<td>0.274</td>
<td>27</td>
</tr>
<tr>
<td>Tegal</td>
<td>0.261</td>
<td>28</td>
<td>Brebes</td>
<td>0.250</td>
<td>33</td>
</tr>
<tr>
<td>Cilacap</td>
<td>0.273</td>
<td>294</td>
<td>Magelang</td>
<td>0.299</td>
<td>81</td>
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<tr>
<td>Banyumas</td>
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<td>Surakarta</td>
<td>0.286</td>
<td>87</td>
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<tr>
<td>Purbalingga</td>
<td>0.281</td>
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<td>Salatiga</td>
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<tr>
<td>Banjarnegara</td>
<td>0.258</td>
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<td>Semarang</td>
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<td>Pekalongan</td>
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<td>Tegal</td>
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Source: Calculated from BPS data.
### Appendix 7.1. Gini and PC RGDP by district in Java (cont’)

<table>
<thead>
<tr>
<th>East Java</th>
<th>Gini 2003</th>
<th>PCRGDP 2005 (Indonesia=100)</th>
<th>East Java (Cont’)</th>
<th>Gini 2003</th>
<th>PCRGDP 2005 (Indonesia=100)</th>
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<tr>
<td>01. Pacitan</td>
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<td>26. Bangkalan</td>
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<tr>
<td>02. Ponorogo</td>
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<td>27. Sampang</td>
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<td>26</td>
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<tr>
<td>03. Trenggalek</td>
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<td>28. Pamekasan</td>
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<td>29. Sumenep</td>
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<tr>
<td>05. Blitar</td>
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<td>71. Kota Kediri</td>
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<td>06. Kediri</td>
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<td>72. Kota Blitar</td>
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<td>07. Malang</td>
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<td>73. Kota Malang</td>
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<td></td>
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<td>74. Kota</td>
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<td>Probolinggo</td>
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<td>75. Kota Pasuruan</td>
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<tr>
<td>10. Banyuwangi</td>
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<td>76. Kota Mojokerto</td>
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<td>11. Bondowoso</td>
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<td>77. Kota Madiun</td>
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<td>12. Situbondo</td>
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<td>78. Kota Surabaya</td>
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<td>13. Probolinggo</td>
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<td>79. Kota Batu</td>
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<td>14. Pasuruan</td>
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<td>15. Sidoarjo</td>
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<tr>
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<td>01. Pandeglang</td>
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<td>18. Nganjuk</td>
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<td>23. Tuban</td>
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<td>24. Lamongan</td>
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<td>25. Gresik</td>
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Source: Calculated from BPS data.

### Appendix 7.2. Summary statistics, routine violence

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violence (incidents)</td>
<td>980</td>
<td>2.0</td>
<td>3.0</td>
<td>0</td>
<td>21</td>
</tr>
<tr>
<td>Growth of income (%)</td>
<td>980</td>
<td>3.6</td>
<td>6.4</td>
<td>-30.6</td>
<td>64.9</td>
</tr>
<tr>
<td>Income (Rp. million)</td>
<td>980</td>
<td>1.7</td>
<td>2.4</td>
<td>0.5</td>
<td>26.1</td>
</tr>
<tr>
<td>Population (million)</td>
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<td>1.1</td>
<td>0.7</td>
<td>0.1</td>
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<tr>
<td>Pop. Growth (%)</td>
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<td>1.1</td>
<td>1.4</td>
<td>-0.6</td>
<td>10.7</td>
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<tr>
<td>Pop. Density (/km²)</td>
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<td>2,283.3</td>
<td>3,251.7</td>
<td>332</td>
<td>22,182</td>
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<tr>
<td>Gini</td>
<td>980</td>
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<td>0.0</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Youth (%)</td>
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<td>20.3</td>
<td>2.7</td>
<td>13.3</td>
<td>30.6</td>
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</table>
### Appendix 7.3. Matrix of correlations, routine violence

<table>
<thead>
<tr>
<th></th>
<th>Violence</th>
<th>Growth</th>
<th>Income</th>
<th>Pop</th>
<th>Pop. growth</th>
<th>Pop. density</th>
<th>Gini</th>
<th>Youth</th>
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<tr>
<td>Violence</td>
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<td></td>
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<tr>
<td>Growth of income</td>
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<tr>
<td>Income</td>
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<tr>
<td>Population</td>
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<tr>
<td>Pop. Growth</td>
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<td>0.056</td>
<td>0.136</td>
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<tr>
<td>Pop. Density</td>
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<td>0.061</td>
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<td>-0.171</td>
<td>0.074</td>
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</tr>
<tr>
<td>Gini</td>
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<td>0.105</td>
<td>0.123</td>
<td>0.130</td>
<td>-0.006</td>
<td>0.207</td>
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</tr>
<tr>
<td>Youth</td>
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<td>0.122</td>
<td>0.444</td>
<td>0.581</td>
<td>0.239</td>
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</tbody>
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Chapter Eight

ELECTORAL CONFLICT AND THE MATURITY OF LOCAL DEMOCRACY: TESTING THE MODERNIZATION HYPOTHESIS

8.1. INTRODUCTION

Electoral violence is not new: it occurred in nineteenth-century England and Wales (Wasserman and Jaggard, 2007). More recently, widespread electoral violence has occurred in electoral processes in countries such as East Timor, Sri Lanka, Pakistan, Nigeria, Ethiopia, Kenya, and Zimbabwe (see for example Höglund, 2009; Bratton, 2008; and Fisher, 2002). Instances of electoral violence were identified in 14 countries out of 55 countries holding national elections in 2001 (Fisher, 2002). Electoral violence has become a common feature of countries at lower levels of income which are practising democracy, or undergoing democratic transition, or emerging from internal conflicts (secessionism or ethnic). Indonesia shares these characteristics, and there were significant concerns about the risk of electoral violence during the 1999 national elections, the first multi-party elections after the fall of Suharto’s regime. Fortunately, such fears were not realized. The country had a peaceful and successful national election in 1999, and the same was true in the subsequent national elections in 2004 and 2009.

While Indonesia was praised by the international community for successfully conducting a relatively peaceful parliamentary election and two rounds of direct presidential elections in 2004, the story was different for the series of district-level direct elections (PILKADA) a year later. In many places, PILKADAs were accompanied by conflicts and hostilities of varying degrees. There was significantly more conflict and violence during the direct local elections (about 442 district direct PILKADAs between 2005 and 2008) than during the two national parliamentary elections (in 2004 and 2009) and two presidential elections (in 2004 and 2009).\(^\text{185}\) Of

\(^{185}\) The following are few recent examples: On 3 March 2008, the Malinau district office of GOLKAR — the largest political party in Indonesia according to the 2004 elections — in East Kalimantan was burned down and the district office of PDIP — the second-largest party in the country — was damaged by a crowd of angry native Dayaks. The minority Dayaks were dissatisfied because there was no representation of their ethnic group in the four pairs of governor and vice governor candidates.
a total sample of 282 district PILKADAs between 2005 and 2007, violent attacks took place in 41. Four offices of the local election commission were burned down and eighteen others were damaged. In addition, four offices of the district head (bupati) and three district parliament buildings were set on fire. Fortunately, there were no reported deaths during these episodes.

The presidential and parliamentary elections are national events concerned primarily with national-level issues, and dealing with more upstream national policies. They are perceived as distant from the daily lives of ordinary people. For any particular electoral college, legislative elections involve electing hundreds of parliamentary members at all levels (national, provincial and district) and dozens of senators running for the Indonesian Senate (Dewan Perwakilan Daerah: DPD). A completely different set of characteristics is embedded in PILKADA. It is a local event, concerned with local issues and about local figures. Voters at the local level perceive the ballots cast in PILKADA to have great consequences for their daily life — PILKADA is much closer to them than are national-level elections. Parliamentary candidates might speak up about local level issues as in PILKADA, but there are hundreds of candidates, who are fragmented compared with the more polarized setting of PILKADA. As the risk of conflict lies in polarization, not fragmentation (Montalvo and Reynal-Querol, 2005; 2007), grass-roots supporters and voters tend to be more militant and easier to mobilize in the context of PILKADAs than of national elections, ceteris paribus.

Although electoral violence is generally part of political violence, or can be part of routine violence according to our definition of contemporary conflict in Indonesia, it can be argued that electoral violence deserves to be studied as a phenomenon in itself; to a large extent it remains an unmapped research field. The significance of the study of electoral violence lies in the prospects it offers for democratic consolidation and conflict management (Höglund, 2009).

High-profile electoral violence in PILKADA has led to calls for rethinking the way local direct elections are run from the two biggest Islamic organizations, endorsed by the Provincial Election Commission for the provincial direct elections in May 2008 (Kaltim Post, 4 March 2008). Previously, serious riots related to disputes over the results of direct elections had occurred in the Kaur district of Bengkulu (July 2005), the Tuban district of East Java (May 2006) and Ternate of North Maluku (August 2007).

Fragmentation refers to the division of an entity into many fragments, while complete polarization occurs when an entity is divided into two segments of equal size.
Nahdatul Ulama and Muhammadiyah. The Indonesian Senate (DPD) argues that the political costs of conducting direct PILKADAs outweigh their supposed benefits. DPD recommends that the direct PILKADA should be re-evaluated. Such voices are primarily driven by the frustration related to the conflict and violence surrounding direct local elections, and to other complications. It has recently been suggested that poor districts with low local government revenue capacity should not be allowed to have direct local elections for district heads. Thus, it seems that there has been a decline in the enthusiasm for local-level direct democracy, due to the propensity for violence.

The intensity of conflicts during local elections can reflect a number of interesting ideas. Chief among them is that violence may indicate the immaturity of local democracy at low or medium levels of economic and human development (Lipset, 1959). It could also be that competition among local elites for economic rents made available through transfers and resource-revenue sharing, and the weaknesses of local institutions in facilitating the competition, cause conflict. A careful look at the overall records of PILKADA-related conflict should tell us the underlying cause of the problem.

This Chapter is aimed at examining the roles of socio-economic factors and elite competition in electoral conflicts, covering the period 2005–07. On a theoretical level, the presence of violence and different manifestations of conflict may signal the maturity levels of local democracy: for while local democracy has been introduced in a similar fashion to the entire country, each region exercises it differently and demonstrates different levels of local democratic maturity. Our hypothesis is that districts with lower socio-economic achievements will experience more electoral violence. This is in line with the modernization hypothesis that local electoral violence will decline with the growth of income and higher social development. We also test whether expected local revenue contributes to elite competition and, hence,

The chairman of Nahdatul Ulama Hasyim Muzadi called for the abolition of direct elections for local executives and a return to the old system where heads of district or province were elected by local parliaments (Kompas, 28 January 2008). The chairman of Muhammadiyah Din Syamsuddin suggested that local direct elections should be seriously re-evaluated with a view to finding a better solution (Suara Karya, 3 March 2008).

This was voiced by the chairman of DPD in his official speech at a plenary session of DPD on 22 August 2008 (http://www.tempo.co.id/hg/nasional/2008/08/22/brk.20080822-131863,id.html, accessed on 26 April 2009).

Comment made by Professor Ryaas Rasyid, a key designer of Indonesian decentralization laws and a former Indonesian minister for regional autonomy (Kompas, 5 September 2009).
to electoral violence. These hypotheses are not mutually exclusive: local elite competition can exist at both low and high levels of socio-economic development; but at a higher level of income and social development, local elite competition seems less likely to turn into violence. This suggests that a higher level of socio-economic development may reflect maturity in institutions that are able to mediate local elite competition in a non-violent way.

It is hoped that this study will be able to shed some light regarding measures for achieving a mature democracy at the local level. However, the level of local democratic maturity cannot be measured directly, for there will be virtually no differences among districts in the commonly used indicators for democracy such as press freedom, voice and accountability, political repression and controls over the executive. These are generally country-wide regime characteristics. Therefore, we proxy local democratic maturity through its inverse, namely the hostility level of local elections as manifested in election-related violence.

Given this, our first task is to compile a national database on electoral conflict and violence during the direct local elections. Based on the database, we can construct the index of electoral hostility across Indonesian districts. In combination with other district level socio-economic data, we conduct a large-sample empirical investigation to examine possible links between electoral hostility (the inverse level of districts’ democratic maturity) and each district’s socio-economic variables and the relative size of its local revenues. Given the nature of the dependent variable, the ordered-logistic regression technique is employed to estimate the model.

The rest of the chapter proceeds as follows: the second section discusses the theoretical framework linking development and democracy, and electoral conflict in particular. Section three details the data and methodology. The fourth section presents the empirical results and the last section concludes.

8.2. DEVELOPMENT, DEMOCRACY AND ELECTORAL CONFLICT

8.2.1. The Modernization Hypothesis
Development and democracy go hand in hand. Almost all today’s developed countries are mature democracies. The relationship between economic development and democracy, known as the modernization hypothesis, was first investigated by
Lipset (1959), who noted that prosperity, in the form of wealth and education in particular, breeds democracy. According to Lipset, the level of economic development drives institutional change. They in turn shape the possibilities of the creation and the consolidation of democracy, which are referred to as endogenous and exogenous democratization respectively. His main measures of economic development are average wealth, industrialization, education and urbanization, which continue to inform subsequent, more sophisticated theoretical and empirical inquiries.\footnote{Among others, some key studies are Londregan and Poole (1996), Przeworski and Limongi (1997), Przeworski et al. (2000), Barro (1997, 1999), Boix and Stokes (2003), Epstein et al. (2006), Glaeser et al. (2007), Papaioannou and Siourounis (2008) and Acemoglu et al. (2009).} Lipset attributes his idea to Aristotle: ‘From Aristotle down to the present, men have argued that only in a wealthy society in which relatively few citizens lived in real poverty could a situation exist in which the mass of the population could intelligently participate in politics and could develop the self-restraint necessary to avoid succumbing to the appeals of irresponsible demagogues’ (p.75).

The hypothesis has received a good deal of theoretical and empirical support. On the theoretical ground, Papaioannou and Siourounis (2008) summarize four channels by which wealth and education affect the likelihood of democratization. First, industrialized and bourgeois societies are complex and difficult to govern under a non-democratic/autocratic regime. Second, the ruling class may benefit from democracy and thus will not oppose reforms. Bourguignon and Verdier (2000) build a model where it is in the interest of the elite to promote education and democracy, since democracy fosters human capital accumulation which in turn spurs growth and minimizes the likelihood of expropriation. Third, education may lead the elite to initiate, rather than oppose, democratization. Lipset (1959:79) concludes, ‘the single most important factor differentiating those giving pro-democracy responses to others has been education.’ Fourth, Glaeser et al. (2007) build a model where education fosters democracy, arguing that schooling teaches people to interact with others and raises the benefits of civic participation, including voting and organizing. In their model, democracy requires a wide popular base but offers weak incentives for its supporters. Dictatorship provides stronger incentives to a narrower base. Since education reduces the costs of political participation, it ensures that an adequate fraction of the population is engaged in the political process, which in turn promotes
democracy. On the empirical ground, others (e.g., Barro, 1999; Boix and Stokes, 2003; Glaeser et al., 2004; Epstein et al., 2006; Papaioannou and Siourounis, 2008) have provided supporting evidence; but all are at cross-country level.

Modernization theory has different dimensions. The theory was first presented by Lerner (1958), a behavioural scientist studying the role of the media in development. He suggests the following features of modernity: urbanization, literacy, and ‘participant life-ways’, e.g., participation in elections and having opinions about matters outside one’s immediate problems and needs. Along the same line, the later works of economists such as Rostow (1960), Kuznets (1966) and Chenery and Taylor (1968), focus on economic modernization. They emphasize the importance of structural change, the decline of the agrarian economy and the rise of urban industry, and the associated rise of income. However, it was Lipset who pioneered the foundation for the link between economic development — as an indication of modernity — and democracy. To be more precise, the Lipset hypothesis may be seen as a sub-set of the modernization theory.

Despite the highly influential impact of the Lipset hypothesis, there has been a divide within the camp. Przeworski and Limongi (1997) and Przeworski et al. (2000) argue that democratic transitions occur randomly, but once achieved, countries with higher levels of GDP per capita remain democratic. They dismiss the notion of endogenous democratization, since their findings suggest that transition to democracy is a random draw. Boix and Stokes (2003) and Epstein et al. (2006) refute that finding, applying more advanced techniques and arguing the case for both endogenous as well as exogenous democratization.

It should be noted that all the empirical studies referred to above were carried out at a cross-country level. They put together countries with large variations in economic, social, political and historical developments. Adopting the approach to a cross-sectional observation in a single country experiencing democratic transition, as the present study does, is a new endeavour. The current, newly democratic, Indonesia with its 492 districts (400 kabupaten and 92 kota) at different levels of socio-economic development is an excellent laboratory for testing the modernization hypothesis.
8.2.2. Elite Competition
Local election is essentially a road to power at the local level. It is an important element of democracy, although not the only one. Free and fair multi-party elections usually mark a country’s entry point to democracy. Usually, the elites bid for power by appealing for popular support from the masses, so elections can be seen as an institutionalized venue for elite competition for political power. The elites use at least two means to appeal for popular support, depending on the maturity level of democracy: in a mature democracy, they use the provision of public goods they have supplied to campaign for re-election, while contending elites attempt to persuade the masses that their programmes offer better provisions. In a young or immature democracy, especially in an ethnically divided society, support bases are likely to be established on patronage politics: favouring particular groups at the expense of other groups. This approach is likely to result in violence, especially in a country emerging from civil war or ethnic strife. It has been suggested that, given this likelihood, ethnically divided societies need a different kind of democracy, namely consociational democracy, as delineated by Lijphart (1999) and opposed to majoritarian systems.\textsuperscript{191}

In the case of the current study, the degree of elite competition for power through elections at the local level may correlate with electoral hostility in the absence of working institutions.

8.2.3. Indonesia’s Democratization and Decentralization
As has been explained before, Indonesia’s transition toward democracy starting with the fall of Suharto in 1998 seems a case of endogenous democratization. Indonesia seems to be following South Africa’s path, transforming itself from a long-standing dictatorship to a stable democracy. Indonesia also embarked on an ambitious decentralization programme in 2001.\textsuperscript{192} Direct local elections (PILKADA) of more than five hundred heads of sub-national administrative units (provinces and districts)

\textsuperscript{191} See also Chapter 6 of this thesis.

\textsuperscript{192} Political decentralization empowers the local government with political decision-making. Some districts have already enacted laws to satisfy the demands of their residents. Therefore, Indonesia’s decentralization has featured all three aspects of decentralization: administrative, political and fiscal. For various types of decentralization in developing and transition economies, see Bardhan (2002) and Bardhan and Mookherjee (2006).
were introduced in mid-2005. Although various kinds of violence erupted during the peak of the transition, the first free and fair multi-party national elections in 1999 were both successful and generally peaceful. The same was true of the 2004 national parliamentary and the first direct presidential elections. The prospect for further democratic consolidation looks even brighter, given the introduction of direct local elections since 2005 and the success of the 2009 national elections. This is in contrast to recent developments in Thailand, Bangladesh and Pakistan, which seem to be in retreat from democratic consolidation.

Indonesia’s experiences appear to be consistent with the modernization hypothesis. The creation of (or transition to) democracy in 1998 was the country’s second attempt. The first, in the mid-1950s, was a total failure. It was short-lived, lasting from just after independence until the advent of ‘guided democracy’ in 1959. Democracy was not restored for four decades. In 1998, a different Indonesia made the second attempt. Thanks to the socio-economic achievements made during the three decades of the developmental-autocratic Suharto regime, Indonesia in 1998 was a more modern society — more educated, industrialized and urbanized, and having much higher income — than the Indonesia of 1950. The risks of democracy’s retreat are now much lower than they were four decades ago.

Therefore, Indonesia’s current democratic consolidation is rooted in the success of Suharto’s New Order socio-economic development, which significantly raised the average levels of income and education, and more importantly, increased the size of a middle class that demanded genuine (endogenous) democratization in the late 1990s. Suharto purposely chose socio-economic developments and economic diversifications away from reliance on natural resources, which is different from his Africa counterparts such as Mobutu of Zaire. As Dunning (2005) argues, the fruits of development served as the glue for the new social contract and legitimized the regime; but at the same time, they formed a new middle class as a societal base of power that challenged the elites.

However, local level dynamics differ from the national picture. Now that there is a national consensus to embark on democratization, the way democracy is exercised at local level can best be assessed by looking at the direct local elections introduced nationally in 2005. Each sub-national entity, province and district (sub-province)

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193 As of 2008, Indonesia has 33 provinces and 492 districts (400 kabupaten and 92 kota). A province is a sub-national administrative unit and each province consists of several districts.
holds its own local direct election according to its own timetable. One can observe different levels of democratic maturity demonstrated at the local level across hundreds of Indonesian districts and provinces. Following the modernization hypothesis, one may expect that regions (sub-national entities) with higher levels of development (richer and more educated, urbanized and industrialized) should be able to exercise democracy better at the local level and so should experience less hostile local electoral processes.

Assessing the local level democracy in Indonesia by way of local direct elections is related to the exogenous democratization variant of the modernization hypothesis. That is, we are not dealing with the move to enter democracy, but with how democracy is exercised in localities with diverse socio-economic characteristics. The severity of conflict during direct local elections becomes the proxy for the quality and maturity of the local democracy.

8.3. DATA AND METHODOLOGY
Höglund (2009) suggests that defining electoral violence becomes a matter of characterizing motives, timing and actors. The overall objective of electoral violence is to influence the electoral process (motive). Violence can occur in all three phases of an electoral process: the pre-election phase, the day of the election or the post-election phase (timing). Different actors may be involved in the violence: election-related bodies, such as electoral commission and police, political parties or general voters (actors). We apply this definition to locate violence specifically related to PILKADA.

8.3.1. Electoral Hostility Index (EHI)
This study will focus on the quality of the conduct of direct elections for local executives (PILKADAs) as an avenue through which to differentiate democratic qualities across regions. There are at least two ways to assess the quality of local direct elections. First is by focusing on the overall performance of the conduct of each local election. This is by assessing the performance of each of a local election’s main actors or stakeholders. They include: (a) local election commissions (KPUD), (b) political candidates and their supporters, and (c) voters/ general civic participation. Second is by focusing on local elections-related conflict/ hostility. In this regard, a simple rule can be set: the more hostile/ the unhealthier the conflict, the
worse the local elections; in turn implying that the quality of local democracy is lower.

The first alternative appears to be more idealistic since it approaches the measurement from positive indicators. However, given the resource and time considerations of this study, the second option is preferred for two reasons, one conceptual and the other practical. On the conceptual level, election-related conflict and hostility are more attuned to the general theme of this thesis. On the practical level, the physical attributes of local election-related conflict such as demonstrations or vigilante attacks can be more easily observed than the performance of local election-related actors. The former seems also to be more objective, while the latter might suffer from subjective bias. Moreover, the main source of information used to compile the database on PILKADA-related conflict is newspaper reports. It appears that local elections-related conflicts and their symptoms are very unlikely to miss the scrutiny of media such as newspapers and other relevant available reports. Measuring elections-related conflict is more practical — more doable — than indexing the overall quality of local elections.

Therefore, our first task is to derive a measurement of the *Electoral Hostility Index* for each district PILKADA. The hostility is only about the conduct of PILKADA and in most cases only covers the period of two months: one month before and after voting day. In other words, we focus on the extent to which PILKADAs are accompanied by any sort of violent action, given the premise that democracy is essentially a non-violent conflict resolution mechanism. Heightened conflicts surrounding local elections are acceptable as long as they are peacefully exercised; problems arise when they are exercised violently. This makes the observed object relatively straightforward. In short, we assess how much hostility a particular event of local elections attracts by determining its *Electoral Hostility Index* (EHI).

EHI is expressed in an ordinal scale between 0 and 3. A higher score means more hostile electoral conflict, implying a lower maturity level of local democracy. The definition of each score follows.\(^{194}\)

\(^{194}\) This is very similar to Brancati’s (2006) approach in constructing an ordinal scale for determining the severity of ethnic conflict in cross-country settings, based on the Minority at Risk (MAR) dataset.
Score 0: Low hostility
This score covers two conditions: First is a condition where there was no reported demonstration or protest against the performance of the local election commission, nor any violence between the supporters of competing candidates. This is an unusual condition and has to be treated with caution since it might indicate poor media coverage rather than fact. Second is a condition where there were reported demonstrations or protests, but they were very minor with virtually no significant adverse impacts on the electoral process. National newspapers may ignore this kind of incident as it lacks significance, as confirmed by cross-checking with several provincial newspapers.

Score 1: Medium hostility
This is a situation where the opposing parties or supporters of competing candidates engaged in some degree of violence, but where the electoral process remained relatively unaffected. It also includes protracted but non-violent demonstrations and protests against the local election commission which had relatively little effect on the electoral process.

Score 2: High hostility
This score is assigned to a situation where the level of violence in PILKADA-related protests or demonstrations was high in terms of intensity, area coverage, number of people/ mass involved and resultant damage, but did not reach a level to cause significant disruption to the electoral process.

Score 3: Very high hostility
This category refers to an extreme situation of PILKADA-related conflict, where the scale of violence level was very high and resulted in significant disruption of the local electoral process. Such violence may have involved thousands of protesters in protracted disputes, damage or arson to more than two buildings, or violent clashes resulting in dozens of injuries. Five district PILKADAs belong to this category: Aceh Tenggara, Kaur, Tuban, Halmahera Barat and Halmahera Selatan.

The (PILKADA) *Electoral Hostility Index* is constructed based on the database of incidences of PILKADA-related conflicts. The database is compiled from the
newspaper clippings of the Jakarta-based Centre for Strategic and International Studies (CSIS) on PILKADA-related news in eight Jakarta-based national newspapers. Admittedly, assigning an index between 0 and 3 for each district PILKADA relying only on national newspapers is a second-best option. Ideally, the information should have been collected from provincial newspapers, as it was when UNSFIR constructed its social violence database in 1990–2003 (Varshney et al., 2008). This was the plan laid down in this thesis proposal, on the assumption that the Jawa Pos News Network (JPNN) would have a pooled electronic database of the provincial newspapers in their group. Unfortunately, this is not the case: JPNN has only managed the traffic of news among its own newspapers and is still only planning such a pooled news database. JPNN can provide access to all provincial newspapers within its own group, but the actual data collection must be carried out in each of the local newspaper offices. This requires travel to the capitals of all 33 provinces in Indonesia; given the resource and time constraints of this project, this was not a realistic option.

Fortunately, the CSIS library collects newspaper clippings from the eight Jakarta-based national newspapers. The archives are thematically organized and PILKADA is one of the themes. Because PILKADA is a major, newly introduced political event in the country, it receives close scrutiny from the national media. Any irregularities regarding the conduct of PILKADA, especially violent incidents, are unlikely to be missed. This is particularly true for the categories of medium, high and very high electoral hostilities. Cross-checks with local newspapers in seven provinces have confirmed this supposition. Cross-checks reveal that there is no significant difference between national and local newspapers in reporting PILKADA-related

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195 They are KOMPAS, Koran TEMPO, Media Indonesia, Republika, Sinar Harapa, Suara Karya, Suara Pembaruan, and The Jakarta Post. I thank Teguh Yudo Wicaksono, who facilitated my data collection at CSIS.

196 The UNSFIR social violence data are used in Chapters 6 and 7 of this thesis on ethnic violence and routine-everyday violence respectively.

197 Jawa Pos is the biggest newspaper company in Indonesia and owns local newspapers in almost every province.

198 The provinces are Central Java, East Java, Yogyakarta, Aceh, Riau, West Sumatra and East Kalimantan. I deliberately visited the three Javanese provinces to read the PILKADA-related archives of Suara Merdeka (Central Java), Jawa Pos (East Java) and Kedaulatan Rakyat (Yogyakarta). I did the same in East Kalimantan (Kaltim Post), Riau (Riau Pos) and West Sumatra (Singgalang) when I travelled to these provinces, mainly for data collection for Chapter 5 of this thesis. The cross-check on local newspaper reports for Aceh was made possible by the availability of the UNDP’s Aceh Peace and Development Monitoring database and The World Bank’s Aceh Conflict Monitoring Update.
violence. Although some minor PILKADA-related demonstrations did go unreported by national newspapers, this will not change the level of the PILKADA hostility index. This is due to our approach in categorizing both no reported PILKADA incidents and minor PILKADA-related demonstrations as low hostility.

Intensive internet searches were carried out to complement the CSIS clippings, and all available reports/assessments/case studies/books related to local elections produced by any NGO, election monitoring body, government office, research institution or researcher were consulted.

8.3.2. Area Coverage and Time Frame

Our data cover 282 direct elections of district heads during 2005-07. They consist of 229 Kabupaten (rural districts) and 53 Kota municipalities (urban districts), representing around two-third of all Indonesian districts. Several district local elections in the province of Papua (including the newly created province of West Papua) are excluded because of the very different stage of development in that region compared with the rest of the country. They are still very much characterized as a tribal society, practising tribal governance; the national media do not pay much attention to local elections in these provinces.

8.3.3. How Hostile Are Local Direct Elections?

To the best of our knowledge, this Electoral Hostility Index is the first attempt to compile a national database of PILKADA-related conflict in Indonesia. This subsection reports on the newly constructed index for local elections hostility. First it discusses the nature of the hostility, and then it explains the hostility pattern.

8.3.3.1. The Nature of Direct Local Election Hostility

The level of electoral hostility is divided into four categories: low, medium, high and very high. Criteria for each category have been explained in the previous section. The following are examples of each category.

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Low hostility: PILKADA Kabupaten Agam, West Sumatra
Around a hundred supporters of a candidate for the district’s Bupati (regent) and its deputy held a demonstration in front of the district’s KPUD office. The demonstrators expressed their dissatisfaction that the KPUD disqualified the pair in the verification process.

Medium hostility PILKADA Kota Bitung, North Sulawesi
Preceding the voting day, a crowd of about a thousand protesters held a demonstration in front the KPUD office demanding the suspension of the PILKADA process due to many irregularities. The demonstration lasted for four days. A week after the ballot day, around 500 protesters demanded the KPUD hold a new vote. Then hundreds of the district’s civil servants held a demonstration rejecting the leadership of the current district head, who was seeking re-election. A few weeks later, hundreds of demonstrators demanded KPUD finalize the PILKADA result. The crowd destroyed the billboards of the five regent candidates, witnessed by around 600 policemen who were monitoring the demonstration.

High hostility PILKADA Kabupaten Maluku Tenggara Barat, Maluku
A few hours before the inaugural ceremony of the newly elected Bupati, seven offices within the district government compound were burned down using a Molotov cocktail. There was high suspicion that the incident was related to disputes over the recently held PILKADA. A losing candidate filed a case in the court challenging the PILKADA result, alleging fraud; the case was rejected.

Very high hostility PILKADA Kabupaten Tuban, East Java
Around 5,000 supporters of a losing Bupati candidate ran amok in the city of Tuban. They burned down the KPUD office, the official residence of Bupati, a hotel, a private company office, two private houses and twelve cars.

There are 67 PILKADAs, or 24 percent of the total 282 in our sample, categorized as having medium, high and very high levels of electoral hostility. The majority, 76 percent PILKADAs, are categorized as having low levels of electoral hostility. Table 8.1 reports the detailed distribution.

<table>
<thead>
<tr>
<th>Hostility levels</th>
<th>Hostility index</th>
<th>Number of PILKADA</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>0</td>
<td>215</td>
<td>76.2</td>
</tr>
<tr>
<td>Medium</td>
<td>1</td>
<td>26</td>
<td>9.2</td>
</tr>
<tr>
<td>High</td>
<td>2</td>
<td>36</td>
<td>12.8</td>
</tr>
<tr>
<td>Very high</td>
<td>3</td>
<td>5</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>282</td>
<td>100</td>
</tr>
</tbody>
</table>
According to our categorization, very high hostility is found in five PILKADAs. High and medium hostility were present in 36 and 26 PILKADAs respectively, while the rest fell within the low hostility category. Box 1 details the five district PILKADAs categorized as having a very high hostility level.

Box 8.1. Districts with a very high level of electoral hostility

**Kabupaten Aceh Tenggara (Aceh)**

Aceh Tenggara’s PILKADA was the most problematic one in Aceh. Three months after the voting day, its results were still not announced due to the incompetence and bias of its election institutions. Irregularities committed by political candidates, mainly in the form of intimidation and money politics (bribery), aggravated the problem. Aceh Tenggara’s district elections commission (called KIP in the province of Aceh) decided to recount several ballot boxes starting on 23 March; a riot followed, with three police officers wounded after being hit by stones. The police shot six people. The recount did not continue after the riot and the situation remained unresolved.

After a series of disputes between KIP Aceh and KIP Aceh Tenggara, the latter was dismissed by the former. In response, the members of the now defunct KIP Aceh Tenggara travelled outside Aceh to the city of Medan, where they held a press conference announcing the winner of the election to be the GOLKAR incumbent Armen Desky. Based on a recount by KIP Aceh, later, the Department of Home Affairs announced that Hasanuddin, another candidate, had won the election. Tensions rose approaching the inauguration of Hasanuddin as the new regent on 1 September. In August, less than a month before the inauguration, a bomb went off at the parliament building, a grenade was thrown at the house of the acting regent, and there were arson attacks on several sub-district offices. A riot broke out during the inauguration, leaving several buildings burned, 20 people wounded and four vehicles damaged.

**Kabupaten Kaur (Bengkulu)**

A month after voting day, a riot broke out following a demonstration by at least 10,000 supporters of a losing candidate rejecting the result. The crowd burned down three district offices, the official residence of the district parliament head, three private buildings, two cars and several motorcycles. In addition, the offices of DPRD and KPUD were damaged. A losing regent candidate was found guilty of orchestrating the riot and sentenced to jail for two years.

**Kabupaten Tuban (East Java)**

Around 5,000 supporters of a losing **Bupati** candidate ran amok in the city of Tuban. They protested district PILKADA irregularities and expressed anger at the defeat of their candidate. The crowd burned down the KPUD office, the official residence of **Bupati**, a hotel, a private company office, two private houses and twelve cars. The losing candidate for the deputy **Bupati** and a member of district parliament were sentenced to jail by the provincial high court for orchestrating the riots, but later the sentence was revoked by the Supreme Court. The Tuban riot is the most well-known PILKADA-related incident of violence.

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200 Summarized from the World Bank’s *Aceh Conflict Monitoring Update* series
Kabupaten Halmahera Barat (North Maluku)
The house of a political party chief (PDK) was burned down by party supporters. This was due to an internal conflict within the party regarding their selection for a party candidate for Bupati to be nominated to KPUD. The party, unable to agree, presented two candidates; one was disqualified by KPUD. Hundreds of supporters of the disqualified candidate ransacked the KPUD office. All office equipment was burnt and the doors and windows totally damaged.

Kabupaten Halmahera Selatan (North Maluku)
After the provincial high court rejected an appeal regarding the PILKADA result filed by two losing Bupati candidates, thousands of their supporters set fire to the DPRD office. Five cars were also burned, and the house of the DPRD chief was damaged.

8.3.3.2. Regional Distribution, Cleavage and Timing
Electoral hostility is quite evenly spread across regions in Indonesia. The five district PILKADAs with very high electoral hostility were in Sumatra, Java and Eastern Indonesia. The medium and high hostility categories were also quite evenly spread across Sumatra, Java, Kalimantan, Sulawesi and the Maluku(s). Thus, it is in contrast with the other three types of conflict examined in this thesis (secessionist, ethnic and routine-everyday), which clearly show a degree of regional concentration. Secessionist conflicts are in the four resource-rich regions and ethnic violence primarily occurred in the eastern part of the country, while routine-everyday violence was most common in densely populated Java.

Although the country experienced inter-ethnic strife in many localities between 1997 and 2002, fortunately it seems that the issue of ethnicity played no role in electoral hostilities during the 2005–07 PILKADAs. This is evident in the ethnically conflict-ridden districts such as Maluku(s), Kalimantan (West and Central) and Poso. Furthermore, there is no evidence of higher PILKADA hostility in regions previously ravaged by secessionist and ethnic violence. Although high electoral hostility points to the poor exercise of local democracy, the lack of any link between electoral hostility and the previous history of ethnic or secessionist violence is an encouraging signal for democratic consolidation.

Electoral hostilities directed toward the local elections commission account for 81 percent of total PILKADAs with medium, high and very high levels of hostility.

201 In Poso, which experienced a series of bloody Christian-Muslim clashes between 1998 and 2004, there were several cases of bomb explosions directed at a political candidate, approaching the voting day of the district PILKADA in June 2005. However, the attacks were not related to religious divide. They can be seen as the utilization of a specific skill acquired in the period of ethnic violence.
The anger is mainly caused by disputes over voting results and complaints over KPUD’s bias and poor performance in administering local elections. These findings point to the importance of making improvements related to the conduct and organization of PILKADA. The majority of electoral hostilities took place after voting day, indicating most concerns were over election results.

### Table 8.2. PILKADA by cleavages of electoral hostility

<table>
<thead>
<tr>
<th>Hostility Levels</th>
<th>Cleavages</th>
<th>Total PILKADA</th>
<th>% supporters v.s. KPUD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intra party</td>
<td>Inter party</td>
<td>Supporters v.s. KPUD</td>
</tr>
<tr>
<td>Medium (1)</td>
<td>3</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>High (2)</td>
<td>1</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>Very high (3)</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>8</td>
<td>54</td>
</tr>
</tbody>
</table>

### Table 8.3. PILKADA by timing at the peak of electoral hostility

<table>
<thead>
<tr>
<th>Hostility levels</th>
<th>Timing</th>
<th>Total PILKADA</th>
<th>% After voting day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before voting day</td>
<td>After voting day</td>
<td></td>
</tr>
<tr>
<td>Medium (1)</td>
<td>10</td>
<td>16</td>
<td>26</td>
</tr>
<tr>
<td>High (2)</td>
<td>17</td>
<td>19</td>
<td>36</td>
</tr>
<tr>
<td>Very high (3)</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>39</td>
<td>67</td>
</tr>
</tbody>
</table>

### 8.3.4. Estimation Strategy

The unit of observation is the district, in a pure cross-sectional setting. We begin with the most basic model in explaining democratic consolidation. Our dependent variable is the hostility level of electoral conflict, which mirrors the quality of local democracy being exercised. The modernization theory postulates that wealthier and more educated societies will exercise democracy better. In this case, a high level of hostility in any PILKADA indicates that local democracy is badly practised. Following Barro’s (1999) seminal study on the determinants of democracy, which is strongly based on the modernization theory, the following model is developed:

\[
HOST_t = \phi_0 + \phi_1 INC_t + \phi_2 EDU_t + \phi_3 URBAN_t + \delta X_t + \epsilon_t
\]
The dependent variable is the PILKADA hostility index \((HOST)\). As in Barro’s model, we have three main independent variables: per capita real RGDP \((INC)\), mean years of schooling \((EDU)\) and degree of urbanization \((URBAN)\). In addition, we have the vector \(X\) that includes other independent variables such as human development, poverty rate, share of primary commodity in regional GDP and share of manufacturing in regional GDP — all of which indicate level of development. Subscript \((i)\) refers to the district as the unit of observation. We employ ordered logistic regression to estimate the model since the dependent variable is in the form of an ordinal scale between 0 and 3.

### 8.4. ANALYSIS OF REGRESSION RESULTS

Before presenting the regression results, a brief look at descriptive data of district’s average socio-economic indicators provides some nuances of the modernization theory in the case of Indonesia’s local democracy. Table 8.4 indicates that higher electoral hostilities are consistently associated with lower socio-economic indicators: lower income, education and life expectancy, higher poverty and less urbanized localities. However, a more systematic test should be carried out through an appropriate model and regression analysis.

**Table 8.4. Electoral hostility and socio-economic indicators, 2005**

<table>
<thead>
<tr>
<th>Electoral Hostility Index</th>
<th>No. of districts</th>
<th>PC RGDP (\text{a)}) (Rp. million)</th>
<th>Years of schooling</th>
<th>Life expectancy (\text{b)}) (years)</th>
<th>Poverty HCR (\text{b)}) (%)</th>
<th>Urban population (\text{b)}) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>215</td>
<td>8.2</td>
<td>7.5</td>
<td>67.7</td>
<td>17.5</td>
<td>33.7</td>
</tr>
<tr>
<td>1</td>
<td>26</td>
<td>5.9</td>
<td>7.6</td>
<td>67.6</td>
<td>20.2</td>
<td>35.4</td>
</tr>
<tr>
<td>2</td>
<td>36</td>
<td>5.2</td>
<td>7.3</td>
<td>66.6</td>
<td>21.0</td>
<td>29.2</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>3.0</td>
<td>7.4</td>
<td>65.7</td>
<td>24.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Total</td>
<td>282</td>
<td>7.5</td>
<td>7.5</td>
<td>67.5</td>
<td>18.3</td>
<td>32.8</td>
</tr>
</tbody>
</table>

**Notes:**

\(\text{a)}\) EHI during 2005-07

\(\text{b)}\) In 2000 constant prices

Results of the ordered logistic regressions on the determinants of electoral hostility are reported in Table 8.5. Income seems to matter for the quality of democracy: see columns (1) – (3); although it is only marginally significant. Districts with higher income tend to experience lower electoral hostility, implying that they
can exercise a better quality of local democracy. This is in accordance with the basic premise of the modernization hypothesis.

Table 8.5. Determinants of electoral hostility
(Ordered logistic regression, dep. var.: Electoral Hostility Index)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (Rp. million)</td>
<td>-0.061</td>
<td>-0.058</td>
<td>-0.061</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.034)</td>
<td>(0.034)</td>
<td>(0.033)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schooling (years)</td>
<td>0.171</td>
<td>0.159</td>
<td>0.245</td>
<td>0.156</td>
<td>0.223</td>
</tr>
<tr>
<td></td>
<td>(0.152)</td>
<td>(0.155)</td>
<td>(0.157)</td>
<td>(0.153)</td>
<td>(0.160)</td>
</tr>
<tr>
<td>Urbanization (%)</td>
<td>0.010</td>
<td>0.011</td>
<td>0.014</td>
<td>0.016</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.009)</td>
<td>(0.009)</td>
<td>(0.009)</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Municipality dummy</td>
<td>-1.636</td>
<td>** -1.691</td>
<td>** -1.867</td>
<td>** -1.527</td>
<td>** -1.372</td>
</tr>
<tr>
<td></td>
<td>(0.747)</td>
<td>(0.755)</td>
<td>(0.759)</td>
<td>(0.745)</td>
<td>(0.755)</td>
</tr>
<tr>
<td>Gov. rev. to GDP (%)</td>
<td>0.004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>-0.100</td>
<td>** -0.085</td>
<td>* -0.067</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.048)</td>
<td>(0.049)</td>
<td>(0.051)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty HCR (%)</td>
<td>0.041</td>
<td>** 0.055</td>
<td>***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.018)</td>
<td>(0.019)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006 dummy</td>
<td></td>
<td></td>
<td></td>
<td>-1.468</td>
<td>***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.456)</td>
<td></td>
</tr>
<tr>
<td>2007 dummy</td>
<td></td>
<td></td>
<td></td>
<td>-0.667</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.491)</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>282</td>
<td>282</td>
<td>282</td>
<td>282</td>
<td>282</td>
</tr>
<tr>
<td>Prob chi2</td>
<td>0.038</td>
<td>0.065</td>
<td>0.014</td>
<td>0.015</td>
<td>0.003</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.024</td>
<td>0.024</td>
<td>0.033</td>
<td>0.033</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Note: Standard errors are in parentheses, ***, ** and * indicate 1%, 5% and 10% levels of significance respectively and each regression has a constant term.

Education positively correlates with electoral hostility: see columns (1) – (5); although it is insignificant. This is against our initial expectation. The positive coefficient of schooling implies that districts with higher educational attainment tend to have more hostile local direct elections. From the perspective of the quality of democracy, this runs contrary to the modernization hypothesis; but it may be temporary. Higher levels of schooling or educational attainment increase public consciousness of misconduct during local elections. Given this, higher hostility may be understood as a greater concern about electoral irregularities. Note that most hostilities arose over grievances about the performance of local election commissions in administering the elections.
In the longer term, we expect that a higher concern for the practice of local democracy (due to higher educational attainment) will not be manifested in higher hostility, but will improve the overall conduct of local elections and in turn lower the level of electoral hostility. Therefore, we may speculate that the relationship between education and electoral hostility is in the form of an inverted-U curve. From the longer-term perspective, this is not inconsistent with the modernization theory.

Another human development indicator, namely life expectancy, shows stronger results; see column (3). It points to a more important role played by human development indicators in consolidating local democracy. In other words, higher human development contributes to a better quality of local democracy.

Consumption poverty (HCR) shows a positive sign with high level of significance; see columns (4) and (5). Income variable is not included to avoid possible multicollinearity with poverty. This result is consistent with most conflict regressions. Poverty increases the likelihood of electoral hostility and lowers participants’ opportunity costs to engage in violence. Regions with lower poverty rates will be able to exercise a better democracy. This result is consistent with the modernization hypothesis since poverty is a sign of underdevelopment.

We find no support for the hypothesis about electoral hostility enhancing the effect of local elite competition; see column (2). We used the relative size of districts’ government revenues over their regional GDP to proxy elite competition at the local level. We assumed that the higher the relative size of district revenues, the higher would be the appetite to control local power. The lack of significance of this variable does not necessarily mean that there was no elite competition; instead, it may mean that a mature democracy is able to mediate this competition in a less hostile way.202

Finally, using the year of 2005 as the benchmark, dummy variables for 2006 and 2007 show negative signs (highly significant for 2006); see column (5). The results point to the presence of a learning process in the conduct of local elections, which is highly encouraging.

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202 It should be also noted that the relative size of district government revenue might not be a good proxy of elite competition. Another alternative proxy for elite competition is to look at electoral competition itself, which is defined as the margin of victory between the winner and the runner up. Smaller margin means higher competition. We could not exercise this due to data limitation; however, this can be a direction for further research.
In sum, we find mixed results in interpreting the model as a way to test the modernization hypothesis across districts in Indonesia. It should be noted that this chapter in general and its empirical part in particular are very exploratory in nature; however, the results are quite sensible. Local election hostility may not be ideal in capturing the inverse situation of the quality of democracy mirrored in the conduct of local elections. Instead of using hostility, which is a negative indicator, a better assessment of the quality of local democracy would use positive indicators, namely the quality of the overall conduct of local elections: organizational performance, contestant behaviour and civic participation. This is an important research area for the future.

8.5. CONCLUSION

This study is a first attempt to put together a consistent measure of electoral hostility across a large sample of Indonesian districts. It is not only an important dataset in itself to observe the pattern of electoral conflict; it is also a critical step to enable us to conduct a more analytical exercise through the lens of the modernization theory.

The empirical results show some evidence of the validity of the modernization theory in the context of within-country analysis, which is itself a new endeavour. Previous studies of the modernization hypothesis have generally been located in the cross-country setting, as shown by all related studies cited in this chapter.

Two results are particularly important: the negative effect of income and the positive effect of poverty on electoral hostility. This is not suggesting that democratization should be stopped because some regions are poor or unfit; but they will be fit through democracy. This points to a general implication that the country needs to achieve across-the-board consistent improvements in terms of people prosperity and overall quality of life for consolidating democracy. The needs become more appealing when one looks at them from the perspective of local democracy, as this study has shown, especially when considering that local democratic events tend to be more hostile than national ones.

While consolidating democracy, a key element of institutional building, requires huge national energy and resources, it must not take attention away from the improvement of people’s welfare. Only by keeping both in mind will the masses, who are the ordinary participants in, as well as the main beneficiaries of, democracy,
be able to see the democratic dividends clearly. This in turn will deepen their faith in democracy, lowering any risks of democracy drawback.

Appendix 8.1. Summary statistics, electoral conflict

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
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</thead>
<tbody>
<tr>
<td>Electoral hostility</td>
<td>282</td>
<td>0.401</td>
<td>0.777</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Income</td>
<td>282</td>
<td>7.5</td>
<td>14.8</td>
<td>1.2</td>
<td>217.8</td>
</tr>
<tr>
<td>Schooling</td>
<td>282</td>
<td>7.5</td>
<td>1.4</td>
<td>3.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Urbanization</td>
<td>282</td>
<td>32.8</td>
<td>31.1</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Gov. rev. to GDP</td>
<td>282</td>
<td>17.5</td>
<td>16.9</td>
<td>0.9</td>
<td>125.6</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>282</td>
<td>67.5</td>
<td>3.1</td>
<td>53.3</td>
<td>74.2</td>
</tr>
<tr>
<td>Poverty HCR</td>
<td>282</td>
<td>18.3</td>
<td>9.3</td>
<td>2.2</td>
<td>45.3</td>
</tr>
</tbody>
</table>

Appendix 8.2. Matrix of correlations, electoral conflict

<table>
<thead>
<tr>
<th></th>
<th>Hostility</th>
<th>Income</th>
<th>Schooling</th>
<th>Urban</th>
<th>Gov. rev</th>
<th>Life exp.</th>
<th>HCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electoral hostility</td>
<td>1</td>
<td>0.082</td>
<td>0.227</td>
<td>0.716</td>
<td>-0.283</td>
<td>-0.072</td>
<td>1</td>
</tr>
<tr>
<td>Income</td>
<td>-0.041</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schooling</td>
<td>-0.082</td>
<td>0.227</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urbanization</td>
<td>0.067</td>
<td>-0.181</td>
<td>-0.072</td>
<td>1</td>
<td>-0.559</td>
<td>-0.303</td>
<td>1</td>
</tr>
<tr>
<td>Gov. rev. to GDP</td>
<td>0.129</td>
<td>0.132</td>
<td>0.412</td>
<td>0.399</td>
<td>-0.206</td>
<td>-0.303</td>
<td>1</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>-0.190</td>
<td>-0.200</td>
<td>-0.403</td>
<td>-0.559</td>
<td>0.393</td>
<td>-0.303</td>
<td>1</td>
</tr>
</tbody>
</table>
Chapter Nine
CONCLUSION AND POLICY IMPLICATIONS

9.1. INTRODUCTION
This thesis is the first coherent study of social conflict in Indonesia that evaluates the grievance and greed theories of conflict. It has also attempted to determine the socio-economic factors causing four types of conflict in contemporary Indonesia. It is hypothesized that the breakdown of the social contract is a sufficient condition for violent conflicts such as secessionist and ethno-religious conflicts. The study has also extensively surveyed the theoretical and empirical literature on the economics of conflict and provided a historical background of conflict and development since Indonesia’s independence.

This thesis has utilized a variety of research methodologies in its data collection and empirical exercises. The data collection includes a specifically constructed electoral hostility index incorporating information from 282 Indonesian districts, based on a database of electoral conflict compiled mainly from newspaper reports. Empirically, the study employs different regression techniques, including Poisson, Negative Binomial, Logistic, Ordered Logistic, Ordinary Least Square (OLS) and Two-Stage Least Square (2SLS).

9.2. MAIN FINDINGS
The theory chapter (Chapter 4) argues that grievance is likely to be the most powerful explanation of the origin of social conflict in Indonesia. Both centre-regional and ethnic conflicts are rooted in the socio-economic convergences — both among regions and among ethnic groups — achieved during the three decades of development under President Suharto. However, in contrast to the usual expectation of grievance theory, convergence rather than divergence was found to fuel the sense of relative deprivation among rich regions and previously privileged ethnic groups. Although this may appear ‘greedy’ behaviour on the part of rich regions or previously privileged ethnic groups, grievances were mainly the result of convergence imposed by the autocratic regime, where specific regions and groups
were denied a voice. The country’s later democratic consolidation and decentralization were able to transform previously non-cooperative behaviour of regions and ethnic groups into cooperation. The vertical nature of the social contract under Suharto was not sustainable, and has been replaced by a horizontal one under a democratic and decentralized setting of polity and governance.

The key argument of Chapter 5 on centre–regional conflict is that the secessionist challenges posed by four resource-rich regions in Indonesia were rooted in the grievance of relative deprivation and aspiration to inequality, and were closely related to the distribution of resource rents under the autocratic Suharto regime. The decentralization policy, part of the overall democratization process, has since been successful in addressing the problem, although there is a possibility that people of rich regions may later become disillusioned, since there is a risk that expected socio-economic benefits from their huge resource rents under decentralization may not materialize: a risk of a future resource curse. Unfulfilled expectations brought by democratization and decentralization may result in a new kind of relative deprivation and lay a new foundation for the re-emergence of conflict and instability.

Chapter 6 on ethnic violence examines grievance and greed explanations of ethnic violence in Indonesia and demonstrates how these have ended up in cooperation among previously warring ethnic groups, through the repeated games experience. The empirical results show strongly the presence of relative deprivation-related grievances, exactly as Gurr (1970) saw it: education helps people realize that they are not getting their just deserts. However, there is no empirical evidence to support the notion of the greed mechanism being involved as local elites compete for state resources at the local level. Relative deprivation turns out to be the single most important socio-economic determinant of ethnic violence in the course of Indonesia’s democratic transition. Through the experience of repeated games, previously warring groups end up in cooperation, for a win-win outcome in decentralized governance and democratic political settings. The post-decentralization allocations of central government transfers can be seen as a reward for such cooperation as well as a response to the pre-decentralization relative deprivations; and the overall democratic consolidation can be seen as a process towards achieving a new social contract for socio-economic and political harmony.

Chapter 7 on routine-everyday violence finds empirical evidence of a neo-Malthusian conflict scenario in Java. However, the support is detectable only for the
population density indicator. The effect becomes worse if higher population density coincides with higher population growth. Although the role of vertical inequality in conflict has been largely discounted in empirical cross-country studies, this chapter finds empirical evidence for a violence-inducing effect of vertical inequality. This finding is based on the apparent presence of an inverted-U relationship between inequality and income. Furthermore, the violence-inducing risk of higher inequality is aggravated if it overlaps with higher population density, as inequality-induced grievances are more intense and spread quicker in more densely populated localities. This finding points to an unsafe mixture of vertical inequality and population pressure. It also implies that violence is not an inevitable outcome of demographic factors; equitable socio-economic progress can be a mitigating factor.

Chapter 8 on electoral conflict finds some empirical evidence in support of the modernization theory, in the context of a within-country analysis. Two results are particularly important, namely the negative effect of income and the positive effect of poverty on electoral hostility. These findings lead to a general implication that the country needs to achieve across-the-board, consistent improvements in terms of people prosperity and overall quality of life, while consolidating its democracy. This need becomes more urgent when one looks at it from the perspective of local democracy as this study has shown, especially considering that local democratic events tend to evoke more hostility than national ones.

9.3. KEY POLICY MESSAGES
The overall process of Indonesia’s democratization and decentralization has been a step in the right direction, since it serves as a means to correct the previous vertical social contract and install a new horizontal social contract in the country. The latter is arguably much better and more durable than the former. Now, Indonesia’s democracy needs to be further consolidated. The findings of this study indicate that a key element that needs to be achieved concurrently with the democratic project is comprehensive improvement in the socio-economic life of average citizens. This is in danger of failing, given that Indonesia still falls within the category of a lower-middle-income country. It could be trapped in allocating most of its limited energy and talent to the democratic project and leaving only a little to enhance citizens’ socio-economic conditions. In fact the two, democratic consolidation and socio-economic development, will reinforce each other: the latter will make the former a
safer, more successful endeavour. The question at the moment is how to maintain a balance.

Inequality and demographic change are two factors that require a good deal of attention in the process of development, especially in densely populated areas. Inequality, for example, can be seen as the unintended outcome of a developmental progress, with the potential to spoil the development itself. It becomes more volatile if it coincides with population pressure. Understanding and careful consideration of the relationship between inequality and development are essential in designing development policies.

Indonesia should also be aware of a resource curse its resource-rich regions may face in the future. Three channelling mechanisms leading to this curse can be listed: bad governance, internal conflict and Dutch disease. In particular, a highly competitive electoral process in resource-rich regions which lack checks and balances has the potential to result in local politicians behaving as ‘roving bandits’ under the shadow of democracy. An effective and stable central government with firm authority will be critical in overseeing the political economy of resource-rich regions in a democratic and decentralized setting.

9.4. SOME WIDER IMPLICATIONS

This thesis has concentrated on causes of contemporary conflict in Indonesia and the results have policy implications for minimizing conflict risks, when the country is consolidating its young democracy. In general, t empirical results (Chapters 5, 6, 7 and 8) point to the importance of inclusive growth and democratic development. Furthermore, the inseparability and the interdependence of economics and politics is stressed, especially in Chapter 4, as growth cannot be sustained in the longer-term without support from proper institutions: something that we call horizontal social contract.203

In this regard, it is worthwhile distinguishing between the notions of negative and positive peace, as originally developed by Johan Galtung (1964, 1996). The negative peace is defined as the absence of direct violence between individuals, groups, and between non-state and state actors describes the negative peace. Its achievement is

203 As North (1990) tells us, institutions can be formal and informal. Government policies and programs that are geared particularly to enhancing horizontal equality generate implicit social contract that does not have to be formal. But they shape human interactions.
very much the subject matter of contemporary rational choice approaches to conflict, as well as the realist school in political science and international relations. The goal is to seek mechanisms for avoiding conflict, reducing its risk and managing its ferocity; much of this thesis is in this tradition. The positive peace requires the ‘integration of human society’ leading to pax omnium cum omnibus (universal peace towards all; Galtung, 1964: 2). Thus, the positive peace requires the presence of social justice through equal opportunity, a fair distribution of power and resources and equal protection/ rights under the rule of law. It results from the absence of indirect/ structural violence in the case of poverty, hunger, discrimination and social injustice. By pointing to the deepening of the new horizontal social contract under the democratic and decentralized arrangement of polity and governance complemented with inclusive growth, however, this thesis in turn has also addressed the concern of Galtung’s positive peace. The new social contract and inclusive growth serve as the medium where conflict transformation takes place, that is, conflict is transformed within the process of development.204

The negative peace can be seen as an initial stage and then it should be followed by progress on positive peace; therefore, they are essentially inseparable. Ending violence is a starting point, then we identify it causes. By doing so, we would be able to pinpoint ways to avoid it and minimize the risk of violence re-occurring in the future. Minimizing risks of future violence through economic and political development is a critical path in bridging the negative peace and the positive peace. This idea seems to be relevant to global issue as well. Let us take the perceived dangers of Islamic extremism as an example. Any security measures to prevent any threats of Islamic terrorism are a first step, which is closely related to the concept of negative peace. But at the time and from a longer time perspective, the efforts should deal with two fundamental inter-related root causes of the problem: (a) Muslim/ non-Muslim horizontal inequalities within developed and developing countries, and between Muslim and non-Muslim countries, by which Muslims are systematically disadvantaged across many dimensions (Stewart, 2009), and (b) socio-economic

204 Conflict transformation is a preferable concept than ‘conflict resolution’ or ‘conflict management’ (Galtung, 1996; Lederach, 2003). Conflict resolution implies that conflict is harmful – hence it is something that should be ended. It also assumes that it is a short-term phenomenon that can be resolved permanently through mediation or other interventions. Conflict management presumes conflicts to be long-term processes that often cannot be quickly resolved, but the notion of ‘management’ suggests that people can be directed or controlled. Conflict transformation involves altering negative forces in a positive direction for constructive change.
disadvantage and political factors, such as the West’s foreign policy with regard to the Muslim world, along with historical grievances (Murshed, 2008; Murshed and Pavan, 2009). As in the case of a single country, Indonesia, this suggests that a long term and durable solution to the problem of global terrorism lies in the global inclusive political and economic development.

9.5. LIMITATIONS OF THIS STUDY

This study has some limitations. For example, in Chapter 5, we were not able to undertake a large-sample empirical exercise to test the aspiration to inequality hypothesis with regard to centre–regional conflict. This was because we had very few observations on this type of conflict: only four out of 33 provinces in Indonesia.

In Chapter 6, for our empirical exercise on ethnic violence, we were not able to find a good proxy to gauge groups’ relative deprivation in terms of changing relative positions of competing ethnic groups over time. We could only provide anecdotal evidence of such situations. This was due to data unavailability and may be overcome if new data become available.

Our analysis in Chapter 7 on routine violence, population pressure and inequality covers the period between 1994 and 2003, which was due to data availability, especially data on violence. It will be interesting to study the stability of our results if data can be extended to cover more recent years, as democracy in Indonesia consolidates, or to focus solely on the period of post-democratic transition.

In chapter 8, we used a second best option to measure democratic maturity at the local level by looking at its inverse measure, namely the level of electoral hostility. In the future, a better measure of local democratic maturity might be constructed by focusing on positive indicators of local democratic practices.

It should also be mentioned here that, although we have presented analytical differences of the four types of violence, yet they are connected. The higher profile violence masks the lower one. For example, the animosities toward/ violence against Javanese migrants in Aceh are essentially part of inter-ethnic violence, but the context in which violence took place was within the broader picture of secessionist struggle of the region. To some extent this has been highlighted in the thesis. A similar problem can be found in the case of ethnic violence and routine violence. A group brawl will not be regarded as an incident of routine violence if it relates to ethnicity factors. Furthermore, by definition electoral violence is essentially part of...
routine violence, but for analytical purpose it is treated separately. The good thing is
that the time-frame of data referred by routine violence (Chapter 7) is different from
the time-frame of electoral hostility (Chapter 8), so there is no overlap between the
two dependent variables (phenomena examined) of the two chapters.

9.6. DIRECTIONS FOR FURTHER RESEARCH
This thesis may serve as the basis for a future research agenda on the political
economy of development in post-transition Indonesia. In this regard, the following
research directions may be indicated.

Related to Chapter 5 of this thesis, a large-sample empirical study across sub-
national entities might be carried out to examine the link between natural resources,
local development and decentralization. It would be interesting to speculate on a
coming resource curse in parts of Indonesia, especially when one considers the way
resource rents are being managed at the local level under decentralized governance.
The issue is related to whether resource rents are effectively invested to benefit local
people or if they are primarily allocated to politicians’ pork-barrel projects or to non-
tradable sectors. A further issue is the sharing of resource rents nationally. Several
questions are pertinent in this regard: will the resource-rich regions willingly share
their fortunes with less well-to-do regions for the sake of nation building, especially
when decentralization is undertaken largely to satisfy the ‘aspiration to inequality’ of
resource-rich regions? What is required to create a new social or national compact
for sharing resource rents? Does Indonesia risk regional conflict in the absence of a
new social compact? What role can democracy play in this regard?

Related to Chapter 6 on ethnic violence, a new research agenda could consider
how ethnic division and conflict experience have shaped post-transition local
economic and political developments. It could assess how a more dynamic local
democracy acts as a catalyst for inter-ethnic cooperation, which in turn may create
favourable conditions for economic and social recovery. A possible method of the
study will be comparative political economy (quantitative and qualitative) case
studies of several districts affected by ethnic violence, such as Maluku, Poso, and
West Kalimantan; this will require fieldwork.

Related to Chapter 8 on local democratic maturity, a further question is whether
the cost and complications of direct local elections have prevented local people from
benefiting from the socio-economic dividends of democracy, potentially eroding
public faith in democracy. This is possible since a competitive electoral system is associated with bigger government spending (Persson, Roland and Tabellini, 2007); however, big spending does not automatically translate into socio-economic benefits for constituencies. Instead, in a low-income economy, it primarily finances the electoral process itself. In line with this assessment, it has been recently suggested that poor districts with low local government revenue capacity should not be allowed to have direct local elections for district heads. Furthermore, group composition of the electorate is another important avenue to look at. This is because, across countries, it seems that violence occurs where one identity group is deprived of power (or there are fears that this might occur) as a result of majoritarian democracies.

Area for further work may also include the nature of contest and conflict. In this regard, two avenues may be highlighted. First is the contest over control of local revenues through the electoral process. This contest can be seen as a tournament, where the success in election will depend on the amount of efforts put by each candidate relative to total efforts of all candidates. The winner will take all and the losers will have nothing. Therefore this tends to be more conflicting because the stakes are high. Second is the dispute between centre and regions over rules of fiscal allocation. The dispute is not a tournament, but more a bargaining process where the logic of the winner takes all is not applicable, where every claimant gets something. As a result, the dispute is less prone to conflict although the final outcome may leave some dissatisfaction.
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