I declare that this thesis has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where stated otherwise by reference or acknowledgement, the work presented is entirely my own.

Eve Warburton
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Abstract

Indonesia is a major exporter of the world’s mineral and agro-commodities. During the global commodity boom, which took place roughly from 2003 to 2013, Indonesia’s resource sectors were subject to new nationalist agitation and intervention. The government placed limits on foreign investment, and restricted raw commodity exports. These policies, therefore, disrupted global markets and angered foreign companies and trading partners. Nationalist intervention was remarkably aggressive in some sectors, such as mineral mining; in others, however, like the booming palm oil sector, nationalist policy proposals failed. What explains this nationalist variation?

Conventional market-cycle theories suggest resource nationalism rises and falls in tandem with commodity prices. However, external shocks cannot explain the varied policy responses we find throughout resource-rich countries, and across their resource sectors. Nor can market-centred theories explain why nationalist interventions sometimes persist long after a boom has ended. Variation tells us that nationalism is contingent - but contingent upon what exactly? What are the mechanisms that lead from a price boom to very different nationalist outcomes? What makes some resources more vulnerable to nationalist mobilisation than others? Why do states behave differently in different sectors?

To answer these questions, this thesis brings recent comparative work on resource nationalism into conversation with classic political economy scholarship on business, politics and economic policymaking. It refocuses the analytical lens upon sector-level variation, holding state-level conditions constant, and offering a structured comparison of varied nationalist outcomes in Indonesia’s mining, commercial plantations, and oil and gas sectors.

The principal contention of this thesis is that nationalist variation was a function of the preferences and capabilities of prevailing domestic business interests. While nationalist policy networks in each sector included a range of actors from the bureaucracy, private sector and civil society, those networks prevailed when they enjoyed support from an expanded and materially-powerful class of domestic resource companies. The subsidiary contention is that business’s policy preferences and capabilities were conditioned by each sector’s unique structural conditions – such as dependence upon and integration with foreign capital, levels of business internationalisation, contribution to state revenue and developmental goals, and each commodity’s centrality to broader nationalist narratives. In other words, variation was contingent on structural conditions in each sector that gave rise to, and enabled, effective nationalist policy networks.

This study is motivated by an empirical puzzle about nationalist outcomes in Indonesia, and aims first for internal validity over generalisability. However, it also explores the portability of these claims beyond the Indonesian case. Specifically, this thesis proposes a new model for explaining cross-sector variation which foregrounds a causal role for the preferences of lead firms and their levels of internationalisation. It offers a preliminary test of the model’s explanatory power by introducing Brazil as a second country case study.
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PART I:

THE PROBLEM, PURPOSE AND DESIGN
CHAPTER ONE

Introduction

“The nation is sacred. We as a nation decide who can come here and use our resources and under what rules. Boom or no boom, we don’t care. If you don’t like our conditions, then just leave.”

Sonny Keraf, PDI-P politician

1. The Problem and the Purpose

In January 2014, Indonesia shocked global markets and incensed trading partners by banning the export of raw nickel ores. Indonesia was responsible for 58 percent of the world’s nickel supply, so the ban caused a sudden shortage on the international market (Stratfor 2014). By halting exports, the Indonesian government also denied itself an estimated four billion dollars (US) in export revenues in 2014 alone (The Economist 2014). The ban’s proponents, however, claimed the short-term pain would bring long-term economic benefits.

The objective was to force miners and trading partners to invest downstream in nickel processing facilities within Indonesia, so the country could begin exporting higher value mineral products. Since the colonial era, so the argument went, Indonesia had been exporting cheap, raw materials to its more developed Asian neighbours, and to distant Western powers. The export ban would stimulate a sophisticated mineral processing industry, propel Indonesia up the global value chain, and help Indonesia join the ranks of

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1 Interview: 5 June 2014
the high-income, industrialised nations. The government framed the ban in emotional terms, claiming industrialisation would free Indonesia from the shackles of its colonial past and its long history of economic enslavement (*Merdeka.Com* 2013).

The ban was one expression of a broader nationalist mood in Indonesia’s resource sectors. During the global commodity boom, which took place roughly from 2003 to 2013, Indonesia became known as a country marked by ‘resource nationalism.’ International industry publications, as well as media and scholarly analyses, regularly commented on a general trend toward greater state intervention in the resource sectors and increased limitations on foreign investment.

However, nationalist mobilisation was aggressive in some resource sectors, and almost absent in others. In the mineral mining sector, for example, foreign investment was subject to increasing restrictions; in the plantations sector, proposals to limit foreign investment largely failed; in oil and gas, persistent anti-foreign mobilisation produced years of regulatory conflict and institutional ambiguity, but formal restrictions on foreign upstream investment were never introduced. Meanwhile, the state inserted itself aggressively into the mining sector by forcing companies to sell their mineral ores domestically and stimulate value-adding; yet no comparable intervention transpired in the palm oil sector, despite a long history of similar trade restrictions. What explains this variation? Why did the state act so differently across leading export industries? Why were some sectors more vulnerable to nationalist mobilisation and intervention than others?

Before elaborating on these research questions, it is worth pausing to consider the precise meaning of ‘resource nationalism’. The concept has wide application. Media, industry and academe use the term to describe a range of policies, including forced divestment of foreign-owned companies, mandatory corporate social responsibility (CSR), the complete nationalisation of foreign assets, and increases in taxes and royalties (*Ernst & Young* 2014; *Wilson* 2015; *Haslam and Heidrich* 2016b). The inclusion of such
diverse policy prescriptions means that resource nationalism has become something of a catch-all term to indicate any state intervention that irks private enterprise.

A more precise conceptualisation of resource nationalism should foreground its specifically ‘nationalist’ character. Drawing upon classic definitions of economic nationalism (Johnson 1965; Pickel 2003), this study argues that resource nationalism aims to advance the economic position of nationals and the national economy vis-à-vis foreigners and foreign nations in the resource industries. Tax increases, royalty hikes, CSR initiatives and the like, are not strictly nationalist in their objectives. Instead, such interventions constitute state efforts to extract more revenue and more concessions from corporate actors. While these sorts of policies and their attendant conflicts are important and worthy of analysis, they fall outside the realm of ‘nationalist’.

I define resource nationalism, therefore, as the attempt to expand local ownership over resource sectors by transferring assets from foreign to domestic hands, and to industrialise and upgrade resource industries in order to compete with foreign countries in global markets. This conceptualisation will be elaborated and justified in more detail in the following chapter.

Analysts typically explain resource nationalism in terms of external market changes (Wilson 2015, 4). For the extractive sectors, the proposition is that resource booms precipitate nationalist intervention, because a boom puts the state in a better bargaining position, and bureaucrats, politicians and local companies seek access to lucrative resource projects when prices are rising (Stevens 2008; Vivoda 2009). Once prices cool, according to this theory, the state retreats from its nationalist position with the goal of encouraging more foreign investment once again. When it comes to the commercial plantations sector, the logic is slightly different. Agro-booms can trigger an influx of private and foreign investment and prompt a backlash against foreign incursion
into scarce farmlands, particularly where food security is of concern to a community or government (Zoomers 2010; Perrone 2013; Oliveira 2015).

Yet, while booms might create conducive conditions for nationalist mobilisation, external price mechanisms cannot explain the varied policy responses that emerge in resource-rich states around the world (Domjan and Stone 2010; Wilson 2015; Haslam and Heidrich 2016b). Nor can market cycle theories explain why, in a country such as Indonesia, nationalist interventions can sometimes persist long after the boom ends. Instead, external shocks such as booms and crises are mediated by and contingent upon domestic conditions, such as a state’s formal institutional arrangements or the ideological proclivities of policymakers and political and legislative elites (Gourevitch 1986). Even within a single country, we can find striking variation at the sector level in how a state responds to external market changes. In other words, not only do different states respond differently to commodity booms, but a single state can also act differently depending on the sector. For this reason, intra-state variation requires analytical attention and constitutes the subject of this thesis.

This study differentiates between two principal objectives of resource nationalism. First, it identifies a localising form of resource nationalism, which aims to expand local ownership over the natural resources sectors at the expense of foreign investors. This term describes mobilisation against foreign companies and policy interventions that restrict foreign ownership and compel foreign divestment. At the same time, some localising interventions favour state-owned enterprises specifically, which can infringe upon domestic private capital as well. Second, industrialising forms of resource nationalism seek to upgrade and industrialise natural resource sectors in order to reduce dependence upon raw commodity exports, move up global value chains, and increase the

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2 In this thesis, nationalist mobilisation and intervention have slightly different meanings. Interventions are concrete policies or pieces of legislation, while mobilisation refers to efforts (public campaigns, lobbying, court cases, proposed legislation and the like) made by state and non-state actors in pursuit of nationalist intervention.
production and export of higher value products so as to compete with more developed countries. These sorts of interventions necessarily favour and subsidise downstream interests, sometimes at the expense of upstream businesses, whether foreign or domestic.

Unlike much of the scholarship on resource nationalism, this study refocuses the analytical lens upon variation at the sector level, and asks what explains uneven expressions of nationalism across different parts of Indonesia’s resource-based economy during the boom. Why did nationalist policies prevail in some sectors and not others? Why was it that foreign investment attracted more opposition in one type of resource over another? While Indonesia was regularly categorised as a country affected by resource nationalism during the boom years, variation across industries tells us that nationalism was contingent - but contingent upon what exactly? Underlying these research questions is the classic political economy problem of how to explain states’ economic policy choices, and why those choices vary across time, sectors and countries (Hall 1997; Blyth 2009). These questions have been under-studied in the Indonesian context.

To be sure, the ideas underpinning economic nationalism in Indonesia’s resource sectors enjoy the support of a broad slice of Indonesia’s policymaking and political elite, and the wider electorate too, and reflect an historically-rooted ideological preference for state intervention into markets for developmental goals. Yet nationalist interventions were highly varied across Indonesia’s resource industries. Ideological predispositions do not explain variation.

Historical studies of economic policymaking in Indonesia tend to cohere with the market-cycle theory explained above. Mohammad Sadli, a prominent economist during the New Order government, argued famously that in Indonesia “bad times may produce good economic policies, and good times frequently the reverse” (Hill and Wie 2008, 154). Throughout the New Order, oil booms prompted more assertive nationalist intervention in favour of state-owned enterprises and domestic firms, while oil busts and downturns
compelled the Suharto government to roll back its nationalist approach and create more incentives for foreign investment (Hill and Basri 2004). In contemporary Indonesia, such patterns no longer prevail, and nationalist interventions have persisted beyond the end of the commodities super-cycle in 2013.

Yet, there is little contemporary scholarship on economic nationalism in contemporary Indonesia, and no recent studies compare nationalist interventions in-depth across sectors in the post-authoritarian era (1998-). For example, contemporary studies of the mining sector tend to focus narrowly upon technical policy changes (Bahsin and Venkataramany 2008; Cabello et al. 2013; Junita 2015). A body of work on informal mining has also grown since Indonesia decentralised the management of natural resources after 2001 (Spiegel 2012; Erb 2016). But there is no contemporary study of politics and policymaking at the national level in this industry.

Meanwhile, the majority of scholarship on Indonesia’s palm oil sector focuses on the distributional benefits for Indonesia’s farmers and rural poor, and the environmental consequences of an industry that has spread into Indonesia’s rapidly depleting forests (Obidzinski et al. 2012; McCarthy 2010, 2012; Jiwan 2013; Aurora et al. 2015). While Indonesia’s plantations industries have a long history of nationalist intervention, no contemporary studies take up this issue in the post-authoritarian era.

The majority of political economy work on Indonesia’s oil and gas sector has focused on the New Order period (1966-1998), when the state relied heavily on oil rents (Bartlett et al. 1972; Bresnan 1993; Smith 2007). As Indonesia’s economy became more diversified through the 1980s and 1990s, oil exports gradually became less central to the country’s economic health, and scholarly interest in the sector waned. Contemporary studies of nationalist mobilisation in the oil and gas sector have focused narrowly upon one high-profile Constitutional Court case, which disbanded the industry’s regulator for
ostensibly favouring foreign contractors (Butt and Lindsey 2008; Butt and Siregar 2013; Habir 2013; Davidson 2015).

In general, commentary from the foreign press tends to be critical, dismissing resource nationalism in Indonesia as the work of myopic, under-skilled bureaucrats and rent-seeking groups (The Economist 2012b; Castle 2014; Mattangkilang 2012; Manning and Purnagunawan 2011; Garnaut 2015; McBeth 2014). Such claims reflect an established line of argument in the scholarship on Indonesia’s economic history as well, which associates periods of economic nationalism with the depredations of short-sighted state managers, rent-seeking business elites and corrupt public officials (Robison 1986; Bresnan 1993; Hill and Basri 2004). However, that business interests in Indonesia’s resource sectors might lobby for and benefit from nationalist interventions is unsurprising. Pointing out this fact offers little insight into the observed variation between sectors that I seek to explain.

Indonesia’s three leading export sectors have undergone significant structural changes in the two decades since the end of authoritarianism, and each has been subject to different types and different degrees of nationalist mobilisation and intervention. Yet do date, no research systematically compares and contrasts policy processes across these strategic sectors. I suggest that such a research agenda can open a window into the nature of Indonesia’s contemporary political economy, and the politics of economic policymaking in one of the world’s largest emerging economies.

This thesis compares and explains nationalist mobilisation and state intervention in three of Indonesia’s leading export sectors – oil and gas, mining and commercial plantations. By doing so, it seeks to achieve two broader objectives. First, it aims to contribute to contemporary scholarship on the politics of economic policymaking and business-state relations in post-authoritarian Indonesia. Scholars tend to characterise contemporary Indonesia as having a political landscape where parties act as cartels, and
oligarchic interests determine political and policy outcomes (Robison and Hadiz 2004b; Winters 2011; Slater 2004; Chua 2008). However, few of these studies detail how and when business – and indeed different types of business – determine economic policy outcomes. Instead we are left with a picture in which contemporary capital is undifferentiated, “untamed” and all-powerful (Winters 2011).

This study sets out to build upon and revise this picture by delving deep into the machinations of economic policymaking in the country’s leading and most lucrative industries. It is here that we can observe how government policymakers confront or bend to oligarchic interests, and how they manage the conflicting demands of big business, small and medium-sized companies, state enterprises, and other societal groups. By tracing the processes behind nationalist interventions in detail, we gain unique insight into the relationship between, state, business, political, and civil society actors, and their relative policy power.

The second purpose of this study is to enrich and develop the contemporary international literature on resource nationalism by bringing it into conversation with the methods and frameworks in classic political economy scholarship on business-state relations and economic policymaking. Most of the literature on natural resource booms examines the impact that such external changes have upon states’ behaviour. Analysts compare different states and their distinct institutional arrangements in order to discover how state types systematically produce different policy responses (Wilson 2015; Domjan and Stone 2010; Haslam and Heidrich 2016b; Arbatli 2013).

This thesis, however, turns attention to variation between sectors and subsectors. In adopting this approach, it challenges the “methodological nationalism” 3 that characterises much comparative work on resource booms and, in particular, resource

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3 Methodological nationalism is a concept in the social sciences that refers to an assumption that nation-states are the natural and preferred unit of social and political analysis (Stone 2008; Pasquier 2015). Those who reject methodological nationalism argue in favour of going beyond ‘the state’ and instead studying subnational, sectoral, or supranational units in order to understand social and political phenomena.
nationalism. The principal premise of this study is that governments act differently in different sectors, and the state’s willingness and capacity to pursue a nationalist path is largely determined by sectoral political-economies (Evans 1995; Frieden 1991; Shafer 1994; Hsueh 2016). It makes a case for a study of resource nationalism that pays closer attention to sectoral factors, and which analyses how structural features of different resource industries determine the parameters for nationalist outcomes. This study focuses specifically on the ownership patterns in each sector (who owns what and how much), the preferences of prevailing business interests, and the structural economic constraints that state actors face when pursuing an agenda for localisation or industrialisation.

At the same time, this thesis considers the political parameters for nationalist change in each sector. Democratic politics provide opportunities for business actors to enter and influence the world of economic policymaking (Haggard and Zheng 2013). But how, specifically, does political competition serve the preferences of capital, or indeed of other societal forces? What kinds of capital benefit more or less from the openings provided through democratisation? In addressing these questions, this thesis offers new insight into how electoral politics contributes to nationalist policy outcomes, and elaborates how and why political affects might differ from sector to sector.

This study also has an inherent cross-temporal comparative dimension. It draws attention to historical institutional changes in each sector, in order to understand how prior moments of economic and political change laid the foundations for resource nationalism in the contemporary period. Specifically, the thesis examines how New Order-era institutions, and the economic and political liberalisation that began in 1998, have informed contemporary patterns of nationalist intervention.

In sum, this thesis compares the political economy of each sector in order to explain the government’s distinct policy choices. It also compares the contemporary situation with past moments of resource nationalism, in order to identify how changes in
each sector’s political economy over time inform current variation. In doing so, it provides a detailed picture of Indonesia’s experience of resource nationalism and identifies the conditions under which nationalist mobilisation either prevailed or failed.

2. The Argument

In Indonesia during the boom years (2003-2013), as was the case in other resource rich countries around the world, rising windfalls prompted a shift in state policy toward economic nationalism. However, as Gourevitch (1986, 21) argues in his classic study of economic shocks, external “[e]conomic conditions rarely operate directly on policy disputes. Other factors mediate them.” Such factors include ideology, political parties, or regime type. Gourevitch was primarily concerned with the question of how different states respond to changes in international markets. However, the same principle can be applied to differences within a single country. As Evans (1997, 82) suggests, states play different roles in different sectors, because “each sector presents distinctive constraints and opportunities for state involvement.”

This thesis identifies the constraints and opportunities that determined unique patterns of nationalist intervention in Indonesia’s resource sectors. It documents assertive nationalist intervention in the mining sector, muted nationalist proposals in the plantations industry, and ambiguous nationalist outcomes in the oil and gas sector. The study engages in a cross-sector comparison and identifies how the distinct economic and political features of each sector produced different nationalist outcomes. To do so, it also explains the historical trajectory of resource nationalism in each sector, and compares the form and fate of contemporary interventions with what transpired during past moments of nationalist mobilisation. By comparing across time and sectors, it takes into consideration a broader range of intervening variables that underpin nationalist outcomes.
This thesis makes two empirical arguments about the sources of nationalist variation in Indonesia’s resource sectors. A third proposition addresses the transferability of the empirical arguments for cases beyond Indonesia.

1. The principal contention is that nationalist outcomes largely turned upon the preferences and capacities of an expanded business class in each resource industry. In conventional market-cycle explanations for resource nationalism, intervention is understood to be the product of a state’s improved bargaining position. But in Indonesia, the boom did not simply alter the state’s power vis-à-vis foreign companies; it increased the wealth and structural power of local businesses, and in turn enhanced their capacity to influence policy. In the two decades since democratic reform and economic liberalisation, Indonesia has seen the rise of mining magnates, agribusiness giants, and domestic oil and gas companies. The fate of nationalist mobilisation was, for the most part, contingent upon support from these materially – and often politically – powerful actors.

However, domestic business was not unequivocally in favour of resource nationalism. Instead, nationalist interventions became a source of conflict and contestation not just between the government and foreign companies, but between different groups of domestic capital. Where lead firms and dominant business actors viewed nationalist intervention as a threat to their interests, policy change was difficult to achieve or failed to transpire.

This argument reflects an interest-oriented approach to political economy, because it suggests that the materially derived preferences of capitalist actors determined the form and fate of economic policy (Hall 1997, 176–80). Capital influenced policy via two mechanisms: through direct lobbying by predominant business actors; and indirectly
(or structurally) through the weight of investment decisions in economically strategic sectors (Haggard, Maxfield, and Schneider 1997, 38).

2. The subsidiary contention is that business preferences, and their capacity to determine nationalist outcomes, were, in turn, conditioned by each sector’s distinct structural constraints and opportunities. Within the political economy scholarship on business-state relations, sector-level analyses undertaken by Frieden (1991), Shafer (1994), Evans (1995), and later adaptations by Hsueh (2016), Haslam and Heidrich (2016b), and Döring et.al (2017), suggest that sector-level factors determine businesses’ policy preferences and capacity to influence state policymakers. This thesis does not assume that business preferences are structurally predetermined; however, it does assume that each sector’s prior characteristics condition the preferences and capabilities of business actors, and create constraints and opportunities for nationalist change.

What were those structural constraints and opportunities? Three were especially salient. First, patterns of ownership were crucial. For example, in the palm oil sector, the realisation of nationalist agendas depended upon buy-in from agribusiness conglomerates with interests up and down the palm oil value chain – but their support was often not forthcoming. The largest conglomerates rejected proposals to cap foreign investment in plantations companies, because their businesses were integrated into, and dependent upon, regional networks of capital, which made their own interests vulnerable to nationalist intervention. This sector was also home to Indonesia’s agribusiness conglomerates that were listed abroad, had businesses across several sectors, an expanding portfolio of overseas investments, and some had significant levels of foreign shareholding as well. Their international orientation made them less likely to demand localisation and protection.
However, Indonesia’s emerging class of mining giants supported plans for new and more onerous divestment requirements for foreign companies. The largest domestic companies that dominated the sector amassed their fortunes by acquiring shares in foreign operations. Foreign divestment represented an opportunity for further expansion of local private interests. These companies also tended to be focused narrowly in the mining and energy sectors, they were listed locally, and had few overseas assets. In oil and gas, meanwhile, where state capital dominated, nationalist mobilisation focused primarily on expanding privileges for the state-owned oil giant, Pertamina, which had embarked on an aggressive strategy to expand its domestic assets. However, the sector’s sustained reliance on the capital and technology of foreign multinationals stalled nationalist policy outcomes.

In all cases, these unique ownership structures generated distinct policy outcomes. Resource nationalism was most assertive in sectors that relied less on foreign investment, and where the leading business groups and companies were less internationalised. Where foreign capital was crucial to a sector’s development, and where prevailing domestic business interests displayed high levels of integration with foreign markets, nationalist demands largely failed to translate into policy outcomes.

Second, sector-level economic factors placed limits on the possibilities of nationalist intervention. I show how the most assertive nationalist agendas prevailed in the sectors and subsectors which played (relatively) modest roles in the broader economy. State managers made risk-calculations. In the agricultural and mining sectors, for example, the rattan, horticulture, nickel and bauxite subsectors, were subject to disruptive policies in pursuit of localisation and industrialisation. These subsectors were low-hanging fruit for resource nationalists, because they made a comparatively moderate contribution to state revenue and economic growth. For the most strategic export
commodities, like palm oil and oil and gas, state managers were more ambivalent about tracking the nationalist path, fearful that intervention might disrupt production.

This observation emerges not just from the cross-sectoral comparison, but from the temporal comparison too. For example, during the New Order period, when palm oil played a peripheral role in the export-oriented economy, the government regularly intervened to cap exports and restrict foreign investment. In the oil and gas sector, a more assertive - though still restrained - nationalism emerged in the post-New Order period as the sector’s contribution to state coffers waned, and nationalist protagonists faced fewer constraints to their vision for local ownership.

Third, political opportunities and constraints affected each sector differently as well. Seminal political economy scholarship on economic policymaking recognises a causal role for “politics” and public mobilisation (Hall 1997; Blyth 2009). Even Gourevitch, regarded as a pioneer of interest-based political economy, argued that to understand economic policy choices, “we must understand the politics that produce them” and the ideological terrain upon which policy decisions are made (Gourevitch 1986, 19). Under what conditions did politics matter for nationalist outcomes in Indonesia?

Election season presented nationalist protagonists with new prospects for engaging and influencing politicians and policymakers. In the decades since democratisation, Indonesia’s wider political milieu had become marked by a new and more aggressive brand of nationalist posturing (Aspinall 2015b). In particular instances, electoral politics motivated ‘nationalist outbidding’ between candidates running for office, which pushed resource policy down a nationalist path.\(^4\) The temporal comparison reveals how nationalist protagonists in business, politics and civil society could use new

\(^4\) The concept of outbidding, where politicians and state leaders engage in ‘one-upmanship’ on nationalist issues to gain public support, was developed in the literature on ethnic politics and ethno-nationalism (See for example: Chandra 2005).
political tools in the democratic era, and impose their agenda upon state managers through the public arena in ways not possible during the Suharto years.

Some sectors, however, were more vulnerable to political mobilisation than others. Extractives industries, with their long histories of domination by Anglo-American multinationals, resonated with Indonesia’s broader nationalist “imaginary”\(^5\) of colonial exploitation and economic subjugation by foreign forces. Agribusiness, on the other hand, lacked this recent history of Western corporate dominance. In Indonesia’s leading palm oil industry, for example, most foreign companies had entered the market after the Asian financial crisis in 1998, and their concessions were not clearly identifiable objects of protest, like the legacy Anglo-American mining companies. The sector’s complex ownership structures, made up of layers of holding companies, and the centrality of regional capital networks, prevented the emergence of a coherent nationalist campaign. The sector lacked political resonance, and was not as readily or effectively integrated into the nationalist narratives of political aspirants and nationalist protagonists.

In short, variation was largely a function of the preferences and capabilities of prevailing business interests, and government policymakers struggled to realise a coherent nationalist agenda without support from an expanded and materially powerful class of extractive business interests. However, those preferences and capabilities were themselves conditioned by structural constraints and opportunities distinct to each sector: specifically, their ownership structures, strategic value, and political salience.

3. Finally, this thesis emerges from the preceding empirically-grounded and inductively-derived arguments to offer an explanatory model for application beyond Indonesia. The closing chapter asks whether conclusions about the sources of cross-sector variation in

\(^5\) The term is used by scholars writing about resource nationalism in Latin America; it captures the way in which a society ‘imagines’ the role of natural resources in its national identity, and in the stories and images that constitute its nationalist narrative (Farthing 2012). The term draws upon Charles Taylor’s concept of “social imaginaries”, and will be examined in more detail in the following chapter.
Indonesia are transferable to other countries that experienced uneven upswings in nationalist intervention during the commodity boom. It proposes a fresh model with which to explain cross-sector variation in other countries. Though, for reasons of space and scope, this extension pertains to localising forms of nationalism only.

The model identifies two proximate determinants of nationalist outcomes: the preferences of lead firms, which are in turn a function of their internationalisation; and a sector’s strategic value to state revenues, which conditions the preferences and capabilities of government actors. The model predicts that where low levels of firm internationalisation in a given sector combine with lower levels of strategic value, there will be a coalescence of business and state preferences in favour of nationalist intervention, and assertive resource nationalism will prevail.

I explore the explanatory power of this model by examining the case of Brazil, a country that, like Indonesia, is a democratic, middle-income, emerging economy with prominent export-oriented resource sectors. Nationalist variation was far more assertive in Brazil’s agribusiness sector than in the mining sector which, I argue, was because the latter was dominated by highly internationalised companies that did not demand restrictions upon foreign investment. While space limitations prevent against undertaking a larger, multi-country study to test the model’s robustness, the final section of thesis sets an agenda for future research that can determine the association between nationalist interventions, strategic value, and firm internationalisation at the sector level.

3. Empirical and Conceptual Significance

How do the conclusions presented in this thesis extend or change our understanding of the Indonesian case, and of resource nationalism more broadly? With regards to Indonesia, these findings contribute to our understanding of the post-Suharto political
economy and differ from historical characterisations of nationalist intervention. I develop each sectoral case study by comparing the dynamics of contemporary nationalism with historical instances of nationalist mobilisation and intervention. During most of the New Order, Indonesia’s capitalist class was small and politically weak, because it was dominated by foreign companies and Indonesian-Chinese businesses who, while privileged in the economic sphere, were socially and political repressed (Robison 1986). The expansion of capital was facilitated by the state, through state enterprises and companies connected to senior state officials and President Suharto. Materially powerful business actors were nurtured by and dependent upon a centralised system of state patronage, giving Suharto’s government a high level of control over capital, and a high degree of authority over the form and the timing of nationalist interventions.

However, as scholars of the post-Suharto political economy have observed, in democratic Indonesia this relationship appears to have almost reversed (Chua 2008; Aspinall 2013). This thesis shows how in each sector, nationalist policy conflicts involved an increasingly capitalised and autonomous class of business actors who, during and after the commodities boom, demonstrated more material and political influence than at any time in Indonesia’s history. The result was not a coherent or entirely dominant class of oligarchs, however. Economic constraints, intra-capital competition, and the imperatives of electoral politics, all conditioned the preferences and capabilities of businesses and politico-business elites at various moments. As we shall see, in some instances conflict and competition between politico-business networks produced regulatory stasis and ambiguity.

This thesis also contributes to our understanding of each sector’s changing political economy, a subject on which there is a dearth of contemporary scholarship. I document the slow moving structural changes that have evolved since the New Order. In economic terms, oil is no longer the crucial ingredient for economic growth; palm oil,
instead, has become the most important commodity in Indonesia’s export-driven economy. Ownership structures have changed over time as well. Domestic private and state-owned companies are responsible for far more mineral and oil production than at any time in Indonesia’s history. In Indonesia’s vibrant democratic polity, political mobilisation also played a new role in the form and fate of nationalist interventions. During the New Order period, economic policy in the resource sectors was relatively – though not entirely – insulated from popular mobilisation. Today, political competition can force resource policy on a more radically nationalist trajectory.

As well as contributing to the literature on Indonesia, the arguments outlined above make three novel contributions to the scholarship on resource nationalism. First, to the extent that existing literature explains variation, analysts tend to focus on cross-national comparisons, and suggest that institutional, political or ideological differences between states account for different types and levels of resource nationalism around the world (Wilson 2015; Andreasson 2015; Haslam and Heidrich 2016b; Arbatli 2013; Domjan and Stone 2010). However, once we refocus the analytical lens upon intra-state variation, we find sectoral characteristics matter. By holding state-level factors constant, we can more clearly observe how sectoral factors and structural constraints contribute to the production of diverse nationalist policies within single countries. This emphasis on sectoral variation is particularly useful when it comes to understanding the drivers of economic nationalism in emerging economies such as Indonesia. Such countries tend to exhibit fragmented political and economic institutions, and state strength and state-business relations can vary across sectors and at different levels of government (Doner and Schneider 2016; Haggard, Maxfield, and Schneider 1997; Schneider 2015). A sectoral comparison takes these variations into account.

The Indonesian case also challenges some of the prevailing assumptions about the character of resource nationalism. Analysts of resource and economic nationalism suggest
that the more strategic a sector, the more vulnerable it is to state intervention (Hsueh 2016, 2012; Haslam and Heidrich 2016a). In doing so they attribute agency to state actors to intervene in sectors they deem the most valuable. But in Indonesia, where state strength is highly variable, and where business actors exert immense policy influence, nationalist protagonists met with more constraints in the more strategic sectors. State actors feared alienating investors and disrupting economic growth when it came to the most economically important industries.

This study also demonstrates how resource nationalism is not necessarily epiphenomenal. It does not simply emerge during a boom and then fade when prices cool. Instead, booms can have a broader, lasting impact on the trajectory of resource policy. The Indonesian case suggests that in countries with a large and liquid domestic business class, resource nationalism may take off during a commodities boom, but persist beyond the end of a boom, driven by the preferences and capabilities of local business interests. In other words, booms do not just enhance the bargaining power of the state vis-à-vis foreign companies; they can expand the profits, bargaining power and policy influence of domestic resource companies, both state and privately owned.

4. The Outline

The thesis is structured as follows. After this introduction, Part I includes Chapter Two, which locates the study within existing literature, explains the design, key concepts and methodology. This chapter also justifies my case selection and introduces the key features of Indonesia’s mining, oil and gas, and palm oil sectors.

Part II is made up of two historical chapters. Chapters Three and Four not only provide historical context, but also set up the temporal comparison with contemporary economic nationalism. Chapter Three looks at the colonial antecedents of economic
nationalism. It begins from when the Netherlands East Indies Company established itself on Java in the 17th century, then moves through the Japanese occupation (1942-1945), the revolutionary war against the Dutch (1945-1949), through to the years of parliamentary (1949-1957) and Guided Democracy (1957-1965). This chapter emphasises how the Dutch colonial enterprise was primarily commercial in nature. Colonial rule was marked by Dutch, European and American corporate exploitation of the archipelago’s natural resources, land and labour. Unsurprisingly, therefore, natural resources became central to Indonesia’s nationalist imaginary, and the goals of localisation and industrialisation took root amongst Indonesia’s early political and economic thinkers. Whether secular, Islamic or communist in their political ideology, Indonesia’s nationalist leaders all shared a similarly state-centred, socialist approach to governing the economy. Post-independence economic planning favoured protectionism, statism and an interventionist industrial policy. Some leaders were moderate in their approach, while others were more radical; but their fundamental preference was for economic nationalism – local ownership of resource sectors, and an industrialised modern economy.

Chapter Four examines the evolution of economic nationalism during the New Order (1966-1998). President Suharto achieved stability by installing an autocratic, developmentalist regime. He repressed sources of dissent; but also provided conditions for fast and effective economic growth. To overcome economic crisis and downturn, the economy underwent periods of liberalisation and openness; however, when the economy was stable and growing, Suharto pursued the sort of economic agenda espoused by early nationalist thinkers, particularly in the strategic export-oriented resource sectors. The pattern was to invite foreign investors to initiate a sector and help it grow when local capital and technology were limited. Then gradually those sectors would be localised and industrialised once structural constraints were sufficiently low. Suharto’s brand of economic nationalism entrenched the patrimonial features of the New Order political
economy. However, his government also provided an institutional basis for the growth of domestic capital, and laid the foundations for contemporary expressions of resource nationalism.

Part III constitutes the empirical substance of the thesis. The chapters are organised by sector and explain the fate of nationalist mobilisation in mining, plantations and oil and gas. Chapter Five is about an assertive program for localisation and industrialisation in Indonesia’s mining sector. It traces the process behind Law 4/2009 on Mineral and Coal Mining, and shows how an assertive brand of nationalism prevailed largely in response to an expanded class of domestic mining magnates, and the rise of politico-business elites with significant interests in mineral and coal extraction. The chapter also shows how economic constraints were relatively low, the sector had become less and less dependent upon foreign companies and investors. Other than the coal industry, which was already the domain of local players, the minerals industries made a comparatively modest contribution to the wider economy. In other words, the risks were low. The political rewards, on the other hand, were high. This chapter shows how Anglo-American legacy miners became a central element of wider nationalist posturing during Indonesia’s elections. This was a conducive environment for an assertive brand of resource nationalism to take hold.

Chapter Six examines how and why nationalist policy proposals failed in the plantations sector. It discusses how a bill to limit foreign investment and compel downstream refining was rejected by the executive government, primarily due to the palm oil lobby. In the palm oil sector, powerful domestic business actors opposed anti-foreign intervention because their interests were integrated into regional networks of capital in Malaysia and Singapore. The same conglomerates had interests up and down the palm oil value chain. The government’s new tax regimes for downstream refining were introduced at the behest of these large integrated agribusiness companies. Nationalist agendas also
faced economic constraints in this sector, because crude palm oil contributed more to Indonesia’s export income and GDP that most other commodities.

Chapter Seven explains the intermediate case: Indonesia’s oil and gas sector. Here we find strong and persistent nationalist mobilisation by state actors, politicians and civil society in favour of formalising dispensations for the state-owned oil company, Pertamina. In several ways, the conditions were ripe for nationalist change: the sector’s ownership structure was already moving toward greater local ownership, oil’s role in the Indonesian economy was in decline and so economic risks were lower, and foreign oil and gas contracts proved useful fodder in election campaigns during the democratic period. However, mobilisation produced years of policy conflict. This chapter shows how a small but politically-wired class of oil companies opposed nationalist agendas to boost Pertamina’s privilege, while well-connected oil importing companies lobbied against the expansion of downstream refineries. The hydrocarbon sector’s ongoing reliance on foreign capital also acted as a structural constraint upon nationalist agendas. The result was conflict, ambiguity and an extended period of regulatory stasis.

Part IV concludes the thesis by reflecting upon these empirical findings and explaining the study’s broader conceptual and comparative significance. Chapter Eight synthesises the empirical conclusions drawn from the three case study chapters, and considers how sectoral variation aligns with or challenges prevailing characterisations of Indonesia’s contemporary political economy at the national level. Chapter Nine then explores whether my conclusions about the Indonesian experience might have relevance for how we approach the study of resource nationalism more generally. This final chapter elaborates a new explanatory model, with the goal of elucidating other cases of cross-sector nationalist variation.
CHAPTER TWO

Locating and Designing the Study

The global boom in mineral and agricultural commodities (2003-2013) prompted a fresh wave of nationalist interventions in resource-rich countries around the world. These trends reinvigorated scholarly interest in resource nationalism across a range of disciplines. This chapter reviews the various ways by which analysts have approached the study of resource nationalism, and locates the current study within the extant literature. It lays out the design and methodology of the thesis, demonstrating how a sectoral approach might offer a clearer picture of the causal mechanisms that lead from a boom to varied patterns of nationalist intervention.

In general, academic and industry analyses take the market-cycle approach, which suggests that resource nationalism rises and falls in tandem with commodity prices. According to this theory, booms improve the state’s bargaining position, and prompt state managers to introduce new investment terms that favour domestic over resource firms, and that compel downstream investments and value-adding. The principal limitation of a conventional market-cycle approach is that it overlooks and cannot explain states’ varied responses to a commodity boom. By emphasising a state’s bargaining power, this theory also under-examines the role of societal actors in the production of nationalist policies. The comparative literature, meanwhile, focuses upon cross-national variation. It looks to how state-level differences – regime type, institutional capacity, and governments’ unique ideological orientations – explain different sorts of nationalist approaches. However, this body of work brushes over important variation within countries, and
overlooks the different ways in which states go about regulating the many parts of their resource economies.

This thesis contends that studying intra-state variation in resource nationalism is an empirically important and analytically valuable exercise. The varying types and degrees of nationalist intervention that we find in Indonesia raise a set of questions that are rarely broached in the existing literature: what makes nationalist intervention more appealing and widespread in some sectors of an economy compared to others? What factors enable and constrain a state’s capacity to intervene in different sectors? In Indonesia specifically, why do we see more restrictions upon foreign ownership in the mining sector compared with the booming palm oil sector, where almost half of plantations are controlled by foreign investors and where conflicts between companies and local land owners are pervasive? What role do non-state actors play in the formulation and execution of nationalist policies? And what might the answers to these questions tell us about Indonesia’s contemporary political economy?

In order to answer these questions, this chapter makes the case for bringing contemporary studies on resource nationalism into conversation with established comparative political economy scholarship on business and politics, which examines processes of economic policymaking across countries and sectors. More specifically, I argue that to explain varied nationalist intervention in Indonesia’s resource industries, we need an analytical framework that can foreground the opportunities for and constraints upon nationalist agendas at the sector level. This kind of within-case approach to studying resource nationalism can better isolate the factors that condition nationalist intervention, and provide a window into the mechanics of economic policymaking in Indonesia.

The rest of this chapter proceeds as follows: the first section explains the concept of resource nationalism, then a second section maps contemporary debate on the causes of resource nationalism, outlining its intellectual ancestry and pointing to its analytical
limitations. In the third section, I show how classic political economy scholarship on business and politics and cross-sector comparisons can offer fresh analytical tools for examining the Indonesian case. In a final section I outline and justify my research design, case selection and methodology.

1. Defining Resource Nationalism

The term resource nationalism suffers from definitional ambiguity. Analysts often deploy it in an imprecise way, without offering an explicit definition, but with an implicit normative position on whether resource nationalism is good or bad. International policy and industry publications and often the mainstream Western media use the term pejoratively. In such outlets, resource nationalism conveys risk, unpredictability, and poor economic management, as states introduce more onerous investment conditions for private companies (Ventures Africa 2013; Bello 2014; Buehler 2012; Offshore Magazine 2013). Others attempt a less critical use of the term. For example, the International Energy Forum describes resource nationalism as “nations wanting to make the most of their endowment” (Stevens 2008, 5); Stevens defines the term simply as states “asserting a greater national control over natural resource development” (Stevens 2008, 5). These are less pejorative definitions; yet they are also broad and lack specificity.

Analysts categorise a remarkably wide range of policies and practices as ‘nationalist’. In the literature, resource nationalism is associated with the introduction of higher taxes and royalties for private companies, the unilateral modification of private companies’ contracts, limitations on the import or export of particular commodities, local content requirements, compulsory CSR contributions, forced divestment of foreign assets to the state or domestic companies, and, in more extreme cases, nationalisation of entire industries (Dargin 2010; Wilson 2015; Marston 2016).
Analysts classify this array of policies differently. Haslam and Heidrich (2016b, 1), for example, suggest three types of nationalist interventions: those aimed at, “the maximization of public revenue; the assertion of strategic state control (ability to set a political or strategic direction to the development of the sector); and enhancement of developmental spillovers from extractive activities.” The first type outlines a clear goal that can be attached to a set of policy prescriptions (tax and royalty increases). But the remaining categories are in fact not mutually exclusive, and one can imagine that many steps taken to enhance developmental spillovers, through forcing local content requirements for instance, might also be classified as policies through which the state asserts its “strategic control.”

Wilson (2015, 2) offers another widely-cited categorisation of nationalist intervention:

- Policies targeting the ownership of resource industries, which mandate some form of local or state ownership, or in exceptional cases, the nationalisation of mining and energy enterprises (Mares, 2010).
- Policies constraining the operations of resource firms – through industrial policy requirements and distortionary trade regimes – that encourage certain behaviours such as minerals processing or the provision of subsidised energy to local consumers (Ward, 2009).
- Policies designed to capture economic rents for public purposes, through changes to resource taxation and fiscal collection systems that increase the share of the profits from resource production accruing to the state (Walde, 2008).

(Italicics in original)

While more precise than the previous authors’ definition, Wilson’s categories are somewhat inconsistent. The first and third categories identify policies according to their goals: expand local ownership and capture economic rent. The second category describes a process, rather than an ultimate policy goal – constraining the operation of companies – which remains only loosely specified. Nor do the second two categories in Wilson’s
definition display specifically nationalist agendas. Indeed, maximising or capturing rent for public purposes is not, in the strictest sense, a ‘nationalist’ action.

I build upon and develop these existing definitions and categorisations to offer a more precise definition that discerns the distinctly nationalist dimension of resource nationalism. Nationalism is a sentiment or expression of loyalty to one’s own nation above other nations. It is always defined in relation to an ‘other’ that falls outside a national boundary—defined in political, territorial, and sometimes ethnic terms (Gellner 2008, 1–3). As discussed briefly in the opening chapter, this thesis returns to a classic definition of economic nationalism offered by Harry Johnson (1965), whose work was concerned with economic policymaking in underdeveloped nations. Johnson (1965, 179) stated that economic nationalism was driven by a desire to “extend the property owned by nationals” or members of the “national group”, because it satisfied both an emotional and material desire to strengthen the economic positions of nationals and the nation.

Which kinds of property or assets have the most utility? Johnson argued first that economic nationalists seek to own the property owned by foreign nationals within their country, and second they seek to establish and own the kinds of industries found in wealthier, more industrialised foreign nations. In other words, economic nationalism is an effort to expand national ownership of productive assets at the expense of foreign actors, and to industrialise the economy in order to compete or ‘catch-up’ with higher-income foreign nations.

Resource nationalism is best understood in these terms. Policies classified as nationalist entail an attempt to advance the economic position of nationals and the national economy vis-à-vis foreigners and foreign nations in the resource industries. Such efforts take place within an explicit or implicit normative framework, in which land and natural commodities are viewed as the inherent domain of ‘local’ over ‘foreign’ actors. The ideological principle that underlies resource nationalism is that a free-market and
laissez-faire approach does not fairly distribute the benefits of natural resource extraction and provide opportunities for developing, resource-rich nations to move up global value chains and compete with industrialised nations.

This definition excludes interventions such as the introduction of higher taxes, increased royalties, CSR requirements, and other interventions that aim solely to extract and distribute rent from private companies. Unless applied differentially to foreign versus national firms, these interventions lack a specifically nationalist objective, and instead entail conflicts between the state and the private sector over the distribution of rent. While these conflicts concern the important distributive impact of resource extraction, they fall outside a more narrow and, I suggest, more precise definition of resource nationalism.

I thus define resource nationalism as the attempt to expand local ownership over resource sectors by transferring assets from foreign to domestic hands, and to industrialise and upgrade resource industries in order to compete with foreign countries in global value chains. In this thesis, I organise nationalist policies into the following two categories:

1. **Localising resource nationalism** aims to expand national ownership of natural resources industries at the expense of foreign investors. It involves mobilisation against foreign mining companies and policy interventions that restrict foreign ownership and compel foreign divestment.

2. **Industrialising resource nationalism** aims to promote industrialisation of natural resource sectors. It describes mobilisation and intervention that seeks to develop new industries and stimulate the multiplier effects of raw commodity production. Typically, this involves policies that encourage value-adding and downstream industrial activity through trade restrictions and beneficiation regulations. The goal is to move higher up the global value chain, by transitioning away from exporting raw natural commodities to
industrialised nations, and instead produce higher value, more sophisticated products.

What kind of actors and groups produce resource nationalism? While ultimately it is the state that legislates for nationalist policy change, broad and often loosely connected networks of state and societal actors coalesce around a set of nationalist objectives, and pressure the government to introduce new policy interventions. Resource nationalism should not be viewed as simply the work of a unitary state (Hughes and Kreyling 2010). Instead, nationalist outcomes are negotiated by actors from political parties, the business world, the bureaucracy, the legislature, academia, and civil society.

As we shall see throughout this study, nationalist protagonists exhibit a wide range of motivations too. For some actors, a specific nationalist intervention, such as a ban on foreign investment, offers particularistic rewards and opportunities for their personal business investments; other nationalist actors, however, have no private or material interest in the resource industries, and are instead motivated by their ideological views and conceptions of who should own resources and benefit from resource extraction. Ideological and particularistic motivations are not mutually exclusive; indeed, they are often impossible to disentangle. Whatever their personal motivation, however, nationalist networks unite around a set of policy goals, and take action in support of nationalist outcomes, whether by directly lobbying the executive or legislature, engaging in public campaigns, initiating arbitration proceedings, or sometimes through public protest (Haslam and Heidrich 2016b).

A caveat is in order before proceeding. As noted above, much work on resource nationalism uses the term pejoratively and views nationalist change as inherently inefficient. This study avoids normative assumptions about whether nationalist policies are efficient, effective, good or bad. It does not set out to evaluate the net economic or
developmental benefits of nationalist intervention. Instead, it examines the preceding factors that produce unique patterns of nationalist intervention, and the conditions under which nationalist proposals in particular sectors prevail, and the circumstances under which they fail to transpire.

Having obtained clarity on what constitutes resource nationalism, we now turn to debates on how best to explain its varied expression over time and throughout different countries.

2. Locating the Study

This section locates my study within existing scholarship on nationalism and natural resources. It begins by looking at state-bargaining and market-cycle models, which assume booms have similar effects and lead to similar policies in resource-rich countries around the world. It then turns to look at how analysts explain variation. The tendency is to emphasise country-level differences in institutions and state strength which, I suggest, underplay intra-state variation and the role of sectoral political economies.

To date, much of the scholarship on nationalism and natural resources has focused upon timing, by asking why nationalist interventions emerge at particular junctures in resource-rich countries around the world. Historically, scholarly analyses of resource nationalism favoured a ‘state-firm bargaining’ model, which views nationalist intervention as the consequence of a shift in the power relationship between a state and resource companies. This argument emerged from the early scholarship on global energy markets. Vernon’s (1971) influential “obsolescing bargain thesis” argues that resource nationalism surfaces as a government’s bargaining positions change during the life of an oil contract. States must initially offer attractive institutional arrangements to entice investors – such as tax holidays and subsidies. But once those investors have sunk their
capital into a resource project, bargaining power shifts back to the government, which then changes institutional arrangements (royalty systems, local content demands, or divestment) to favour the state and local companies.

More recently, however, scholars have emphasised that exogenous changes in commodity prices – booms and busts – are what prompt shifts in state-firm bargaining power. This market-cycle explanation sees resource nationalism as a function of high commodity prices. The logic is twofold: First, boom times provide governments of resource rich countries greater leverage in their negotiations with foreign investors, and more influence over international commodity markets (Humphreys 2013; Herberg 2011); second, there is more money to be made during a boom, which motivates (often corrupt) state officials and politically connected business groups to seek greater access to resource rents via enhanced state intervention (Solomon 2012; Kurtz and Van Zorge 2013; Stevens 2008; Weiner and Click 2009a).

The ‘market-cycle’ explanation emerged from research into programs of nationalisation in Middle Eastern and Latin American countries from the 1950s through to the booms of the 1970s and 1980s. Wilson’s influential “petro-political cycle” theory argues, for example, that petroleum-exporting states increase their intervention during oil booms. Vivoda’s (2009, 518) more recent analysis of international oil companies’ bargaining power similarly characterises resource nationalism as “a by-product of high prices.” According to this perspective, resource nationalism is epiphenomenal, rising in tandem with commodity prices and producing similar responses across resource-rich countries.

Studies of commercial plantations also suggest that booms can trigger nationalist responses – though the logic here is different. A growing literature on ‘land grabbing’, for example, examines the impact of agricultural booms on land ownership and land conflict. The boom in agribusiness products during the 21st century, particularly in sectors
like soybean and palm oil, was driven by increasing demand for food and biofuel from resource-poor states in the Middle East and Asia. Countries in Latin America and Africa experienced a significant upswing in foreign investments in their land-based resource sectors. In producer countries such as Brazil, Argentina, or Paraguay, the spike in foreign investment triggered debate and protest over the “foreignization” of farmlands (Borras et al. 2012; Zoomers 2010). In response, some governments introduced caps on foreign land ownership and investment (Sauer and Leite 2012; Edgerton and Freitas 2015; Oliviera 2013; Perrone 2013; Borras et al. 2012).

Theories that emphasise the causal role of external market shocks – particularly those that focus on extractive sectors – have trouble explaining variation. An emerging body of comparative scholarship points out that countries respond to booms in different ways, and expressions of resource nationalism are not uniform (Domjan and Stone 2010; Gardner 2013; Wilson 2011; Haslam and Heidrich 2016b). Analysts argue that while anti-foreign mobilisation and state intervention might increase in the context of high commodity prices, booms cannot explain variation in the types of nationalist interventions that have appeared in resource-rich countries around the world.

The typical approach within the comparative literature is to compare differences between countries, and determine how states’ distinct political and economic institutions might produce different types of nationalist responses (Arbatli 2013; Wilson 2015; Haslam and Heidrich 2016b; Domjan and Stone 2010). Domjan and Stone (2010), for example, compare resource nationalism in Kazakhstan and Russia, and conclude that each country pursued a state-centric program of resource-based development, but for very different political and economic reasons. For Russia, the goals were geostrategic; but for Kazakhstan, resource nationalism had a developmental orientation and was inward looking, as political leaders attempted to distribute the economic benefits of extractive sectors to the wider population.
Wilson (2015), looks at a broader range of countries, and offers a typology of nationalist intervention. He argues that particular types of nationalist policies correspond with particular ‘state types’ – rentier, developmental and liberal-market. He suggests that states with a liberal institutional orientation will generally limit their policy interventions to those that aim to capture rent, such as tax increases (though, according to the definition applied here such policies would not constitute resource nationalism). States with a stronger leftist or developmentalist tradition, including Indonesia, Wilson argues, will exhibit a preference for policies that direct company behaviour, like mandating local content or downstream processing. Meanwhile, ‘rentier’ resource nationalism is predatory in nature, and is marked by an emphasis on direct state ownership of resource industries such that state elites can control the distribution of rents. Wilson’s is a parsimonious and compelling explanation for cross-country variation. The framework is less useful, however, for understanding why a single state might behave differently in different sectors. Indeed, as we shall see, it is possible for all three of these political economy regimes to emerge within a single country simultaneously.

Explanations for resource nationalism often overlap with theories of the resource curse. One line of argument, within what has become a sprawling literature on the curse, proposes that price booms in minerals, hydrocarbon and cash crop sectors motivate short-term, rent-seeking behaviour amongst state actors and domestic businesses. Specifically, according to this position, booms produce myopia amongst policy-makers and politicians, and increase the likelihood of nationalist, protectionist and rent-seeking behaviour – leading eventually to slower economic growth and institutional decline (Deacon and Rode 2012). For example, Karl’s (1997) influential study on Venezuela’s state-controlled oil sector argued that an oil boom triggered rent-seeking and state intervention, and contributed to the development of a clientelistic form of government. Similarly, Ross’s (2001) classic study of the timber industry in Southeast Asia found that resource windfalls
from the timber boom triggered rent-seeking – and in this case “rent seizing” – amongst state managers, which eventually caused institutional decline across three of Asia’s leading timber exporters.

Cross-national comparisons of the resource curse effect, much like Wilson’s study of resource nationalism, find that state-level institutions largely determine the nature of the curse, and argue that the quality and strength of institutions act as the mechanism via which a boom will either have a net positive or negative impact on a resource-rich state (Mehlum, Moene, and Torvik 2006; Busse and Gröning 2013; Luong and Weinthal 2010). Indonesia has long been considered a country that escaped the pathologies associated with the resource curse. But it is important to highlight how this rich body of work intersects with, and has informed, contemporary thinking on the causes of resource nationalism. Even industry and media analysts characterise nationalist policies as a symptom of the resource curse, and as thinly veiled asset grabs and tools for political patronage (Kurtz and Van Zorge 2013; The Economist 2012a; The Economist 2012b).

Reflecting on the scholarship reviewed thus far, we find that in much of the work on resources, nationalism and commodity booms, scholars tend to attribute agency to the state as a unitary actor. Variation tends to be explained in terms of differences in states’ institutional design and institutional strength. There is little causal role for other actors in the production of varied nationalist responses. To the extent that private interests are

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1 Such arguments reflect a particular neoclassical intellectual tradition that links government intervention with rent-seeking and economic decline. The notion of rent-seeking emerged from Public Choice Theory in the late 1960s and early 1970s with the aim of critiquing nationalist and mercantilist trade policies (Rowley, Tollison, and Tullock 1988; Tollison 1982; Krueger 1974). The basic premise is that government intervention into economic life produces artificial rents, and individuals and groups will waste material resources to engage government favours that provide them privileged access to these rents (Medema 1991, 1051). A large empirical literature on rent-seeking grew throughout the 1970s and 1980s with the global growth of national oil companies (NOCs). NOCs in countries like Indonesia, Venezuela and the Gulf States, came under heavy criticism for their lack of transparency, inefficiency, and for engaging in rent-seeking practices (Stevens 2008; Weiner and Click 2009a). The case of Pertamina in Indonesia became a widely cited example of the rent-seeking pathology in NOCs, and served to bolster theoretical arguments about the wasteful effects of state intervention in natural resource markets. This history of NOCs in oil producing countries informs contemporary analyses of resource nationalism whereby a general association is made between state intervention, rent-seeking bureaucrats, and ultimately economic decline. For a useful overview of the literature critiquing NOCs, see (Stevens 2008; Weiner and Click 2009b, 4)
theorised, they tend to be treated as rent seekers who act collusively with corrupt bureaucrats to rob the state of revenue and productive rents. Yet when state managers design economic policies, they necessarily respond to the demands and the preferences of social forces outside of the state, not all of which should be categorised as having predatory aims. This is particularly the case in middle-income countries with sizable domestic private sectors, and in democracies where questions of resource wealth, ownership and distribution are matters of public concern, debated by civil society activists and politicians.

The literature on resource nationalism in Latin America, however, is an exception, and scholars that focus on this region tend to pay more attention to the nationalist demands of civil society and social movements when explaining an upswing in nationalist intervention. Veltmeyer (2013, 80), for example, suggests that resource nationalism responds to popular demands, and represents the “construction of a post-neoliberal state in Latin America and the quest for a more inclusive form of development.” The shift toward nationalist policies in resource rich countries like Bolivia and Ecuador is often characterised in the literature as a policy paradigm that responds to “popular” or “national imaginaries” and public demands for greater economic distribution of extractive profits (Valdivia 2010; Farthing 2012; see also Bebbington and Humphreys-Bebbington 2011; Yates and Bakker 2013). This literature provides a rich empirical picture of the Latin American experience and the role of social forces in the production of nationalist policies. Domestic business actors, however, are largely absent in these scholars’ characterisations of ‘societal forces.’ There is little information about what role local capital in plays in these countries’ mining, hydrocarbon and commercial plantations sectors and, thus, what role domestic business plays in the production of resource nationalism.

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2At the same time, some scholars are careful not to claim that new extractivist models are actually post-neoliberal, because of how state-led extractive industries still “deepen dependence on global markets [with] few benefits for (rural) development” (Yates and Bakker 2013, 15)
While the comparative literature draws our attention to varied expressions of resource nationalism across different resource-rich states, this body of work has mostly overlooked the diversity of nationalist practices that are evident within a single country. Even when we hold national level variables constant – such as the ideological orientation of the government, regime type, or institutional strength – we can observe different expressions of resource nationalism and different levels of state intervention across sectors in countries as diverse as Indonesia, Brazil, South Africa, Australia or Argentina. Existing studies shed limited light upon the central problem posed by the Indonesian case: what makes nationalist intervention more appealing and widespread in one sector of an economy than in another? Studies of resource nationalism lack the conceptual tool kit to systematically analyse such sectoral variation. This study aims to help build such a tool kit.

3. A Sectoral Political Economy Framework

This thesis brings the literature on resource nationalism into conversation with classic political economy studies of economic policymaking and state-business relations, and in particular the scholarship that focuses on sector-level factors. Inspired by early cross-sectoral political economy work, this study starts from the assumption that a state’s economic policy choices necessarily respond to, and are conditioned by, the preferences and policy capacities of business. These preferences and capacities are in turn conditioned by each sector’s structural features. This section elaborates these propositions, explains their intellectual heritage, and lays out a framework to elucidate varied expressions of resource nationalism in Indonesia.

3.1 Cross-sector comparisons and a role for business
Much classical political economy scholarship on economic policymaking takes an interest-based approach, which views economic policy as the result of a struggle between competing interest groups over scarce resources. One of the key strengths of this approach, according to Hall (1997), is that it demonstrates how economic policies are designed to advantage certain groups over others within a society. From this perspective, material interests drive negotiations over a state’s economic policy, and any theory of economic policymaking and development that does not “take into account the structures and strategies of business groups…will remain abstract and ungrounded” (Schneider 2014, 22). In order to understand economic policy outcomes, therefore, we must account for the preferences of business, and for the relative capacity of business to realise those preferences.

Let us look at business capacity first. Business capacity derives from two sources. First, some businesses enjoy structural power. In his classic study, Politics and Markets, Lindblom (1977) argues that in capitalist societies big business enjoys a unique and privileged position. Private enterprise contributes to economic production and distribution, making it a crucial element in a country’s growth and, therefore, indispensable to a government whose legitimacy depends upon economic outcomes. This dependency gives business a unique say in the formulation of economic policy. When business enjoys structural power, it need not form collusive relations with politicians or state officials, or deploy its resources to lobby and persuade state policymakers. Instead, to the extent that a government relies on private investment for growth and public welfare – upon which it relies for popular support – then its economic policy decisions will be structured and conditioned by the demands of prominent capitalist actors.

Second, beyond structural power, capital also has the capacity to deploy material and political resources in order to organise and lobby for particular policy outcomes.
There is an expansive literature on the conditions under which business organisation shapes policy outcomes. Scholars demonstrate that capacity for interest aggregation is largely contingent upon ownership structures and levels of concentration or conglomerations (Haggard, Maxfield, and Schneider 1997; Schneider 1997). For example, Shafer (1994, 1997) theorises that in sectors with high levels of concentration around a small number of firms with significant market share, business preferences will be more easily aggregated and exert more powerful influence on policy. Inversely, where ownership is dispersed amongst a large number of small to medium sized firms, collective action and interest aggregation will be more difficult. Haggard, Maxfield and Schneider (1997, 45-46) also identify firm size and concentration as key predictors of business capacity to influence policy outcomes, due to the economic weight of such firms’ activities and decisions, and their ability to overcome challenges of collective action.

Economies of scale matter as well for how business is organised, and what ownership structures will emerge in a given sector. Some sectors are more likely to produce high levels of firm concentration because of their objective features (Shafter 1994, 24). When it comes to downstream refining in the palm oil sector, for example, margins are far better for large companies that have investments in the upstream sector and can supply their refineries with crude palm oil from their own plantations. This means the downstream sector tends to be concentrated around large conglomerates, with interests up and down the value chain.

This thesis does not identify the formal organisation of business as an important source of policy variation between the sectors studied here. In fact, the aggregation of business interests in Indonesia’s mining, oil and gas and plantations sectors, and the approach to lobbying policymakers, display more similarity than difference. In these sectors, business associations and peak bodies tend to be fragmented and often racked by internal conflict. Instead, as is the case in Indonesia more generally, business-state
relations in both sectors are constituted primarily through informal networks and personalised relations between corporate actors and the political and bureaucratic elite (Chua 2008; Hamilton-Hart 2005; Davidson 2016). In all sectors, industry associations made formal appeals to the government regarding nationalist intervention; however, those appeals often failed to secure the desired outcome, and actors involved in these sectors all perceived the informal lobbying of major domestic businesses as having the most sway over policy outcomes.

Next, we turn to the specification of business preferences. How do political economists theorise or predict what businesses want? Business preferences are not homogenous and instead differ from sector to sector, and according to different types of companies (Gourevitch 1977, 1986; Frieden 1991; and Shafer 1990, 1994). Economic policy should be “understood as the resultant vector of divergent and often contending business interests” (Haggard, Maxfield, and Schneider 1997, 42), and those interests and preferences need to be specified.

One school of thought views businesses’ policy preferences as a function of objective sectoral characteristics (Frieden 1991; Shafer 1990, 1994). Shafer (1990, 128), for example, argues that “each sector generates characteristic patterns of interest groups with sectorally determined relations and political capabilities.” Shafer (1994) proposes that in industries such as mineral mining or commercial cash crop plantations, businesses demand state concessions or protection because their products are “inflexible”, in the sense that raw commodities have only limited uses and markets, making them vulnerable to price shocks. Light manufacturing, on the other hand, tends to be flexible and
fragmented and, according to Shafer, exerts less pressure upon the state.³ In other words, industries have particular objective features that shape interest group preferences.⁴

This study compares three sectors that fall within the inflexible category; yet there were still differences in terms of the kinds of nationalist policies that businesses wanted, and the kinds of nationalist interventions the Indonesian government was willing to pursue. What other factors, then, condition business preferences? One instructive observation from the political economy scholarship on economic policymaking is how firms’ levels of internationalisation can produce distinct policy preferences (Hamilton-Hart 1999; Ramaswamy, Kroeck, and Renforth 1996; Milner 1988; Yoshimatsu 2000). In her influential study of trade policy in America and France, Milner (1988) demonstrates how businesses will prefer liberal and open economic policy if they export, rather than import, and when they depend on foreign investments, technology and imports. More pertinent for the current study, Milner also argues that firms with international investments and overseas assets are more inclined to reject nationalism or protectionism, not just abroad but at home as well. This is because, first, firms might fear retributive interventions on the part of the countries in which they invest; second, highly internationalised firms might import to, or invest in, their home country via ‘foreign entities’, such that their own interests would suffer under more protectionist regimes (Milner 1988, 23). Finally, Milner also argues that, in general “the costs and benefits of protection will be distributed unequally between firms, and those that are less competitive

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³ Shafer (1994) goes one step further and proposes that a state’s economic success or failure depends largely on the character of its leading sector, and he goes on to characterise which sectors are “winners” and which are “losers.”

⁴ Scholars have also pointed to how mobile and fixed capital will demand different sorts of economic policies. According to Pepinsky (2008, 447), owners of mobile capital can move their assets “across national borders [whereas] fixed capital comprises assets that owners will not move across national borders, either because it is impossible to do so or because the ownership of physical stock is more highly valued that is its liquidation into cash.” Land, natural resources, and industrial assets are prime examples of fixed assets, while portfolio investments are a typical example of mobile capital. In general, owners of mobile capital tend to favour less state regulation, less expansionary macroeconomic policies, and an open investment regime. Many of the studies on capital mobility tend to focus upon macroeconomic policies and financial sector regulation, and as such are less pertinent to the current study (Haggard, Maxfield, and Schneider 1997, 38-9; Pepinsky 2008).
and less internationally oriented will gain relatively more overall” (Milner 1988, 23). For all of these reasons, Milner argues, globalised firms and the sectors they dominate will favour more open trade and investment regimes.

This proposition raises an important question for the Indonesian case: do the expansive conglomerates that feature heavily in Indonesia’s palm oil sector, which historically tend to have more overseas assets, display a more liberal set of policy preferences than, for example, the domestic mining magnates that loom large in Indonesia’s mining industry? To pursue this line of enquiry, this thesis documents not only the ownership structures of each industry, but also the internationalisation of each sector’s lead firms.

The political economy studies reviewed here put forward an interest-based account of economic policymaking in which prevailing business interests play a crucial role in determining nationalist outcomes. According to these frameworks, business policy preferences, and their capacity to shape state interventions, are in turn conditioned by the structural features of each sector. By paying attention to patterns of ownership and the structural of capital in each sector, we can begin to understand why, “in single countries significant variations occur across sectors in the degree to which the state is able and willing to intervene in the economy” (Atkinson and Coleman 1989, 47).

3.2 Constraints and contingencies

Business-focused models of economic policymaking also have their limitations. Some scholars take issue with what they perceive as an overly narrow causal narrative. Schneider (1998, 117), for example, criticises models such as those proposed by Shafer, because they reduce state policy to a “passive register….of dominant sectoral pressures.” Hall (1997, 178) similarly argues that such interest-based models of economic
policymaking “attribute great importance to producer-group politics, assuming either that the extra parliamentary lobbying of producers is determinative of policy or that electoral coalitions turn on producer-group participation.” These scholars argue that businesses’ capacity to influence outcomes is contingent, not just upon their structural power and material resources, but upon other variables that lie beyond businesses’ control. Vogal (1987, 63), for example, maintains that even materially powerful capitalist can fail to get what they want during policy negotiations because state actors must consider a range of other intervening problems, such as the state of the broader economy and the “climate of public opinion.”

To this end, this thesis takes politics seriously and sets out to understand how political factors structure nationalist outcomes. In capitalist democracies, including Indonesia, “politicians who make economic policy operate under conditions of political competition,” (Tufte 1980, xiv). If we assume that politicians’ primary goal is re-election, then political elites in government will pursue the sorts of economic interventions and business deals that they feel will provide political capital and the best chance of securing their position in future elections. In her classic study of state strength in Latin America, Geddes (1996) makes the compelling case that both bureaucrats and elected officials choose economic policies they believe best serve their primary goal of career preservation and re-election. Sometimes that means appealing to (or colluding with) vested business interests; on occasion, however, politicians make decisions contrary to what powerful societal groups want, if it serves their own self-interest. The agency and agenda of political actors, thus, requires analytical attention too.

In Indonesia, each sector presented elected officials and bureaucrats with different sorts of political problems. For example, nationalist mobilisation against legacy Anglo-American mining companies had more political traction and garnered far more media attention than anti-foreign appeals in the commercial plantations sector - including in the
palm oil sector. Here, while foreign capital played a significant role, foreign companies lacked the visibility and long histories of conflict and controversy associated with foreign mining ventures. This backdrop meant nationalist protagonists had more tools at their disposal in the mining sector with which to pressure government. So, to the extent that politicians perceive a public preference for nationalist intervention, this will play into their policy calculations and affect their willingness to pursue the nationalist path.

Sectors can also display different levels of ‘political embeddedness’, in the sense that lead firms in one sector or subsector might demonstrate strong and particularistic links to executive government or political parties, which gives their nationalist demands more weight than those of businesses in other sectors. If we look at Indonesia’s mining sector, for example, lead firms in the coal industry displayed deep and direct links to executive government; when it came to minerals such as bauxite and nickel, meanwhile, firms had far less political clout. For politicians and policymakers, making deals with domestic coal companies was strategic and financially rewarding, while ignoring the preferences of bauxite producers carried little political consequence.

Political economy scholars also warn against underestimating or glossing over the state’s ability to influence business preferences. This perspective emphasises how businesses’ policy power often evolves out of, or is contingent upon, a supportive set of state institutions. Drawing upon cases from developmental states in Asia and Latin America, scholars such as Doner (1991), Schneider (1997) and Hsueh (2016, 2012), demonstrate how governments can establish the regulations and institutions to foster private sector expansion, and then direct investment and business activities in order to achieve industrial and developmental goals. State and business preferences, in this

\[\text{In a later iteration of his theory, Shafer (1997) emphasises the, “recursive relationship between state action, the changing structure of an economy, and...future state action” (Shafer 1997, 117). He maintains that states are “not merely passive registers for sectoral preferences” (Haggard, Maxfield and Schneider 1997, 44). Rather states have the capacity to shape sectoral preferences. However, state autonomy from sectoral interests, and state capacity to extract and deploy resources, are themselves the product of prior sectoral developments. Thus, Shafer endogenises both “the propensity (of business) to collective action and} \]
context, are deemed mutually constitutive. In their study of new developmentalism in Brazil, for example, Doring et al (2017), examine ownership structures in the oil, mining and steel sectors in order to explain the uneven application of statist and developmental industrial policies. All three sectors demonstrate high levels of ownership concentration: in oil and mining, state-owned or state-controlled companies dominate (Petrobras and Vale, respectively), while in steel a handful of private domestic conglomerates account for the majority of the sector’s production. The Brazilian government’s industrial policy favours both state and privately owned corporate giants. The authors explain how the Brazilian government intentionally invested in the concentration of ownership by these companies in order to build domestic corporate champions for national economic goals. They suggest that the strategic importance of these sectors determined state intervention and control over the growth of private players. Over time, however, these corporate giants gained autonomy, and were able to mould state policy in line with their preferences.

This study employs an analytical framework that draws upon the concepts and propositions put forward in these classic political economy studies of economic policymaking. It starts from the premise that resource booms create conditions ripe for nationalist intervention; but external economic shocks do not, as Gourevitch (1986, 21) asserts, “operate directly upon policy disputes”, and do not produce coherent policy outcomes across countries or sectors. Instead, local factors mediate and condition how booms and busts translate into new policy paradigms. This thesis adopts a framework that foregrounds how the preferences and capabilities of prevailing business interests at the state capacity” (Haggard, Maxfield and Schneider 1997, 44). He compares South Korea and Taiwan, which demonstrate significantly different levels of industrial ownership concentration. Shafer argues that state managers made deliberate, albeit different, industrial choices at prior junctures, which went on to shape these distinct ownership structures. Taiwan’s government feared and thus prevented the emergence of big business, and ensured industrial capital grew in volume but remained limited to large numbers of small firms that could not pose a threat to the régime’s power. Korea’s state mangers, on the other hand, chose to build “national champions through the use of policies that encouraged economic concentration” (Shafer 1997, 116). Both states were autonomous with high capacity, and thus able to embark on a program of restructuring with distinct sets of goals. Thus according to Shafer, strategic choices matter “when sectoral conditions permit.”
sector level structure resource policy and produce uneven patterns of nationalist intervention.

However, I do not suggest that resource nationalism is purely a reflection of business preferences, or that capital exerts absolute power over the policy process. While this thesis sets out to ‘bring business back in’ to studies of resource nationalism, it does not obscure the role of state actors, politicians, and other social forces in producing – or derailing – nationalist outcomes. Instead, it maintains that nationalist interventions are the product of a dynamic, iterative process in which state policymakers and politicians negotiate with the demands of dominant capitalist actors, and weigh up the consequences of nationalist intervention for their own goals and interests. This process necessarily responds to, and is constrained by, the structural economic and political features of each sector.

4. Designing the Study

This thesis offers a structured comparison of nationalist intervention in Indonesia’s three most strategic natural resource sectors. It is a single-country within-case analysis, with an accompanying section in the concluding chapter that explores the transferability of my conclusions for cases beyond Indonesia. The comparison is principally cross-sector; however, there is an inherent cross-temporal dimension to the study. In terms of temporality, it compares the impact of resource booms on economic policy during the New Order period with how the most recent boom has shaped policy outcomes in a post-authoritarian context. The study focuses upon interventions during and following the global commodities boom, which lasted roughly from 2003 to 2013. The boom coincided almost exactly with the administration of Susilo Bambang Yudhoyono (2004-2014), so much of the material concerns interventions during his presidency. However, the thesis
also looks at the early years of the presidency of Joko Widodo (Jokowi), from late 2014 until mid 2017. The boom was over at this time, but, as we shall see, nationalist mobilisation and interventions persisted. The rest of this section lays out the design of the sectoral comparison, beginning with case selection, methods used to collect and analyse data, and the specification of key concepts and variables.

4.1 Case selection and comparative method

Methodologically, this thesis departs from much of the comparative literature on resource nationalism, and economic nationalism more generally. Most studies compare differences between countries, and presuppose that state-level differences explain the presence or absence of anti-foreign or protectionist policies. The literature generally overlooks variation within a single country. In this study, I hold national-level conditions constant and draw upon the classic “method of difference approach” (George and Bennett 2005, 153-7) by offering a structured comparison of three commodity sectors in one country, wherein each sector shared a set of similar characteristics that made them susceptible to nationalist mobilisation, but policy outcomes varied.

Given that resource nationalism is a global phenomenon, why examine Indonesia specifically? Indeed, a single case study of resource nationalism in Indonesia might be vulnerable to criticism that selecting a case based on the dependent variable (presence of resource nationalism) will lead to biased results. However, the goal of the study is not, in the first instance, to make general conclusions about a large universe of cases where resource nationalism occurs (in which case selection on the dependent variable is a serious problem). Rather, it is to identify the causal mechanisms that link price booms to varied expressions of resource nationalism at the sector level in Indonesia.
Second, the Indonesian case warrants particular attention because of the country’s role as a key natural resource exporter. It is the world’s leading producer of palm oil, the second largest for thermal coal, and amongst the world’s top producers of tin, gold, copper and bauxite. In other words, Indonesia’s political and economic status make it a ‘crucial case’ deserving an in-depth single country study (Goertz and Mahoney 2012). It is important that we understand what motivates regulatory change in the leading export sectors of Southeast Asia’s largest economy, and what drives uneven nationalist mobilisation across its resource industries. A principal goal of my study is also to contribute to debate on the nature of Indonesia’s contemporary political economy, which can only be achieved via in-depth analysis and intimate knowledge of Indonesia’s politics and policymaking apparatus.

Why study and compare the oil and gas, plantations and mining sectors? What makes them suitable for comparison? These industries are, after all, very different kinds of economic ventures. The nature of capital investments, technology, labour dynamics, and the size of economic rents vary among them. However, I maintain that the differences between these industries are not so great as to preclude comparison; indeed, their similarities make them worthy of such an enterprise. In Indonesia, resources like coal, minerals, oil, and agro-commodities (particularly palm oil), share many features: they have all experienced a global price boom, they make significant contributions to Indonesia’s export income and foreign reserves, each has seen the entry of new private players since the Asian financial crisis in 1997-8 and the advent of political and fiscal decentralisation in 2001, but large foreign companies continue to play a significant role in each sector. They are also all mired in rent-seeking, conflict and corrupt practices surrounding the allocation of licenses, environmental permits and land (Casson, Muliastra, and Obidzinski 2015). Most importantly, they have all been the subject of
nationalist mobilisation in which similar sorts of policy demands were put forward by politicians, business groups and civil society actors. Yet policy outcomes varied widely.

The decision to include plantations requires special justification. Studies of resource nationalism are most often concerned with extractive industries. Scholars assume extractives are particularly vulnerable to state intervention, rent-seeking and protectionist mobilisation because they are non-renewable, capital intensive and geographically concentrated - otherwise known as a “point source” resource (Isham et al. 2005). However, as we saw in the literature review above, studies of natural resource economies regularly place forestry and cash crops industries in the same analytical category as extractives, and suggest both industries suffer boom-bust vulnerabilities and are subject to similar patterns of rent-seeking and protectionist intervention during a boom (Boschini, Pettersson, and Roine 2007; Isham et al. 2005; Ross 2001).6

There is nothing inherent to the agribusiness sector that makes it immune to nationalist intervention. Indeed, foreign ownership is highly contested in agricultural economies around the world. Indonesia’s palm oil subsector was closed to foreign investors on and off throughout the 1990s. In other countries, such as Argentina, Brazil and Australia, the global boom in commodities prompted anti-foreign interventions in both the extractives and agribusiness sectors (Oliviera 2013; Perrone 2013; Fairbairn 2015; Perrone 2013). For these reasons, comparing nationalist interventions in Indonesia’s commercial plantations and extractive sectors is not simply defensible, but important.

Given their similarities, we would expect to find comparable levels of nationalist intervention across all three sectors in Indonesia. Indeed, all three sectors have histories of anti-foreign mobilisation and protectionist state interventions (discussed in Chapters Three and Four). Instead we find the state embraced nationalist positions in some sectors

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6Boschini et al (2007), for example, argue that point source resources include both plantation crops and minerals, whereas agricultural products such as rice, wheat and livestock are “diffuse” resources.
and not others. The Indonesian case is, therefore, suited to a comparative study that draws inspiration from the classic method of difference approach, which compares cases with similar characteristics but different outcomes. The goal is to isolate the factors that led to variance on the dependent variable – in this case, nationalist intervention.

The study concentrates on two types of nationalist interventions in each sector: those with a localising objective, and those with an industrialising objective. For each sectoral case study, it compares efforts to localise each sector through restrictions on foreign investment and preferential treatment for domestic companies, asking why localising regulations prevailed in the mining sector, remained weak in the oil and gas sector, and failed in the agribusiness sector. It then compares efforts to industrialise each sector by examining interventions for downstream development, asking why, again, the mining sector was subject to an aggressively nationalist downstream strategy, but such policies largely failed in the oil sector, and in the palm oil sector the downstream strategy maintained a liberal-market orientation.

To explain variation, I offer a detailed narrative of nationalist mobilisation and policy change in each sector. I adopt a process-tracing method, which “attempts to trace the links between possible causes and observed outcomes” (George and Bennett 2005, 7) so as to understand and explain complex decision-making processes and policy outcomes. Process-tracing is, according to Sidney Tarrow (1995, 472), an “attempt to connect the phases of the policy process and enable the investigator to identify the reasons for the emergence of a particular decision through the dynamic of events.” It is also a method suited to identifying complex causal pathways, where different combinations of variables may work together to produce a particular outcome – a problem known as equifinality. This issue arises when it is not possible to identify one single causal variable or even one single causal pattern as being responsible for an outcome on the dependent variable. If a phenomenon is “governed by equifinality, the investigator’s task is to produce a
differentiated, empirically based theory that identifies different causal patterns” that can lead to both similar or distinct outcomes on the dependent variable (George and Bennett 2005, 161).

The chapters that follow document the process behind several nationalist policies, or nationalist policy proposals that later failed. Each sectoral case study homes in on nationalist mobilisation around a piece of legislation or a significant regulatory conflict. When it comes to localising nationalism in the mining sector, conflict was focused upon the development of Law 4/2009 on Mineral and Coal Mining, which outlined a new divestment regime for foreign mining companies and a disruptive ban on the export of raw minerals. In the plantations sector, it was a failed proposal to cap foreign ownership as low as 30 percent as part Law 39/2014 on Plantations, and a liberal-oriented policy mechanism to encourage rather than compel downstream industrialisation. In the oil and gas sector, nationalist mobilisation was directed at revisions to Law 22/2001 on Oil and Gas Law, and the fate of a proposal to provide state-owned company, Pertamina, with a formal first right to accept or refuse expiring foreign contracts. This sector was also marred by conflict over the government’s inability to expand the country’s downstream refining sector, despite its ambitious policy promises.

To build the explanatory narrative for each of these cases, research for this thesis involved the collection and analysis of parliamentary records, court hearings, media reports, and the statements of industry associations and corporate consultancies. The analysis of these documents constitutes an important foundation for the conclusions I draw in each chapter. However, these formal public documents are supplemented with findings from 152 interviews and many informal discussions, between 2014 and 2017, with legislators, company representatives, members of the relevant state ministries and departments, academics and journalists who were all intimately concerned with the nationalist policies under examination in this study. This method helps to manage
problems of multiple causality and potential missed variables, and is best able to “incorporate both material and ideational variables” (George and Bennett 2005, 9) into the causal story of Indonesia’s resource nationalism.

4.2 Defining and specifying key concepts

The opening section of this chapter provided a detailed explanation of how I define resource nationalism, and explained its localising and industrialising objectives. In this section I briefly specify three other concepts that are crucial to my analysis: business, the state, and policy networks.

Business

A key contention of this thesis is that nationalist networks prevailed to the extent that they included or reflected the preferences of prevailing business interests in each sector. In other words, business interests structured nationalist policy outcomes. The study conceptualises business first in sectoral terms, and considers firms’ policy preferences, and their capacity to organise and lobby, in the context of structural factors at the sector level (Haggard, Maxfield, and Schneider 1997, 42–45).

However, business should not be treated as an undifferentiated policy actor, with homogenous or entirely pre-determined preferences. In his comparative study of business-state relations in Brazil and Mexico, Schneider (1997, 213) points out that while it is reasonable to assume that businesses’ principal preference is profit, it is far more difficult to assume their strategies and, in turn, their policy preferences. For example, in developing and middle-income countries like Brazil and Mexico, and indeed Indonesia, diversified conglomerates dominate several industries and thus their preferences and strategies are “flexible, contingent and complex” (Schneider 1997, 214). Upstream
businesses have distinct preferences to those operating in the downstream of a sector, and smaller companies will seek different sorts of regulatory regimes to large and diversified companies. Preferences, therefore, require empirical attention and explanation.

I ascertain business preferences via two means. I first attempt to specify business preferences empirically, through an analysis of the public statements of industry associations and lead firms, and through interviews with key stakeholders from each industry: representatives of peak bodies, company representatives, industry consultants, and the bureaucrats and legislators who engaged regularly with private sector actors during the policymaking process. I also identify the lead firms in each sector and profile their ownership structures, assets and, where possible, document their political connections. These empirical data are then examined within the context of each sector’s structural characteristics, and the expectations that theorists have about what kind of preferences particular types of business should have, given the sectors in which they operate, the nature of their assets, their size, international presence, and levels of conglomerations, all of which set the parameters for, and condition, business preferences and capabilities.

The State

Nor is the ‘state’ a unitary actor. This thesis adopts Migdal’s (1994, 9) disaggregated view of the state, in which he sees, “[o]fficials at different levels of the state …interacting – at times conflicting – with an entire constellation of social forces in disparate arenas.” In other words, across different sectoral arenas, state actors engage with societal forces and participate in policy conflicts without necessarily pursuing the same goals or acting as a coherent or unified whole.

Nor does this study assume a clear distinction between state and society. In institutional terms, the state consists of the bureaucracy, executive, judiciary and
legislature. These are the state’s policymaking, implementing and accountability apparatus, which are conceptually distinct from the interest groups, politicians and political parties that “transmit societal demands” (Hall 1993, 276). The reality, however, is that in most countries the state apparatus is often not clearly distinguished or separate from societal forces. Indeed, when it comes to Indonesia, the executive and bureaucracy are heavily politicised, the worlds of business and politics overlap, and the judiciary remains a site of collusion and corruption. Indonesia’s state institutions are fragmented by cross-cutting patron-client relations (Aspinall 2012), with senior bureaucrats tied to individual politicians or parties, and ministers who not only hold senior positions in political parties, but have significant business investments in the sectors which they regulate.

To be sure, Indonesia’s state apparatus is not entirely predatory or ineffective; there are trained, skilled and efficient bureaucrats who have no connection to the worlds of politics or business. Indonesia’s relative developmental success and its status as a middle-income country demonstrate that its economic bureaucracy is productive and not entirely predatory. Similar to countries like India, Brazil and Thailand, the Indonesian state is fractured by clientelism, but maintains many “pockets of efficiency” as well (Evans 1997, 72). The state’s fragmentation and clientelistic features preclude any characterisation of the Indonesian state as a unified policy actor. How, then, should we manage this complexity in conceptual terms?

The ‘policy network’, defined below, is an invaluable conceptual tool, because it captures how one collection of state and non-state actors coalesce in favour of a policy goal, and in opposition to another set of state and non-state actors who share a different policy vision. For the purposes of this study, therefore, it is best to conceive of nationalist outcomes as the product of policy networks competing in pursuit of distinct agendas.
Some mobilise in favour of nationalist change, while others resist the demands of nationalist networks.

Nationalist policy networks

This thesis employs the concept of a ‘policy network’ to describe the collection of actors involved in producing nationalist change. These networks act as the vectors for nationalist policy and are made up of actors from the state, business and civil society.

There is an expansive literature on the concept of policy networks, in which the term is used for different analytical purposes – theoretical, descriptive and prescriptive (Rhodes 2006). This thesis uses the concept as a descriptive tool. Rhodes (2006, 426) offers an encompassing definition of a policy network as: “a set of formal institutional and informal linkages between governmental and other actors structured around shared if endlessly negotiated beliefs and interests …. These actors are interdependent, and policy emerges from interactions between them.” Rhodes explains that policy networks can be placed along a continuum in terms of the closeness of members’ linkages and relations.

The networks that feature in the Indonesian case were loosely connected. They resembled a sub-category Rhodes identifies as an “issue network”, which he defines as a network of people from government, politics, business, academe, media and civil society, that engage with, criticise, and contribute to debate regarding a specific issue or policy. Issue networks, according to Rhodes (2006, 428) “are characterised by: many participants; fluctuating interaction and access for the various members; the absence of consensus and the presence of conflict…” Throughout the rest of this study, I use the term nationalist policy network to describe precisely this sort of loose collection of policy actors, who mobilise in Indonesia in often uncoordinated ways, in order to demand nationalist change in the resource sectors. In Indonesia, the individuals operating in these policy networks pursued the same nationalist policy end, but often for different reasons –
some were driven by ideology, others by particularistic interests – and while they might have agreed on a broad policy goal, they may not have always agreed on the method for achieving it.

The concept of a nationalist network is particularly valuable in this context, because it captures the many protagonists that sought nationalist change, from bureaucrats, to NGOs, to mining moguls. Often nationalist outcomes aligned with the priorities and preferences of many different actors. The central proposition of this thesis, however, is that nationalist networks were most likely to succeed in their policy goals when aligned with the interests of prevailing domestic business actors at the sector level.

The chapters that follow identify nationalist networks as they appear “on the ground”, through observing and interrogating the formal and informal interactions between state agencies, political parties, business actors, and civil society organisations (Evans 1995, 19). Negotiation over contentious laws and regulations in Indonesia is notoriously opaque. Ministerial regulations, in particular, do not have to be approved by the parliament, and as such there are often no public debates on their substance. As one analyst put it,

Out of the spotlight of the press and the reach of nosy reformers, arenas within and among ministries…are where hard bargaining among powerful vested interests is often concluded. This frequently results in the reinterpretation or watering down of parliamentary statues. (Davidson 2014, 238)

As a result of such difficulties, while much of the data I examine is on the public record, I also rely heavily on extended interviews with state officials, ministers, business representatives and journalists who were involved in, or reported on, the process behind each law or regulation. This approach paints a more complete picture of nationalist networks, and the processes behind the policies they drove.
5. Conclusion

This thesis compares nationalist mobilisation and intervention in Indonesia’s leading natural resource industries. It examines why resource nationalism looked markedly different in each sector, and why it persisted beyond the boom. This approach challenges the assumption that resource nationalism is determined simply by boom-bust cycles, or that variation only reflects state-level differences. In order to understand the drivers of variation, this thesis set out to examine the conditions under which nationalist interventions prevailed in each sector, and those where nationalist policies failed to transpire. The following chapters trace the fate of several nationalist laws and regulations in the mining, plantations and oil and gas sectors. These three sectors share a set of characteristics that lead us to expect similar levels of nationalist mobilisation and intervention – but the boom led to markedly different sets of policies in each resource industry. This thesis documents the nationalist networks that mobilised in favour of nationalist policies in each sector, and identifies the enabling and constraining features that characterised each case.

The story that emerged was complex. Nationalist outcomes were contingent upon layers of intervening variables. Behind the form and fate of nationalist interventions we find a complex of actors, events and structures. Ultimately, however, business emerged as a critical force in the production of localising and industrialising forms of nationalism across these sectors. The narrative demonstrates how business preferences and capacity to influence policy were informed by, and contingent upon, a set of structural sector-level factors: patterns of ownership, contribution to the economy, and the political salience for each commodity. These factors were distinct across sectors, but had also changed slowly over time from the period of Indonesia’s independence, through the New Order, and into the democratic era.
PART II:

A HISTORY OF NATIONALISM
CHAPTER THREE

A Creation of Colonialism: Nationalism in the Resource Sectors to 1965

This chapter provides a detailed account of the ideological roots of economic and resource nationalism from the colonial period, and demonstrates how an independent Indonesian government went about pursuing localisation and industrialisation of the resource industries in a context marked by immense structural constraints. The colonial experience imbued Indonesia’s ruling elite and its public with a suspicion, even antagonism, toward foreign capital (Soesastro 1989; Hill and Basri 2004; Bresnan 1993). This broadly shared nationalist impulse was a response to Dutch economic imperialism, and domination by European and American commercial interests from the 19th century and into the post-independence era.

Dutch private companies and the Netherlands government enjoyed immense wealth by exploiting indigenous land, minerals and labour in the East Indies. The colonists established enclave industries, mostly in the resources sectors, in which Western private and state-owned companies dominated. Indigenous petty traders and merchants were often squeezed out of the economy by Chinese traders, whom the colonial powers prioritised and privileged. For the colonial administration, there was no material incentive, and hence no attempt, to industrialise the East Indies or expand an indigenous manufacturing sector, both of which are crucial for developing a modern economy.

It is unsurprising, therefore, that at independence – and for decades to come – successive Indonesian governments sought to secure local ownership over strategic
resource industries, and expand industrial linkages between and beyond the resource sectors. Economic nationalism in Indonesia was, as Lindblad (2008, 2) states, “a creation of colonialism.” This chapter demonstrates how, at this early stage of Indonesia’s economic history, indigenous business interests were weak, disorganised, and did not constitute a powerful policy actor in the resource sectors. Instead, nationalist networks were constituted primarily by ideologically-driven groups and political actors. While Indonesia’s nationalist movement was deeply divided along ideological lines - secular nationalist, Islamist and communist - all three groups rejected free-market capitalism and were inspired by a socialist approach to economic policy. Nationalist leaders embraced state intervention in order to reduce the role of Western companies and capital, expand an indigenous business class, put Indonesians in charge of strategic economic assets, and expand the state-owned sector. There was a great deal of consensus amongst political leaders and economic managers when it came to these broad nationalist goals.

However, there were important differences in approach. Indonesia’s economic thinkers fell at different points along a spectrum from moderate to radical. The moderate economic managers viewed the presence of foreign capital and an open trade regime, particularly in the resource industries, as a necessary condition for achieving broad economic development goals. Economic nationalism was a long-term aspiration that had to be sacrificed for medium-term development. Their economic priorities clashed with demands emanating from more radical elements within Indonesia’s political parties, unions, and Islamic organisations, to restrict foreign capital, labour and goods. By the end of the 1950s, political and economic stagnation, as well as internal conflict, boosted the cause of the more radical factions within the main political parties, and the government embarked upon an aggressive program of nationalisation. As we shall see, these ideological demands coalesced with the material agenda of Indonesia’s young military and key sections of the politico-bureaucratic class. These groups came to benefit from
programs of localisation and industrialisation, and would eventually expand their private interests in the resource sectors and form key part of a nascent capitalist class during the New Order.

The chapter is organised chronologically. Starting from the period of Dutch rule, the chapter progresses through the Japanese occupation, the early years of independence, Guided Democracy, up until the start of the New Order. The first half provides the historical context for the birth of resource nationalism, and explains how the colonial experience laid the foundations of nationalist economic thinking within Indonesia’s political and policymaking class. The second half documents how post-independence governments pursued programs for localisation and industrialisation in the context of a weak indigenous business class and intense social conflict. Each section paints a picture of Indonesia’s changing political economy through the lens of nationalist mobilisation and intervention in the country’s strategic resource sectors.

1. The Dutch Colonial Enterprise

The Dutch colonial project was primarily a commercial one. From the late 1800s until World War II, the colonial government and private European entrepreneurs expanded into and eventually came to dominate the extraction, production and trade of the archipelago’s agricultural and mineral commodities. Dutch presence in the archipelago began in the early 17th century through the Dutch East India Company (Vereenigde Oost-Indische Compagnie, or VOC), which opened its headquarters in Batavia (present day Jakarta) in 1619 (Dick 2002, 15). The VOC traded in the archipelago’s spices, and established treaties with the palaces and indigenous powerholders in the Moluccas, Sulawesi, Sumatra, Kalimantan, and Java, in order to exploit land, use labour, and levy taxes.
In the early 19th century, the Netherlands government expanded its control over the archipelago. This process began when the VOC went bankrupt, and the Dutch government took over the company’s assets in the East Indies. Over the course of the 1800s, the Netherlands East Indies government (NIE) built a bureaucratic colonial state centred upon Java (Houben 2002,56). Rather than trying to extinguish and replace existing systems of government, the Dutch ruled through indigenous aristocracies and powerholders. Using a mix of material incentives and violent repression, the Dutch co-opted and pacified the indigenous elite, and went about re-organising modes of production, ownership and labour across the archipelago.

The Dutch created a highly stratified economy. Indigenous elites were compelled to provide land and to mobilise peasant labour for colonial estates and mining projects. Netherlands state-owned enterprises and large western companies dominated the sugar, oil and mining sectors, while a mix of Western and indigenous smallholders were responsible for the export of rubber, coffee and tobacco (Lindblad 2008, 19). Many indigenous farmers remained outside of commercial plantations and engaged in low-scale local trading and subsistence farming. As Chalmers (1997, 6) puts it, “a small, European-dominated modern sector [was] linked only tenuously to a vast, indigenous agricultural economy.”

Ethnic Chinese merchants and other migrants formed a middle tier in the East Indies economy. The VOC and the NIE government favoured Chinese traders and expanded their role in the local economy. The Chinese were classified as ‘Foreign Orientals’, which cast them as foreigners in the archipelago and prevented their access to civil service positions. At the same time, the Dutch bestowed a special economic status upon the Chinese. For most of the colonial era, Chinese entrepreneurs had privileged access to import and export licenses, and other commercial monopolies, and “were a

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1 Rice remained the domain of local smallholders, who competed for land with powerful Western sugar cane interests.
major force in wholesale trade and on the informal capital market” (van Zanden and Marks 2012, 34).² As a result of these economic advantages, according to Kahin (1952, 10), “the Chinese came to govern almost completely the internal commerce of Java, [and] the indigenous merchant class [was] nearly eliminated.” The categorisation of Chinese as non-indigenous also had long-lasting implications for Indonesia’s ethnic Chinese community. From Indonesia’s independence and up to the contemporary era, the term ‘pribumi’, or ‘native’, has been deployed as a means of signifying and demarcating the indigenous and predominantly Muslim population, from the Chinese and usually non-Muslim minority.

Overall, the colonial government largely failed to modernise the economy. The Dutch provided little education or training to the local population beyond a narrow slice of the indigenous elite. The colony’s trade surplus was not used to benefit local development, and the vast majority of revenue flowed back to the colonial homeland (Booth 1998). Instead, the Dutch developed an economy based on primary commodity exports, in which Western companies dominated enclave extractive and cash-crop sectors. In essence, the colonial enterprise engendered stark economic inequalities. The Netherland’s exploitation of Indonesia’s natural resources, and the stratification of the colonial economy, would become the chief grievances of Indonesia’s nationalist movement in the years to come. In what follows, I explain how this colonial political economy shaped the structure of the plantations, oil and gas, and mining sectors.

² The colonial state extracted rent from the Chinese, particularly from their profits earned through tax farming. This was a system whereby the state leased out the collection of taxes for strategic sectors, like opium, market levies, toll gates and pawn shops. Different Chinese “clans” monopolised these tax farms (van Zanden and Marks 2012, 34).
Plantation estates were crucial to the Netherlands Indies economy. Dutch profits depended upon access to indigenous land and labour at minimal cost. As Mackie (1961) argues, “the policy of the colonial government was constantly directed towards maintaining an export-oriented, low-wage economy, which gave Dutch estate produce much of its competitive strength” on global markets. Before colonisation, indigenous communities already traded commodities, like sugar, rice, cotton, coffee, indigo and pepper, across the archipelago and to other parts of Asia. However, large-scale commercial agriculture only emerged in the 19th century through the expansion of Dutch and European plantation companies. The three most strategic export crops were sugar, coffee and tobacco. The industrial revolution in Europe and America at the start of the 1800s stimulated rising global demand for primary commodities, so the Dutch embarked on a program to mobilise “land and labour in a sophisticated plantation sector” in the East Indies to serve the economic needs of Europe (Dick 2002, 5).

A key turning point came in 1830 when the Dutch introduced the Cultivation System. This was a state-led program of compulsory cultivation, in which Javanese peasants were primarily compelled to produce sugar cane and coffee, and later tobacco, for the Netherlands government to sell on European markets (Houben 2002). Van Zanden and Marks (2012, 72) characterise the Cultivation System as, “a ‘top down’ attempt at structural transformation of the colonial economy….via a complex mix of coercion and monetary incentives.” The system delivered benefits to Java’s three groups of elites - the

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3 The Dutch worked with Javanese village and regional elites (known as priyayi), who were given production quotas and then paid a percentage of the value of the crops they produced. The Dutch also mobilised Chinese merchants. For example, the colonial government subsidised the Chinese to establish sugar processing factories, and guaranteed them a supply of sugar for a fixed price, which promised significant profits. The peasants, meanwhile, received cash payments that “bore no direct relation to the value of the produce on the world market” (Houben 2002, 64–65).
Javanese elite, Chinese merchants, and the colonial government - while exploiting peasant labour without fair financial compensation (van Zanden and Marks 2013, 48).

By the middle of the 1800s, the Cultivation System had dramatically increased the colony’s export production. Profits from East Indies plantations contributed one third of the Netherlands state revenue (Houben 2002, 65).\(^4\) However, the system was also subject to growing criticism. Liberal reformers back in the Netherlands began calling for an end to crude programs of exploitation in the colony. Business associations and liberal economists also called for reform, and demanded the government open up the East Indies plantations sector to more private enterprise (van Zanden and Marks 2013).

Gradually, the Dutch government began to replace state-led compulsory cultivation with a more liberal system that relied less on forced labour. The Agrarian Law of 1870 marked the formal end of the Cultivation System, and facilitated the expansion of foreign private enterprise into the East Indies.\(^5\) Compulsory crops were phased out and the colonial government’s task became primarily to regulate the activities of private plantations companies (Houben 2002, 66). The new system, however, did not significantly change conditions for indigenous farmers and labourers. Leases drawn up between indigenous elites and private companies, with Dutch government approval, were not contracts between equal parties. Locals often had no sense of how much their land was worth, or the price of commodities on the global market (Houben 2002, 66). Such leases also often included the provision of local labour to work on the plantations, thus sustaining a system of labour exploitation that delivered Western companies enormous profits.

\(^4\) One reason the system worked was because it was a familiar arrangement to the indigenous aristocrats. Peasant labour services had long been a feature of feudal economies on Java, particularly around the sultanates of Yogyakarta and Surakata (van Zanden and Marks 2012, 49). The colonial state was thus imposing an expanded version of a system that indigenous rulers had used – but Europe, not the Javanese aristocracy, benefited the most from this new incarnation of peasant-master relations.

\(^5\) In essence, the Law outlined that all land belonged to the colonial state, and the state had authority to lease those lands to private companies. Land inhabited and cultivated by ‘natives’ was still formally state property; but this land should be leased to private plantation companies through an agreement with village heads and regional elites (Kano 2008, 282–83).
The turn of the century brought renewed attempts by liberal reformers in the Netherlands to improve the welfare of their colonial subjects. The Ethical Policy, introduced in 1901, ensured more funding was allocated to education, health, public works and infrastructure. The policy led to a new phase of growth in the East Indies plantations sector as well. Better infrastructure and technology, together with a healthier labour population, produced a marked increase in the productivity of East Indies plantations (Houben 2002, 68). According to one historian, at the start of the 20th century, the East Indies “corporate plantation system was…the most technologically modern and integrated one in Asia” (Houben 2002, 58). In particular subsectors, including rubber, indigenous smallholders were able to develop their farms and make a significant contribution to the colonial economy.  

Overall, however, the colonial plantations system was highly stratified and exploitative. Leading export cash-crops were dominated by foreign plantation companies, indigenous participation was mostly limited to wage labour, and the agro-commodities were traded by giant Dutch trading houses. For Indonesia’s emergent political class, the plantations sector provided the clearest example of colonial economic exploitation, and the exclusion of Indonesia’s native populations from owning the means of production and from trading their own commodities on lucrative global markets.

1.2 Oil and gas

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6 The contribution of smallholders to the export economy increased as a result of the Ethical policy, which provided peasants with access to credit for their own agricultural ventures. Results were particularly impressive for rubber. Lindblad (2008, 29) described the rubber sector as a leading example of indigenous entrepreneurship. The sector was dominated by smallholders and grew at a remarkable pace during the first two decades of the 20th Century. Exports of rubber grew from 7,100 tons in 1913 to 89,700 tons in 1919 (van Zanden and Marks 2012, 97). The contribution of smallholders to the East Indies rubber production continued to increase until the Depression and, according to Lindblad (2008, 28), “the share of smallholders in total output climbed from 30 per cent in 1932 to 50 per cent in 1939.”
The oil sector was even more segregated than plantations. The Dutch introduced the Netherlands East Indies Mining Act in 1899, which outlined that mineral rights were invested in the colonial state, and that surface land rights did not confer sub-surface rights to the rich minerals beneath (Bee 1982, 19). In other words, only the Dutch government could authorise mining activity throughout the archipelago. Local elites and landholders had no rights to draw-up land leases with oil prospectors or companies (Barnes 1995, 4).

The Dutch understood the immense commercial value of hydrocarbon resources, and so established a system that gave the NIE government a monopoly over subsoil resources and that excluded indigenous actors from enjoying the profits of a nascent extractives sector. In addition, high barriers to entry – capital intensity and technological requirements – meant that indigenous participation was limited entirely to the provision of low-skilled labour at the oil wells in Sumatra and Borneo.

The Royal Dutch company was the dominant player in the sector because of the sponsorship it enjoyed from the Netherlands. In 1907, Royal Dutch merged with its only serious competitor, Shell Oil Company of London. This heralded the birth of Royal Dutch Shell, a company that would eventually build a global empire off the back of its assets in the East Indies. By the 1920s Royal Dutch Shell had established a near monopoly over the extraction and sale of the colony’s oil. Formally, the colony was open to non-Dutch companies across all sectors. However, the 1899 Mining Act required companies to establish subsidiaries in Indonesia or the Netherlands, which added a layer of logistical difficulty for non-Dutch firms (van der Eng 1998, 307). In 1921 the government established the state-owned oil company Nederlandsch-Indische Aardolie-Maatschappij

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7 Dutch prospectors had discovered oil in Telaga Said in North Sumatra in 1885 and lobbied the palace to fund their venture. With support from King William III, Royal Dutch was established in 1890 to mine oil in North Sumatra. The company acquired several lucrative concessions, but expanded primarily by taking over the smaller firms that had emerged in the preceding years (Lindblad 1989, 54).

8 At the end of the 1890s a Dutch coal miner happened upon oil in Balikpapan Bay in East Kalimantan. He eventually secured capital from Shell Trading and Transport in London to mine several concessions, and established what was to become Shell Oil Company. Shell developed into the only serious competitor of Royal Dutch, primarily due its lucrative blocks in East Kalimantan (Lindblad 1989, 54).
(NIAM), which entered into joint ventures with Royal Dutch Shell.\(^9\) The colonial government prioritised NIAM and Royal Dutch Shell in its granting of concessions such that few other Dutch or international companies could compete.\(^10\)

Despite Dutch protection of its corporate interests, some American companies still managed to establish a foothold in the East Indies oil sector. Standard-Vacuum Oil’s (Stanvac)\(^11\) subsidiary, Colonial Petroleum, for example, took over a concession near Palembang in South Sumatra in 1919 that the Dutch had considered worthless but that turned out to be hugely profitable. California Texas Oil Company (Caltex) also made a major discovery in the Duri fields of central Sumatra in the 1930s. Under pressure from the American government, the Netherlands government reined in its anti-competitive approach to foreign oil companies and by the end of the 1930s US giants Caltex and Stanvac had risen to prominence (Barnes 1995, 5). As Table 3.1 demonstrates, on the eve of World War II, Royal Dutch Shell, Stanvac, Caltex and NIAM controlled the majority of Indonesia’s oil production.

To the extent that Indonesians were involved in oil extraction or production, it was mostly as manual labourers. Royal Dutch Shell, Caltex and Stanvac, all employed a mix of indigenous, Chinese, and Tamil labourers, and Dutch, British and American expatriates held the technical and management positions. The skills deficit of local workers compared to overseas trained engineers and managers meant companies could

\(^9\) As the sector became more lucrative during the first decades of the 20\(^{th}\) Century, factions within the Netherlands parliament demanded more revenue for the state. Parliamentarians expressed frustration that Royal Dutch Shell, a private enterprise, was profiting significantly from the colony’s resources and suggested a state-owned enterprise would provide more revenue for the Netherlands and its people (Jonker and van Zanden 2007). So, in 1918 the government amended the Mining Act such that mineral deposits, “could no longer be exploited by private companies through new concessions, but only by the government and/or private firms contracted by the government” (van der Eng 2014, 15).

\(^10\) The Royal Dutch Shell Group consisted of three holding companies: Bataafsche Petroleum Maatschappik (BPM), the Asiatic Petroleum Company, and the Anglo-Saxon Petroleum Company. BPM monopolised the production and export of Indonesia’s oil. In 1911 the company held 44 concessions across Sumatra, Java and Kalimantan (Hunter 1971, 255) and produced 13 million barrels (over 3 per cent of the world’s oil) (Bee 1982, 3).

\(^11\) Stanvac was an equally owned subsidiary of Standard Oil New Jersey and Socony Vacuum (later to become Mobil Oil); Caltex was the product of a 1936 agreement between Standard Oil California (later to become Chevron) and Texaco to form the jointly owned California Texaco Oil Company (Caltex).
justify the segregation of staff. However, for Royal Dutch Shell, segregation took on wider political significance, and was not simply a function of the sector’s technology and skills requirements. The company’s leadership was wholly committed to the Dutch imperial enterprise, and explicitly opposed a growing movement in the Netherlands for a more ethical approach to administering the colony (Jonker and van Zanden 2007, 316).  

TABLE 3.1 Major Oil Companies and Production in 1940 *

<table>
<thead>
<tr>
<th>Company</th>
<th>Production (million barrels)</th>
<th>Controlling Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>NV de Bataafsche Petroleum Maatschappij (BPM)</td>
<td>35.3 (57%)</td>
<td>Royal Dutch Shell</td>
</tr>
<tr>
<td>NV Nederlandsch-Indische Aardolie Maatschappij (NIAM)</td>
<td>10 (17%)</td>
<td>Netherlands Indies Government and BPM</td>
</tr>
<tr>
<td>NV Nederlandsch-Koloniaele Petroleum Maatschappij (NKPM)</td>
<td>16.2 (26%)</td>
<td>Standard Vacuum Co. (Stanvac)</td>
</tr>
<tr>
<td>NV Nederlandsche Pacific Petroleum Maatschappij (NPPPM)</td>
<td>Unknown</td>
<td>Standard Oil Co. of California and Texas Corporation</td>
</tr>
<tr>
<td>NV Nederlandsche Nieuw Guinee Petroleum Maatschappij (NNGPM)</td>
<td>Unknown</td>
<td>40% Royal Dutch Shell; 40% Standard-Vacuum through NKPM; 20% Caltex through NPPM</td>
</tr>
</tbody>
</table>

*Source: Bee 1982, 6.

When World War II broke out, the Netherlands East Indies was the fifth largest petroleum producer in the world, and oil constituted 25 per cent of the colony’s exports (Bartlett et al. 1972, 54). But, as was the case throughout the colonial economy, the sector

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12 Senior management at Royal Dutch Shell, for example, encouraged expatriate staff to see themselves as part of a ruling colonial class. In an industry magazine from 1921, a Royal Dutch Shell manager warned of growing “class consciousness” amongst “Asian employees”, and defended the superior position of its white staff and the colonial system they represented (Jonker and van Zanden 2007, 316–17).
was stratified. The Indonesian population participated only as labourers on foreign-owned and operated oil wells. The sector was oligopolistic, controlled by three of the world’s biggest oil companies and one Dutch state-owned enterprise. This ownership structure evolved partly as a consequence of the capital and capacity of Western majors; but the industry's oligopolistic organisation also emerged from specific Dutch policies, which squeezed out small players and gave privileged access to Royal Dutch Shell and NIAM. As we shall see, the system of ownership and exploitation in this most lucrative industry underpinned a nationalist resolve amongst Indonesia’s emergent class of political leaders and economic thinkers.

1.3 Mining

The Dutch also facilitated Western domination in the minerals sector. Small-scale miners, both indigenous and Chinese migrants, had long exploited the archipelago’s tin (especially from Bangka and Belitung), nickel (from Sulawesi), silver (from Java) and gold (from Kalimantan) deposits (van der Eng 2014, 7). However, it was only once the Dutch established large, commercial operations for key minerals that the archipelago was transformed into a prominent global mineral exporter. From 1850, when the colonial government opened a Bureau of Mines, the Dutch began to invest seriously in the colony’s coal and mineral capacity (Friederich and van Leeuwen 2017, 57). In the decades to come, the NEI government exerted increasing control over the mineral mining sector, pushing out or controlling local mining ventures. Once again, indigenous communities were engaged in resource sector primarily as labourers.

The 1899 Mining Law that regulated the oil industry also applied to mineral mining. As was the case for oil, the law separated surface and subsoil rights to minerals, and vested the subsoil rights in the Netherlands Indies government. When it came to the
self-governing regions - in which the Dutch had, via political contract, recognised the existence of pre-colonial states - local elites could in theory reject the terms of the 1899 Mining Act, and thus reject Dutch and Western commercial advances into the subsoil of their territories. The 1899 law also outlined that pre-existing small-scale mining was exempt from the terms of the Dutch law. However, according to van der Eng (2014, 14), the NEI government “reserved the right...to determine that sizeable local operations would no longer be exempted.” So, under the new law, the lucrative tin mining trade on the Bangka and Belitung islands became the exclusive domain of the NEI government.  

The Dutch state enterprise, Bangka Tin Mines, and a private Dutch company, Billiton Maatschappij (which later became BHP Billiton) monopolised the sector. By the 1940s, through the activities of both Billiton and Bangka Tin Mines, Indonesia was a world leader in tin exports (Hunter, 1968, 75).

In the mid 1800s the Dutch also began exploring for coal in the East Indies in order to supply to their domestic market. The first coal mine opened in 1849 in South Kalimantan and was operated by a Netherlands Indies Government-owned company. While a number of small Dutch private ventures were set up during this period, the sector’s production output only expanded significantly when Dutch-government companies opened large coal mines in Ombilin in West Sumatra (1892), and Bukit Asam in South Sumatra (1919).

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13 Tin was the first mineral commodity to put the East Indies on the global mining map, and it became the second most valuable extractive resource to the NEI economy after oil. The VOC began mining tin on Bangka Island off the east of Sumatra in the early 1700s through an agreement with the Sultan of Palembang (Erman 2007). Bangka was also the site of small-scale tin mining conducted by miners from Malaka, Batavia and China, who also received permits from the Sultan (Erman 2007). However, these miners were compelled to sell their tin to the Sultan, who then sold it to the VOC to trade on world markets. The system deprived small-scale tin miners of significant profit, because they did not receive fair market value for the tin they produced. As a result, a black market tin trading boomed between Bangka, Belitung and Singapore, facilitated by Buginese, Malay, Minangkabau and Chinese traders (Erman 2007).

14 These mines were responsible for most of the East Indies’ coal exports, though some coal was also reserved for the domestic steam train market on Java and Sumatra (Friederich and van Leeuwen 2017, 57). According to Friederich and van Leeuwen (2017, 57) “Indonesian coal production peaked at over 2 Mt per year (Mtpa) in 1941”, most of which came from Ombilin and Bukit Asam, while small private mines contributed about 500,000 tons per year.
By World War II, the NEI mining sector was expanding in earnest. Table 3.2 displays the level of minerals production just prior to World War II and the Dutch companies that dominated each minerals subsector. While small-scale mining continued in different parts of the archipelago during the colonial period, indigenous communities were largely engaged in mining enterprises as wage labourers, alongside Chinese immigrants, often brought in by the Dutch to work the mines (Houben and Lindblad 1999). This pattern of Western domination would endure into the post-independence eras, and remain a contentious issue for Indonesia’s economic nationalists.

### TABLE 3.2 : Major Mining Companies and Production in 1940*

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Production</th>
<th>Companies</th>
<th>Controlling Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tin *</td>
<td>44.4</td>
<td>Bangka Tin Mines, Gemeenschappelijke Mijnbouwmaatschappij Billiton, GMB</td>
<td>Dutch state-owned Joint Dutch private and state-owned</td>
</tr>
<tr>
<td>Coal *</td>
<td>2,009</td>
<td>Bukit Asam in Tanjung Enim, South Sumatra, Ombilin Coal Mining, Ombilin mine in Sawahlunto, West Sumatra, NV Steenkolen-Maatschappij Poeloe Laoet, in Pulau Laut Southeast Kalimantan</td>
<td>Dutch state-owned Dutch state-owned Dutch state-owned</td>
</tr>
<tr>
<td>Bauxite *</td>
<td>275</td>
<td>Nederlandsch-Indische Bauxiet Mijnbouw Maatschappij</td>
<td>NIBEM</td>
</tr>
<tr>
<td>Nickel *</td>
<td>55.5</td>
<td>NV Mijnbouw Maatschappij Celebes in Soroako, NV Mijnbouw Maatschappij Toli Toli in Southeast Sulawesi</td>
<td>Subsidiary of NV Billiton Associated with the private NV Oost Borneo Maatschappij</td>
</tr>
<tr>
<td>Gold b</td>
<td>2,798</td>
<td>NV Mijnbouw Cikotok gold and silver mine, West Java</td>
<td>Subsidiary of NV Billiton, part Dutch state-owned and private</td>
</tr>
<tr>
<td>Silver b</td>
<td>46,847</td>
<td>NV Mijnbouw Cikotok gold and silver mine, West Java</td>
<td>Subsidiary of NV Billiton, part Dutch state-owned and private</td>
</tr>
</tbody>
</table>
1.4 The colonial legacy: Inequality, exploitation and the birth of resource nationalism

During the Dutch colonial occupation, the plantations, mining and oil and gas sectors became the backbone of a sophisticated export-driven economy. From the start of the 20th century until the Depression in 1930, these industries grew rapidly.\(^{15}\) However, indigenous communities primarily played the role of laborers, not owners, producers, or traders.\(^{16}\) The East Indies economy was highly stratified. Foreign companies dominated oil and coal exports from Sumatra and Kalimantan, tin from Bangka Belitung, and sugar from Java. Western and indigenous smallholders contributed to rubber, tea and tobacco production, but giant Dutch trading houses and ethnic Chinese traders controlled the export of those products onto international markets. The vast majority of the indigenous population had little control over capital, and either sold their labour to foreign-owned plantations and mines, or worked as small-scale farmers.

\(^{15}\) Deliveries of Java sugar rose from one million tons in 1905 to 2.8 million tons in 1930, a nearly threefold increase. Exports of crude and refined oil products increased tenfold during the same period, from less than 500,000 to 4.5 million cubic metres. Rubber was added to the range of exports in 1912 and export volumes trebled during the 1920s alone. In the late 1920s, exports of tobacco, coffee, and copra were double what they had been in 1905 (Lindblad 2008, 17-18).

\(^{16}\) It is important to note the growth in indigenous enterprise that took place outside of the resource industries toward the final years of Dutch rule. The Great Depression hit the colony hard. As Europe’s demand for commodities plummeted, large numbers of Indonesians employed in export-oriented agricultural industries like sugar, coffee, rubber lost their jobs. However, the government’s import restrictions stimulated a local manufacturing boom (Lindblad 2008). Dutch, Chinese and a small number of indigenous enterprises opened new industrial ventures. Besides sugar milling and oil refining, new factories were set up for the production of cigarettes, soap, textiles, footwear and other manufactured goods. Much of the wealth generated by this brief emphasis on industrialisation and manufacturing was captured by ethnic Chinese entrepreneurs who had access to credit and trading houses (Lindblad 2008, 31-33). However, new indigenous businesses emerged and their productivity grew in earnest. Kretek factories, weaving mills, trading companies, and even indigenous banks, opened up in the final years of colonial rule (Lindblad 2008, 32-3).
The benefits of colonial resource exploitation were shared unequally, and the economy was divided along ethnic lines. According to one historian’s calculations, during the inter-war years of 1921-39, “one European earned as much as eight Chinese or 45 indigenous Indonesians” (Lindblad 2008, 18-19). The Netherlands, foreign companies, Europeans and Chinese merchants, benefited far more from the colonial economy than did the indigenous population. The Dutch offered little in the way of technological training and education for Indonesians working in these sectors, nor did the colonial powers invest meaningfully in manufacturing or secondary industries. Linkages between primary commodity sectors and other industries were weak as well, and “[n]one of the industries that expanded rapidly in this period – such as oil, sugar, tobacco and tin – were urban based and their links with urban activities were often rather weak” (van Zanden and Marks 2013, 94). In effect, cash crops and minerals worked to crowd out development of manufacturing industries – a classic case of the ‘Dutch disease’, or the resource curse. Primary commodity sectors remained Western enclaves and skilled positions in Western companies were all held by foreign nationals.

Economic disparities motivated growing opposition to colonial rule during the early years of the 20th century. Kahin (1952, 42) describes how peasants, workers on oil fields, railways, and urban labourers became increasingly aware of the colony’s economic inequalities, and expressed their discontent through sporadic and uncoordinated acts of protest. Benda (1956, 546) also suggests that while nationalist ideas and organisations had not “penetrated” the peasant masses during the early years of the 20th century, there was a “residual anti-Europeanism” amongst many Indonesians, and a palpable resentment at their economic and political subjugation.

By the 1920s and 1930s, opposition to colonial rule was becoming more organised, and Indonesian nationalism was taking shape. There were three distinct ideological streams within Indonesia’s nationalist movement, each with their own
organisations and their own political vision for an independent state. There was a secular nationalism promoted by foreign-educated intellectuals associated with Partai Nasional Indonesia (Indonesian National Party, PNI) and Partindo (Indonesia Party). Led by the charismatic Sukarno, these nationalists sought a secular and plural basis for an independent Indonesia. Islamic nationalists, meanwhile, sought an Islamic basis for a future independent state, and found expression through religious organisations – Muhammadiyah and Nahdlatul Ulama – as well as political parties, such as Partai Sarekat Islam (Islamic Union Party). Finally, the early 1920s saw the growth of a radical communist nationalism. The Partai Komunis Indonesia (Indonesian Communist Party, PKI) sought a revolution to overthrow the imperialist-capitalist system imposed upon the native population.

While these groups had competing visions for an independent Indonesia, they all shared a basic set of ideas about Indonesia’s economy that was socialist in orientation. Nationalist leaders in all three groups believed that economic independence was as important as political independence (Kahin 1952). The intellectuals who led these movements all expressed support for the notion that a future independent state must “control economic life and operate critical sectors of the economy” in order to remedy the social disparities that had become entrenched under colonial rule (Kahin 1952, 52). Differences in vision and approach would become more pronounced in the post-independence era. On the eve of World War II, however, a large slice of Indonesia’s nationalist movement was united behind opposition to the laissez-faire capitalism of their colonial masters and the Western companies that controlled much of the economy. Instead, they embraced the idea that economic sovereignty required a strong, interventionist state that could nurture and expand infant industries, industrialise the economy, distribute wealth equally, and grow an indigenous business class. Indonesians moved a step closer to achieving some of these goals during the Japanese occupation.
2. Japanese Occupation

Japan’s occupation of the Netherlands East Indies lasted just over three years, but it had a profound impact on the trajectory of Indonesia’s nationalist movement. Of particular importance for the current study was how Japanese occupation laid the foundation for a transition toward greater local ownership of resource industries, and marked the first significant movement toward the realisation of a nationalist economic agenda.

Japan’s objective in World War II was to eradicate Western domination over Asia and bring Southeast Asia into Japan’s ‘Asian Co-prosperity Sphere’. The Japanese invoked anti-Western sentiments amongst their new subjects, and helped mobilise Indonesia’s growing nationalist movement. These long-term political objectives, however, were secondary to Japan’s immediate economic needs. It was ultimately the East Indies’ natural riches that motivated Japan’s swift invasion of the Dutch colony in 1942 (Lindblad 2008, 48). Japan needed primary commodities like oil and rubber, as well as cheap labour, to finance the war effort. Private Japanese companies and state-owned enterprises took over the most strategic, foreign-operated assets in the mining, oil, plantations and trading sectors (Yasuyuki 1996).

The Japanese expropriated or closed Dutch businesses and expelled or interned their managers. Many Chinese enterprises and social groups were shut down as well. In the vacuum left by the expulsion of Dutch and Chinese businesses, indigenous merchants and manufacturers stepped in (Lindblad 2008, 57). Some young indigenous entrepreneurs left their positions in Dutch-run plantations and companies to begin their own trading businesses (Post 1996, 625). The Japanese also provided new opportunities for local workers to manage and supervise former Dutch companies. In food production and manufacturing, indigenous businesses expanded quickly. But those sectors deemed important for the war effort came under Japanese control.
The oil sector is illustrative of how the Japanese managed the colony’s most strategic industries. At the start of World War II, the Netherlands East Indies was the largest oil exporter in South and East Asia, and an obvious target of Japan’s imperial ambitions. By the end of March 1942 the Japanese controlled every functioning oil field in Indonesia (Barnes 1995, 6). For the most part, labour conditions were atrocious at the oil fields. As Bartlett (1972, 55) explains, “the Japanese used a forced labour system in the oil fields and refineries and most of the labourers, called Romushas by the Japanese, were brought from Java….They were forced to live under the most difficult conditions and thousands died of illness and malnutrition.”

At the same time, the Japanese were compelled to provide skilled jobs to Indonesian workers as well. With most of the Western managers expelled or interned, and few Japanese experts on hand, Indonesian workers were given extra duties and more sophisticated tasks. The Japanese promoted Indonesian staff and provided training to manage the country’s oil assets. The Japanese established two training schools to offer Indonesian workers more advanced technical training. Graduates from the Japanese training schools went on to fill the upper echelons of Pertamina, the New Order-era national oil company, in years to come. The Pertamina motto, ‘Learn while you work, work while you learn’, was inspired by those years under Japanese occupation (Barnes 1995, 6). While the schools were far from any international standard, they still laid the groundwork for an indigenous oil sector. Throughout the duration of the occupation, “the Indonesians, in effect, ran the industry under the most adverse of conditions” (Bartlett et al. 1972, 56). While oil production stagnated under the Japanese, this period gave Indonesians a taste of resource sovereignty and laid the groundwork for Indonesia’s domestic oil industry.

Minerals and plantations were also targeted for annexation by the Japanese. Private Japanese firms were brought in to exploit tin, coal, nickel and bauxite. As
Lindblad (2008, 52) notes, “Mitsubishi ran the tin mines in Bangka and Belitung, Mitsui was involved in coal and bauxite mining, Sumitomo was assigned the nickel mines in Sulawesi.” The Japanese also annexed foreign or ‘enemy’ owned plantations. Estates deemed peripheral to the war efforts, such as tea, where shut down and abandoned. Rubber, however, was valuable, and the Japanese army took over all of the colony’s rubber estates (Lindblad 2008, 49). The Dutch sugar cane plantations were transferred to six different private Japanese companies. By 1944 all of the major foreign-owned estates across the various subsectors had been farmed out to 22 private Japanese companies (Lindblad 2008, 52). As was the case in the oil sector, the Japanese interned Dutch plantation managers and supervisors, replacing them with Japanese officials or senior Indonesian supervisors.

Japanese occupation was ultimately a time of great economic hardship for the local population. As the war progressed, all of the colony’s strategic export sectors deteriorated due to poor management and an “acute shortage of shipping capacity” with which to bring commodities onto global markets (Lindblad 2008, 53). By 1944, rubber exports, for example, were only a fifth of what they had been prior to the war (Lindblad 2008, 53). The petroleum sector stagnated as well. Back in 1939 crude production was 170,000 barrels per day (b/d); by 1946 production had dropped to just 5,700 b/d (Barnes 1995). In 1945 the Allies bombarded strategic petroleum refineries in Sumatra, and oil exports came to a virtual standstill (Lindblad 2008, 53). Meanwhile, the tin and coal mining sectors that were growing quickly at the turn of the century “almost collapsed” under Japanese rule (Friederich and van Leeuwen 2017, 57).

By 1945 it was clear that the Japanese would lose the war. They established advisory boards to prepare for independence. On them sat nationalist political leaders like Sukarno and Mohammad Hatta, alongside indigenous business figures, such as the successful Sumatran trader, Agoes Moesin Dasaad, and Ahmad Bakrie, who would go on
to establish one of Indonesia’s most successful family conglomerates. The Japanese set up the Investigative Committee for the People’s Economy in 1945, and a series of meetings and conferences followed in which business people and nationalist leaders developed new ideas for an independent Indonesian economy. At such forums, Western style capitalism was rejected by all parties, because it was strongly associated with the highly unequal and exploitative Dutch colonial economy. At the All-Java Conference of Indonesian Businessmen, Hatta “called for a socialist-type of economy based on the spirit of gotong royong” (meaning mutual help or reciprocity) (Post 1996, 107).

Japanese occupation was, therefore, a double-edged sword for the Indonesian population. The Japanese military was cruel, violent and exploitative. Food shortages, high inflation and a steep drop in imports, meant that for most Indonesians the Japanese occupation was a time of enormous suffering. According to Ricklefs (2008, 237), “the Japanese Occupation was the only period in two centuries in Indonesia when the population failed to grow significantly…like other occupied areas, Indonesia became a land of extreme hardship, inflation, shortages, profiteering, corruption, black markets and death.” Yet, for the first time, indigenous workers, bureaucrats and intellectuals, had been given authority to manage the country’s administrative, political and economic resources, and to plan for an independent Indonesian polity.17 When the war ended, and the Dutch returned to take back their colony, they found a society on the brink of revolution.

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17 The Japanese program of indigenous politicisation had geographical limitations. On Java, there were less natural resources, and political institutions and education were more sophisticated. Here, the Japanese concentrated their propaganda and their mobilisation efforts. But in the outer, resource rich Islands of Sumatra in the west, and Sulawesi in the east, the occupiers treated their subjects with an iron fist, and there was little effort to mobilise villagers, labourers or local leaders. Out here, where their principal goal was resource extraction, the Japanese needed a passive, not assertive, indigenous population.
3. War and Independence

Japan surrendered on August 15, 1945 following the American attacks on Nagasaki and Hiroshima. Two days later, nationalist leaders Sukarno and Muhammad Hatta declared the independent Republic of Indonesia. However, the Dutch returned to reclaim their colony, and a revolutionary war between the Indonesian Republic and the Netherlands ensued until 1949. The war had two critical implications for Indonesia’s post-independence economy and its resource sectors specifically: first, the war entrenched military involvement in the economy and particularly in the resource sectors; and third, the terms of economic decolonisation favoured the Dutch and encumbered the new nation, which fed nationalist resentment for years to come.

When the Japanese surrendered, the newly independent government quickly moved to take over strategic parts of the economy before the Dutch could return and seize their colonial assets. In many cases, it was the Republic’s military that moved in to manage these assets, and as such it became heavily involved in the exploitation and trade of primary commodities. The army engaged in black market trading across a range of sectors in order to fund its activities during the war (Lindblad 2008, 58). In Sumatra, for example, Indonesian workers’ groups and military leaders became the de facto owners of oil assets. Workers formed ‘laskar minyak’, or ‘oil fronts’, often with direct military backing, and defended the annexed assets against attempts by Stanvac and Royal Dutch Shell to return to their fields (Bee 1982, 8). In the context of a Dutch blockade on Indonesia’s exports, these oil fields were a useful source of revenue and petroleum products for the revolutionary war effort in Sumatra and, to a lesser extent, Central Java.

Similarly, Indonesian forces claimed ownership of plantations. New trading companies were established to replace the Dutch-owned giants that had long dominated the trade of agro-commodities. For example, the new Indonesian government established
the Central Trading Corporation (CTC) to export rubber to Southeast Asia. Local military forces were “deeply involved in the firm’s trading operations” to ensure the exports escaped the Dutch blockade (Lindblad 2008, 59).

The archipelago effectively had two economies during the war – the economy in nationalist-controlled areas, and the economy in Dutch-controlled areas. Where the Dutch regained control, estates in parts of Java and Sumatra were brought back to life, and the tin mines on Bangka and Belitung started up once more. However, resource industries in the Republic-controlled regions fared poorly. By 1947, the Dutch blockade prevented the export and import of goods to and from the Republic-controlled areas. In these regions, the formal export-led economy fell apart and a black market in commodities such as rubber and oil exploded (Cribb 1988). The revolutionary war thus brought further devastation to many of Indonesia’s plantations, mines and general infrastructure.

Despite the Netherlands’ economic and military advantage, by 1949 the former colonists had grown war-weary. The Dutch were also under growing international pressure, particularly from the Americans, to retreat from the East Indies. The Netherlands government negotiated its withdrawal from the East Indies in 1949 at the Round Table Conference (RTC) at The Hague. The Dutch were prepared to surrender political control of the colony, but in return wanted assurances that their material interests would be sustained and protected. So, at the RTC, the Dutch and Indonesian leadership signed the Finec agreement (Financiele en Economische Overeenkomst, Financial and Economic Agreement), which set the terms for decolonisation.

In return for political independence, the Dutch demanded significant economic concessions. The Finec Agreement, “secured maximum economic and financial benefits for the Netherlands, especially the Dutch private companies operating in Indonesia”, most of which were active within the resources sectors (Thee 2010, 58). Finec guaranteed Dutch and other foreign firms operating in Indonesia protection against nationalisation
(unless both sides agreed), and determined that commodity exports should continue to be directed to European markets. The agreement mandated Indonesia’s policymakers consult with the Netherlands before introducing policies that might impact Dutch interests. Most significantly, however, the agreement forced the new Republic to take on the debt of the Netherlands East Indies government, which amounted to over 4 billion guilders. This burden was “unprecedented in the history of decolonisation” (Lindblad 2008, 74).

Indonesia’s nationalist leaders had long viewed economic decolonisation as equally important as political decolonisation. However, the new government also needed to be pragmatic. President Sukarno, Vice President Hatta and Prime Minister Sutan Sjahrir all “recognised that the West, and particularly the United States, was the only source of urgently needed technological help and development capital”, and so the new Republic had to be seen as conciliatory toward Western business interests (Bartlett et al. 1972, 60). Sjahrir in particular believed that, “Indonesia must exist within the Anglo-American power sphere” (Bartlett et al. 1972, 60).

Still, the Finec agreement was an economic humiliation. Indonesia had won its political sovereignty, but the terms of Dutch withdrawal were punitive. The agreement denied the new nation control over strategic export-oriented resource sectors and burdened it with enormous debt. Indonesia’s nationalist leaders were pragmatic in their approach to Dutch demands and foreign investment more generally; however, the terms of decolonisation fueled resentment amongst the Indonesian elite and broader public, and motivated support for a more radical economic nationalism in the years to come.
4. Parliamentary Democracy

After Finec, Indonesia’s economic decolonisation began in earnest. The post-Independence government clearly articulated a nationalist economic agenda driven by the twin goals of localisation and industrialisation. However, the government faced formidable structural and institutional constraints – particularly when it came to the resources industries. Structurally, the devastated Indonesian economy relied heavily on foreign investment, and needed foreign companies and aid in order to substitute for the lack of local capital, expertise and technology in order to kick start growth. Institutionally, Finec set clear boundaries that protected foreign investors and favoured Western trading partners. The question of how to manage these constraints became increasingly contentious as the years wore on, driving a wedge between different groups within and between Indonesia’s political parties. These groups can be loosely categorised as either moderate or radical in their approach to economic nationalism.

Moderate nationalists sought compromise and advocated a slow transition towards a more localised and industrialised economy. Many had training in Western Europe and were committed to the Western-democratic political systems they had studied. But they remained suspicious of Western models of free market capitalism, which they associated with colonial rule (Thee 2011, 6). Feith (1962) referred to this group as “administrators.” During the first decade of independence, governing coalitions tended to be dominated by moderates from the Indonesian Nationalist Party (Partai Nasional Indonesia, PNI), the Islamic party Masjumi, and the Indonesian Socialist Party (Partai Sosialis Indonesia, PSI), together with a group of economists who advocated gradual marginalisation of Dutch capital, coupled with programs of positive discrimination favouring indigenous business.
These economic moderates negotiated deals to legally transfer assets from Dutch nationals to Indonesian nationals and set new rules that compelled foreign companies to ‘Indonesianise’ their staff and replace foreign employees with local workers. The new government also sought to restructure and modernise the economy through industrialisation, in order to reduce Indonesia’s dependence upon raw commodity exports and fluctuating global markets. These goals, however, were to be pursued in a slow and incremental fashion.

Vice President Mohammad Hatta, for example, envisioned an economy based upon state-led cooperatives as a means of building a unified and coherent national economy (Chalmers 1997, 9). It was Hatta’s collectivist economic ideas that inspired Article 33 in the 1945 Constitution, which holds that the economy should be based on familial principles and that strategic sectors, including natural resources, should be controlled by the state. Under Hatta’s leadership, and with the influence of moderate economic figures like Sumitro Djojohadikusumo and Sjafruddin Prawiranegara, successive governments were committed to honoring Finec and protecting existing foreign assets in order to portray Indonesia as an attractive destination for much needed foreign investment and aid (Bartlett et al. 1972, 109). Sjafruddin, for example, “argued that changes in the pattern of ownership and control [of the economy] would have to come slowly as an indigenous entrepreneurial class emerged” (Booth 1998, 62). The government’s moderate approach produced positive, if not remarkable, economic outcomes. According to Linblad, in the first half of the 1950s, “[g]rowth was export-

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18 Article 33 Reads:
(1) Perekonomian disusun sebagai usaha bersama berdasar atas asas kekeluargaan.
(2) Cabang-cabang produksi yang penting bagi negara dan yang menguasai hajat hidup orang banyak dikuasai oleh negara.
(3) Bumi dan air dan kekayaan alam yang terkandung di dalamnya dikuasai oleh negara dan dipergunakan untuk sebesar-besarnya kekayaan rakyat.
(4) Perekonomian nasional diselenggarakan berdasar atas demokrasi ekonomi dengan prinsip kebersamaan, efisiensi berkeadilan, berkelanjutan, berwawasan lingkungan, kemandirian, serta dengan menjaga keseimbangan kemajuan dan kesatuan ekonomi nasional
(5) Ketentuan lebih lanjut mengenai pelaksanaan pasal ini diatur dalam undang- undang.
driven and macroeconomic performance compared favourably with most other Third World countries” (Lindblad 2008, 126).

However, the government was always under pressure from more radical groups, especially those affiliated with the Indonesian Communist Party (PKI), and from labour unions and factions within the military, who were impatient with the slow pace of economic reform and what they saw as the sustained domination of Indonesia’s economy by foreign actors. These groups demanded immediate expulsion of Dutch capital, and wanted more assertive state interventions to expand local ownership of the economy. This group, who Feith (1962) called “solidarity makers”, espoused a more populist, anti-imperialist ideology, and were more aggressively opposed to Western capital. As the 1950s wore on, the slow speed of Indonesia’s economic recovery provoked anger and frustration within the political class and wider population, where political divisions were already intensifying between nationalists, Islamists and communists.

4.1 Moderate versus radical nationalism in the resource sectors

How did these divisions impact interventions into the resource sectors, and to what extent did the moderate approach achieve nationalist agendas for localisation and industrialisation? We look briefly at each sector here.

The plantations sector was crucial to Indonesia’s post-independence economy. Exports from the large foreign-controlled estates contributed much-needed tax revenues for the Republic (Booth 1998, 53–63). Smallholders were very productive during the 1950s as well, in some cases exceeding the output of large estates. This was because Dutch estates were often affected by worker strikes, and in some instances returning foreign plantation owners struggled to reclaim lands lost during the Japanese occupation. Peasants, often encouraged by the PKI, occupied estates, set up villages and grew their own crops, and refused to leave - despite intermittent pressure from the central
Republican government (Lindblad 2008, 155). Much of the produce from smallholders and from military-controlled plantations, particularly rubber, however, was smuggled offshore tax-free. This meant that even when foreign plantations were suffering low productivity, they remained a key source of revenue and foreign exchange for the Republic.

Given the economic circumstances, the government was ambivalent about engaging in an aggressive program of localisation in this sector. So, as Mackie (1961, 338) explains, for most of the 1950s, “the old relationships of foreign ownership and control were not significantly modified by the strong political drift towards nationalisation or the government’s tentative nibbling at public ownership of a few estates, which it purchased from departing Dutchmen.” Foreign-owned estates remained a key source of revenue for the Republic, and the Dutch sustained a large presence in the plantations sector during the early post-independence years. However, as the 1950s progressed, strikes became more common and the position of Dutch-owned estates appeared increasingly precarious.

In the mining sector during the 1950s, on the other hand, the government pursued a program of localisation that was largely motivated by pressure from unions and nationalist factions in parliament. This was a sector in which localisation posed less economic risk for the young economy in comparison to the estates because it made a less crucial contribution of government revenues and livelihoods. Indonesia’s mines had deteriorated under the Japanese. Once the Dutch regained control of the tin and coal mines during the war with the Republic, production levels increased. However, most did not recover to pre-war levels of production (Hunter 1968, 77).

The 1950s saw the government organise a series of ‘voluntary’ (as distinct from hostile or unilateral) nationalisations, in the sense that Indonesia followed legal process as laid out by Finec, and Dutch companies were offered financial compensation. In the
tin sector, for example, there were two mines - one run by the Dutch state company, Bangka Tin Mines on Bangka Island, and the other by GMB, which was partly held by the Netherlands government and partly by the private company, Billiton, on Belitung Island. Following independence, the government negotiated for the Dutch state’s share in GMB to be transferred to the Republic, and Billiton remained the operator. In 1953, the government agreed to renew Billiton’s contract. However, under pressure from the more radically nationalist factions within parliament, the government nationalised the Bangka mine and transferred the contract to a new state-owned company, PN Tambang Timah Bangka (Lindblad 2008, 165).

Similar transfers took place in the coal sector. After the Japanese surrendered, the Dutch reasserted control over the Bukit Asam coal mine. But following independence in 1949, mine workers called for the government to nationalise the company. In 1950 the government set up the Perusahaan Tambang Arang Bukit Asam (Bukit Asam State Mining Company, PNTABA) and negotiated with the Netherlands to acquire the mine. The Dutch-run Ombilin mine was also transferred to Perusahaan Negara Tambang Batubara Ombilin (which would later become part of Bukit Asam) (Devi 2013). The two Dutch-operated nickel concessions in Sulawesi, meanwhile, closed down during the revolutionary war and there was little work done on either mine until 1959, when the government transferred the concession to a local company named NV Perto (Pertambangan Toraja), whose ownership remains unclear (Sangadji 2002).

The picture in Indonesia’s oil sector was very different. Oil was largely insulated from the nationalisations that took place in the mining sector. The Indonesian government understood the necessity of oil rents for the fledgling economy, and was therefore at pains not to interrupt production at the foreign-run oil mines. To this end, the new government respected the ‘let alone’ agreements that had been drawn up between the Dutch government and the three majors back in 1948. Back then, Stanvac, Royal Dutch Shell
and Caltex sought guarantees that their investments would be protected under any deal brokered by the Dutch and Indonesian governments. All three companies signed the ‘let alone’ agreements with the Dutch government, in which they were given, “exclusive rights to explore, develop, process and market Indonesian oil, in return for less than 50 per cent of the profits” (World Bank 1994, 54). The agreements also gave these companies freedom from taxes and the right to maintain foreign reserves from their oil exports. The investment conditions in Indonesia were hardly attractive at that time, and the companies managed to negotiate favourable terms. Stanvac, Caltex and Royal Dutch Shell continued to produce and export, and so the sector grew rapidly during the first decade of the post-independence period and made significant contributions to state revenue (Booth 1998, 55).

The more assertively nationalist elements within Indonesia’s political elite were resentful of the ‘let alone’ agreements, Finec, and foreign oil companies’ ongoing domination of Indonesia’s petroleum sector. Legislators from the more radical wings of PNI and Masjumi expressed deep suspicion of Western oil companies, and “accused companies of exaggerating their costs in order to keep profits low” and pay minimal tax (Wing, Glassburner, and Nasution 1994, 55). Legislators also pressured the government to postpone all new oil and gas concessions and development permits until the government and parliament could agree on a new petroleum law (Bee 1982, 9). To placate the parliament, the government set up the State Commission on Mining to establish new terms of investment for the oil and gas sector. The Commission negotiated an improved profit-sharing split and compelled companies to ‘Indonesianise’ their staff (Bartlett et al. 1972, 119). But questions regarding the appropriate level of foreign ownership and the regulation of foreign companies proved divisive (Wing, Glassburner, and Nasution 1994, 55–56). Initially expected to take only a few months, years passed and neither the parliament nor the Commission could reach a resolution on the terms of the law.
By the mid to late 1950s, in the context of a deepening economic and political crisis, those in favour of a more radically nationalist economic agenda enjoyed increasing influence over government. Unlike later periods of nationalist mobilisation and intervention, at this unique moment in Indonesian history, it was a crisis, not a boom, that triggered a swift transition to an aggressively nationalist economic policy.

4.2 The end of moderation

The moderate nationalist approach had produced steady growth and incremental change to the Indonesian economy in the first part of the 1950s. It sought to localise and upgrade the economy, in line with the principles of economic nationalism articulated in Johnson’s (1965) classic study, and chose sectors with public visibility that could offer political as well as economic value. The government embarked on a series of voluntary nationalisations that carried symbolic weight, such as the plantations and mining sectors. Beyond the resource sectors the government acquired Dutch assets in transport and utilities, particularly those that involved the provision of public goods (Lindblad 2008, 103). The government also purchased Dutch interests in banking and airline transport in order to establish a national bank (Bank Indonesia) and a national airline (Garuda). With direct support from Vice President Hatta, the government-owned trading company Central Trading Company (CTC), established in in 1947, was also given preferential access to import and export goods with the express aim of challenging Dutch trading companies’ monopoly (Thee 2011, 62).

Besides programs of localisation, the Republic was immensely concerned with industrialising Indonesia’s economy, the other pillar of a nationalist economic agenda. Where the Dutch had been concerned only with extracting and exporting raw materials, successive Indonesian governments sought industrial development both for economic
ends and as a “matter of political prestige” (Dick 2002b, 176). Governments invested in several large-scale and long-term industrial projects in chemicals, cement, aluminum and transport infrastructure (Lindblad 2008, 81). The state also engaged in import substitution to stimulate the local manufacturing sector, and invested in programs to expand indigenous manufacturing enterprises, particularly in textiles, printing, and rubber milling. The infamous Benteng Program introduced in 1950, attempted to expand the indigenous business class. Indigenous traders were given preferential access to import licenses in order to undercut Dutch and ethnic Chinese domination in the lucrative import sector.19

However, despite all of these endeavors, by the end of the 1950s it was becoming clear that the government’s moderate approach had not met the expectations of many Indonesians. Development policies were not having the intended impact, and several attempts to boost indigenous entrepreneurship had failed.20 The Benteng scheme, for example, became riddled with rent-seeking and corruption, and was abandoned by the mid 1950s.21 Progress towards Indonesianisation achieved only modest outcomes. In 1957, the top Dutch trading firms and foreign resource companies had increased the

19 The challenge was immense, in a context where four Dutch companies were still responsible for over half of consumer imports, and 60 percent of the country’s exports were managed through eight foreign firms (van Zanden and Marks 2012, 144).
20 The 1950 Benteng initiative gave indigenous merchants exclusive rights to import certain goods, but corrupt allocation of licenses rendered the program ineffective. The Economic Urgency Plan in 1991 focused on developing cottage industries for indigenous businesses, but administrative weakness undermined the roll out and it too failed.
21 Most indigenous importers were in fact fronting for non-indigenous interests – ethnic Chinese or foreign - who had more capital and better networks with which to establish an importing business (van Zanden and Marks 2012, 146). A trade in licenses developed, and political parties in government exploited the system to raise cash for their campaigns and their party’s operational costs. By 1956 the program was all but abandoned. In spite of the failed Benteng Program, during the first half of the 1950s there was real growth in entrepreneurship. During this period, the number of indigenous enterprises in manufacturing, trade, services and banking increased, with around 500 firms being incorporated annually. Economic historians believe over 40 percent of these firms were fully owned by indigenous Indonesians, just over a third were Chinese Indonesian owned, and the rest were joint ventures (Lindblad 2008, 88-9). Indigenous conglomerates, some of which were established before WWII, expanded during this period as well. The owners of these businesses had access to lucrative import licenses and lines of credit through their closeness to powerful political figures within government. For example, Achmad Bakrie’s Bakti and Bros. had a monopoly on the import of motorcycles, sewing machines and radios. Hasjim Ning, another prominent indigenous businessman, had exclusive rights to import General Motors cars, Soedarpo Sastrosatomo enjoyed access to capital through Sultan of Yogyakarta and enjoyed import licenses and contracts for military vehicles. He expanded into shipping during the post-independence period as well.
number of Indonesians working in lower and middle rung positions; but management roles remained dominated by Dutch citizens (Lindblad 2008, 168–70). Efforts to restructure the economy again produced only moderate results. According to Booth (1998, 58), “for the 1950s…Indonesia had the lowest share of non-agricultural to total national product of any Asian country except Pakistan.” Most growth in GDP came from the petroleum and agricultural sectors, in which Dutch and Western companies dominated, and manufacturing accounted for just 12 percent of net domestic product (Booth 1998, 58).

On top of these economic pressures, the government faced security and diplomatic tensions. By the mid 1950s there was growing restiveness in the outer islands, which in some instances culminated in outright rebellion against the central government. Resource exports from Sumatra, parts of Kalimantan and Sulawesi were keeping the national economy afloat. But people in the outer islands increasingly felt that Indonesia’s resource-based economy had little impact on their own welfare, and instead the economic benefits flowed back to Java (Dick 2002, 180). The Republic was also engaged in a bitter dispute with the Netherlands over control of West Irian (contemporary Papua). The Republic claimed sovereign rights to all of the former Netherlands East Indies territory; the Dutch refused to cede control of West Irian. Years of negotiations failed, and by the mid 1950s political parties in the legislature were pressuring the government to take a more confrontational approach.

Indonesia’s political elite was deeply divided in terms of how to respond to these pressing economic and political problems. Polarisation between the Islamic, communist

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22 For example, the government kept the rupiah artificially high to benefit importers on Java, which invariably harmed exporters in the outer Islands. Ideological grievances were also tied up in these economic concerns. In West Sumatra, for example, where support for political Islam was strong, local elites and regional military commanders rebelled against the central government in 1956. They were motivated in part by economic injustice and in part by resentment toward the domination of secular nationalists in the new Republic (Kahin 1999). Throughout the early 1950s in Aceh, parts of West Java and Sulawesi, the Darul Islam movement also attracted tens of thousands of supporters in their effort to oust the secular government in Jakarta and install an Islamic state (Kahin 1999, 175).
and secular-nationalist political parties meant governing coalitions were fractious and unstable. Between 1949 and 1957, Indonesia had 10 different cabinets with as many Prime Ministers. Political instability prevented a coherent and effective economic strategy and undermined the government’s attempts to secure the outer regions. There was disillusionment within the political class and the broader public. The moderate approach to Indonesia’s stalling economy seemed ineffectual, and the western-liberal model of parliamentary democracy had only produced polarisation and stasis.

5. Guided Democracy

By the end of 1956, Indonesia was drifting towards a more radical economic nationalism, and towards authoritarianism. In 1957, President Sukarno brought an end to parliamentary democracy in Indonesia, and instituted a radically nationalist economic agenda. In April of that year, President Sukarno unveiled his plan for ‘Guided Democracy’ - a benevolent term for an authoritarian system of government. Sukarno claimed this new system was better suited to Indonesians’ cultural proclivity for consensus-building and their communitarian values. The president handpicked a new cabinet and set up a National Council that would represent the interests of a broad array of Indonesian social groups beyond political parties. The Council sat above the parliament, with Sukarno at its helm, and decisions were made through consensus, rather than voting. In essence, the new system gave President Sukarno immense executive authority.

His parallel concept of a ‘Guided Economy’ constituted a program of deep state intervention, protectionism, and a more aggressive approach to overcoming foreign ownership (Chalmers 1997, 15). The moderate approach that characterised the previous seven years of policymaking had come under increasing attack from more nationalist
factions within PNI, Masjumi and the PKI. While the economy had experience modest
growth during the post-independence era, the continued and conspicuous presence of
Dutch economic interests meant that many Indonesians felt economic decolonisation had
failed. Sukarno’s notion of a Guided Economy was, in many ways, a response to these
calls for the realisation of economic sovereignty.

The nationalist turn in economic policy began in late 1956 when, under the second
内阁 of Prime Minister Ali Sastroamidjojo, a prominent figure in the PNI’s more
radical wing, unilaterally abrogated from the Finec agreements (Chalmers 1997, 12). This
move paved the way for a series of hostile takeovers and the nationalisations of Dutch
assets. The first takeovers were not officially state-sanctioned. In late 1957, laborers,
organised through unions affiliated with the PKI and the radical wing of PNI, mobilised
and took over Dutch-owned enterprises across a range of sectors (Cribb and Brown 1995,
78–79). The annexations revealed growing communist influence in rural areas, a trend
that alarmed moderates in the government as well as the armed forces. In 1957 President
Sukarno and General Nasution, the army commander, declared martial law. The military
put a stop to further ‘uncontrolled’ takeovers and confiscated the seized Dutch assets,
placing them under military management (Cribb and Brown 1995, 79). The military now
exercised de facto control over strategic parts of the economy, including shipping lines,
banks, plantations, oil wells, tin and coal mines (Knowels 1972, 57).23

Initially the government emphasised that these events were not nationalisations
per se, and the Dutch could later take back their assets. The government hoped to use the
seized assets as a bargaining chip against the Dutch in negotiations over West Irian.
Cabinet stated that the Dutch could return to manage their assets “after relations between
the two countries had been settled and a foreign investment law had been passed” (Mackie
1961, 342). However, the strategy failed. So instead, in late 1957 the government began

23 In 1959 the government set up the Nationalisation Board (Badan Nasionalisasi, BANAS) to oversee
process
establishing new state enterprises and government departments to run the former Dutch assets.

All former Dutch-owned estates were seized. Mackie, writing in 1961, noted that plantations were a critical part of the Indonesian economy and that “control of that wealth [was] now for the first time in Indonesian hands” (Makie 1961, 338). The government consolidated 542 former Dutch plantations under new state-owned enterprises, with their directors appointed by President Sukarno. Each enterprise was headquartered in Jakarta, but had various regional units that supervised the different estates in their region (Mackie 1961). Senior Indonesian plantation workers were now tasked with managing the estates. However, army offers were also attached to the regional units of these state enterprises as supervisors.

Most of the former-foreign owned mines were already under Indonesian government control by the time of Guided Democracy. According to one historian of this period:

…[b]y 1958 more than 90 per cent of the coal output in Indonesia was being produced by two government coal-mines, the Bukit Asam and Umbilin, both in Sumatra. When the Oost-Borneo Maatschappij handed over its coal-mines at Batu Panggal and Sigihan in East Kalimantan to the state-owned Sebuku, the Indonesian government had gained full control of all coal-mining in the country (Pham 2014, 286).

The oil sector, however, remained the domain of the same three Western oil giants. Throughout the 1950s the petroleum sector had grown faster than any other sector, and became a valuable source of government revenue. Sukarno understood that Stanvac, Shell and Caltex would need to continue their operations. However, he asserted greater central government control over the sector by implementing a new petroleum law, and establishing new state-owned oil companies to manage other oil wells no longer operated by the Western majors.
For example, several foreign oil assets had been under de facto regional military control in Sumatra since the time of Japan’s surrender. At independence, local militias and labor unions annexed Royal Dutch Shell’s oil assets in North Sumatra. The oil infrastructure here was decaying, and regional politicians, military officials, and oil workers had wrangled for control of the assets for years, preventing any significant crude production or export. In 1957, the Ministry of Trade incorporated the North Sumatran assets into the National Oil Company Inc., or Permina (Perusahaan Minyak Nasional). Sukarno decided to hand managerial responsibility of the new state company over to the Indonesian Armed Forces (TNI). This decision was based partly on pragmatism; Sumatra was in a state of political turmoil owing to several regional rebellions, and security around the oil fields was tenuous. However, as Bartlett et al. (1972, 134) observers, “such an expanded role [for the TNI] fitted well with the philosophy of Chief of Staff Nasution, who saw the army as a dynamic force in nation building”. Nasution appointed Colonel Dr Ibnu Sutowo as Permina’s director and gave him the task of developing Indonesia’s first state-owned enterprise.

Then, in 1958, the government formally nationalised NIAM’s assets in Jambi and incorporated another new state-owned enterprise, Indonesia Oil Mining Inc., or Permindo (Pertambangan Minyak Indonesia). NIAM had been half owned by the Dutch government and half owned by Royal Dutch Shell. The latter retained its share in the new company. The government, however, was clear that the entire company would be Indonesianised, “with Shell providing training and technical assistance” only (Barteltt 1972, 120).

After years of equivocation by parliament, Sukarno also exercised his emergency powers to approve Law No. 44/1960 concerning Petroleum and Natural Gas Mining. The new law established the Republic’s ownership of all petroleum resources and vested all oil rights in the state. It mandated that foreign companies would no longer hold concession rights, as per the previous Dutch mining law, but would instead become
government contractors. According to Barnes (1995, 11), the law established that “all extraction of petroleum (and gas) shall be undertaken solely by the state…and shall be implemented solely by state owned enterprises…who may in turn reach work agreements with various contractors…where the state enterprise is unable to carry it out.” The law effectively gave state enterprises ownership and operating rights to all of Indonesia’s petroleum resources, while enabling foreign oil firms to remain principal operators of current and future wells.

Sukarno’s approach was a practical response to the significant structural constraints on nationalist agendas in this sector. The government had several state-owned firms ready to take on new extractive projects, but the terms of the law reflected an acceptance amongst lawmakers that its state oil companies were too weak to take on a serious operational role, and “the expertise and capital of the existing foreign oil companies were still required” (Barnes 1995, 12). Moreover, Stanvac, Caltex and Shell were earning Indonesia US$100-120 million in foreign exchange, and were thus a crucial source of revenue at a time of deepening economic crisis. The law was designed to privilege state ownership and operatorship of the country’s lucrative petroleum resources;

24 Initially, Stanvac, Shell and Caltex opposed the new law and refused to transition from being concession-holders with ownership rights to becoming contractors for the state. Stalemate ended only when the American government intervened and facilitated the 1963 Tokyo Agreement. These negotiations were so important to the American government that President Kennedy sent a special emissary. The fate of Indonesia’s oil industry concerned the US government for reasons beyond protection of American firms’ investments. The Americans were concerned about the rising influence of communism in Indonesia, and believed the presence of a multinational oil industry would improve economic conditions and undercut the influence of communist ideas (‘The Oil Industry: The 1963 Agreements and After’ 1965, 17). The Tokyo Agreement led to a compromise between the parties and to the establishment of a new Contract of work system: According to Bee, “[i]n reality, [the companies] continued to exercise considerable freedom in their operations, with the government acting only in a supervisory capacity” (Bee 1982, 22). This particular feature of the new legal regime indicated that while the government was engaged in a kind of nationalisation, it also understood that the industry would need ongoing investment from the three major companies for many years to come (‘The Oil Industry: The 1963 Agreements and After’ 1965, 19). The Tokyo Agreement led to the establishment of a new Contract of work system: the ratio of operating profits would change to 60-40 in favour of the government; each foreign company would rescind its concession ownership rights and instead become a contractor to one of the three state owned oil companies; the foreign companies were entitled to 30 year contracts to explore for new wells; marketing and distribution rights were to be transferred to SOEs after five years at an agreed formula; refining assets would be transferred after 10 years; and the companies would begin to Indonensianise their workforces (‘The Oil Industry: The 1963 Agreements and After’ 1965, 18). The agreements also mandated that foreign companies relinquish 25 per cent of their concession areas after five years of production, then another 25 after 10 years.
but it was pragmatic, and offered a system in which foreign majors could continue operating such that the flow of investment and revenue was uninterrupted.

While the oil sector continued to grow throughout the period of Guided Democracy, the rest of the economy fell deeper and deeper into crisis. The takeover of Dutch firms had led to a decline in productivity in the manufacturing and estate sectors (Booth 1998, 63–69). Other foreign companies left in the country were also targeted for nationalisation throughout the 1960s, and hostile takeovers by pro-communist unions impacted American, British, Australian and European firms. By 1964 almost all foreign interests had been seized (Dick 2002 188). Drought ravaged parts of Java throughout the early 1960s, ruining rice crops and leading to famine. Basic goods and food were in short supply and inflation had soared to over 600 per cent by 1966. The country’s most productive sectors like rice, tin and rubber ground to a virtual halt. Private investment “had almost ceased” (Booth 1998, 71). According to Arndt (1984, 29 in: Hill 2000, 1), “a decade of ever-increasing economic mismanagement had brought a degree of economic breakdown with few parallels in modern history. The country was literally bankrupt.”

Overall, economic planning was a disaster under Sukarno’s Guided Economy.

Political tensions ran high throughout the period of Guided Democracy as well. The PKI was growing in strength. The party claimed more and more members, and was actively organising peasants at the grass roots. Sukarno had long expressed admiration for and interest in Marxist ideas, but throughout the 1960s he moved closer to the communist party and the communist bloc, both in terms of his ideology and his diplomatic relations. Islamic groups, particularly Nadlahtul Ulama, together with the military, increasingly viewed the president’s warm relations with the PKI as a direct threat to their own influence within the government and over economic assets as well.

Tensions erupted in 1965. On 30 September, a group of leftist military officials, calling themselves the 30 September Movement, killed several senior military personnel.
that they alleged were part of a CIA–directed plot to overthrow Sukarno. Major General Suharto, commander of the Army’s Strategic Reserve (KOSTRAD), took over the Armed Forces and claimed the 30 September Movement to be a communist conspiracy. Under Suharto’s command, the TNI led an anti-communist purge that resulted in the deaths of between 500,000 and one million people, making it one of the worst massacres in modern history. Within two years, General Suharto consolidated his power over the Armed Forces, extinguished the PKI, and forced Sukarno’s resignation.

5. Conclusion

This chapter’s objectives were to elaborate the ideological foundations of resource nationalism, and to demonstrate what early programs of localisation and industrialisation had managed to achieve. Centuries of colonial rule motivated widespread support for the principles of economic nationalism amongst Indonesia’s ruling elite and the wider population. The Dutch did little to restructure and industrialise the East Indies or to integrate the indigenous population into a modern economy. While export-led growth was a boon for the Netherlands and the private Western companies that operated in the resource sectors during this period, the “impact on the domestic market – on the real incomes of the Indonesians – was limited…and it did not result in the kinds of cumulative processes of structural change, urbanisation and industrialisation” that economists argue are central to modern economic growth (van Zanden and Marks 2012, 95).

Economic inequality and material injustice underpinned colonial rule and became a defining grievance of Indonesia’s nationalist movement. In particular, Western exploitation of natural resources became central to a nationalist imaginary, in which imperialism and capitalism were seen as two sides of the same coin, because both involved the systematic economic exploitation of Indonesia’s land, resources and people.
Indonesia’s political elite shared a socialist-inspired set of ideas about how the new nation’s economy should look. Under the leadership of President Sukarno and Vice President Hatta, the new government’s economic agenda was ‘Indonesianisation’, or Indonesianisation, which meant transferring the ownership, control and management of strategic economic assets from foreign to Indonesian hands, and industrialisation, which meant investing in higher value sectors so that Indonesia could escape its dependence on raw commodity exports to the West. Deep divisions emerged within and between political parties, state managers, and mass organisations, over how best to achieve those shared goals.

This chapter mapped Indonesia’s early nationalist networks that pushed urgently for the localisation and industrialisation of the country’s young economy and its Western-dominated resource sectors. While this thesis argues that business preferences determined the form of fate of nationalist intervention in the contemporary era, during the post-war and post-independence period, Indonesia had no significant business class that could wield influence in economic policy arenas. To be sure, demands for localisation dovetailed with the material preferences of Indonesia’s new military and parts of the bureaucratic elite, and both groups benefitted from an expansion of state-owned enterprises and the nationalisation of foreign assets throughout the 1940s and 1950s. But the most radically nationalist groups came from within the PKI and labour unions, rather than the military or from the smaller land and capital-owning groups.

President Sukarno’s Guided Democracy was a response to those radical nationalist demands, and to growing economic frustration within the wider population. At this point in Indonesian history, nationalisation was not a response to a global boom; it was a response to the demands of a society still reeling from revolutionary war, and impatient for economic change. Sukarno chose the nationalist path despite severe structural constraints, and the result was economic devastation.
When General Suharto took power in 1966 he perceived an urgent need for a new economic approach. The military had decimated the political left, and Sukarno’s radically nationalist economic agenda was discredited. Suharto embraced a very different method for addressing Indonesia’s dire economic situation. As we shall see, however, the new government remained committed to a core set of nationalist goals, including the localisation and industrialisation of the resource sectors.
CHAPTER FOUR

Compradors, Cronies and Development: Nationalism
During the New Order, 1965-1998

During 32 years of New Order government, economic policy oscillated between phases of economic openness and liberalisation on the one hand, and periods of sustained nationalism on the other. Experts on Indonesia’s economic history point to a “pendulum” pattern in policymaking throughout the Suharto years (Hill 2013, 117). Times of crisis and economic decline motivated Suharto to seek guidance from a group of American-trained economic technocrats, who opened up and liberalised the economy. Yet Suharto never abandoned the vision for localisation and industrialisation that Indonesia’s nationalist leaders had laid out during the early post-independence years. When structural barriers were low – that is, when oil prices were high, and the economy was stable and growing – the policy pendulum “swung back towards dirigisme and control, reinforced by the huge commodity windfall gains” (Hill 2013, 117).

In the resource sectors specifically, the pattern was for Suharto to appeal to foreign investors at the early stages of sectoral development. Then, once the economic conditions were deemed appropriate, the president would deploy a range of nationalist interventions that favoured local companies and domestic industrial development. Who demanded and benefitted from localisation and industrialisation during this period? What were the structural constraints to nationalist agendas? And what did sectoral variation look like? This chapter addresses these questions by elaborating moments of nationalist change in the leading export-oriented resource sectors during the Suharto years.
It begins with a brief overview of the New Order political economy, and then moves into a discussion of how each sector evolved throughout this period. I highlight how market-cycle models explain patterns of nationalist intervention across the resource sectors throughout much of the Suharto era. Oil windfalls gave the Suharto government more opportunities to pursue nationalist goals, grow domestic business and industry, and build the patrimonial foundations of his regime. In the resource sectors, like in other parts of the economy, Suharto provided licenses, concessions and monopolies to loyalists in the military, his business cronies and family members; but nationalist interventions also helped expand the domestic business class more broadly. With more revenue at its disposal, owing to aid, foreign investment and oil rents, and no fractious political opposition in the parliament, Suharto’s authoritarian government was able to achieve far more in terms of economic industrialisation and the expansion of Indonesian private and state ownership, than any of the previous post-independence governments.

However, nationalist interventions were not always tethered to oil booms. As the indigenous business class grew, so too did demands for protection and industrial intervention. As the resource sectors became increasingly concentrated around a handful of conglomerates and cronies, their policy clout was also enhanced. As Robison (1986) argues in his classic study of the New Order political economy, a key function of the Suharto regime was to manage conflict and competition between different segments of capital, including foreign, indigenous, and Indonesian Chinese business interests. By the late 1990s, over a decade after Robison made his observations about the rise of domestic capital in Indonesia’s economy, the forestry and plantations sectors were almost entirely locally owned, more of the mining sector had come under local control, and Indonesian business people were slowly entering the oil and gas industry. Indeed, by the final decade of the New Order regime, just prior to the Asian financial crisis, economic nationalism in the resource sectors was no longer as closely hitched to market trends and commodity
booms, and the liberal-leaning technocrats had less and less influence over the policymaking apparatus.

1. Background: The New Order political economy

At the start of the New Order, the government’s economic strategy turned quickly and dramatically away from the staunch nationalism of Guided Democracy. Suharto took control of a country in the midst of deep economic crisis. His New Order government launched a thorough program of liberalisation in order to secure aid from international financial institutions, and attract much needed foreign investment. Liberalisation, the fortuitous oil booms of the 1970s, together with sound fiscal strategy, made Indonesia’s economic recovery swift and impressive. GDP growth surpassed most developing economies and averaged 8 per cent annually between 1971 and 1981; over the same period Indonesia transitioned from the category of ‘very poor’ to ‘middle income’, according to the World Bank’s country rankings (Arndt 1983, 144).

During these early years, the notion that Indonesia was a “comprador state” had traction amongst academics and political observers (Robison 1986, 114-6). The concept described how Suharto promoted foreign investment and sustained an economy that served the needs and demands of foreign capital, particularly in the resource sectors. In the process, the government either sidelined domestic entrepreneurs, or supported the growth of a small class of domestic capitalists - dominated by Indonesian Chinese and military-affiliated businesses - that was dependent upon pay-offs, rents and contracts from foreign business. In other words, local capital was dependent upon and subservient to foreign interests.
Once the economy stabilised, however, economic policymaking returned to the nationalist path. The government protected domestic industry, prioritised local businesses, deployed trade restrictions, and limited foreign investment across a range of industries. The characterisation of the state and local businesses as mere compradors and lackeys for foreign capital became less compelling. Cronies rather than compradors became a prevailing descriptor for Indonesia’s capitalists. The key drivers and beneficiaries of Suharto’s nationalist interventions were, at least during the early years of the New Order, primarily military elites, whose loyalty the president needed, and Indonesian Chinese businesses, whose resources the president relied upon (Robison 1986). Suharto and senior state bureaucrats gave their political clients and personal associates privileged access to valuable government contracts, import licenses, and joint ventures with foreign investors. Suharto cultivated rather than contained ethnic Chinese business activities (Mackie 2003). He maintained a Dutch-style cultural oppression of Indonesia’s Chinese minority, and in doing so entrenched an economically privileged but politically limp class of business elites. Economic nationalism, and especially the form it took in the resource industries, was highly particularistic, and served Suharto’s system of crony capitalism, from the apex of the regime down into its various administrative divisions.

Yet economic nationalism was not purely a top down exercise; nor was the New Order state entirely predatory. There were moments of popular nationalist mobilisation and outbursts of resentment from the pribumi middle classes toward the influx of foreign capital and the return and rise of Chinese business. The most prominent expression of such antagonism was the 1974 Malari incident, in which public protest broke out initially in response to rising inflation. The protests quickly evolved into a vicious attack upon Indonesia’s ethnic Chinese community and foreign, especially Japanese, businesses, who protesters perceived as the beneficiaries of special economic privileges (Robison 1986,
Suharto suppressed the protests, and Malari marked a turning point in the government’s repression of political expression. Yet, the government also responded to the protesters’ grievances by introducing more limitations on foreign ownership and investment, together with programs to ‘indigenise’ the economy by providing more opportunities for pribumi business interests.

Suharto’s regime was also characterised by some experts as a developmental state, despite its predatory and clientelistic features (Feith 1981). The New Order exhibited greater state strength and developmental success relative to preceding Indonesian governments, and to those that followed in the early democratic period. To be sure, Indonesia never achieved the industrial success of the North East Asian developmental states, as “bureaucratic coherence [was] uneven at best, and public-private linkages exhibit significant degrees of clientelism and private-sector factionalism” (Doner, Ritchie, and Slater 2005, 334). However, the government intervened in the economy to ensure the growth of domestic business in the resource industries and attempted industrial upgrading in these sectors (with uneven success). The Suharto regime facilitated the growth of multisector conglomerates, and engineered high levels of concentration around domestic firms in the resource sectors and beyond, recalling the way in which other developmental states in Asia and Latin America promoted the emergence of domestic corporate champions (Shafer 1997; Dorring et al 2017). A combination of sustained economic growth and protectionist intervention led to the growth of an indigenous entrepreneurial class and immensely profitable conglomerates from the 1980s onwards.

Towards the end of the regime scholars such as MacIntyre (1991), viewed the domestic business class quite differently. By the 1990s, decades of growth and periods of protectionism had produced a far wealthier and expanded capitalist class. MacIntyre argued that business organisation and interest aggregation was becoming more rational and autonomous, and that business displayed an increasing potential for independent
policy influence than during earlier stages of Indonesia’s economic development. The cronyism and nepotism that became even more pronounced in the 1990s was, according to MacIntyre (1994), a key source of motivation for other types of capital to organise and demand representation. The rest of this chapter elaborates how these features of the New Order political economy — cronyism, developmentalism, and the growth of an autonomous business class — played out in the resource sectors and affected patterns of localisation and industrialisation.

2. Logging

The logging industry was an archetypal example of how the New Order political economy functioned. For Suharto, the logging and forestry products sectors became important revenue bases for the state, and a source of patronage and off-budget funds (Ascher 1998). This sector is no longer the key source of state revenue it once was, and while it does not feature in this study’s cross-sectoral analysis, the industry produced some of Indonesia’s most powerful tycoons, and thus warrants particular attention in this historical chapter. Most importantly, this sector provides an apt illustration of the mutually-constituting nature of nationalist intervention during the later New Order years, in which state and business interests in favour of localisation and downstream industrialisation coalesced for both particularistic and developmental ends.

First, let us look at localisation. After coming to office, Suharto immediately opened Indonesia’s forests to foreign companies and set favourable terms for their investments. Once the sector was established, and Indonesia’s timber exports were dominating global markets, the government moved to localise the sector by transferring the lucrative assets to his cronies. Some of the domestic businesses that dominated this sector evolved into the contemporary agribusiness giants that now own much of
Indonesia’s palm oil industry. Indeed, the roots of the palm oil industry’s ownership structure can be traced back to President Suharto’s interventions into the timber industry decades prior.

From 1967, the government offered attractive investment terms in order to entice foreign capital to develop the logging industry. Foreign investors rushed in to profit from Indonesia’s expansive virgin rainforests. The government distributed large concessions to companies from the US, Malaysia, Korea, Japan and the Philippines, and log exports doubled each year until 1973 (Ascher 1998, 51). By the end of 1970, the Forestry Department had issued 81 new logging concessions, of which 46 were for foreign companies covering seven million hectares. Foreign investment constituted 80 percent of investment in the forestry sector during this period (Barr 1998, 6).

The influx of foreign companies opened up opportunities for local elites to accumulate significant wealth. Barr (1998, 6) explains the system as follows:

Partnerships with the largest [foreign] investors were almost always forged by military interests, politico-bureaucratic powerholders, or private entrepreneurs with close ties to elite officials. In particular military-owned holding companies, cooperative enterprises, foundations and pension funds representing the particular interests of both individual officers and whole commands, frequently acted as “silent partners” for foreign logging companies.

Forestry concessions were hugely lucrative, and constituted a direct transfer of patronage by the state to military officials whose loyalty Suharto sought. When Suharto took office in 1966, his power over a fractious military was still somewhat precarious. Logging concessions were an effective means of purchasing loyalty and turning senior military officials (sometimes entire military units) into clients within Suharto’s emergent patrimonial regime (Barr 1998; Ascher 1998).

Suharto also distributed concessions to ethnic Chinese businesses, who often partnered with military officials or foreign investors (Robison 1986, 187–7). The president encouraged joint ventures between the military and ethnic Chinese businesses,
because the latter could bring the business acumen that military officers lacked. These deals were new incarnations of the type of business relationships that military officers had established with Chinese merchants and traders during the revolutionary war, as a means of accessing capital to both fund the war effort and accrue personal wealth (Mackie 1991). Suharto himself was infamous for the lucrative relationships he developed with ethnic Chinese businessmen while part of the Diponegoro military division in Semarang during and following the war. The two ethnic Chinese businessmen came to dominate the logging and timber products sectors were Sudono Salim (known also by his Chinese name, Liem Sioe Liong) and Bob Hasan, both of whom had well-established commercial relationships with Suharto dating back to the 1950s (Mackie 1991, 93).

At this early stage of the sector’s development, pribumi business interests outside of the military were not offered priority access to logging concessions. Suharto’s promotion of the ethnic Chinese businesses stood in contrast to the government’s stated economic goals. Booth (1998, 185), for example, describes how the 1969 Repelita 1 (the government’s five year development plan) emphasised “favouring weaker (i.e. non-Chinese) entrepreneurs.” One of Suharto’s motivations was political: By isolating indigenous elites from lucrative rent-seeking opportunities, “Suharto neutralised much of the power of this group that had had the potential for independent political power. Instead, he brought in the Indonesian Chinese, a much more dependent group” (Ascher 1998, 53). The Chinese had a precarious political and social status so would not be able to bid for power. Accordingly, unlike the governments of the parliamentary and Guided Democracy periods, Suharto coupled an agenda for localisation with promotion of Chinese entrepreneurship.

These investment arrangements between foreign investors, Chinese business, and the military typified what some analysts characterised as the New Order’s comprador style of capitalism, whereby state and domestic business interests were compradors for,
and subordinate to, the interests of global capital (Robison 1986, 114-6). In this view, local actors were involved only as gatekeepers and rent-seekers, without controlling the flow of capital or owning the means of production. However, as Robison (1986, 115) argues, both in the forestry sector and beyond, the New Order government created the conditions for the growth of domestic capital, through state sponsorship, patronage, and partnerships with foreign investors. Eventually, in 1984, the government proscribed further foreign investment in the timber sector completely, and this sector became the domain of domestic capital.

The Suharto government also initiated a program of industrialisation, the second dimension of resource nationalism. In 1981, before the restrictions on foreign investment, the government introduced a gradual ban on the export of raw logs in order to stimulate investment in the downstream plywood manufacturing sector. A flurry of investment ensued. According to Barr (1998, 9), “[b]etween 1978 and 1985, the number of plywood producers…rose from 19 to 101…production capacity shot up from less than 800,000 m3 to 6.5 million m3 per year.” This made Indonesia a world leader in the export of tropical plywood, dominating 80 percent of the market by the 1990s. Many of the bureaucrats and politicians interviewed for this study believed that the success of the log ban went on to inspire future downstream interventions, including the 2014 raw mineral export ban discussed in Chapter Five.

The ban engineered a new ownership structure in the timber industry. Smaller companies – many of which were military affiliated – that could not afford downstream investment instead sold their interests to larger companies. Foreign investors were also unenthusiastic about being forced to sell their logs domestically and invest in plywood factories. Many chose instead to sell their shares to a local partner (Barr 1998). This process of consolidation meant that by the early 1990s both the logging and plywood industries were highly concentrated around a relatively small number of companies, all
of which were owned by Indonesian Chinese businessmen, most with close links to Suharto. The downstream pulp and paper industry emerged in much the same manner, and according to Resosudarmo and Yusuf, (2006, 14) by the late 1990s:

Three business groups — Sinar Mas, owned by Eka Tjipta Widjaja, Raja Garuda Mas, owned by Sukanto Tanoto, and Bob Hasan groups — controlled 90 per cent of the total national pulp production; while as for the paper industry, the ten largest paper mills, of which five of them were owned by Sinar Mas, were responsible for almost 70 per cent of the total paper production.

Downstream interventions were, in essence, a direct and lucrative subsidy to Suharto’s ethnic Chinese cronies. Table 4.1 shows the largest business groups in terms of their logging concession areas, plywood capacity, the group owners or major shareholders, with details about political connections as well.

The Indonesian Chinese tycoons who made fortunes in this sector returned the favour by financing the New Order program for industrialisation, as well as President Suharto’s personal projects. For example, Liem Sioe Liong (Salim Group) and Prajogo Pangestu (Barito Pacific) helped finance everything from petrochemical plants, infrastructure projects, to Suharto’s Taman Mini theme park (Ascher 1998). In essence, Suharto’s interventionist approach to the logging and timber sector was a means to cultivate an immensely wealthy, but politically weak, class of capitalists upon which he could call to capitalise state-led industrial projects.

The logging sector provides a clear example of how government decisions and interventionist policies can engineer particular patterns of ownership, and in turn produce business interests that evolve and eventually place new demands upon the state for further nationalist interventions and concessions (Doner 1991; Schneider 1997; Döring, Santos, and Pocher 2017).
TABLE 4.1: Ownership, Concession Area and Plywood Production Capacity of Indonesia’s Largest Timber Groups, 1990*

<table>
<thead>
<tr>
<th>Group</th>
<th>Owner/s</th>
<th>Total Concessions</th>
<th>Concession Area</th>
<th>Production capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barito Pacific</td>
<td>Prajogo Pangestu, prominent Indonesian Chinese business crony</td>
<td>22</td>
<td>2,215,500</td>
<td>1,236,900</td>
</tr>
<tr>
<td>Korindo</td>
<td>Korean-owned</td>
<td>7</td>
<td>828,000</td>
<td>624,000</td>
</tr>
<tr>
<td>Djajanti</td>
<td>Burhan Uray (Huang Shuang’an), prominent Indonesian Chinese business tycoon; Sudwikatmono, Suharto’s cousin, also a shareholder</td>
<td>24</td>
<td>2,726,500</td>
<td>618,000</td>
</tr>
<tr>
<td>Bumi Raya Utama</td>
<td>Adijsanto Priosoetanto (Tan Lim Hian), and Soenaryo Priosoetanto (Tan Lim Hian), both Indonesian Chinese businessmen</td>
<td>9</td>
<td>1,060,000</td>
<td>519,000</td>
</tr>
<tr>
<td>Indo Plywood</td>
<td>Unclear</td>
<td>2</td>
<td>350,000</td>
<td>508,850</td>
</tr>
<tr>
<td>Alas Kusuma</td>
<td>PO Suwandi and Dr. Ibnu Hartomo, Suharto’s wife’s brother</td>
<td>17</td>
<td>2,248,000</td>
<td>409,340</td>
</tr>
<tr>
<td>Surya Dumai</td>
<td>Unclear</td>
<td>7</td>
<td>904,000</td>
<td>405,400</td>
</tr>
<tr>
<td>Kalimanis</td>
<td>Bob Hasan, one of Suharto’s closes and most influential Indonesian Chinese cronies</td>
<td>3</td>
<td>855,000</td>
<td>390,000</td>
</tr>
<tr>
<td>Satya Djaya Raya</td>
<td>Susanto Lyman (Lie Siong Tay), prominent Indonesian Chinese intellectual with close ties to government and military</td>
<td>12</td>
<td>1,597,000</td>
<td>369,000</td>
</tr>
<tr>
<td>Kayu Lapis Indonesia</td>
<td>Sudono Salim (Liem Sioe Liong), Suharto’s closest and richest Indonesian Chinese crony; the Suharto family was also a major shareholder</td>
<td>14</td>
<td>1,789,000</td>
<td>349,300</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
<td>Sukanto Tanoto, prominent Indonesian Chinese business crony</td>
<td>2</td>
<td>259,000</td>
<td>340,000</td>
</tr>
<tr>
<td>Sumber Mas</td>
<td>Yos Sutomo, prominent Indonesian Chinese timber baron</td>
<td>7</td>
<td>710,000</td>
<td>328,200</td>
</tr>
<tr>
<td>Hutrindo</td>
<td>Akie Setiawan (Kho King Piang), Indonesian Chinese timber baron</td>
<td>17</td>
<td>1,587,000</td>
<td>252,000</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>391</td>
<td>37,603,000</td>
<td>5,780,000</td>
</tr>
</tbody>
</table>

* Organised in order of production capacity. Information on concessions and production capacity from Barr (1998, 12); ownership details were compiled by the author using Brown (1999), Suryadinata (2012) and a range of media articles and company reports.

3. Plantations

During the economic chaos of Guided Democracy, Indonesia’s plantations deteriorated. Productivity at both smallholder and commercial estates suffered significantly. While the New Order government pursued some programs to boost productivity, overall the picture was one of neglect and “lost opportunities” (Hill 1994, 75). As a result, for plantation crops such as rubber, coffee, sugar and tea, ownership structures remained much the same during the New Order and state intervention was minimal. An important exception to this pattern was palm oil. Given the palm oil industry’s growth throughout the New Order, and the pivotal role it plays in the contemporary economy (and in this study), much of this section focuses upon developments in the palm oil subsector. During the New Order, the sector reflected a pattern of localisation that Doner (1992, 407) observed in his classic study of business-state relations in Southeast Asia, whereby “state localisation initiatives

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1 In the food crop sector, the big exception to this story was rice. The Suharto government spent significant resources to develop Indonesia’s rice sector and achieve rice self-sufficiency. The famine and inflation of Guided Democracy motivated the Suharto government to direct much of its developmental agenda to this sector. This subsector’s status as food crop designed for domestic consumption means it falls outside the realm of the current comparative study.
[were] followed by expanding private sector participation and pressure”, eventually leading to a situation in which private capital became the more prominent actor within policy coalitions.

From 1967, the new government initiated a series of programs, funded through international loans, to try and improve yields and revitalise the export-oriented plantation estates that had previously been the country’s economic backbone (Hardjono 1994, 204). To recall, when Suharto took over as president, all of the large estates across Indonesia’s sugar cane, rubber, coffee, and tea sectors had been nationalised and were already under state control. During the early years of the New Order, most subsidies and development programs channelled funds into government-owned estates, and smallholder and private estates continued to stagnate for another decade (Hardjono 1994, 204).

The Dutch estates that were nationalised at the end of the 1950s had been consolidated under state enterprises that, during the early New Order years, were re-organised into a series of Perseroan Terbatas Perkebunan Negara (State Plantation Companies Ltd, PTPNs). PTPN owned a range of plantation estates, including rubber, coffee, and sugar cane. With loans channelled into the government estates, there was a general increase in productivity, primarily due to improvements in technology, seeds, fertiliser and so forth. There was only limited expansion in terms of the area under cultivation for cash crops such as rubber, sugar cane, and tea (Hardjono 1994, 204). The opposite was true for smallholders in rubber and coffee who, throughout the New Order, received little effective government assistance and continued to use traditional technologies. Their output increased largely through land expansion (Hardjono 1994, 204–5).

Overall, state subsidies to the government-owned estates were poorly managed, subject to corruption, and generally very inefficient. PTPN often had senior military officers in leadership positions. According to Stoler (1985: 148–9 in Cramb and
McCarthy 2016, 52), “[i]n the late 1970s, the executive boards of the large government estate corporations included some of the most influential men in the region, among the wealthiest in Indonesia.” The PTPN were thus sites of rent-seeking and private wealth accumulation. The general neglect of cash crop sectors, particularly rubber, meant Indonesia never reclaimed its once prominent position in global markets.2 One prominent scholar of Indonesia’s economy summarised the New Order’s approach to commercial plantations in the following way:

…inefficient management of and costly subsidies for the state-owned plantations, insecure land access for some private estates, and ineffective promotional programs for smallholders have all retarded growth (Hill 1994, 76)

The story was different when it came to the nascent palm oil sector. During the New Order, palm oil was identified as a developmental priority for the government - though for much of this period the crop remained peripheral to the economy in terms of foreign exchange and export revenue. In the mid 1970s, the World Bank and Asian Development Bank began funding programs to expand crude palm oil (CPO) production as a strategy for diversifying sources of cooking oil, which in the 1970s relied heavily on a limited supply of coconut oil. Palm oil expansion thus began in earnest in the 1970s, primarily through, again, subsidies to government-owned estates.

A secondary goal of palm oil expansion was to engage rural communities in the outer islands as a way to reduce poverty and provide livelihoods to transmigrants (Gaskell 2015). To that end, Nucleus Estate Schemes (NES) were established, in which “a private or state-owned plantation company establishe[d] a central estate and palm oil mill and provide[d] services to surrounding smallholders” (Cramb and McCarthy 2016, 56). By the early 1980s, according to Gaskell (2015, 39), “2% of oil-palm plantations were owned

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2 The best example is rubber. According to Hill (1994, 76), for much of the 19th century Indonesia was the second largest supplier of rubber on world markets after Malaysia. During the 1970s and 1980s, as Malaysia’s rubber sector contracted, economists argued Indonesia should have risen to become the world’s largest rubber producer; instead, “Thailand, which produced about one-sixth of Indonesia’s total in 1960 and one-third in 1970” came to dominate global supply by the late 1980s (Hill 1994, 76).
by smallholders, 28% by private companies, and 70% by the government.” While reliable data could not be obtained, it appears that at this stage of the sector’s development, almost none of the private companies developing palm oil plantations were foreign-owned. Localisation was, therefore, not part of the government’s policy agenda.

Industrial and downstream development, however, was a priority for the Suharto government. CPO was not a strategic export crop at this stage; the Suharto government viewed palm oil as a feeder crop for the downstream cooking oil industry. The government’s priority was to ensure local cooking oil companies could access CPO at low prices. For example, in 1979, the government mandated that 60 percent of palm oil production be reserved for domestic use, and then two years later in 1981 the government banned the export of CPO and companies were forced to sell their entire CPO produce locally (Piggot et al. 1993). Fane (1996, 342) explains how, through the 1980s, “domestic users [of CPO] were protected both by a tax on exports and by an allocation scheme which forced growers to supply domestic refineries with part of their output at low, controlled prices.” CPO goes through a fractionation process at refineries, which produces palm oil derivatives used for a range of products, including cooking oils destined for the domestic market. The downstream intervention began to work, and by 1981 Indonesia’s refineries had increased their capacity so much – to approximately 1 million tons – that they were undersupplied, and had surpassed Indonesia’s CPO production capacity (Gaskell 2015, 39). In other words, upstream interests, which were dominated by PTPN, were subordinate to the sector’s downstream interests.

Who were these interests? As was the case in the timber and plywood sectors, downstream interventions served Suharto’s close business associates. The domestic CPO processing industry was highly concentrated during the Suharto years. A handful of Suharto’s personal business partners and Indonesian Chinese cronies were active in CPO refining and cooking oil production and distribution, and they benefitted directly from the
state’s restriction on CPO exports. According to one report, “in 1989, a single conglomerate controlled 45% of the licensed capacity for fractionation and refining” (Gaskell 2015, 41) This conglomerate was the Salim Group, owned by Sudono Salim (Liem Sioe Long). Salim was Suharto’s closest business associate. His name appears in Table 4.1 in the list of tycoons with the largest timber concessions. According to Gaskell (2015, 40), “these export restrictions represented a large implicit subsidy to domestic refiners,” and thus to the companies owned by Salim. This subsidy for domestic refiners hurt state companies and smallholders, who could get better prices for their CPO on global markets. But these business actors, and the sector itself, remained peripheral to Indonesia’s export economy and state revenues during 1980s.

However, the Suharto’s government agenda for the palm oil sector evolved. By the late 1990s, palm oil was in the midst of transitioning from a state-owned sector geared towards rural development and the domestic market, to a privately-dominated sector geared towards revenue generation and export markets. Zen et al. (2016, 81) explain this shift as follows:

In the 1970s and 1980s, when Indonesia’s oil palm policy originally took shape, the focus was on poverty alleviation…. Since the 2000s, policy settings have reflected a shift towards developmental narratives that stress the role of the private sector in a “new” business-led agriculture.

The shift in priorities changed the sector’s ownership structure too. Table 4.2 is taken from Zen et al. (2016, 81) and shows the marked expansion of privately-owned and smallholder estates.
TABLE 4.2: Area of oil palm, area growth rate, and crude palm oil (CPO) production in Indonesia by mode of production*

<table>
<thead>
<tr>
<th>Year</th>
<th>Area and Production</th>
<th>Government Estates</th>
<th>Private Estates</th>
<th>Smallholdings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area ('000 ha)</td>
<td>200</td>
<td>89</td>
<td>6</td>
<td>295</td>
</tr>
<tr>
<td>1980</td>
<td>Production ('000 t)</td>
<td>499</td>
<td>222</td>
<td>1</td>
<td>721</td>
</tr>
<tr>
<td>1990</td>
<td>Area ('000 ha)</td>
<td>372</td>
<td>463</td>
<td>291</td>
<td>1,127</td>
</tr>
<tr>
<td></td>
<td>Areal Growth (%)</td>
<td>6.4</td>
<td>18</td>
<td>28.1</td>
<td>14.5</td>
</tr>
<tr>
<td></td>
<td>Production ('000 t)</td>
<td>1,247</td>
<td>789</td>
<td>377</td>
<td>2,413</td>
</tr>
<tr>
<td>2003</td>
<td>Area ('000 ha)</td>
<td>561</td>
<td>2,555</td>
<td>1,811b</td>
<td>4,926</td>
</tr>
<tr>
<td></td>
<td>Areal Growth (%)</td>
<td>3.2</td>
<td>14</td>
<td>15.1</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Production ('000 t)</td>
<td>1,716</td>
<td>4,778</td>
<td>3,257</td>
<td>9,750</td>
</tr>
</tbody>
</table>


b Including 897,457 ha in NES plasma and a balance of over 900,000 ha of individual holdings.

Table 4.2 illustrates how in 1980 the sector was dominated by government estates; by 1990 ownership was changing and private estates owned more plantation land than the PTPN, though production at the latter still remained much higher due to the long lag between planting and yields. In the decade to 2003, the private sector came to dominate palm oil land and production, with smallholder growth continuing at an impressive pace through NES schemes with large private companies.

The surge in private investment was stimulated by state policy. According to Casson (1999, 13), “the Indonesian government encouraged greater private sector
involvement in the oil palm sector between 1986-1996 by granting access to credit at concessionary rates for estate development, new crop planting and crushing facilities.” The principal beneficiaries of these attractive investment terms were established Indonesian Chinese business elites, many of whom had amassed fortunes in the timber industry and enjoyed close personal relations with President Suharto. These tycoons transferred the rents from their lucrative logging and plywood businesses into this new, promising export industry. By 1998, according to Casson (1999, 14), “around 69 percent of the total planted area owned by private companies was owned by just eight conglomerates.” Table 4.3 displays the top private palm oil producers in 1997, just before the Asian financial crisis.
**TABLE 4.3 : Palm Oil Ownership In 1998***

<table>
<thead>
<tr>
<th>Company</th>
<th>Group</th>
<th>Group owner</th>
<th>Total land bank area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Golden Agri Resources</strong></td>
<td>Sinar Mas Group</td>
<td>Eka Tjipta Widiyaja, Indonesian Chinese crony</td>
<td>582,208</td>
</tr>
<tr>
<td><strong>Bakrie Sumatra Plantations</strong></td>
<td>Bakrie and Brothers</td>
<td>Aburizal Bakrie, pribumi businessman close to Suharto</td>
<td>376,041</td>
</tr>
<tr>
<td><strong>Astra Agro Lestari</strong></td>
<td>Astra International</td>
<td>William Soeryadjaya, prominent Indonesian Chinese tycoon</td>
<td>280,000</td>
</tr>
<tr>
<td><strong>Salim Plantations</strong></td>
<td>Salim Group</td>
<td>Sudono Salim, Suharto’s closest Indonesian Chinese crony</td>
<td>275,000</td>
</tr>
<tr>
<td><strong>London Sumatra Indonesia</strong></td>
<td>Napan Group</td>
<td>Henry Pribadi (member of the Salim family), together with Ibrahim Risjad (a pribumi crony) and Bambang Trihatmodjo (Suharto’s son)</td>
<td>245,629</td>
</tr>
<tr>
<td><strong>Asian Agri</strong></td>
<td>Raja Garuda Mas</td>
<td>Sukanto Tanoto, Indonesian Chinese crony</td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Tolan Tiga</strong></td>
<td>SIPEFF Group</td>
<td>International, incorporated in Belgium</td>
<td>52,869</td>
</tr>
<tr>
<td><strong>Socfindo</strong></td>
<td>Soefin Group</td>
<td>International, majority owned by French company, Bollor</td>
<td>47,777</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>1,982,242</td>
</tr>
</tbody>
</table>

*Columns one, two and four are taken from Casson (1999, 15); Group owner information sourced from company and media reports.*
Some sectoral growth came from foreign investors (McCarthy and Cramb 2009, 115–16). By the late 1990s, of all privately palm oil estates, about 20 percent were foreign-owned (Feridhanusetyawan 1997, 28). Suharto had a plan, however, to significantly expand foreign involvement in order to boost productivity and increase revenue and foreign exchange. According to Casson (1999, 8), “[i]n 1996, the Suharto government pledged to overtake Malaysia as the world’s largest oil palm producer by doubling the area for palm oil production to 5.5 million hectares by the year 2000. Half of this was to be allocated to foreign owned private estate companies.” Before the crisis, according to Casson (1998,7), the government had allocated 1.5 million hectares of land to Malaysian palm oil companies.

These plans, however, prompted nationalist opposition from Indonesian palm oil producers, who saw competition from foreign companies as a direct threat to their own interests (Lindblad 1997, 26). In early 1997, the government closed the sector to foreign investment. According to Feridhanusetyawan (1997, 28):

The stated reason for the ban was to prevent too much land acquisition by foreign plantations, and [to] make it easier for the domestic conglomerates that are beginning to dominate the industry to purchase new land. Another stated concern was that foreign investors will export crude palm oil and not develop domestic downstream industries

Localisation, thus, reflected the demands of lead domestic firms in the sector. As the prospect of more foreign competition loomed, the sector’s powerful agribusiness giants demanded protection and intervention. The development was significant for two reasons. First, the introduction of a foreign investment ban was at odds with the government’s, and indeed Suharto’s, stated developmental and growth objectives, and illustrated the degree to which domestic conglomerates, including those owned by Indonesian Chinese, could now execute an independent influence upon nationalist policy outcomes in the booming agribusiness sector. The development is also significant because a decade later
in the post-Suharto period, as we shall see in Chapter Six, a similar cast of business elites opposed moves to cap foreign investment in the palm oil industry.

In summary, the palm oil sector epitomised both the developmentalist and clientelistic features of the New Order political economy. Palm oil expansion was a means of providing rural livelihoods and supporting the transmigrant program. Though, the conditions under which smallholders were incorporated into the sector has been the subject of much controversy, because they were often included on adverse and remarkably unequal terms (McCarthy 2010). At the same time, Suharto pursued a program of localisation that involved sponsoring his personal business associates. The president offered Indonesian Chinese and a handful of pribumi cronies enormous opportunities for wealth accumulation in the budding industry; but the state also “used its power to dictate the terms of agribusiness investment, insisting that plantations include small farmers” through the Nucleus Estate Scheme (Cramb and McCarthy 2016, 14). The system enabled the rise of Indonesia’s agribusiness giants, while boosting smallholder productivity.

Overall, by the end of the Suharto regime, palm oil had evolved from a peripheral cash crop to a key export commodity that contributed to “31 percent of Indonesia’s agricultural exports, and 3.5 percent of Indonesia’s total non-oil and gas exports” (Casson 2000, 11). The sector also expanded the wealth and economic footprint of the country’s most prominent conglomerates and particularly Indonesian Chinese cronies. Over time, these business interests came to enjoy enormous structural power within policymaking coalitions, and in this sector they used that power to pressure the state to extend programs of localisation.
4. Oil and Gas

During the first half of the New Order, oil rents were crucial for Indonesia’s economic recovery. The physical properties of oil compelled both colonial and Indonesian governments to rely heavily on major foreign companies with vast capital assets. Oil and gas extraction is capital-intensive anywhere in the world; but in Indonesia, difficult geology, terrain and remoteness make investment particularly expensive and high-risk (Barnes 1995, 57). The Indonesian government, however, carved out space in the market for its state firm, Pertamina.

The Suharto’s government’s approach was much like the previous administration: it invited foreign companies to exploit Indonesia’s hydrocarbon reserves, while compelling them to partner with local enterprises. The goal was to expand state control, build-up the capital and technological capacity of the national oil company, and increase Indonesian participation through partnerships and contracts with foreign investors. State managers understood this strategic sector would, at least for the medium term, remain highly dependent upon upstream foreign investors.

To achieve these goals, Ibnu Sutowo, Suharto’s minister of mines and the director of one of the state companies, Permina, tweaked the contract system established under Sukarno’s 1960 Petroleum Law. It is worth explaining this regulatory regime in some detail here, because it was changed as part of the broader post-Suharto liberal reform program after 1998, and nationalist mobilisation in the contemporary period has largely been focused on reviving the New Order system. In 1968, new production sharing

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3 Oil exploration and production is more difficult and more expensive in Indonesia than in the petro-states of the Middle East and Latin America because of the challenging, “terrain, vegetation, water depth, distance from shore, accessibility and remoteness of site” (Barnes 1995, 60). As Barnes (1995, 58) explains, “Indonesia is mainly characterised by many small but numerous fields requiring a large number of wells to be drilled in relation to oil produced…there is some mitigation in that fields are usually shallow, with many less than 3,000ft and some at 300 ft. Production curves are often bell shaped with the decline rate high with fields being exhausted within 7 to 15 years. As a result of these characteristics, exploration has to be maintained at a high rate to compensate for the decline in existing fields.”
contracts (PSCs) were set up, which were different from the previous contracts in two important ways: First, the government was entitled to take a share of foreign contractors’ oil production, which state oil companies could then market and sell domestically or abroad. Previously, the government’s share came in monetary form as a percentage of companies’ net income. Second, under the PSC system, the foreign company took on all exploration risk. However, if and when production started, some of those exploration costs could be reimbursed by the state in a ‘cost-recovery’ system (Bee 1982, 24–25).

This was an attractive system for oil companies, because they could recoup many costs associated with their initial investments. This system also benefitted the Indonesian state because the assets that companies claimed under cost-recovery for the purposes of oil exploration or production would eventually become the property of the state. This meant that once an oil company’s contract expired, the state effectively owned much of the infrastructure and technology at the oil well, making it, theoretically, easier for a state enterprise to take over operatorship.

The system was designed to increase the state’s role in the sector in the face of significant economic constraints. As Ibnu Sutowo said in 1974, “… we are still in need of foreign oil companies. We still need their skills, technology, capital and work experiences” (Indonesian Perspectives, December 1974, 75 in Bee 1982, 29). At the same time, the New Order government went about developing a national oil company. Suharto merged Pertamin and Permina into P.N. Pertamina (Perusahaan Negara Pertambangan Minyak dan Gas Bumi Nasional), and made Ibnu Sutowo the new director. Under the 1971 Pertamina Law, Suharto granted the new national oil company immense regulatory power and control over the sector’s revenue. Specifically, all foreign operators had to contract with, and have their work plans approved by, Pertamina. The national oil company was also given a monopoly over marketing the government’s share of crude oil.

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4 State owned gas company, Permigan, had been dissolved in 1965
and gas, and a monopoly over the sale of refined petroleum products on the domestic market.

Aspects of this system incentivised Pertamina to cultivate new foreign contracts. Under the PSC system, all foreign companies were compelled to pay their royalties and taxes to Pertamina. Contractors also paid ‘signatory bonuses’ in the millions of dollars, which went straight to Pertamina (Bee 1982, 31-2). Sutowo, thus, went about promoting Indonesia and the PSC system to the international oil industry, and he successfully attracted an increasing number of contracts in the late 1960s and early 1970s. Each contract brought in new revenues for Pertamina, and the company was well-placed to benefit from the oil boom of the early 1970s. While Pertamina did not operate any significant wells of its own, the national oil company quickly became a powerful national oil company.

Under the PSC system, and in the context of buoyant global oil prices in the early 1970s, the sector made a substantial contribution to Indonesia’s remarkable economic recovery. Between 1966 and 1974, over 60 PSCs were signed (Gladstone 1977, 124). Crude output rose from 500,000 b/d in 1966 to 1.4 million b/d in 1974 (Glassburner 1976, 1106). The value of Indonesia’s petroleum exports grew by 148 per cent between 1969 and 1974, and the value of oil company taxes grew at an annual rate of 164 per cent over the same period (Bee 1982, 31-2). By 1970, oil exports constituted 40 per cent of Indonesia’s export revenue, and the boom of 1974 brought this figure to almost 70 per cent (Barnes 1995, 19).

While upstream exploration and production was the domain of foreign multinationals, Pertamina helped to facilitate the entry of local companies into the oil and

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5 In 1968, the Indonesian government, largely as a result of the efforts of Ibnu Sutowo, signed 15 new PSCs and 13 new foreign oil companies joined the Indonesian market, bringing with them hundreds of millions of dollars in investment to a sector that had stagnated for years - Union Oil, International Oil Exploration, Phillips Petroleum Company of Indonesia; Total Indonésie, Indotex, Virginia International, IIAPCO, Agip, Continental Oil, Mobil Oil, Indonesia Frontier Petroleum, Javasea Oil, Indonesia Gulf Oil (Bee 1982, 28).
gas services industry too. Barriers to entry are far lower in this subsector, which includes construction services, the provision of pipes, rigs, transport, and the like. According to Aden (1992, 92), “from 1968 to 1976, Ibnu Sutowo underwrote the growth of an Indonesian oil service sector.” He did this by forcing the foreign service companies to engage in joint venture arrangements with Pertamina, and by awarding service and construction contracts “to young would-be businessmen” (Aden 1992, 91).

This industrial policy was designed to reward and consolidate support from particular political factions. According to Aden (1992), many of the businesses were owned by elite military and bureaucratic families connected to either the Generation of 1945 that fought in the revolutionary war, or the Generation of 1966 that had allied with Suharto and the military against Sukarno.6 These individuals took up opportunities for contracts from military-run SOEs in a range of sectors, not just oil. Most enjoyed direct and close relationships with senior generals such as Ibu Sutowo, if not directly with President Suharto.

Pertamina also became the focal point for the New Order government’s program of resource-based industrialisation. Suharto and Sutowo shared a vision for Pertamina to become the engine of Indonesia’s industrialisation – a “national development ‘company’”, much like Japan’s Mitsubishi (Gladstone 1977, 125). Both men wanted a national oil company that could be a “vanguard of development [and] advance the whole economy” (Gladstone 1977, 125). As Ascher (1998, 48) puts it, the government conceived Pertamina as a “conglomerate” rather than an upstream operator. The company invested little revenue back into oil and gas activities; instead, Sutowo directed Pertamina’s capital into wide-ranging industrial projects (Ascher 1998, 40). These included roads, shipping,

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6 Some from the Generation of 1966 had links to the military through their activities in the anti-Sukarno student movement at University of Indonesia (Universitas Indonesia, UI) and the Bandung Technology Institute (Institut Teknologi Bandung, ITB)
transportation, fertilizer factories, oil trading, petrochemical plants to steel industries, as well as other development projects such as schools, clinics and mosques (Bee 1982, 32).

Pertamina’s industrial investments came to an abrupt end, however, in 1975-6, when the company went bankrupt. By 1974 the company’s industrial projects had led to significant financial overreach, and Pertamina had become the “biggest corporate bank borrower in the developing world” (Bee 1982, 31). When oil prices dropped in 1975, Pertamina defaulted on a series of loans and Suharto ordered the Central Bank of Indonesia to move in and rescue the company. The government discovered that Pertamina’s debt amounted to 7.6 billion dollars, a debt that burdened the Indonesian economy for years to come (Bee 1982, 33).

Under Ibnu Sutowo, Pertamina had not only engaged in irresponsible borrowing, it had also become increasingly corrupt. The company developed a “notorious penchant for paying inflated prices” and was a lucrative source of kickbacks and illegal fees for senior government and military officials (Glassburner 1976, 1104). The company spent far more than any Indonesian government department, without intervention or monitoring from higher authorities. Pertamina provided off-budget funds directly to Suharto as well, helping with everything from Golkar’s election campaign in 1971, to the President’s wife’s various business enterprises (Gladstone 1977, 127).

In an attempt to prevent the crisis from spreading, Suharto handed the economic technocrats control over Pertamina and they introduced substantial changes to improve transparency and the regulation of Pertamina’s finances and investments. The reforms signalled a victory for the liberal-leanining technocrats, who had long argued that the industry’s regulator should be placed under tighter bureaucratic controls (Ascher 1998,

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7 For example, according to Glassburner (1976, 1104) “contracts for the power installation at the Krakatau Steel Mill in Cilegon ran nearly three times the cost of a comparable installation in Taiwan…Furthermore, Krakatau Steel, if not an industrial white elephant, is at best an ‘industrial monument’...[and] a national symbol of industrial modernity.”
44). The technocrat’s swift response meant the economic repercussions of Pertamina’s bankruptcy were relatively contained.

However, the crisis motivated renewed nationalist agitation that was aimed at and critical of Suharto and his regime. Pertamina’s fall from grace called into question Suharto’s economic credentials, which constituted a foundation for the New Order’s legitimacy. The early 1970s was a time of increasing public disillusionment with Suharto’s government, and open antagonism toward New Order economic policies. The Malari riots had broken out just two years earlier. Media reports were openly criticising the conspicuous wealth of military and bureaucratic elites, particularly Ibnu Sutowo. In this broader political milieu, some argued that the Pertamina crisis was the product of Indonesia’s over-reliance on foreign capital. According to McCawley (1978, 20), in the eyes of the government’s nationalist critics, “the Pertamina crisis confirmed that Indonesia had become too pro-West, too reliant on Western capital investment, indeed too capitalistic all around.” Nationalists in the media and also in government maintained that Pertamina’s demise would please foreign firms and their home governments, and implied that western companies and banks enabled the crisis to deepen in order to undermine Pertamina’s long term development (McCawley 1978, 22). That the Pertamina crisis forced Indonesia to borrow even more from international financial institutions was “ideologically reprehensible” and a point of national shame (Glassburner 1976, 1111).

As noted earlier, the Malari riots and the Pertamina crisis marked a turning point in the New Order’s approach to government. Those events demonstrated to Suharto that his legitimacy was under threat. The president took a more repressive approach to dissent. But the government also moved toward a more nationalist approach to investment, in order to demonstrate commitment to localisation. The Suharto government recognised the need to assuage discontent about the domination of foreign and ethnic Chinese capital. In 1974, the government introduced a new regulation that compelled foreign direct
investment to enter into joint ventures with Indonesian businesses in which pribumi controlled both a majority equity share and management of the company (Thee 2011, 69). This was followed by two presidential decrees in 1979, which, as explained by Thee (2011, 70):

…stipulated that government contracts of up to Rp20 million were solely reserved for entrepreneurs from the ‘economically weak groups in society’ (golongan ekonomi lemah), a euphemism to refer to the indigenous Indonesians as distinct from the ‘economically strong groups in society’, that is, the ethnic Chinese. For contracts up to Rp100 million, bids had to be awarded by tender, but preferential treatment would still be given to entrepreneurs from the ‘economically weak groups in society’ even if their tenders were up to 10 per cent higher than the others.

These new regulations, together with a new offer of low-interest state bank loans, prompted an increasing localisation of the oil and gas services sector, and motivated the movement of some indigenous companies into upstream production as well. According to Aden (1988, 97), after the two presidential decrees in 1979, a remarkable number of new pribumi companies entered oil and gas services, growing from 27 in 1974 to over 800 in 1979, while the total number of foreign companies engaged in services was reduced by half. However, the oil glut of the mid 1980s forced many of the smaller domestic companies to close down. By the early 1990s, the largest 15 Indonesian service companies survived and thrived, and came to dominate the domestic oil and gas services sector (Aden 1992, 100-101).

Localisation efforts benefitted politically-wired business elites. Pertamina’s leadership distributed oil and gas service contracts amongst senior members of the military, members of the president’s family and his closest associates. One journalist described how Pertamina established a, “web of cozy supply contracts in shipping, drilling, and exploration” for Suharto’s cronies and family members (Borsuk 1998). For example, the relatively small amount of crude that Pertamina pumped was consigned to trading companies in Hong Kong and Singapore controlled by the Suharto family (Borsuk
1998). According to one report, “family companies also handled all of Indonesia’s oil-product imports” (Borsuk 1998).8

A small handful of Indonesians ventured beyond the oil and gas services and trading sectors and tried their luck at upstream production. Writing for the *Far Eastern Economic Review* in 1989, Vatikiotis told of how Pertamina’s finances were becoming tight, and that the company began, “farming out” upstream contracts to domestic private firms in order to bolster the domestic industry (Vatikiotis 1989). Indonesian companies were limited mostly to Technical Assistance Contracts (TAC) rather than PSCs. Companies with TACs take on no exploration risk and require less capital investment, because the contracts cover areas with old, existing wells that were abandoned by foreign oil companies.9 In 1989, Pertamina first offered an Indonesian firm equity in a PSC. Arco and BP won a PSC for natural gas exploration in the fields north of Bali, and Pertamina offered a 10 per cent share to Bimantara, the company owned by Suharto’s son, Bambang Trihatmojo. The offer was remarkable because by law only Pertamina was entitled to a 10 per cent stake in PSCs. *The Far Eastern Economic Review* suggested that several other PSCs and TACs were awarded that year to “connected companies” (Vatikiotis 1989).

The only privately-owned Indonesian firm to become a serious upstream operator during the New Order was Afirin Panigoro’s Medco Energy International. Panigoro leveraged his ties to the Suharto family and to senior bureaucrats in the ministry and built the company up from a small drilling enterprise into an integrated and international

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8 More examples: Suharto’s wife, Tien, had family members appointed to strategic positions within Pertamina to ensure easy access to contracts. Suharto’s son, Bambang Trihatmojo, established a shipping company whose success depended almost entirely on its owner’s personal connections within Pertamina (Borsuk 1998). In 1985, Suharto’s other son, Hutomo ‘Tommy’ Mandala Putra, bought Pertamina’s subsidiary, Pertamina Oil Marketing (Perta), and established himself as the country’s oil broker. The Asia Times reported that, “Perta was later closed by the government having allegedly milked Pertamina for almost US$1 million per month” (Guerin 2003). Tommy’s company, Humpuss, also had significant interests in LNG shipping and a petrochemicals plant that processed LNG – all contracts gotten through family connections to the national oil company. Bob Hasan, one of President Suharto’s most prominent cronies, partnered with Tommy in some of these ventures, including Pertamina’s Pelita Air Service. Hasan also received a large stake in Pertamina’s insurance company, PT Tugu Pratama Indonesia (TPI), from which all oil and gas companies were forced to buy insurance (Liputan6.com 2001).

9 A 1995 industry report stated that four TACs were given to Indonesian owned companies that year.
energy company. Panigoro set up Meta Epsi Pribumi Drilling Company in 1980, with financial assistance from Eddy Kowara Adiwinata – the father in law of Suharto’s daughter, Siti Hardijanti ‘Tutut’ Indra Rukmana (Aditjondro 2006, 136). This was the first oil and gas services company owned by an indigenous Indonesian businessman. Arifin had a close relationship with the Director General of Oil and Gas at the Ministry, Wijarso, who helped the company acquire drilling contracts and access capital before the company even had equipment or skilled staff (TokohIndonesia.Com 2003). Wijarso would eventually become a commissioner on Medco’s board. In 1992 Panigoro expanded into upstream oil and gas exploration and production with his newly incorporated Medco Energy International, which became the first Indonesian oil company listed on the Jakarta Stock Exchange. The company took pride of place as one of the country’s top ten oil producers after purchasing Stanvac Indonesia from ExxonMobil in 1995 for US$88 million, most of which came in the form of favourable state bank loans.

By the mid 1990s, however, Indonesia’s oil wells were drying up, and new exploration investment had flat-lined for years. It seemed that just as local businesses began expanding into upstream hydrocarbon production, the sector was already in decline. Oil was harder and more expensive to squeeze from what were once the country’s most productive fields. In the mid-1990s, experts were predicting that Indonesia would be a net oil importer by the turn of the century (Barnes 1995, 67). Oil was no longer the backbone of the Indonesian economy either. The Suharto government had done much to diversify sources of economic growth and state revenue, motivated by the oil price collapse of the early 1980s. Table 4.4 shows the significant decline in the sector’s contribution to GDP growth.
At the close of the New Order, the structure of the upstream sector remained much the same as it had been decades earlier, in the sense that multinationals continued to dominate. Pertamina was still only a minor player in upstream oil production; indeed its role had declined in relative terms with it contributing to “only 10 percent of Indonesia’s oil output in the 1970s and 1980s, and only 5 percent in the first half of the 1990s” (Ascher 1998, 39). In the early 1990s there were over 300 wells producing oil around the country – a huge increase from the early 1960s. However, the vast majority of the country’s production continued to come from a handful of multinationals. In 1993, American companies Caltex, Maxus, Arco, Mobil and Conoco accounted for 74 per cent of Indonesia’s oil production (Barnes 1993).

The structural constraints upon nationalist agendas in the oil sector were daunting. Upfront capital investments, technological requirements, and long time horizons all prevented local business actors from expanding into upstream production. It was also a sector that provided the Indonesian economy a strategic source of foreign exchange and revenue. The government did not pursue an assertive program of nationalist intervention for these reasons. Instead, Suharto gave Pertamina immense regulatory power, and
created opportunities for domestic entrepreneurs to partner with and contract to foreign multinational oil companies.

5. Mining

The start of the New Order was also marked by a swift program of liberalisation in the mining sector. The government designed investment terms that would attract large, long-term and capital-intensive mining projects. However, over the course of the New Order, the government slowly initiated a program of localisation and, to a lesser extent, industrialisation. In many instances, periods of nationalist intervention followed market-cycle patterns, rising and falling in tandem with commodity prices. The New Order government’s approach was to introduce a liberal investment regime and facilitate the entry of foreign capital in order to encourage a nascent industry; once domestic investors displayed a greater capacity to invest in and operate mines, and often when commodity prices were buoyant, the government changed investment rules to privilege local businesses and demand downstream investment.

As was the case in other lucrative or strategic industries, business people with close personal connections to the president and other politico-bureaucratic elites enjoyed preferential access to the most lucrative mining contracts. State-led institutional change had long-term consequences for the mining sector’s ownership structure. By stimulating the growth of domestic capital, the Suharto government lay the foundations for the assertive nationalist agitation that emerged in the post-Suharto period.

The government introduced Law 11/1967 on Basic Provisions of Mining, which together with the Foreign Investment Law of the same year, motivated an influx of foreign capital. Under the new law, foreign mining companies could enter into Contracts of Work (CoW) with the government, which set the terms for taxes, import duties, royalties,
divestment, and the like. The contracts protected companies from changes in government policy, and the terms were maintained for the life of the contracts. CoWs offered foreign companies a predictable and attractive investment environment. Within just a few years of the law’s implementation, 53 new blocks were opened up for mineral exploration in copper, nickel, tin and gold, heralding “a period of unprecedented mineral exploration activity during the next 25 years” (van Leeuwen 1994, 14).

In 1967, the government signed the only ‘First Generation’ CoW with Freeport McMoran for the Ertsberg deposit in the mountains of West Irian. Copper deposits were first discovered here in 1936 by a Dutch geologist, Jean Jacques Dozy. But his report was swept aside by Dutch authorities during the decade of war that followed and went largely unnoticed. When an American from Freeport Sulphur read the report years later in Holland in 1959, he immediately organised an expedition to confirm Dozy’s discovery. Freeport’s own exploration confirmed “Ertsberg to be the world’s largest copper orebody exposed at the surface” (van Leeuwen 1993, 19). Freeport’s discovery coincided with the period of Guided Democracy. Sukarno’s isolationist economic approach and growing political uncertainty were not conducive to establishing a major foreign mining project. As soon as Suharto took over, however, Freeport began its negotiations with the Indonesian government. In 1967, Indonesia was in the midst of a painful political and economic transition, and the foreign company was in a much better bargaining position than the Indonesian government. The company’s CoW included terms that were remarkably favourable to the company: a three-year profit tax holiday, exemption from royalty payments, no quotas on Indonesian staff and no divestment requirements (Leith 2002).

The Freeport discovery and the terms of its CoW motivated other companies to invest in Indonesia’s young minerals sector. However, the government readjusted the generous contract terms offered to Freeport. For a ‘Second Generation’ of CoW, the
government removed the tax holiday, increased corporate taxes, set royalty levels, included provisions for the employment of Indonesian staff, and obliged companies to divest 20 percent of the equity shares to Indonesian nationals (van Leeuwen 1994, 26). While much better for the Indonesian government, these terms were still appealing to foreign companies, and new prospectors descended upon the archipelago in search of copper, nickel, bauxite and tin.

In the copper sector, according to van Leeuwen (1993, 26), seven Second Generation COWs were signed between 1969 and 1972, with most exploration done by the larger foreign companies, Rio Tinto (Australian), Kennecott (American, later acquired by Rio Tinto) and Newmont (American). Several nickel contracts were signed as well. The Dutch had begun nickel mining in Southeast Sulawesi before World War II. That mine, eventually taken over by the government in 1961, became the property of PT Aneka Tambang (Antam), the state-owned mineral mining company that Suharto established in 1968 after consolidating a number of smaller SOEs with interests in bauxite, nickel and gold. The government also signed second generation CoWs for tin mining with three foreign companies - Billiton (Dutch), BHP (Australian) and Koba Tin (an Australian consortium) – all on Bangka and Belitung islands. One second generation CoW for bauxite mining was granted to Alcoa of Australia to explore a total land area of 500,000 km² around different parts of the archipelago.

In the nickel sector, the government signed three new Second Generation CoW with Pacific Nickel Indonesia (a consortium of foreign companies led by US Steel), INCO (a Canadian company) and INDECO (a Japanese consortium), “for areas in Irian Jaya, eastern Sulawesi and northern Moluccas respectively” (van Leeuwen 1994, 21). The INCO mine proved lucrative (today it is run by Brazilian company, Vale), but INDECO and PNI were both forced to close their operations during the oil price boom of the 1970s,
because high oil prices made their exploration and production operations too expensive (Leeuwen, 1994, 23).

A more nationalist approach to the sector transpired in the form of the Third Generation CoWs, which were designed in 1976 in the context of a global oil boom. Contract terms were more onerous and reflected a renewed emphasis on localisation and industrialisation. According to Dickie and Layman (1988, p93), “[t]hese contracts included….more stringent linkages to the local economy, including requirements to use more local labour, sourcing, equity ownership and management.” The new contract terms compelled companies to divest 51 percent within ten years of production. Companies were also encouraged to establish processing and smelting facilities in Indonesia, as part of an effort to industrialise the minerals industry and a 10 percent tax was added to unprocessed mineral ore exports.

Two factors motivated a more nationalist approach to these mineral contracts. First, by the mid-1970s, the New Order government was in a much better bargaining position than it had been in 1967 when it signed the first CoW with Freeport. The economy was growing at around 6 percent per annum, oil prices were high (The World Bank 2018), mineral prices were buoyant, and other countries were introducing similar regulations (Bhasin 2000, 67–68). This was a clear example of how booming economic conditions motivated nationalist interventions during the New Order. With oil revenues pouring in and global mineral prices on the rise as well, state managers could demand more from foreign investors and invest in local industry.

Second, this period was marked by growing public criticism of the Suharto government and popular mobilisation against foreign capital. Segments of society who had supported Suharto at the end of Guided Democracy, were increasingly frustrated by the deepening of authoritarian rule, and the growing militarisation of the government (Mackie 1998). In the 1970s, much of the Indonesian population remained impoverished,
and yet military elites, Indonesian Chinese businesses, and members of the President’s family had acquired a striking and conspicuous wealth (Mackie 1998). Foreign investment flourished; but companies partnered with ethnic Chinese businesses and military generals, and sections of the indigenous business community felt systematically excluded. Japanese companies in particular were thought to be competing with and overwhelming the local manufacturing industry. Anti-foreign tensions culminated in the 1974 Malari Affair explained earlier. The Third Generation Contracts of Work were designed against the backdrop of both a commodities boom, and a wider mood of nationalist agitation.

Between 1984 and 1997, the Fourth, Fifth and Sixth Generation contracts were drawn up for foreign mining companies, each adjusting conditions of investment and aiming to strike a balance between attracting foreign capital and ensuring the gradual localisation of the sector. By the end of the New Order, there were a total of 12 CoW mines in the production stage, and 126 in other stages of development (Bhasin 2000). (A larger list of CoW is included in Appendix A, which documents their transition from foreign to local ownership.)

CoW in the minerals sector were designed for and allocated entirely to foreign investors. Other forms of mining concessions known as ‘kuasa pertambangan’ (or ‘mining authority’, KP) were distributed to local mining businesses. Unlike contracts, these KP were not insulated from regulatory changes. At the end of the New Order, reports suggested that approximately 600 KP had been issued (Resosudarmo et al. 2012, 33). The majority of these KP were for medium to small sized mineral (and coal) ventures that made only modest contributions to Indonesia’s mineral exports.

When it came to coal, as was the case in the logging industry, foreign multinationals were initially invited to invest, explore and establish large mines. As the sector evolved and Indonesia’s business class grew, domestic companies came to play a
large role in this sector. Coal had stagnated from the time of the Japanese occupation, and only began to grow rapidly in the 1970s. A new energy policy proposed in 1976 outlined an agenda to expand oil exports and promote coal for domestic use (Friederich and van Leeuwen 2017). The government enabled private investment, both domestic and foreign, in coal exploration using a Coal Contract of work System (CCoW). These contracts were slightly different to minerals CoW. The state-owned coal company, Perusahaan Negara Tambang Batubara (PNTB), acted as the sector’s regulator in much the same way as Pertamina regulated the oil sector (explained above). Companies contracted with PNTB, which had responsibility for the overall management of the sector’s operations, and it received a 13.5 percent share of each company’s annual coal production to distribute domestically.

Between 1982 and 1990, PNTB signed 12 Coal Contracts of Work (CCoW) (Friederich and van Leeuwen 2017, 59). Ten of these contracts were foreign. The two domestic companies were Tanito Harum, owned by Kiki Barki, an Indonesian Chinese businessman, and Indominco Mandiri, owned by the Salim Group (see Table 4.5). PNTB, meanwhile, expanded its own production at the Ombilin and Bukit Asam mines in Sumatra (formerly Dutch-owned). The companies that signed First Generation CCoW were responsible for a significant increase in coal production during the 1980s and early 1990s, and continued to account for a large proportion of coal exports throughout the 2000s.
The Suharto government set the terms for coal exploitation with the clear goal of eventually localising these giant coal mines. Under the First Generation CCoW, companies were to divest their majority equity share after 20 years in production (the implications for local ownership are elaborated in detail in the next chapter). So, by the
early 2000s, the country’s most lucrative coal projects would become the property of the Indonesian state or private enterprise. After issuing the first generation CCoWs, the government went a step further by closing coal to new foreign investors in 1986, and offering the second generation CCoWs to only 19 domestic companies in 1994 (Lucarelli 2010). The third generation of contracts (1997-2000), issued in the wake of the Asian financial crisis and liberalisation, were open to foreign companies, but went mostly to domestic players (Lucarelli 2010). Each generation of CCoW, thus, reflected the government’s attempt to balance an agenda for localisation and the expansion of domestic private interests with changing external economic pressures and conditions. In short, at this point in Indonesian history, market-cycles underpinned the government’s ability and willingness to pursue the nationalist path.

So, at the end of the New Order, the mining sector had evolved into a far more strategic economic resource than it was during the colonial or post-independence period. By the late 1990s, mineral and coal mining was contributing to over 3 percent of GDP growth. Suharto developed the sector by courting foreign investment, and at the end of the New Order, the vast majority of coal and mineral production were concentrated around a small number of foreign companies.

However, the government had set the institutional stage for an incremental process of localisation. By 1997, in fact, most CCoW were held by Indonesian companies. However, the foreign-held First Generation contracts dominated coal production due to the sheer size of their deposits and their more advanced technology. Tin and nickel, meanwhile, included a mix of state-owned and foreign companies. The precious minerals subsector, particularly gold and copper, remained the domain of large foreign multinationals. The terms of the contracts with foreign companies across all minerals invariably included obligations to divest a large equity share to local players, usually after 20 years in production, thus institutionalising a long-term plan for localisation. Moreover,
various contracts compelled foreign companies to use local contractors and enhance local content, which led to modest growth in the Indonesian mining services sector. The picture that emerged at the end of the 1990s was of an increasingly lucrative sector that still remained largely in foreign hands, but in which state-led processes of localisation had laid the groundwork for a future class of local mining giants.

6. Conclusion

Foreign investment flowed into Indonesia’s resource sectors during the early years of the New Order. Yet most of the Suharto era was characterised by a slow erosion of foreign ownership, and an increasing emphasis on resource-based industrialisation. The pattern was for the Indonesian government to encourage foreign companies during the early phase of sectoral development, then localise each industry as structural barriers became less formidable – for example, when commodity prices were strong, the economy was growing and stable, and local business had improved its capacity to participate in resource sectors and subsectors.

The most capital-intensive sectors, such as precious minerals and upstream oil and gas, remained beyond the reach of most local players, such that at the end of the New Order, and into the democratic period, these sectors remained dominated by foreign multinationals. Localisation and industrialisation enjoyed the most success in Indonesia’s export-oriented timber and plantations sectors, where the structural economic constraints were relatively low. Nationalist intervention was underpinned by the patrimonial and collusive features of the New Order regime. The domestic businesses that enjoyed the most growth during this period, in both the upstream and downstream segments of Indonesia’s resource sectors, were owned by the president’s closest associates.
For example, the government initially opened Indonesia’s forests to large foreign enterprise in the late 1960s, only to engineer the transfer of those assets to local players over the next decade and a half. State-led localisation and industrialisation produced an ownership structure where domestic conglomerates with interests up and down the value chain dominated the sector. These same companies expanded quickly into the palm oil industry as global demand grew towards the end of the 20th century. Indonesia’s agribusiness giants grew through state-sponsorship, protection and personal privileges bestowed by senior bureaucrats and the president. Indonesia’s timber and palm oil tycoons emerged through partnership with foreign investors, and the most successful grew their businesses through productive relationships with senior state officials and the president himself. However, this chapter showed how, by the end of the New Order, domestic capitalists had begun to exercise more authority in policymaking networks, and came to drive nationalist interventions that were at odds with state goals for sectoral expansion and engagement with foreign agribusiness firms.

Meanwhile, for most of Indonesia’s history, the mining sector was a domain of foreign capital. Dutch and Japanese enterprises dominated the tin, coal and nickel sectors until the nationalisations of the 1950s and 1960s. The New Order government’s contract system facilitated significant foreign investment; but the contract system also laid the groundwork for local and state companies to takeover large foreign mines in the decades to come. The transition to local ownership took place at different times in different subsectors. The state gained an early monopoly over the tin sector, and by the 1990s virtually all new coal concessions were being directed to Indonesian companies. In the final years of the New Order, the foreign coal giants that held first generation coal contracts were on the cusp of divesting control of their mines, as per the terms of their contracts. Only the biggest and most profitable gold and copper mines remained firmly in foreign hands.
In the upstream oil sector, economic constraints were far greater. Indonesia’s geography made upstream exploration and production more technologically challenging and capital intensive than in other countries. The state was also highly dependent upon oil rents until the late 1980s. The government understood that nationalising or localising such a capital intensive and strategic sector was virtually impossible. Instead, Suharto turned the national oil company, Pertamina, into a powerful regulator. Pertamina contracted with foreign companies, distributed contracts for oil and gas services, and enjoyed a monopoly on oil refining, petroleum distribution, and the sale of state oil overseas. Domestic private companies were mostly limited to the oil and gas services sectors, which blossomed via Pertamina’s patronage. Many Indonesian businesspeople with personal connections to Pertamina’s leaders and the president were able to amass significant fortunes through contracts with foreign multinationals. Pertamina’s regulatory responsibilities gave it control over large amounts of wealth, and the company also became a principal financier of the New Order government’s industrial projects, including transport, infrastructure and petrochemicals. The corollary of Pertamina’s developmental function was that it never advanced as an efficient or productive upstream operator. By the end of the New Order, oil and gas production was more concentrated in the hands of foreign companies that it had been at the start of the New Order.

In all three sectors, the development of domestic private capital was made possible through a highly collusive and clientelistic system, in which contracts, licenses and concessions were distributed to business interests with close connections to the centre of politico-bureaucratic power – the most lucrative of which were often reserved for Indonesian Chinese cronies or family members of senior politico-bureaucratic elites. During the first decade of the New Order, domestic business interests in the mining, oil and gas and forestry sectors depended upon and allied with foreign capital in order to build their private wealth.
By the late Suharto years, the structure of capital was gradually changing. MacIntyre (1991) argued that in the New Order’s final decade, an autonomous business class was emerging, which had begun to organise, albeit within the New Order’s corporatist framework, and exert independent influence on the state’s investment policy. Domestic business was playing a more prominent and directive role within policymaking networks than at the start of the New Order, and was no longer as tightly anchored to the interests of senior military or politico-bureaucratic elites. Ultimately, however, for the natural resource industries, the New Order’s nationalist agenda for localisation and industrialisation invariably served the narrow, particularistic interests of politically-connected businesses. Cronyism and clientelism remained the organising logic of state-business relations, and underpinned the expansion of local capital into the mining, oil and gas, timber and palm oil industries.

That system was disrupted and, many assumed at the time, upended by the Asian financial crisis in 1998. In 1997, the Thai baht collapsed and triggered a series of currency devaluations throughout Asian markets leading to the Asian Financial Crisis (AFC). In Indonesia, the crisis prompted a huge spike in inflation and GDP growth rates plummeted (Hill 2000). The government’s policy response was confused and incoherent, as different segments of the business class demanded different sorts of interventions to protect their interests from the escalating crisis (Pepinsky 2009). As millions were forced into poverty, the public directed their anger at those businesses and families that benefited most from the New Order political economy. Latent discontent with authoritarianism and corruption was transformed into a popular movement for democratic reform (Aspinall 2005). Indonesians took to the streets to demand free and fair elections, and an end to ‘Korupsi, Kolusi, and Nepotisme’ (Corruption, Collusion and Nepotism, or KKN). After days of violent street protests, Suharto resigned on the 21st of May 1998. From this point, Indonesia began the transition to a more democratic, liberal and decentralised polity. The
crisis had revealed the extent of Suharto’s corruption and nepotism, and paved the way for significant restructuring of Indonesia’s economy. Under immense pressure from the public, reformers within the bureaucratic and military elite, and from international lenders, the interim president, B.J. Habibie, launched a thorough program of liberalisation.

As we shall see in the chapters that follow, the resource sectors were targeted for major reform, and each underwent a process of liberalisation and, in some cases, decentralisation. Many of the tycoons with interests in these sectors found themselves drowning in debt. State banks and other state enterprises were bankrupted by the crisis, and international financial institutions pressured the government to privatise state companies, including Pertamina. Meanwhile, the centralised system of patronage distribution that had underscored the growth of Indonesia’s resource companies was, at least ostensibly, decimated by Suharto’s resignation and the establishment of new democratic institutions and regulatory controls. However, nationalist policy networks (re)emerged in the post-Suharto period to demand the reversal of liberal change. The global commodity boom of the 21st century bolstered their position and gave their demands greater urgency.
PART III

THE CASE STUDIES
CHAPTER FIVE

The Mining Sector: An Assertive Resource Nationalism

Indonesia’s mining sector took an assertive nationalist turn during the post-New Order period. The financial and political crises of 1998 forced Indonesia to liberalise, open up and decentralise its economy. Indonesia’s post-Suharto governments faced demands from politicians, NGOs and domestic business interests across the archipelago for more local control over natural resources. The Habibie government (1998-1999) responded with Law 22/1999 on Regional Governance, which stated that the “regions shall have the authority to manage national resources located in their areas and shall be responsible to conserve the environment in accordance with the laws and regulations.” However, no clear detail was offered in terms of how each sector should implement this broad directive.

The new rules did not cohere with Indonesia’s existing mining law that dated back to 1967. So, from 2004, a newly elected parliament sat down with government to develop new legislation to govern the mining industry and bring it into line with the new institutional environment of post-Suharto Indonesia. However, the new law would become about much more than decentralisation. Over the next four years, nationalist networks, made up of state and private actors, played an increasingly central role in the legislative negotiations. The final product, Law 4/2009 on Mineral and Coal Mining (the 2009 Mining Law), introduced new interventions that sought to localise ownership and expand the sector’s industrial footprint.
For many industry analysts, the emergence of a new and more nationalist regulatory framework was simply a response to rising commodity prices, which began in 2003, and the pendulum would swing back toward the liberal position when prices dropped. However, this did not occur. To explain why the mining sector was subject to an assertive and sustained resource nationalism, this chapter examines the changing structure of domestic capital and the preferences of prevailing business interests. It also points to structural shifts in the mineral subsectors in terms of their contribution to the Indonesian economy, and the political utility of mineral extraction in the context of democratisation, both of which created new opportunities for nationalist intervention.

The chapter consists of two major sections. The first focuses on localising forms of resource nationalism. New foreign divestment rules responded to nationalist networks that involved a range of state, business and societal actors. However, it was ultimately the demands of an expanded class of domestic miners that determined new and more restrictive rules for foreign investment. At the turn of the century, local business actors began taking over the country’s largest coal mines from foreign multinationals, and the boom made them immensely wealthy. The largest mining companies also enjoyed direct links to political office in a context where democratic politics was becoming increasingly expensive, and increasingly nationalist in orientation. Under such conditions, Indonesia’s miners had a new and elevated policy clout. Their preferences for localisation found expression in a new divestment law that would see lucrative foreign-owned gold and copper assets come on the market. This nationalist regime was sustained long after commodity prices had cooled.

The second section focuses on industrialising interventions. In 2014 the government instituted a total ban on the export of raw mineral ores. The goal was to force investments in downstream value-adding and develop a national smelting sector. Trading partners were incensed and local nickel and bauxite miners protested the law vigorously.
While value-adding was, in general, a popular economic idea amongst a large slice of the bureaucracy and policymaking elite in Jakarta, the decision to execute a hard ban could be traced back to a small but politically influential nationalist network comprising of politico-business elites with interests in the downstream smelting market. At the same time, the upstream nickel and bauxite sectors were made up of many small and medium-sized companies, with few large or prominent domestic companies with the material or political clout to prevent the ban from going ahead. In other words, the downstream beneficiaries of nationalist change exercised more structural power over policy intervention than the upstream mining interests.

The policy also worked best in those subsectors where Indonesia dominated global markets: nickel and bauxite. It was far more difficult to rally downstream investment in copper, for example. Where Indonesia accounted for a large portion of global trade, trading partners were forced to invest downstream in order to access the mineral supplies upon which they depended. So, Chinese and Japanese investment in Indonesia’s nickel sector increased markedly after the ban. There was little interest, however, in the downstream copper sector and the ban was constantly delayed and watered down.

In short, assertive localising and industrialising nationalism were the product of complex negotiations between government, business and, in some contexts, civil society. Structural features of each sector set the parameters for nationalist change. However, nationalist interventions prevailed and were sustained when they cohered with the interests of Indonesia’s new, and often politically-wired, domestic mining giants.
1. Localisation: Forced foreign divestment

This section traces the process of drafting the 2009 Mining Law, and in particular the formulation of Article 112. Article 112 was the legal basis for a series of assertive nationalist regulations designed to force foreign mining companies, including those with existing contracts of work (CoW), to divest a majority share of their Indonesian operations. Indonesian businesses benefitted significantly from the coal boom from 2003 to 2007. The largest of these domestic mining companies had made their fortunes by acquiring shares in foreign coal and mineral mines in the early 2000s, usually through divestment deals as part of these companies’ contractual obligations. Domestic capital thus sought a divestment regime that cohered with their own plans for expansion.

The 2009 Mining Law was not simply a register of domestic businesses’ demands. Indeed, many aspects of the law that lie beyond the focus of this thesis frustrated the industry, such as new requirements for environmental permits, and changes to licensing rules. However, the program for localisation aligned with the interests of big domestic companies, and helped lock-in and entrench a shift toward local ownership that was already well underway. The shift toward domestic control that predated the boom also meant the sector was, overall, becoming less dependent upon foreign capital, such that nationalist policy networks faced fewer structural constraints than in other sectors.

1.1 Background

As global commodity prices rose between 2003 and 2013, so too did the volume of exports leaving Indonesian shores. According to a report by USAID (2013, 7), the country’s bauxite exports rose fivefold between 2008 and 2011, while copper concentrate exports increased eleven-fold, and exports of laterite nickel ore increased eightfold in the
same period.” Coal exports grew at a remarkable pace too. In 1996 Indonesia produced approximately 50 million tons of coal; by 2009 that figure had risen to just over 210 million tons (Lucarelli 2010, 31). As discussed in the introduction, much of Indonesia’s raw commodities were destined for China and India, whose rapid industrial growth spurred global demand and sent prices rising. The boom helped drive impressively high GDP growth levels in Indonesia, which averaged 6 per cent between 2005-2011 (Tabor 2015, 4).

Against this backdrop, renewed demands for more local ownership of the country’s most lucrative mines emerged from factions within government, business and civil society. A common phrase used by nationalist protagonists in government and industry during the legislative negotiations was that Indonesian businesses were ‘sudah mampu’ or ‘now capable’, and that it was finally time for Indonesia to own its mining sector. The product of these nationalist demands was the 2009 Mining Law. This new law replaced the law that had governed the sector since 1967. It made two crucial changes to the old system: First, the central government delegated much of the responsibility for mining licenses to district and provincial heads, which was in line with the broader program of decentralisation that began in 2001 as part of the Indonesia’s democratic reforms. Under the old system, only the central government had the authority to issue contracts and mining permits.

Second, the law overhauled the long-established contract of work (CoW) system. The government decided to replace CoWs with a simple licensing system, in which all mining ventures, whether large or small, foreign or domestic, received licenses. These licenses were now to be issued by local governments, unless the license covered an area of land that traversed multiple districts or provinces, in which case the central government retained authority. The old contract system had protected foreign companies from regulatory changes during the life of their large, long-term mining projects. With licenses,
however, all companies would be subject to any changes in Indonesian laws or regulation – including on taxes, royalties and divestment. The 2009 Mining Law thus brought major change to the way the government regulated large investments in its minerals and coal industries.

From 2009, under this new system, the Indonesian government pursued a series of interventions designed to enhance local ownership of the country’s most lucrative foreign mines. Under the 1967 Law on the Basic Provisions of Mining, the government determined companies’ divestment obligations in individual CoW, which were then fixed from the time the contract was agreed. However, Article 112 of the new law outlined that all foreign companies were now obliged to begin divesting shares after the fifth year of production. The level of divestment was not specified in the law and would, instead, be outlined in future implementing regulations from the ministry for energy and mineral resources. At first, Article 112 caused little consternation, because the wording remained vague, and foreign companies had always been required to divest some of their assets under the previous contract system. The industry was, therefore, initially unperturbed.

However, bitter conflicts emerged in the years that followed as the government introduced a series of regulations, each more nationalist than the last. Under the new rules, foreign companies had to divest majority ownership (51 percent) after 10 years in production. Even more controversially, the government ruled that existing contracts should be renegotiated to reflect these new divestment terms. Industry analysts claimed such an extreme measure amounted to a slow nationalisation, and argued it would prompt capital flight and kill Indonesia’s mining industry (Thaher and Chatterjee 2012). While some adjustments and exceptions were introduced in 2014, the government reinstituted the 51 percent divestment rule in January 2017. What explains the success of nationalist networks in Indonesia’s mining sector? And why did nationalist mobilisation and intervention persist beyond the boom?
The original draft of the 2009 Mining Law drawn up by the ministry for energy and mineral resources in 2005 did not include any divestment obligations for foreign companies. Instead, according to the earliest (publicly available) version of the law, foreign companies making new investments in the mining sector would be compelled to partner with state-owned enterprises and majority Indonesian-owned companies (‘Daftar Inventarisarsi Masalah (DIM): Rancangan Udang-Udang Tentang Pertambangan Mineral Dan Batubara.’ 2006; Investor Daily 2007). Joint operations were a way of ensuring engagement with local companies, encouraging skills and technology transfers, while still offering foreign investors an assurance that they could maintain control over their mining ventures. The ministry did not mention legislating for new divestment obligations.

Divestment was not on parliamentarians’ list of demands for the new law either. Between 2005 and 2008, public records of debate in the parliament and coverage in industry publications and mainstream media barely mentioned divestment. I base this observation upon a thorough examination of risalah (recordings of parliamentary deliberations) from parliamentary commission VII, which manages energy and natural resource policy and negotiated the 2009 Mining Law, and from a thorough search through key industry publications that reported regularly on the law’s progress. Instead, the ministry and the parliament were focused on articles of the law that dealt with value-adding, royalties, and the transition to a licensing system (Lagaligo 2008a; Majalah Tambang 2007).

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1 Interviews: Simon Sembiring, former director general of mineral and coal mining (2007-2009), 11 April 2014; Sukhyar, former director general for mineral and coal mining (2013-2015), 15 October 2014; For example, I reviewed all of issues of Majalah Tambang, the industry’s most prominent publication which covered the negotiations in detail (copies are held at the Australian National Library). There were no articles dealing with the question of divestment from 2005 to 2008.
When the bill was signed into law in January 2009, however, it included an article obliging foreign companies to divest – though it was worded in the most general terms. Article 112 (1) stated that all foreign-owned mining companies had to begin divesting shares to local entities within five years of starting production. Companies were required to first offer shares to the central government, then to the regional government where the mine was located, and then to state owned enterprises, regional-owned enterprises, and finally to private domestic companies. The portion of divested shares was not specified, nor was the procedure for determining the share price. Such details were to be worked out by the ministry in future regulations.

So where did Article 112 come from, and who were its proponents? According to one senior member of the ministry who worked on the law, the government simply changed its mind in 2008 and decided that divestment was a more suitable means of ensuring local participation than joint ventures. He described the decision as “uncontroversial.” However, other members of the executive at that time remain uncertain about why a divestment clause was inserted into the law so late in the negotiations, and believe the decision was controversial. In an interview, Mari Elka Pangestu, then minister for trade, said she was shocked by the outcome, because her ministry had not been consulted during the drafting of Article 112, and the divestment clause had not been widely deliberated. Pangestu and her ministry only heard about the divestment requirements in the mining bill after it had passed parliament at the end of 2008. She interpreted Article 112 as a backlash from the ministry of energy and mineral resources against the trade ministry’s 2007 Investment Law. The investment law protected foreign investors from nationalisation and forced divesture, and prevented

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3 (1) Setelah 5 (lima) tahun berproduksi, badan usaha pemegang IUP dan IUPK yang sahamnya dimiliki oleh asing wajib melakukan divestasi saham pada pemerintah, pemerintah daerah, badan usaha milik negara, badan usaha milik daerah, atau badan usaha swasta nasional (Government of the Republic of Indonesia 2009).
attempts to limit the duration of foreign investment in any enterprise. This law, in theory, applied across all sectors of the Indonesian economy. Despite the clear conflict between these two sectoral laws, President Yudhoyono endorsed Article 112.

The government’s decision to include a divestment obligation initially provoked little opposition from industry, because divestment rules had been a standard part of most mining contracts. When interviewed, a senior member of the ministry for energy and mineral resources and former director general of mineral and coal mining stated that, “this was not a big issue, companies were used to divestment obligations, it has always been part of their contracts, so it was no problem to change this [part of the law].”6 Until 2009, the mining sector’s investment terms for foreign companies were regulated under their contracts of work (CoW). As explained in chapter four, throughout the Suharto era, there were several generations of CoW and coal CoW (CCoW), and each generation laid out guidelines for the terms of divestment.7 When the 2009 Mining Law was introduced, contract holders were far more concerned about other aspects of the law, which reduced concession sizes, outlined shorter license terms, and obliged companies to refine mineral ores prior to export – discussed in the following section of this chapter (Lagaligo 2008b; Kompas 2007).

Numerous implementing regulations and amendments followed the 2009 Mining Law, and with each iteration the divestment regime became increasingly nationalist. First, Government Regulation No. 23/2010 (GR 23/2010) ruled that foreign companies had to divest at least 20 per cent of their business by the fifth year of production – higher than

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7 Most of the mineral CoW required some level of divestment to local parties, but the precise details were negotiated on a case-by-case basis. For example, Freeport’s first generation contract had no divestment obligations. Meanwhile, Newmont’s fourth generation contract, signed in 1986, required majority divestment by the 20th year of operation, and it did not have such an ‘escape clause’. The first and second generation of coal CoW (CCoW) mandated foreign companies divest a majority (51 percent) of their shares after 10 years. Third generation coal contracts (1997-1999), on the other hand, required just 5 percent divestment within 15 years (Lucarelli 2010, 27). In essence, the Indonesian government changed the terms of each generation in order to suit the economic conditions of the time – but once signed, each contract was protected from regulatory changes.
levels usually agreed to in past CoW and CCoW. The government consulted mining companies and the industry peak bodies that represented the interests of the country’s biggest miners, both foreign and domestic, such as the Indonesian Mining Association (IMA) and Indonesian Coal Mining Association (ICMA). Industry representatives interviewed for this study did not view the 20 percent figure as ideal, but they accepted the figure and decided to ‘live with it’. According to one senior member of the ministry for energy and mineral resources, industry had initially hoped for 20 percent divestment after 10 years rather than five.

Then, in 2012, the government shocked the mining industry with Government Regulation No. 24/2012 (GR 24/2012), which compelled foreign companies to divest a minimum of 51 percent by the 10th year of production. In addition, the Yudhoyono government confirmed that existing foreign contracts would have to be renegotiated to reflect the new divestment terms. In other words, foreign mining projects would have to accede to the new divestment regulations, whatever the terms of their current contract.

The intervention made international headlines, and industry analysts and foreign companies criticised what they regarded as a radically nationalist turn in Indonesia’s investment regime. Foreign observers privately referred to the regulation as a ‘watered down nationalisation’ of foreign assets. International business analysts and economists warned that such an aggressive foreign divestment framework would undermine the sector’s long-term growth, and hurt perceptions of Indonesia’s investment climate. For example, the Fraser Institute conducted a survey in 2013 of 742 mining companies from around the world, and found that Indonesia was perceived as the worst place to do business out of 96 global jurisdictions (Fraser Institute 2013, 26).

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8 Interviews: Director of Indonesian Mining Association, 12 May 2014; Noke Kiroyan, senior industry consultant and former President Director of Rio Tinto Indonesia and Newmont Pacific Nusantara, October 16 2014

9 Interview: senior bureaucrat at Directorate General Mineral and Coal Mining, 25 September 2014

10 This obligation was laid out in Article 169 of the 2009 Mining Law and will be the subject of further analysis in Chapter Six)
Many industry analysts and stakeholders opposed the dramatic jump to 51 percent, and expressed concern about the impact these regulations would have on the broader investment climate. One seasoned Indonesian industry stakeholder, who also held senior positions within major foreign mining firms, lamented the extreme nature of the new law saying that, “we had no knowledge of the plan to force majority Indonesian ownership after just 10 years…. 20 percent was reasonable, but this other regulation was too extreme.”\(^{11}\)

So who were the policy’s proponents? Industry experts and senior bureaucrats interviewed for this study agreed that the divestment requirements introduced in the 2009 Mining Law, and the subsequent implementing regulations, reflected the preferences of well-connected local business interests. Several government insiders also intimated that the coordinating minister for economic affairs and close ally of President Yudhoyono, Hatta Rajasa, was a key state actor in a nationalist network that represented the ambitions of domestic capitalists.\(^{12}\) In particular, the 2012 regulation that required majority local ownership after 10 years was, according to respondents, a move to satisfy mining tycoons and their allies in the executive. One senior manager in a large domestic mining firm explained, “….the government is preparing an environment where well-connected local businessmen can take a majority share in existing projects, taking projects mid-way.”\(^{13}\)

Another senior member of the Indonesian mining industry stated that:

> We [industry representatives] were all consulted by the ministry on the most appropriate divestment requirement and we all said 20 percent. Everyone was happy with this. Then, overnight, no one knows why, this shot up to 51 percent. We all assume powerful domestic businessmen were in the mix here.\(^{14}\)

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\(^{11}\) Interview: Noke Kiroyan, senior industry consultant and former President Director of Rio Tinto Indonesia and Newmont Pacific Nusantara, October 16 2014


\(^{13}\) Interview: government relations consultant for a domestic gold mining company, 16 December, 2014

\(^{14}\) Interviews: senior Indonesian industry consultant and former director of a global foreign mining company, Kiroyan and Partners, 16 October, 2014
Similarly, one foreign expatriate who had operated a gold mining company in Indonesia for over two decades stated in an interview that:

There is a strong belief in the foreign mining community that changes to the laws in Indonesia are being driven by the country’s domestic conglomerates, who are waiting in the wings to benefit from both the divestment and local content laws, so they can swoop into these sectors with high rent. Indonesian capitalists don’t want to do the exploring or take the risks. They’re happy for foreigners to do this. Their plan is to slowly take over the projects that foreigners have set up.\(^{15}\)

Senior state officials agreed that the ministry’s divestment rules reflected private sector demands, and the view within government that Indonesia’s business class finally had the capacity to take over the legacy foreign mines. One former minister with an economics portfolio during the Yudhoyono government referred to the divestment regime as part of a plan to “give locals a ‘leg up’” in a sector where foreign capital had dominated for decades.\(^{16}\) Another industry expert working for a foreign embassy in Jakarta described the process as a “slow nationalisation” of Indonesia’s mining industry for the benefit of the biggest private players.\(^{17}\) A former senior bureaucrat from the ministry of energy and mineral resources made a candid statement in a confidential interview, that he was convinced the 51 percent rule introduced in 2012 came from senior members of the executive who were close to, and acting as brokers for, the most prominent Indonesian business tycoons.\(^{18}\)

The process of renegotiating existing CoW was fraught. Hatta Rajasa oversaw what became drawn-out and controversial negotiations with foreign CoW holders to change their contracts, and compel them to sign up to new terms outlined in the 2009

\(^{15}\) Interview: vice president director of the Indonesian subsidiary of Australian listed gold mining company, 17 October 2014  
\(^{16}\) Interview: Mari Elka Pangestu, former trade minister (2009-2011), 13 July 2015  
\(^{17}\) Interview: industry analyst for a foreign embassy in Indonesia, August 11, 2016  
\(^{18}\) Interview: former director for business development at the directorate for mineral and coal mining, 25 September 2014
Mining Law. Between 2012 and 2014, Hatta was able to compel only 25 out of 112 contract holders to amend their contracts (Detik Finance 2014). Of the 25, 19 were from the coal sector and were Indonesian-owned, which meant negotiations were far easier (domestic companies clearly had no concerns regarding divestment, nor was the coal sector subject to new mandatory value-adding). The other contracts that were successfully renegotiated were mostly in the exploration stage and held by small to medium-sized foreign companies. None of the large foreign mining companies, like Freeport, Newmont or BHP, for example, agreed to the new terms; nor did the many other less high-profile foreign ventures. Foreign firms viewed the new divestment requirements and new value-adding rules (discussed in the following section) as unfair demands that contravened their contracts.

Two years later, the government amended the divestment framework again with Government Regulation No. 77/2014 (GR 77/2014). Just before President Joko Widodo (Jokowi) came to power in September of 2014, the Yudhoyono government decided to offer foreign companies relief. Under the new regulation, foreign companies’ divestment obligations were made contingent upon the type of mining activities they carried out. For example, companies engaged in mineral processing only needed to divest a maximum of 40 percent; companies engaged in the more capital and technology intensive underground mining only had to divest a maximum of 30 percent. The goal was twofold: first, the new policy was designed to break the stalemate with the largest foreign companies and, particularly, with Freeport McMoran, which was planning an $18 billion investment in a complex underground section of its Grasberg copper and gold mine. Negotiations over the company’s divestment obligations had stalled for years, and the company was refusing to sign off on new divestment terms given the scale of the investment upon which it was about to embark. Second, the new schedule for divestment also aimed to encourage
companies to invest in downstream industrialisation (Junita 2015) (discussed in further detail below).

However, the more moderate regulation was soon replaced yet again. Two years later in 2017, the Jokowi administration introduced another amendment. Government Regulation No. 1/2017 outlined that all foreign companies with a mining license had to divest their shares in stages and reach 51 percent Indonesian ownership by the tenth year in production. In other words, it resurrected the onerous divestment regime the Yudhoyono government had introduced in 2012. The government also introduced an accompanying regulation that stated foreign companies currently holding CoW would not be allowed to export their mineral ores unless they transitioned from a contract to a mining license – as laid out under the terms of the 2009 Mining Law. The new divestment terms would apply from the date a company transitioned from its CoW to its new license. What made this regulation particularly perplexing for the industry – and indeed made it unusual in terms of conventional scholarly approaches to resource nationalism – was that it was introduced in the context of low commodity prices.

From 2013, the global price of coal, copper, gold, and most other minerals, experienced a significant decline, which hurt Indonesia’s trade balance. When Jokowi took office, the Indonesian government was facing serious revenue shortfalls. Yet the nationalist trajectory was sustained, even after the boom. Overall, between 2009 and 2017, the rules governing foreign companies’ divestment obligations changed four times. Each iteration (with one exception) set the sector on a more nationalist and anti-foreign path.

The picture and the timeline presented above suggests that the Indonesian government’s divestment agenda cannot be explained simply in terms of the global mining boom and a shift in state power vis-à-vis foreign capital. Market-cycle theories and much of the comparative work on resource nationalism tend to treat nationalist
change as a function of state action, with states often presented as coherent or unitary actors. However, as we saw, there were many within government who were either unaware of, or opposed to, the new divestment regime. Instead, nationalist policy networks in Indonesia reflected the preferences of an expanded and increasingly autonomous class of private domestic mining companies. But what gave these nationalist networks such policy clout at this particular juncture? Prior commodity booms had not produced such assertive nationalist change that required companies to renegotiate their existing contracts. Who were these domestic mining business, what was the source of their policy influence, and what were the structural conditions that enabled nationalist networks to realise their agenda in this instance?

1.3 Ownership structures

In this section I demonstrate how, as a result of prior institutional change, the sector had gradually evolved toward greater domestic ownership in the early 2000s. The fortuitously timed coal boom that began in 2003 and 2004 expanded the profits of this emerging class of local miners. Their fortunes were made through acquiring shares in foreign projects. As a result, in the ensuing decade, domestic mining capital enjoyed unprecedented structural power, and played a crucial role in the nationalist policy networks that pursued the path of localisation.

1.3.1 The rise of domestic mining magnates

During the New Order, the country’s tycoons built their empires in the timber, plantations, tobacco, property, food, retail and finance industries (for a description of Indonesia’s conglomerates and their evolution, see: Mackie 2003; Carney and Hamilton-Hart 2015).
As we saw in Chapter Four, the mineral, coal and energy industries were mostly the terrain of foreign investors. These sectors required capital investments of the sort that domestic players were unable to provide. But this began to change in the 1990s and, despite the financial crisis, domestic ownership continued to expand in post-Suharto period.

From the turn of the century, many mining subsectors came under increasing local control. In the nickel mining sector, for example, decentralisation and liberalisation prompted a flurry of investment by new Indonesian companies. Once dominated by Canadian company, Inco (which was acquired by Brazil’s Vale in 2006), and the state owned enterprise, PT Antam, the mining boom saw smaller local companies begin producing and exporting the majority of the country’s nickel ore (Ministry for Energy and Mineral Resources 2012). For example, in Southeast Sulawesi, one of the country’s nickel hubs, Antam was responsible for extracting and exporting the vast majority of the province’s nickel ores in the late 1990s and early 2000s. By 2011, district governments had issued nickel mining licenses to 112 companies, the majority of which were small to medium-sized local companies (though their capital often came from abroad) (Ministry for Energy and Mineral Resources 2011b).

Coal, however, experienced the most dramatic shift. The growth of a domestic coal industry was crucial to Indonesia’s story of resource nationalism. After the financial crisis in 1998, Indonesian tycoons began competing fiercely with one another for the spoils of an industry that, at the turn of the century, became far more accessible to domestic capital. First, between 2000 and 2009, large foreign owned coal concessions – including Rio Tinto’s Kaltim Prima Coal, New Hope Mining’s Adaro, BHP’s Arutmin, and Korean based coal company Kideco – all entered the period in which they were contractually obliged, under the terms of their First Generation CCoW, to begin divesting to local parties (Lucarelli 2010, 30). Second, between 1997 and 2000, the government
offered a third generation of CCW. The majority of the 114 contracts offered during this period went to domestic companies (Lucarelli 2010, 27). Third, the decentralisation of resource management had made operations increasingly difficult for foreign investors, with unpredictable and overlapping regulations and taxes emerging across the country (Gellert 2005). These factors together compelled many foreign investors to sell down or sell out to local players (Lucarelli 2010, 30–31). Finally, coal prices were relatively low in the late 1990s and early 2000s, and the sector itself was more accessible to local players because it required less technology and less capital than, for example, hard rock and precious mineral mining.

All of these factors meant that between 2002 and 2009, more and more local companies took over or opened up coal mines, while foreign investors began to exit the Indonesian market. Over this same period, over 75 percent of coal exports came from the six largest companies of which only one, PT Banpu, was majority foreign owned (Lucarelli 2010). The table in Appendix A documents the ownership shift in Indonesia’s coal industry, and sketches out the backgrounds of the Indonesian tycoons who have benefited from this transformation. It also shows the sustained presence of foreign multinationals in the gold and copper sectors, which will be elaborated below.

Who were these coal tycoons and what were their connections to the worlds of politics and policymaking? Indonesia’s most prominent coal magnate was Aburizal Bakrie. Bakrie was the son of one of Indonesia’s most successful indigenous entrepreneurs, mentioned briefly in Chapters Three and Four. Bakrie expanded the family business, Bakrie Brothers, during the New Order and it became a sprawling conglomerate with interests in property, media, infrastructure and agribusiness. The company’s success depended largely upon Bakrie’s closeness to leading figures in Suharto’s government and in state-owned enterprises, which ensured access to lucrative contracts in oil and gas.
services, infrastructure, and plantations (Robison and Hadiz 2004b, 60). Bakrie became one of the most successful and influential pribumi businesspersons of the Suharto period.

Following the financial crisis of 1998, Bakrie’s companies spiralled into debt. But within a few years, the tycoon was making a comeback through inroads into the resources industries, primarily coal. Via a series of favourable divestment deals, Bakrie’s company, Bumi Resources, acquired Indonesia’s largest and most lucrative coal mines. In 2001, BHP Billiton sold 80 percent of its equity in the Arutmin coal mine to Bumi for US$148 million. To finance the purchase of Arutmin, Bakrie borrowed US$100 from the largest state bank, PT Bank Mandiri (Pui-Kwan 2001). Under the terms of its contract, BHP was only obliged to divest 31 percent, but the company was ready to leave the Indonesian market. Coal prices at the time were sluggish, and decentralisation had made mining operations in the regions much more precarious, with local actors occupying and looting coal from the company’s concession. In 2003 Bumi took over Rio Tinto and BP’s Kaltim Prima Coal, the largest coal mine in the world. The deal was a bad one for Rio Tinto and BP. While the details remain murky, it was widely reported that the companies were forced to sell their shares for far below market price, at US$500 million (Financial Times 2016). On the cusp of the coal boom, therefore, Bakrie had managed to acquire two of the country’s largest coal mines, purchases which in the years that followed propelled him to the top of Indonesia’s rich list.

Throughout all of these deals, and during Indonesia’s crisis and democratic transition, Bakrie was Chair of Kadin, Indonesia’s Chamber of Commerce, the country’s most influential business lobby, and a senior member of the Golkar party. Despite defaulting on his $1.7 billion in loans, Bakrie enjoyed immense influence at Kadin, Golkar, and in government circles, and he continued to maintain expansive assets and personal networks that helped him engineer favourable loans, lines of credit, and access to licences and contracts at below market price (The Economist 1999; Reuters 2011b).
The coal boom also helped Bakrie establish his political career. In 2004, he stepped down from his role in the family business to take up a position in Yudhoyono’s first cabinet as the coordinating minister for the economy. Then in 2009 he was elected Chairperson of Golkar. Electoral politics had become increasingly expensive in the years following the democratic reforms of 1998, and political parties sought members and leaders with personal wealth to help underwrite party activities (Mietzner 2008; 2013). Bakrie’s position at the helm of Indonesia’s largest political party from 2009 to 2016 was secured by his personal wealth, a large portion of which was derived from the coal boom.

Other major foreign coal mines were also acquired by prominent New Order-era Indonesian tycoons. Kideco, for example, was initially owned by Samtan, a Korean based company. An Indonesian company, Indika Inti Corpindo, bought a majority stake when Samtan was obliged to divest in 2003. Indika Inti Corpindo was a subsidiary of Indika Energy, which was established in 2000 by Sudwikatmono, Suharto’s cousin and business partner, together with Wiwoho Basuki Tjokronegoro, a lesser known Indonesian business person. During the New Order, Sudwikatmono was a prominent business crony of Suharto. His companies, including Tripatra, a successful oil and gas services company, enjoyed privileged access to government and foreign contracts. But he suffered huge losses during the financial crisis. By merging his remaining assets with Wiwoho, the pair established Indika, and were able to leverage enough capital to purchase Kideco (Tempo Interactive 2012). Sudwikatmono’s son, Agus Lasmono, has run Indika since 2010, together Wiwoho’s son-in-law, Wishnu Wardhana. The company was known to have a close working relationship with President Yudhoyono during his decade in power, with members of Indika sitting on the Partai Demokrat board and making generous campaign donations as well (Warburton 2017; PWYP Unpublished). Wishnu even stepped down from his leadership role at Indika in 2017 to directly manage Yudhoyono’s son’s political campaign in Jakarta’s gubernatorial elections.
Adaro was similarly bought out by a familiar cast of New Order era tycoons. Until 2001, Adaro was 50 percent owned by the Australian company New Hope Mining, and America’s Mission Energy owned 10 percent, while the remaining 40 percent was owned by Sukanto Tanoto, another Suharto-era crony whose interests were primarily in pulp and paper and oil and gas services. In the wake of the financial crisis in 1998, Tanoto’s stake was taken over by a consortium of banks to finance his unpaid loans, and was sold on to a company owned by Edwin Soeryadjaya, the son of prominent tycoon William Soeryadjaya of the Astra Conglomorate (Sentana 2005). In 2005 New Hope and Mission then sold their remaining shares to Saratoga Investama Sedaya, a joint venture by a group of high profile Indonesian businessmen: Edwin Soeryadjaya, Theodore Permadi Rachmat, Garibaldi Thohir, Benny Subianto and Sandiaga Uno (Forbes 2007). All of these men were affiliated with Astra International, owned by William Soeryadjaya, one of the largest Indonesian Chinese conglomerates of the New Order period. Soeryadjaya had lost control of Astra after the financial crisis and the family lost much of its wealth. Edwin, however, was determined to rebuild the Soeryadjaya empire and take back Astra (Forbes 2007). Saratoga’s Adaro purchase was the means through which he would do it. The five men either own Adaro personally or through companies they control, and remain the majority investors with 64.77 percent of the company’s shares.

In terms of Adaro’s connections with the world of politics, one confidential report by an anti-corruption NGO described the company as “the most competently-run, transparent and normal” Indonesian-owned coal business (PWYP Unpublished). At the same time, the report described how the company’s owners made significant contributions to political campaigns of President Yudhoyono in 2009 and Prabowo Subianto in 2014. As was the case for Indika, the company’s youngest owner-director, Sandiaga Uno, chose to become directly involved in politics. He took up a leadership position within Gerindra in 2015 and stepped down from his role as director at Adaro. In
2017 he ran as Gerindra’s candidate for vice governor of Jakarta alongside Anies Baswedan, and won. As well as defeating the incumbent, Basuki Tjahjaja Purnama, the pair also defeated former President Yudhoyono’s son, Agus Yudhoyono, whose campaign had been managed by Wishnu Wardhana of Indika.

In sum, by the time the 2009 Mining Law was in place, the structure of ownership in Indonesia’s mining sector had changed dramatically from the New Order days. According to the World Bank, by 2012 - when the 51 percent divestment requirement was introduced - already “close to 100 per cent of tin production, 95 per cent of thermal coal production and 80 per cent of nickel production, came from domestically owned companies” (World Bank 2015, 41). The coal boom of the mid 2000s was fortuitously timed for Indonesia’s coal miners, because it came on the heels of a spate of domestic takeovers. Coal brought some of the country’s wealthiest tycoons back from the brink of financial disaster, and re-established their positions as key actors in the post-New Order political economy. One senior member of the Indonesian mining industry emphasised that old tycoons had become Indonesia’s new mining magnates. When it came to the divestment regulations, he stated, “..lobbying by groups like Adaro and Bumi is very effective.”

1.3.2 The foreign enclave

However, one mining subsector remained stubbornly in foreign hands. American, Canadian, British and Australian companies had long dominated Indonesia’s precious mineral mining subsectors, particularly gold and copper. By the time the 2009 Mining Law was introduced, some companies in these subsectors had engaged in divestment in

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19 Interview: senior Indonesian industry consultant and former director of a global foreign mining company, Kiroyan and Partners, 16 October, 2014
accordance with the terms of their CoW; however, the overall picture was one of sustained foreign domination. The most prominent case was Freeport Indonesia, the subsidiary of American mining giant, Freeport McMoran. While the company had operated the world’s largest and most lucrative gold mine in Indonesian Papua since 1967, it had divested less than 10 percent of its shares to the Indonesian government.

It is worth noting that patterns of ownership in Indonesia reflect an international trend in which Western companies dominate global metal and mineral markets, with a handful of emerging-economy mining companies growing over the past two decades (Kooroshy, Preston, and Bradley 2014). Barriers to entry are much higher in hard-rock mineral mining than they are in coal or nickel, with larger up-front capital investments and complex technologies required to excavate through hard rock, and often deep underground. Coal, on the other hand, is generally extracted from soft rock, requires less complex methods, and thus has lower barriers to entry. The extraction of nickel ore is much the same. One long-time member of the foreign mining community in Indonesia joked in an interview that Indonesian companies were known in the industry as ‘surface scrapers’, meaning they lacked the capacity to engage in precious mineral extraction.

However, the wealthiest Indonesian businesses increasingly saw large foreign-owned gold and copper mines as the next frontier. They viewed acquiring shares in existing projects as the ideal means of entering the sector rather than via riskier and costlier exploration projects. Even prior to Government Regulation No. 24/2012 mandating 51 percent divestment, the country’s wealthiest and politically-connected tycoons had already begun to make their mark in these sectors by buying up existing foreign projects. For example, Aburizal Bakrie bought into Newmont’s Batu Hijau copper and gold mine in 2007, when the company was contractually obliged to divest. The central government turned down the shares, claiming it did not have available funds to spend on the acquisition. Bakrie ensured access to Newmont’s shares at below market price by
backing a consortium of regional government-owned enterprises. Various Indonesian Chinese tycoons such as Eka Tjipta Widjaja, Edwin Soeryadjaya and Johan Lensa, also entered the gold and copper industry through acquisitions and foreign divestment deals (Reuters UK 2015; Sender 2011; Tempo Bisnis 2012; Teguh Hidayat & Partners 2012).

The media and industry elites also regularly speculated that prominent politico-business elites such as Luhut Panjaitan, Coordinating Minister for Maritime Affairs and Natural Resources (2016-), Surya Paloh, Chairperson of the National Democratic Party, and Vice President Jusuf Kalla (2014-), have at different junctures pursued shares in Freeport McMoran’s Grasberg mine (Cahyafitri and Witular 2015; Lubis 2015). In short, the country’s wealthiest tycoons and politically influential business players aligned with, and stood to benefit from, a nationalist intervention that could help expand their interests into what was the relatively uncharted territory of precious mineral extraction.

Technically, the 2009 Mining Law mandated that divested shares had first to be offered to the government and then to state owned enterprises; only if the state and state-owned companies refused the offer were private domestic companies able to purchase the shares. But recent history indicated that both the central and regional governments, and the state-owned mining companies, PT Inalum, PT Aneka Tambang and PT Bukit Asam, had limited capital, and the law would present ample opportunity to private players to purchase foreign shares.

The divestment regulations were, accordingly, designed with private domestic interests in mind. The ownership structures that had emerged over the preceding decade meant that large private domestic miners were best placed to benefit from the investment opportunities that would emerge as foreign companies began selling down their mining interests.

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20 State owned enterprises are, by law, given priority in divestment tenders. Bakrie financed the regional owned consortium as a means of getting access early and for a significantly low price (Alfian 2010; The Jakarta Post 2012)
1.4 Economic conditions

Shifting ownership structures bolstered the position of nationalist networks. However, there was another enabling structural factor in the mining sector that, as we shall see, was not present in the oil and gas and palm oil sectors: economic constraints to nationalist agendas were low. Reliance on foreign capital was decreasing and, while they were strategic, overall the mineral subsectors most affected by divestment made only minor contributions to the overall economy. In other words, the nationalist network of business and government actors did not feel shackled by dependence upon foreign capital - quite the opposite, in fact.

Political and policy elites made private and public statements claiming that Indonesia no longer depended upon or needed foreign mining companies and that the time had come for local businesses to be the principal players in mineral extraction. One senior representative from a foreign mining company suggested that policy elites and local mining tycoons came to view Indonesia’s experience of the coal boom in 2007-8 as an example of what should take place throughout the entire mining sector: “Local capitalists had successfully taken over the majority of the big foreign operated coal mines. People asked, well why can’t we do the same for hard rock minerals?”21 This was not simply bravado; the shift in ownership structures over the preceding decade meant that Indonesia’s mining industry was indeed no longer as dependent upon foreign companies as it had been in the past, and as we saw above, domestic coal magnates were far better capitalised than previously as well.

The economic risk of pursuing a nationalist agenda in these sectors was also low in relative terms. While divestment obligations applied across the entire upstream mineral

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21 Interview: Scott Hannah, Corporate Communications at Freeport Indonesia, 2 September 2014
and coal mining industries, the new rules would have the most tangible impact on multinational companies operating in the precious mineral mining subsector. This subsector offered lucrative rents for companies and significant royalties and taxes for the government; but overall, it made only a moderate contribution to Indonesia’s foreign exchange, revenues and GDP - in comparison to other commodities like oil and gas, coal or palm oil. For example, according to the International Council on Mining and Metals, in 2010 the total production value of metallic minerals (which include gold, copper, tin, nickel and bauxite, but not coal) reached only 1.7 percent of GDP (International Council on Mining and Metals 2012). Copper and gold, where most foreign investment was directed, contributed to 1.4 and 1.2 percent of total export revenue respectively in 2012 – at the height of the boom. Table 5.1 sets out the contribution of each mineral to Indonesia’s GDP in 2012 and 2013 compared to other major export commodities.

Foreign industry observers often called the divestment regime ‘reckless’ and ‘myopic’; but once we examine the strategic contribution of the precious minerals sector from a comparative perspective, it becomes clear that nationalist networks within the state had made a risk calculation. For example, one industry analyst recalled how a senior policymaker explained the government’s attitude to the country’s major foreign miner, Freeport Indonesia: “Freeport may be the country’s largest taxpayer, but why should the government care when it is but a tenth of the take from the cigarette excise tax?” (Busch 2017). The calculation was that Indonesia could absorb the economic losses and reduced foreign investment that might come from an assertive nationalist strategy in this subsector.

This conviction lasted beyond the boom, again confounding conventional market-cycle theories. Commodity prices began to tumble in 2013, and by the time Jokowi took office in 2014 the boom was well and truly over. Yet few voices called for rolling back divestment obligations or for creating more conducive conditions for companies like
Freeport, Vale, Newmont or BHP. Rather than, as the market-cycle theory predicts, appeasing foreign investors in light of low prices, the Indonesian government maintained an assertive nationalist stance.

### TABLE 5.1: Percentage contribution of natural resources to exports and GDP in 2012

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Exports$^1$</th>
<th>Share of GDP$^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy Commodities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil</td>
<td>6.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Natural gas</td>
<td>10.8</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>13.8</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Non-energy commodities</strong></td>
<td>7.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Gold</td>
<td>1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Nickel</td>
<td>1.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Copper</td>
<td>1.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Bauxite</td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Tin</td>
<td>1.2</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>Agricultural Commodities</strong></td>
<td>12.5</td>
<td>13.8</td>
</tr>
<tr>
<td>Crude palm oil (CPO)</td>
<td>6.5</td>
<td>2.5$^3$</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>53.8</td>
<td>37.3</td>
</tr>
</tbody>
</table>

$^1$ World Bank 2015, 39  
$^3$ This figure is for 2010-2011, sourced from Henstridge, De, and Jakobsen (2013)

Why did economic constraints not prompt a reversal of the nationalist position? Senior cabinet ministers continued to emphasise that Indonesians were able to run complex mining projects, and that they would do it with better contributions to state revenue and community welfare (*Bisnis Indonesia* 2014a; *The Jakarta Post* 2015b). Clearly, policy elites felt their bargaining power was not reduced by post-boom conditions. In fact, state officials even argued that foreign companies like Freeport and Newmont were more troubled by tumbling commodity prices than the Indonesian government itself (*The Jakarta Post* 2015b). The commodities bust and several questionable investment
decisions had left Freeport with significant debt, and by 2015 its share price had plunged and it was in the midst of selling assets and restructuring almost US$20 billion in debt (Sanderson, Hume, and Wilson 2016).

Nor was domestic capital perturbed by the slump in commodity prices. For example, in July 2016, PT Medco Energy, owned by Indonesian businessman and one-time PDIP politician Arifin Panigoro, acquired 82 percent of Newmont’s Batu Hijau mine. Then coordinating minister for maritime affairs and natural resources, Rizal Ramli, told the press that he approved of an acquisition that would see one of the country’s largest mines put in the hands of an indigenous businessman: “this is important, because it has always been as though we [Indonesians] don’t have the ability [to run large mines]” (Katadata 2015). To finance the acquisition, Medco had borrowed from three state-owned banks, Bank Mandiri, Bank Negara Indonesia (BNI) and Bank Rakyat Indonesia (BRI). Medco’s company statements on the acquisition were heavy with nationalist rhetoric, and the company chairman stated that the transaction, “proves that with the collaboration of Indonesian companies, state-owned banks, the government and the public at large, we can solve every challenge the country faces…. [and] Newmont…deserve[s] praise for setting a new precedent for international investors in the natural resource sector, and for being cooperative and supportive towards realising the Indonesian people’s aspiration” (PT Medco Energy, 20 June 2016). President Joko Widodo reportedly watched the Newmont acquisition carefully, hoping it might constitute a model for transferring the Freeport mine into Indonesian hands in the near future (Budiartie, Teresi, and Nasrillah 2016).

The biggest domestic private players, together with members of executive government, maintained the nationalist momentum, and continued to pursue foreign-owned mines after the boom. This outcome challenges assumptions that localising forms of resource nationalism are contingent upon an external price mechanism, and a change
in bargaining power between state and foreign capital. Instead, in Indonesia, the preferences of an expanded business class continued to underpin influential nationalist networks, who viewed the commodity downturn as an opportunity to acquire troubled foreign firms.

1.5 Political conditions

Political conditions were also favourable for localising nationalism in the mining sector. As I pointed out in the introduction to this thesis, scholarship on economic policymaking emphasises that political and electoral factors determine the parameters for nationalist intervention, and alter how state actors perceive the policies that best serve their interest (Geddes 1996; Hall 1997). Indonesia’s democratisation impacted upon debate over resource policy in two ways. First, as was explained briefly above, the financial costs of electoral politics meant that political parties needed to partner with, and provide leadership positions to, wealthy business elites in order to underwrite political activities. This gave politico-business actors with resource investments influence within policymaking circles. The reverse was also true: politicians could use their positions to extend their private business interests or those of their allies. During the boom, as one Indonesian mining consultant stated, “every politician had a coal mine.” Second, resource policy became a central focus of a re-emergent populist-nationalist politics during the later years of the Yudhoyono presidency. Electoral competition and the wider populist mood gave nationalist networks new tools with which to pressure state managers and compel regulatory change.

Indonesia’s political parties were littered with politico-business elites whose interests expanded deep into the mining sector during the post-Suharto period. The most prominent example was, of course, Aburizal Bakrie, Chair of Golkar (2009-2016), who
was described earlier. Another example was Prabowo Subianto, Chair of the Gerindra party and presidential candidate in 2014, who owned several mining concessions through his company, Nusantara Group, with one particularly lucrative coal mining license in East Kutai district, East Kalimantan. Prabowo acquired this concession with the support of East Kutai’s district head in a murky legal battle with Churchill Mining (Mattangkilang 2012). Gerindra was also bankrolled by Prabowo’s brother, Hashim Djodjohadikosumo, another Suharto-era tycoon whose array of business interests include coal, energy, and palm oil (Aspinall 2015a).

Chair of Partai Amanat Nasional (PAN), Hatta Rajasa, had direct interests in the mining sector too. Prior to entering politics at the end of the New Order, Hatta was a businessman with investments in oil, gas and coal mining services industries through his Arthindo Group. Hatta was an avid proponent of the divestment obligations, and he played a prominent role in economic planning more generally during the Yudhoyono’s second term. Not only did he hold two economic portfolios within cabinet, but Hatta’s daughter was married to Yudhoyono’s son, giving their relationship a personal dimension too.

Key ministries under Hatta’s jurisdiction were held by politico-business elites who not only shared Hatta’s vision for a locally-owned and industrialised mining industry, but also had personal investments in the sector. For example, Gita Wirjawan, was made trade minister in 2011 and, unlike his predecessor Mari Elka Pangestu, supported more stringent divestment obligations. For example, Gita told the press in 2014 that, “strategic sectors [like mining] must be free from foreign control….the idea of economic nationalism is based on limiting the amount of foreign ownership within the country”(Dwiarto 2014). Gita was also a businessman. He started out as an investment banker, and then in 2008 established his own company, Ancora Group, with subsidiaries

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22 Interviews: former director for business development at the directorate for mineral and coal mining, 25 September 2014; former director general of mineral and coal mining, 16 October 2014
that invested in transport, infrastructure, mining services, and oil and gas services (The Jakarta Post 2008; Detik Finance 2008). Ancora also purchased shares in other established Indonesian resource companies, including Bakrie’s Bumi Resources (Detik Finance 2008).

Another example was Mohammad Hidayat, minister for industry from 2009 to 2014. He was a prominent businessperson from the Golkar party, who made his fortune primarily in the real estate sector. Hidayat was chair of Kadin, Indonesia’s Chamber of Commerce, for 10 years, and he espoused a strongly nationalist approach to economic policy. He too had investments in the mining sector through his company PT Minergy Nusa Resources. Hidayat’s predecessor, Fahmi Idris, was also a Golkar businessperson with investments in resource industries. The overall point is that the top layer of Indonesia’s political class had significant personal investments in the mining sector. Their ideological and political commitment to localisation was thus bolstered by commercial, private interests.

Jokowi’s victory over Prabowo and Hatta in 2014 did not remove the presence of vested extractive interests from the government. Senior members of Jokowi’s executive, just like Yudhoyono’s, had direct connections to the domestic mining industry, and lobbied the president to continue taking a hard line on divestment. Luhut Panjaitan, for example, played a key role in the development of mining regulations during Jokowi’s first term in office. The former military general also had significant interests in the coal sector through his company, PT Toba Sejahtera. Luhut helped fund and organise Jokowi’s political campaign (Power 2016), and was appointed as coordinating minister for politics, law and security (2015-2016), and then coordinating minister for maritime affairs and natural resources (2016-). Luhut supported the divestment regime, and was particularly passionate about Freeport’s obligation to divest its majority equity share to Indonesian
parties. He argued the company’s contract, due for extension in 2019, should not be renewed until Freeport agrees to divest (Tempo.Co 2017; Lubis 2015).

Luhut’s personal interests were revealed when, in mid-November 2015, he became embroiled in a controversy over Freeport’s divestment deal. Indonesia’s media erupted over the publication of a transcript of a meeting in which Setya Novanto (then parliamentary speaker), together with shady oil-man, Riza Chalid, met with the president director of Freeport Indonesia (Budiartie and Warburton 2015). In the recording, the pair offered to expedite the company’s contract extension in return for shares in both the company, and an electrification project that would service the Freeport mine. They named Luhut Panjaitan as a key enabler. The tape was leaked by minister of energy and mineral resources, Sudirman Said, who resented Luhut and Setya’s meddling in the negotiations. The story made media headlines for weeks and enflamed tensions within the executive. The corruption scandal confirmed how politico-business elites viewed the divestment obligations and negotiations with foreign contracts as private business opportunities.

Indonesia’s wider political milieu enabled nationalist networks in another way. Politicians running for office perceived a public preference for nationalist intervention, and mobilised nationalist ideas and initiatives to bolster their popular standing. Aspinall (2015b, 80) argues that in Indonesia, “major parties and aspirants to executive office differ very little in policy and programmatic terms, [so] nationalism is a useful legitimating device by which such actors can try to distinguish themselves from rivals and court public support.” These conditions prompt nationalist outbidding amongst elected officials when it comes to sensitive resource conflicts such as the Freeport contract. As one Golkar politician explained, members of parliament “need to be seen to be nationalist…”23 A former chairperson of the Indonesian Mining Association (IMA)

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23 Interview: Golkar politician from Commission VII, 26 September 2014
also commented that, during election years, “no one is brave enough to take a policy stance that might appear to favour foreign companies.”

One of the most compelling examples of this political imperative involves the Freeport share controversy described above. In response to the media furore surrounding the leaked tape, President Jokowi’s position on Freeport hardened. In January 2017 Jokowi ordered his minister to reinstate the 51 percent divestment requirement for all foreign mining companies. Political priorities underpinned the Jokowi government’s decision to return to 51 percent divestment. When he first came to power, Jokowi had no clear agenda for the Freeport contract. In an interview, Sudirman Said stated that the president allowed him to direct the Freeport negotiations and to find a solution that satisfied “both parties”, without articulating a strong personal preference. But, after the tape scandal, Jokowi came to see Freeport as a political liability. Indeed, the new directive that foreign miners divest a majority stake after 10 years came from the president himself. With two years until the presidential elections, Jokowi was preparing the ground for his re-election bid, and insulating himself from any attacks upon his nationalist credentials.

This was important to Jokowi because, back in 2014, he won the presidential elections by only narrowly defeating Prabowo Subianto. During that campaign, Prabowo deployed vitriolic nationalist rhetoric as part of his broader populist platform (Aspinall 2015b). At rallies Prabowo decried the exploitation of Indonesia’s land and resources by nameless “foreign forces”, and gave impassioned speeches that claimed Indonesia’s riches were disappearing while the profits were taken abroad, leaving little for the country’s poor masses (Gammon 2014). The narrative was reflective of that wider nationalist “mood” that Aspinall argues emerged in the post-New Order years. Against this backdrop, and with the 2019 presidential elections looming closer on the horizon, the

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24 Interview: Syahrir A.B, Chair of the Indonesian Mining Association (IMA) 12 May 2014
president decided the Freeport negotiations must bolster, rather than undercut, his political position.

Jokowi’s political resolve dovetailed with private interests in the mine. There was much speculation within the industry that tycoons and politico-business interests close to the administration were concocting ways to benefit from Freeport’s divestment. One journalist covering the Freeport negotiations suggested that the usual cast of mining tycoons, including Edwin Soeryadjaya of Adaro, approached the president to express interest in acquiring Freeport’s divested shares. However, Jokowi told them private companies would have the opportunity to purchase shares later down the track if a state-owned enterprise decided to sell them.

In this regard, Jokowi’s approach to divestment diverged from the pattern that emerged under Yudhoyono. Rather than enabling private interests to compete for the foreign company’s shares, the Jokowi administration laid out a plan for state-owned enterprises to purchase Freeport’s divested shares. According to an insider within the presidential staff office, Jokowi wanted to keep Freeport relatively free of politico-business tycoons, whose loyalty he doubted. Negotiations over Freeport’s shares were unfolding at the time of writing. It was, thus, too early to provide a definitive analysis of Jokowi’s approach, or to identify the key beneficiaries. The case demonstrates, however, the complex calculations that lie behind localisation in Indonesia’s mining sector. While Jokowi encouraged and even facilitated Medco’s acquisition of Newmont, he committed to putting Freeport, one of the world’s most profitable gold and copper mines, into state

26 Interview: editor for energy and resources section, Tempo Magazine, 5 October 2017
27 Rini Soemarno, minister for state owned enterprises, was a close ally of the president. She too favoured divestment, but she was determined that state enterprises be given more support to access shares in foreign-operated mines. To this end, Rini’s principal policy innovation was the establishment of state-owned resource holding companies that could leverage the capital necessary for buying out foreign companies such as Freeport or Vale (Nikkei Asian Review 2017a).
28 Confidential Interview: member of the Presidential Staff Office, 5 October 2017
hands. That commitment reflected Jokowi’s own political position, and his desire to show the electorate he was capable of negotiating state acquisition of Freeport Indonesia.

To conclude, studies of state-business relations warn against interpreting nationalist policy outcomes as simply a function of strong states, or purely in terms of state-level institutional differences (Doner 1992). Instead, they emphasise how concertation and coordination between a state’s economic planners and lead firms in a given sector underpin developmental trajectories (Doner 1992; Schneider 1998; P. Evans 1995). Similarly, the program of localisation in Indonesia’s mining sector emerged via intimate relations between executive government and an emergent class of mining magnates. However, the case of the mining sector demonstrated how, in contemporary Indonesia, concertation was not achieved through well-organised or efficient business associations, of the type we find in East Asia or parts of North and Latin America. Indeed, peak industry bodies were formally opposed to new and onerous divestment obligations. Nor was the state unified in its support of divestment, as evidenced by the trade ministry’s shock and frustration that these new regulations directly conflicted with the 2007 Investment Law. Instead, nationalist networks involved state-business coalitions that were based upon personalised and particularistic relations between lead firms and influential politico-business and bureaucratic actors in the Yudhoyono and Jokowi administrations.

These patterns of state-business relations display striking continuities with those that underpinned nationalist intervention during the New Order, albeit in a more fragmented form. In the contemporary period, however, structural conditions were even more favourable for nationalist networks. In post-Suharto Indonesia, the sector was not only booming, it was less dependent upon foreign investors, and domestic capital was more liquid and more capable of taking on major mining projects; accordingly, state
actors calculated that localisation was low in terms of economic risk, and high in terms of political utility.

2. Industrialisation: The end of raw mineral exports

Alongside localisation, another principal goal of the 2009 Mining Law was to industrialise Indonesia’s mineral mining industry. An argument in favour of ‘value adding’ gained currency during the boom as well. Despite increased profits, the Indonesia’s mining sector had a minimal impact on poverty reduction, the labour market and inequality (Bhattacharyya and Resosudarmo 2015). By establishing a downstream processing industry, minerals could be exported at a higher value and Indonesia would move up the global value chain. Downstream industrialisation is fundamental to a nationalist economic strategy. In resource commodity-exporting countries like Indonesia, particularly during a boom, policymakers often try to control or limit resource exports through tax mechanisms and export restrictions in order to encourage the growth of higher value, more sophisticated downstream industries.

The concept of ‘nilai tambah’, or value adding, has long been popular amongst a slice of Indonesia’s bureaucracy and economic policy elite (van der Eng 2014). But the mining boom of 2003-2013 prompted an unprecedented increase in the export of Indonesia’s natural resources, and as more and more raw commodities were shipped overseas, nationalist networks called for downstream industrialisation to be made a policy priority. Proponents reasoned that the government had spent decades allowing companies, especially foreign ones, to ship Indonesia’s raw minerals offshore to more industrialised countries like China and Japan, where all of the value adding took place. By developing a local smelting industry, so the argument went, Indonesia would enjoy
more of the profits from its finite natural resources, and begin advancing up the global mineral value chain.

The government chose to apply a controversial and disruptive set of export restrictions in pursuit of this downstream vision. In 2014, nickel and bauxite ores were completely banned from leaving Indonesian shores. Other minerals, including copper concentrate, received a temporary reprieve, and companies could export for another three years while building refining capacity – but these companies were forced to pay a heavy tax on their raw mineral exports.

This section demonstrates how ownership patterns and business policy preferences were conducive to this industrialising form of resource nationalism. The minerals subsectors most severely impacted by the ban – nickel and bauxite – had fragmented ownership structures, and upstream business interests did not constitute a coherent or powerful deterrent to nationalist agendas. At the same time, the nationalist policy network in favour of an export ban was broad, and included senior bureaucrats and political elites from across several ministries; it also included influential politico-business actors, some of whom saw opportunity for private gain in a captive smelting market. Finally, economic conditions created conducive conditions for nationalist networks. The contribution of these minerals sectors to Indonesia’s economy was, in relative terms, quite modest, and Indonesia was a dominant player in global markets. Such structural economic factors made these minerals prime targets for an assertive program of downstream industrialisation.

2.1 Nationalist networks succeed: The genesis of an export ban

The 2009 Mining Law lay the institutional foundations for an expanded downstream mineral refining industry. Articles 102-103 mandated that companies must add value to
mineral ores prior to export. Article 170 stipulated that companies with contracts of work (CoW) or mining licenses (IUP) would have five years from the Law’s enactment in which to prepare processing facilities. Other more technical aspects of downstream processing, like the level of mineral refinement, smelting capacity and financing, were deemed too technical for parliamentary negotiations. Thus, most of the details were to be worked out in subsequent government regulations.

The policy network in favour of downstream processing was broad. During the drafting of the 2009 Mining Law (2004-2009), all factions in parliament agreed that the government must compel companies to smelt their ores locally and contribute to the development of a downstream industry.29 Senior bureaucrats from the ministry of energy and mineral resources interviewed for this study also suggested that this part of the law was generally supported by the parliament and the executive and, as such, negotiations between government, parliament and industry over Articles 102-103 went relatively smoothly.30

However, the problem was that Article 170 did not specify the details of what would take place at year five. What would be the consequences for companies that were not adding value to their mineral products? The law implied a ban on the export of unprocessed mineral ores; but the ban was not explicit, and thus became the subject of much debate and consternation in the years that followed. Subsequent implementing regulations confused rather than clarified the government’s position, and seemed to indicate that the state itself was unsure of, or divided on, how to implement Articles 102-103.

For example, in 2010 the government issued Government Regulation No. 23/2010 on Mineral and Coal Mining. This regulation offered no clarity, other than to reaffirm

29 Interview: Sonny Keraf, PDI-P politician and member of parliamentary commission VII on natural resources, 5 June 2014
30 Interview: Simon Sembiring, former director general of mineral and coal mining, 11 April 2014; Sukhyar, former director general for mineral and coal mining, 15 October 2014;
that companies with mining licenses must add value to their mineral products. Article 112 of the regulation even seemed to imply that contract of work holders – which were the big foreign and domestic companies – were not subject to the processing requirements, as only license (IUP) holders were explicitly mentioned as needing to refine their ores by January 2014. Instead, the regulation simply stated that further details would be provided by the ministry for energy and mineral resources. Then in 2012, the government introduced two new regulations pertaining to value-adding for particular minerals. The first, Ministerial Regulation No. 7/2012, attempted to bring the processing deadline forward, and outlined that mineral ore exports would be banned within three months. The Indonesian Nickel Association (ANI), together with the Association of Indonesia District Governments (Apkasi) challenged the regulation in the Supreme Court. But even before the Supreme Court ruled on the case, the government appeared to recognise the shaky legal ground upon which it stood, and with a new regulation (No. 11/2012) shifted the deadline back to the originally stipulated January 2014 (*Koran Tempo* 2014).

Throughout this period, from when the 2009 Mining Law was introduced until the 2014 deadline, both foreign and domestic companies largely failed to invest in mineral smelters. This meant that Indonesia had virtually no new refining capacity as it approached the 2014 deadline.\(^{31}\) Private sector investors were not forthcoming given the regulatory confusion and mixed messages coming from the ministry. In addition, by the end of 2013 the boom was over, the economy was slowing, and the current account deficit was at its worst since 1986 (*The Economist* 2014). Consequently, companies and industry analysts believed the government would not follow through on the planned export ban. Most assumed the government would re-think the intervention and retreat from the nationalist position given the changed economic circumstances.\(^{32}\)

\(^{31}\) Instead, companies increased the rate of extraction, production, and export of raw minerals, including copper, nickel, and bauxite.

\(^{32}\) Interviews: representatives from the Indonesian Mining Association, 12 May, 2014; representative from the Indonesian Coal Mining Association, 5 May 2015
In the weeks prior to the ban, policymakers clashed over what to do. By late 2013 divisions had emerged within the state policymaking apparatus as to whether the ban was the right approach, given the changed economic environment and the lack of smelter development. For example, the minister for energy and mineral resources, Jero Wacik (2011-2014), approached the parliament seeking approval to delay the deadline and give companies more time to build smelters. But legislators rejected the minister’s proposal. The evening before the January 12 deadline, senior cabinet ministers met with the president to deliberate on a revision that would minimise the economic impact of the impending export ban. During these last-minute negotiations at the president’s home, some ministers argued in favour of delaying the ban until 2017 (Sullivan 2014). Privately, a cabinet minister with an economic portfolio stated in an interview that he felt the ban was poorly timed, and that “economic constraints” should have motivated the government to rethink the strategy of banning exports.33

However, nationalist networks prevailed. The most prominent advocate of downstream industrialisation and the export ban was Hatta Rajasa, coordinating minister for economic affairs.34 As described in the previous section, Hatta was an influential member of President Yudhoyono’s cabinet. The export ban was part of a larger economic strategy spearheaded by Hatta: The Master Plan for Acceleration and Expansion of Economic Growth (MP3EI). This plan motivated export restrictions and taxes in other sectors like rattan and cacao as well. The objective was to industrialise Indonesia’s resource sectors and place Indonesia on the path toward becoming a global economic giant. Other politico-business elites in cabinet supported Hatta’s vision for downstream industrialisation. Chief among them was the minister for industry, Hidayat, along with the minister for trade, Gita Wirjawan (these actors were discussed in the section above as

34 This coordinating ministry oversaw the ministries of trade, finance, industry, energy and mineral resources, agriculture, manpower, state owned enterprises, environmental and forestry.
well). In other words, nationalist networks included influential members of the executive who demonstrated a commitment to an industrialising form of resource nationalism. As former finance minister, Chatib Basri, explained in an interview, there were many who argued that downstream processing simply had to happen, “the law could not be changed, so we had to work within the new economic constraints.”

The result was a complex compromise in which the ban was applied selectively. On January 12th 2014, the ministry for energy and mineral resources introduced Ministerial Regulation No. 1 of 2014, which outlined the conditions of Indonesia’s mineral export ban. The regulation allowed for the export of “Category 1” mineral ores (copper, iron, limonite, titanium, lead, zinc and manganese concentrates), but maintained a tight ban on minerals placed in “Category 2” (nickel, bauxite, tin, gold, silver and chromium). The ban on the export of unprocessed Category 2 minerals had the most significant impact on nickel and bauxite, because tin, gold, silver and chromium had long been partially processed inside Indonesia and already met the legally mandated refinement levels. Nickel and bauxite, however, were being exported at record levels during the boom, and mostly in their raw form. Both minerals also demonstrated potential in terms of smelting investment. According to the Oxford Business Monitor, “around 80% of the value for nickel and 94% for aluminum are derived from the refining and smelting stages” (International Business Monitor 2015, 43). But companies had no incentive to invest downstream, when the price for raw ore was high, and the process of extracting nickel ore and bauxite was also relatively simple and cheap. A tight ban, the government argued, was the only way to ensure investor confidence in the profitability of downstream investments.

Meanwhile, licenses to continue exporting Category 1 minerals were contingent upon companies demonstrating their financial commitment to building smelters, or

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commitment to cooperating with another party that was building smelters. This was a concession to the country’s copper companies, Freeport and Newmont, which dominated Indonesia’s copper concentrate exports. These companies were given another three years to build smelters, and in January 2017 copper would be subject to a higher processing requirement prior to export. In place of a ban, however, the ministry of finance introduced a large and progressively increasing export tax that would be applied to Category 1 minerals. Newmont and Freeport argued the tax was so onerous it overshadowed the dispensation they had just received on copper ore exports.

The January 2014 regulation shocked the domestic and international mining industry, and tarnished Indonesia’s reputation within the international business community. Nickel and bauxite exports came to a virtual standstill. Japan, a major importer of Indonesia’s nickel, threatened to take Indonesia to the World Trade Organisation. The majority of Indonesia’s nickel and bauxite production came from domestic companies, which meant the regulation devastated many of the country’s local miners (World Bank 2015). Yet despite the protestations from Indonesia’s mining industry, including from both domestic and foreign companies, and despite the more challenging economic circumstances Indonesia faced in 2014, the government went ahead and banned nickel and bauxite, and applied an onerous tax on copper. Why did nationalist networks prevail in this instance, particularly under post-boom conditions?

36 Ministry of Finance Regulation 6/2014 lays out a progressive export tax that began in 2015 at 20 percent and increased up to 60% by 2016.
37 Brazilian nickel company, PT Vale, is responsible for 30 percent of the Indonesian nickel market, but that includes processed nickel from its smelters. The company was unburdened by export ban.
2.2 Ownership structures

To understand why the export ban prevailed in the nickel and bauxite sectors, we need to interrogate the character and structure of ownership in both the upstream and downstream segments of these sectors. This section shows how nationalist networks were, once again, buttressed by influential politico-business elites who sought to expand their interests in the smelting sector. In addition, upstream opposition to the ban in the nickel and bauxite subsectors was fragmented and weak, reflecting the sector’s ownership structure. These industries and lacked support from influential tycoons and mining magnates.

During the lead up to the 2014 export ban, rumours circulated throughout the industry and the press that senior elites who supported the ban were creating opportunities for private gain. Some rumours were extreme. For example, industry stakeholders and press reports claimed that Hatta Rajasa himself was set to benefit personally from the export ban. The rumour was that Hatta had received a generous material reward from US Rusal, a Russian mining company with both bauxite and nickel interests, in return for ensuring the government implemented a tight ban on these two minerals (Metrotvnews.Com 2015). Publicly, Rusal lobbied for the ban because it wanted to invest in smelting facilities in Indonesia, and in a meeting with Hatta the company’s CEO promised US$6 billion to build a smelter in partnership with Antam (Ismar 2014; The Jakarta Globe 2014a; Kompas 2015). But the ban would also drive up nickel and bauxite prices globally, and improve the struggling company’s profit margins (The Moscow Times 2014). While there was no hard evidence of such extreme collusion, senior policy makers, industry professionals, and academics were convinced of its veracity.38 A high

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38 This story was raised in several interviews as an explanation for the government’s decision to move forward with the ban on nickel and bauxite: Faisal Basri, prominent economist from Universitas Indonesia, 9 December 2014; Kuntoro Mangkusubroto, former head of President Yudhoyono’s Presidential Working Unit (UKP4) and former minister for energy and mineral resources, 12 January 2015; and chair of the Indonesian Mining Association, 12 May 2014.
profile coalition of business people, economists, and bureaucrats (including former director general of mineral and coal mining from 2007 to 2009, Simon Sembiring) even used this story as part of their case against the export ban at the Constitutional Court.\textsuperscript{39}

Indeed, as Rusal’s investments stalled in the years following the ban, the proposition that all Rusal wanted was to prompt a spike in nickel and bauxite prices seemed increasingly realistic.

Beyond this rumour, it was not hard to find influential business figures and politically connected individuals who lobbied hard for the ban and then, in the years following its implementation, made investments in processing projects across several mineral subsectors. Kadin, Indonesia’s Chamber of Commerce, emerged as a key actor in this story. For example, Natsir Mansyur, a senior member of Kadin, consistently supported the ban and lobbied the government to remain vigilant in supporting it (\textit{Tempo} 2013). Natsir was also Director of PT Indosmelt, one of the companies that signed an MoU in 2013 with Freeport, which outlined a non-binding commitment to supply copper concentrate to PT Indosmelt (Azwar 2013).\textsuperscript{40} Mohammad Hidayat, minister for industry (2009-2014), and senior member of Kadin, also lobbied hard for the ban. Insiders believe Hidayat was involved in setting up Indosmelt, and he was also a commissioner of PT Nusantara Smelting, the local company that signed a similar MoU with Newmont (Azwar et al. 2015).\textsuperscript{41} The sugar industry magnate, Melvin Korompis, owned Nusantara Smelting, and industry observers believe he put Hidayat on the board of commissioners in the expectation that he would arrange access to Newmont’s concentrate.\textsuperscript{42} Rusal also signed an MoU to build an alumina smelter with the Satramindo Group, owned by Surya

\textsuperscript{39} Author’s observation of Constitutional Court proceedings, 16 April 2014, case No. 10/PUU-XII/2014, “Pengujian Undang-Undang Nomor 4 Tahun 2009 tentang Pertambangan Mineral dan Batubara [Pasal 102 dan Pasal 103] terhadap Undang-Undang Dasar Negara Republik Indonesia Tahun 1945”

\textsuperscript{40} Interview: representative from Indonesian Coal Mining Association, 16 September 2014

\textsuperscript{41} Interview: Tempo Journalist, 10 May 2014; representative from Indonesian Coal Mining Association, 26 May 2014

\textsuperscript{42} Interview: senior analyst an international business risk consultancy, 15 May 2014; representative from Indonesian Coal Mining Association, 26 May 2014.
Bambang Sulisto, former head of Kadin (The Asia Miner 2014). Satramindo also owned part of PT Kembar Emas Sultra, a company developing a nickel processing plant in Southeast Sulawesi (Investor Daily 2014). Kembar Emas would later be implicated in an investigation by the Corruption Eradication Commission (KPK) into Southeast Sulawesi’s Governor, Nur Alam. It was clear, therefore, that the prominent businesspeople who supported the ban, particularly senior members of Kadin, were well placed to profit personally from the intervention.43

Similar stories emerged at the local level too. In Southeast Sulawesi, one of Indonesia’s nickel mining hubs, the Governor, Nur Alam, was a passionate proponent of the ban. Nur Alam was from the same political party as Hatta Rajasa, PAN, and he had managed to expand PAN’s stronghold over the provincial and district governments during his tenure between 2008 and 2017. Nur Alam, a close political ally of Hatta, argued that provinces like Southeast Sulawesi had become a quarry for China, yet the local population had benefited little from the nickel boom.44 Chinese investors and their partners from Jakarta, he claimed, accrued all the profit, and made little contribution to the local economy. Downstream processing would have significant knock-on effects, Nur Alam reasoned. He rallied other governors in Sulawesi to ensure the ban was properly implemented.45 Nur Alam’s commitment, however, soon sounded disingenuous, as reports emerged that he was a suspect in a money laundering case involving a Hong Kong-based nickel mining company, and a local nickel mining and smelting company, PT Billy Indonesia, of which Nur Alam’s close political ally, Widdi Aswindi, was the

43 Other wealthy politico-business elites reportedly pursued smelting investments in the years that followed as well, with the likes of Luhut Panjaitan, a close ally of President Jokowi, and Jusuf Kalla, Indonesia’s vice president (2004-2009 and 2014-2019), getting involved in smelting ventures (Bland 2012; Cahyafitri 2015b).
44 Interview: Governor Nur Alam, 29 April 2014.
Director (*Majalah Tempo* 2014). In 2017, the KPK arrested and charged Nur Alam for accepting bribes and illegally distributing mining licenses.

To be clear, I do not suggest that the impetus for an industrialising resource nationalism came initially or even principally from the particularistic interests of Indonesia’s political elite. Value-adding had broad-based support from across the political and policymaking spectrum. However, by late 2013 there was much division within the state over the prospect of a tight ban on mineral ore exports, and some state managers and members of the executive ministry felt the ban should be delayed until smelter developments had progressed. The decision to move ahead with the ban can, I argue here, be traced back to a nationalist coalition that included influential members of the executive, senior member of Kadin, and politically-connected regional elites, who saw opportunities for private gain. So, while founded upon a set of nationalist economic ideas, the export ban dovetailed neatly with the material interests of powerful politico-business actors, and their support for the intervention made for a formidable nationalist policy network.

Importantly, the coalitions that *opposed* the ban were weaker, largely due to the patterns of ownership in the nickel and bauxite sectors. Nickel and bauxite production were dominated by small and medium-sized enterprises which lacked influence in national policymaking circles and whose interests were poorly aggregated. A split effectively emerged between different types of domestic capital: in favour of the ban were prominent national business figures whose interests spanned several sectors and who enjoyed strong connections to Kadin and the executive; on the other side were smaller and often regionally-based capitalists whose interests were largely confined to the minerals sectors, and who lacked connections to the epicentre of political power. In the

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46 Widdi is also Director of the Indonesian Survey Institute (*Jaringan Survey Indonesia*), one of the national survey institutes embroiled in controversy for falsifying results in favour of Prabowo Subianto during the 2014 presidential elections.
copper sector, meanwhile, production was concentrated in the hands of two giant American firms. These companies were also targeted by nationalist coalitions. But their structural power and domination of the copper sector enabled them to redirect, delay and water down the export ban – though, as we shall see, they did not escape intervention altogether.

Let us look at nickel first. Domestic nickel mining companies mushroomed during the boom. In Southeast and Central Sulawesi, Indonesia’s nickel belt, the number of nickel mining licenses distributed by local governments exploded. Prior to decentralisation, state-owned Aneka Tambang (Antam) and Canadian company, Inco (later bought out by Brazil’s Vale) were the only companies doing significant nickel mining in Indonesia. Antam accounted for almost all of Indonesia’s nickel ore exports, and Inco accounted for all nickel matte production in 2004 (Pui-Kwan 2001).47

However, decentralisation made regional governments responsible for issuing mining licences, and as the boom took off, local politicians and bureaucrats embraced their new authority with enthusiasm. In Southeast Sulawesi, for example, where once it had been only Antam extracting and exporting nickel ores, by 2011 district governments had issued 112 different companies with nickel mining licenses (Ministry for Energy and Mineral Resources 2011b). Southeast Sulawesi became a hub for Indonesia’s expanding nickel industry, increasing its production from just 700,000 tons in 2001 to over 29 million tons in 2013 (Southeast Sulawesi Statistics Agency 2014). In Central Sulawesi, the provincial and district governments allocated 76 licences to various companies (Ministry for Energy and Mineral Resources 2011a). Most of the new licenses were for small and medium-sized companies to mine small areas of land. For example, in Central Sulawesi, out of the 76 nickel licenses recorded by the ministry of energy and mineral resources, over 55 were for areas of land smaller than 6,000 HA. Only five companies

47 Matte is partially processed nickel ore. Vale (formally Inco) only exports nickel matte and does not contribute to Indonesia’s raw ore production or exports.
had licenses to mine an area over 25,000 HA (Ministry for Energy and Mineral Resources 2011a).

There were no data available listing precisely which companies produced how much nickel, or who owned these hundreds of licenses. Indeed, the ministry for energy and mineral resources itself had great difficulty obtaining such data from regional governments. In 2013 the ministry, together with the KPK, began auditing thousands of mining licenses across the country, and found that many of them were illegally purchased, and that the companies which owned them were inactive. But in interviews with representatives from the nickel industry in Sulawesi and in Jakarta, and from industry reports, it was clear that most of the licenses distributed during the boom were for medium to small enterprises that were owned (though not always operated) by Indonesians (Ministry for Energy and Mineral Resources 2012).48

The new companies that had entered the nickel mining sector contributed to an increase in Indonesia’s production levels. For example, Indonesia produced just over 3 million tons of nickel ore in 2000, all of which came from Antam (Indonesian Mining Association 2002). In 2013, Indonesia exported 60 million tons of nickel ore, which was around 60 percent of production worldwide (Nikkei Asian Review 2017b). Of this 60 million tons, Antam produced 11 million tons of nickel ore (Antam 2013). The rest came mostly from medium-sized and small companies around Sulawesi and Maluku that had been set up during boom.49

The explosion in local mining companies meant the sector had become less concentrated, and was instead characterised by a fragmented and diffuse collection of business actors. The ownership structures of the companies themselves were often

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48 Interview: senior bureaucrat from the provincial mines department Southeast Sulawesi, 2 September 2014
49 The central government had issued licenses for two other large nickel deposits, one for Weda Bay Nickel, a joint operation between Antam and Singapore’s Strand Minerals, and another for Gag Nickel a joint operation between Australia’s BHP and Antam. Neither of these mines had come online prior to the export ban.
complex. For example, one former community relations manager of an international nickel mining company explained that local politicians and businesspeople in Southeast Sulawesi would purchase licenses from the district governments, and then ‘sell’ or ‘rent’ the license to investors from outside of the province – whether from Jakarta, Singapore or China.\textsuperscript{50} The local mines department would act as a broker, introducing owners of the licenses to potential investors. A former bureaucrat from Southeast Sulawesi’s mines department confirmed that this was a common practice, and explained how investors from Jakarta or abroad would run the mine, and the local license-holder would charge the investor a fee for the use of their license.\textsuperscript{51} So, not only was the legal status of many nickel mining licenses often dubious, but layered and fragmented ownership structures at the local level made business interest aggregation and collective policy action hugely challenging.

In the bauxite sector, the picture looked similar. Bauxite is strip-mined because it forms near the earth’s surface and, like nickel, the raw ore is relatively simple to mine. Bauxite is processed into alumina, and then into aluminium. However, in Indonesia, the vast majority of bauxite was being exported in its raw form to China, where there was a large aluminium processing sector. The majority of Indonesia’s bauxite comes from Riau, West Kalimantan and Bangka Belitung. Detailed data were even more difficult to obtain on the production, distribution and ownership structures of bauxite companies. According to a report by the ministry for energy and mineral resources from 2012:

\textit{Between 2007-2010, bauxite exports increased significantly compared to the period 2003-2006, which was caused by the increase in production from new bauxite licences in West Kalimantan and the Riau Islands, when previously the majority of production came from PT Antam} (Ministry for Energy and Mineral Resources 2012, 46)

\textsuperscript{50} Interview: community relations manager for international nickel mining company, 7 January 2015
\textsuperscript{51} Interview: senior bureaucrat from the provincial mines department Southeast Sulawesi, 2 September 2014
According to the same report, bauxite exports increased from approximately 2,756,000 tons in 2005 to approximately 44,754,000 tons in 2011 (Ministry for Energy and Mineral Resources 2012, 47). At the time the export ban was instituted, there were approximately 77 bauxite mines in production, and 180 bauxite licenses had been allocated by regional and central governments (Migasnesia 2015). The majority of bauxite in Indonesia was also being mined by small to medium-sized local companies. In 2012 in West Kalimantan, for example, the largest companies engaged in bauxite mining were Antam and Harita Prima Abadi Mineral of the Harita Group, owned by a prominent Indonesian Chinese business family, the Hariyano’s. There were 49 other companies mining bauxite around the province that were “relatively small”, according to the ministry (Ministry for Energy and Mineral Resources 2012b, 10). In Riau, meanwhile, Antam had been responsible for all of the province’s bauxite exports until 2009, when the company closed its operations. After 2009, 32 different private companies acquired licenses to mine and export bauxite from the province (Ministry for Energy and Mineral Resources 2012b, 24–25).

The literature on state-business relations emphasises that interest aggregation is more difficult in sectors with fragmented ownership structures, and where production is dispersed amongst a large number of smaller companies – as was the case with nickel and bauxite (Haggard, Maxfield, and Schneider 1997). In Indonesia’s nickel sector, fragmentation was in part the result of murky license allocation processes, in which district heads allocated licences to political allies and friends, who then leased out or sold on the operating rights. The majority of these companies were also young and had only been set up after 2007, when demand from China prompted a price boom for nickel and bauxite. As such, their involvement and representation in prominent industry associations was minimal. Indeed, mineral companies impacted by the ban felt their interests were not being represented in the mainstream business associations such as Kadin and the
Indonesian Mining Association (IMA). Kadin openly supported the ban and, as we saw above, senior members of Kadin pursued opportunities to expand into the downstream minerals processing sector.

IMA, meanwhile, also did not lobby explicitly against the ban on nickel and bauxite, and instead argued for more government incentives (such as tax breaks) in order to kick start the smelting sector (Kurniawan 2013). Most of IMA’s efforts were focused on lobbying against a ban on copper exports. For example, an IMA-commissioned report, conducted by the Bandung Technology Institute (Institut Teknologi Bandung, ITB), argued that copper smelting was uneconomical, and that a ban would result in state losses of up to US$8.7 billion should Freeport and Newmont be shut down (Dwiarto 2013).

IMA’s director in 2013, during the lead up to the ban, was Martiono Hadianto, the president director of Newmont Nusa Tenggara, Newmont’s Indonesian subsidiary. The smaller nickel and bauxite miners hence felt the traditional business associations were not representing their interests in negotiations with government.

In response, Indonesia’s nickel and bauxite miners began to organise themselves for the first time in response to the export ban. But the fragmentation of ownership structures in these mineral subsectors appeared to produce equally fragmented organisational efforts, and new associations mushroomed around the archipelago after 2014. Apemindo (the Association of Indonesian Mineral Entrepreneurs) was set up in 2013 as a vehicle to lobby the government on behalf of Indonesian mineral mining companies whose businesses would suffer from the ban. At public seminars and in the press, Apemindo emphasised that the ban would hurt the newer and smaller locally-owned companies (Safitri 2013). Instead, the association argued, the government should focus its efforts on the big foreign contract-holders, such as Freeport and Newmont, that could afford smelters and had been in operation for decades (Safitri 2013). The nickel sector also had its own association, the Indonesia Nickel Association (ANI), and in 2014
bauxite miners set up a separate organisation, the Association of Indonesian Bauxite and Iron Ore Producers. Meanwhile, regional entrepreneurs established locally-based associations. In Southeast Sulawesi, for example, companies came together and established the Southeast Sulawesi Nickel Miners’ Association.\(^{52}\)

However, none of these associations enjoyed a great deal of policy clout, and their lobbying efforts had no tangible impact on government policy throughout either the Yudhoyono or Jokowi administrations. They lacked prominent national-level business figures and established networks within the government and parliament. Despite their efforts to challenge the ban in the Constitutional Court, and their countless public seminars and protests covered in the national press, the ban went ahead and was sustained through the early years of the Jokowi administration as well.

The copper ban was delayed, and much more difficult for the government to execute. The sector was highly concentrated around two legacy foreign multinationals: Freeport and Newmont were responsible for 97 percent of Indonesia’s copper production, and were able to leverage their structural power to delay and water-down – though not stop – the ban. The government was in the midst of fraught contract negotiations with these companies over divestment terms and royalties too. While the government was willing to exert immense pressure on the foreign miners in order to force new divestment arrangements, the export ban had more significant and immediate consequences.

Both companies threatened that a ban would lead to a complete and immediate shutdown of operations, which would then lead to a retrenchment of their domestic workforce, and significant ramifications for the regional economies where they operated (Cahyafitri 2013). In a press release, Newmont explained that the company provided “US$10 million each year toward local economic, infrastructure and social development…. [and] approximately 9,000 people, including employees and contractors,\(^{52}\) Interview: Anton Timbang, head of the Southeast Sulawesi Nickel Miners Association, 18 April 2014
support their families by working at Batu Hijau” (Newmont Mining Corporation 2014). Because there was not enough copper smelting capacity, the ban would mean Newmont and Freeport - and the entire copper sector - would shut down, leading to a loss in state revenue of US$2.5 billion (The Economist 2014).

IMA lobbied on behalf of the two copper miners, and publicly criticised the ban for jeopardising current and future investment in the copper sector. Copper companies and industry associations also emphasised that copper smelting was not economically viable compared to nickel and bauxite smelting. Several feasibility studies sponsored by the industry showed that only 10 percent extra value was added to copper concentrate via the smelting stage (International Business Monitor 2015, 43). Both Freeport and Newmont were also operating under contracts of work. They argued the ban breached their contracts, and they threatened the government with international arbitration should it execute a full ban on copper exports. As a last-minute compromise, under Government Regulation No. 1/2014 the government eased the export restrictions on copper and delayed the full ban for another three years, giving the companies more time to invest in smelting facilities.

The reprieve for copper incensed many within the industry. Nickel and bauxite miners felt the government was unduly hurting local companies, while pandering to the demands of big foreign capital. Some of the bureaucrats who designed the 2009 Mining Law, and activists working in the sector, also argued that downstream processing obligations had initially been intended for the large foreign contract-holders, not the small Indonesian miners. In the words of one former director general of mineral and coal mining:

This latest regulation [2014] kills locals and supports foreigners…it was not the law’s intention to ban exports for license holders when there were no smelters to smelt! Why would we do this? Why would we kill local companies?....It was all about getting CoW-holders to build smelters…

Interview: Simo Sembiring, former director general of mineral and coal mining, 11 April 2014;
The government did not bend entirely to these foreign companies’ demands, however. Freeport and Newmont were formally still required to invest in smelters and faced an impending ban in 2017. Chatib Basri, then minister for finance, described the tax on copper concentrate not as a means of revenue collection, but as a tool to “force companies to develop smelters in Indonesia” (Kompas 2014). The media reported Basri describing the tax as a form of “punishment” for foreign companies, which until then had avoided downstream investment and thus broken Indonesia’s laws (Sambijantoro 2014). The two companies were unhappy with the new tax, and felt the intervention undermined the concession they had just been rewarded to delay the ban on exports. Still, the efforts of the two multinationals, together with the backing of IMA, managed to defer the planned ban on copper exports.

2.3 Economic conditions

How did economic conditions constrain or enable industrialising agendas? There were two economic factors that made these mineral sectors targets for an aggressive industrial policy. First, Indonesia was a key supplier of global nickel and bauxite ores on international markets, and so had the leverage to cut supplies and compel trading partners to invest downstream. Second, proponents reckoned that Indonesia could absorb the economic losses from what were lucrative but not crucial export sectors for the country’s welfare.

Indonesia was the world’s fifth largest nickel exporter and in 2013 supplied 57 percent of the world’s nickel ore (Nikkei Asian Review 2017b). Much of the ore that left Indonesia’s shores went to China. In 2013, China imported “30 million tonnes of nickel

54 Interview: Scott Hannah, Corporate Communications at Freeport Indonesia, 2 September 2014;
ore from Indonesia and China’s aluminium smelters rely on Indonesia for 20% of their feedstock” (Els 2014). Proponents of the ban in government assumed that Chinese investors would, out of necessity, invest downstream in order to access those ores. To an extent that calculation was correct, even if smelter development was relatively slow. By the end of 2016, the program had begun to produce results, with over US$18 billion in downstream investment being channelled into 32 smelting facilities, most of which came from Chinese investors (Singgih 2017).

Policymakers understood that the export ban would have an immediate and painful impact on state revenues. Indeed, once the ban was introduced, some analysts estimated a revenue loss of approximately US$4 billion in the first year (The Economist 2014). Boom conditions provided the initial impetus for renewed demands for industrialising Indonesia’s minerals sectors, and state managers felt the economy could absorb the losses inflicted by the ban, and economic pain in the short-term was worth the expected long-term industrial gains – and for the business elites documented above, the expected private gains too.

The mineral subsectors most affected by the ban played a relatively modest role in the overall economy. Nickel and bauxite made a moderate contribution to GDP, export revenue and employment: Table 5.1 in the previous section illustrated that in 2012, when the volume of exports for nickel and bauxite ores reached almost their peak, these minerals still only contributed to 0.4 and 0.1 percent of GDP respectively. In terms of revenue, together these sectors accounted for 2.5 percent of total export revenues. Interrupting the flow of export revenues would hurt Indonesia’s economy, but would not be disastrous. In other words, the government could afford such losses in pursuit of long-term industrialisation.

Against this logic, nickel and bauxite companies and business associations argued passionately that the ban was forcing companies to close their doors and retrench their
employees, which would harm livelihoods and economies out in the regions (Hukumonline.Com 2014; Jannah 2015). Again, however, such trends were not of major concern to state managers in Jakarta. All of the non-oil mining sectors together accounted for just over 1 percent of Indonesia’s labour force in 2013 and 2014 (van der Eng 2014, 22). By comparison, Indonesia’s palm oil sector alone employed for 2.7 percent of the working population (Schuster Institute 2013). Overall, the developmental spill overs from nickel and bauxite were already so limited that the economic argument against downstream interventions was less convincing than it was in other sectors – such as palm oil (explained in Chapter Six).

Did the end of the boom alter the government’s calculations? When President Jokowi took office, the boom was over and the new government was tasked with managing a growing trade deficit. Yet he and his cabinet initially came out in strong support of the export ban. Given that investment was beginning to produce results, the consensus among industry analysts and government officials was that Jokowi would stick to the plan for downstream industrialisation – especially for nickel, where most development had taken place.

However, in January 2017, the government introduced a new regulation that allowed raw nickel and bauxite, as well as copper (which should have been restricted from 2017 onwards) to resume under certain conditions. Mining companies that wished to export unprocessed ores could apply to the ministry of energy and mineral resources for a permit. However, permits would only be granted to companies that demonstrated progress toward building processing plants (Agustinus 2017). The new rule also forced companies with export permits to allocate 30 per cent of their nickel ores to domestic smelters, to ensure that miners did not simply avoid value-adding altogether.

The predominant line of argument in the media at that time was that the relaxation was the government’s response to financial pressures (Sanderson and Bland 2017;
Opening the door to exports would increase tax revenues and help ease the budget deficit. The Jokowi administration had missed its revenue targets for 2015 and 2016, and was scrambling to find ways to ease the financial pressure (Suhartono and Rahadiana 2016). This explanation fit with conventional market-cycle theories of resource nationalism: the commodity boom was over, and so a resource-rich country such as Indonesia, under increasing financial pressure, would inevitably retreat from the nationalist position.

However, I suggest that relaxation of the ban represented a shift in nationalist priorities, rather than a retreat. First, the way in which the new rules were structured meant that in fact the impact on the budget was relatively minor. The ministry was not expecting a large increase in the export of mineral ores. The conditions for gaining a permit were highly restrictive, and at the end of 2017 only six companies had received these export permits (Gumelar 2017). According to one report, the ministry of energy and mineral resources predicted that under the new rules, Indonesia would export up to 5.2 million tons of nickel ore per year, which was “less than 9% of what the country used to export prior to the export ban” (de Frutos 2017).

Second, framing the reversal of the export ban as a simple response to low commodity prices mischaracterised the broader policy trajectory of Indonesia’s mining sector, and the alternative nationalist agenda of which this latest policy was a part. I suggest instead that the decision to relax the ban served to support state-owned mining company, Antam. Prior to the ban, Antam exported the largest proportion of Indonesia’s raw nickel ore.55 Indeed, raw nickel and bauxite exports constituted 30 per cent of the company’s revenue in 2013 (Antam 2013). Antam suffered huge financial losses when the nickel ban was introduced. Unable to export raw ores, and without sufficient smelting capacity, Antam’s profits nosedived: it booked Rp743 billion in losses in 2014 and it went

55 Brazil’s Vale is the largest nickel company in Indonesia, but it already processes its nickel ores domestically prior to export.
into the red for the first time in over a decade (*Nikkei Asian Review* 2017b; *The Jakarta Post* 2015a). In the lead up to the January 2017 smelter deadline, there were even rumours circulating that the ban would be relaxed for Antam only, and not for Indonesia’s hundreds of smaller domestic nickel exporters. When the relaxation was finally announced, Antam’s shares jumped 6 percent.

We need to view the export relaxation in the context of the Jokowi administration’s broader vision for the mining sector. As explained in the previous section, the Jokowi government laid out a plan to restructure the state-owned sector and consolidate state-owned companies in strategic sectors under new state-run holding companies. Antam needed to be in a comfortable financial position in order to bolster the financial credentials of PT Inalum, the new mining holding company (Warburton Forthcoming). The ban was thus designed to fix Antam’s bottom line, rather than to address broader budget troubles.

### 2.4 Political Conditions

While not a leading causal factor in the fate of the export ban, electoral politics did play into the government’s deliberations over this intervention. The rise of an assertive nationalism in post-Suharto politics was elaborated in the previous section. That broader nationalist mood, which infused electoral politics in the lead-up to the 2014 elections, created favourable conditions for the nationalist networks that supported an export ban.

While the economics of the export ban looked increasingly dubious, as January 2014 approached, state actors and those running for re-election were considering whether backing this policy would serve their political interests. For example, the minister of energy and mineral resources approached the parliament in 2013 and proposed relaxing the ban due to concerns about the slip in commodity prices. However, parliamentarians
were vehemently opposed. It was now approaching the 2014 legislative and presidential elections (set for April and June respectively), and parliamentarians interviewed for this study felt it was “safer” to back the ban and support the nationalist spirit of the 2009 Mining Law, rather than risk being accused of representing the interests of foreign miners.  

The media contributed to a nationalist mood in the lead-up to the January ban, and regularly depicted ongoing tensions over the intervention as a battle between the state and private foreign capital. Reports accused the government of “kowtowing” to Newmont and Freeport, because of copper’s exemption from the export ban (Cahyafitri and Yulisman 2014). Given the nationalist tenor of media and public discourse, both bureaucrats and elected officials endeavoured to present themselves as taking a hard-line approach to the policy by making public statements about “punishing” uncooperative companies and upholding Indonesia’s sovereignty over its natural riches (Tempo 2014; Koran Tempo 2015; The Jakarta Globe 2014b).

Hatta Rajasa, in particular, actively politicised the ban and framed it in emotional and nationalist terms. Hatta explained this nationalist vision in a media interview in 2013: “We say that all raw materials must no longer be exported, everything must have an industry, we must begin down-streaming, and then our engineers can go to work, innovation will emerge, because we will have a value-added economy” (Merdeka.Com 2013). He argued that if Indonesia failed to invest immediately in a program for industrial upgrading, it would remain “a nation of slaves” (Merdeka.Com 2013). Hatta spoke regularly of this policy vision, and of Indonesia’s economic sovereignty, when he ran for vice president just a few months later with Prabowo Subianto.

Even as the economics of the export ban became less certain, electoral candidates remained sensitive to and concerned about the political cost of deviating from the

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56 Interviews: member of parliamentary commission VII from Golkar Party, 26 September, 2014; senior member of parliamentary commission VII from Golkar Party, 22 January, 2015.
nationalist position. The ban was also intentionally politicised by its proponents, like Hatta Rajsa, and used as a prop in their own electoral campaign. The political context was not the most proximate causal factor that explains the government’s pursuit of a mineral export ban. However, in 2014, political calculations helped sustain the nationalist trajectory despite more challenging economic circumstances.

3. Conclusion

Indonesia’s mining sector was subject to an assertive set of nationalist interventions during the boom. Despite strong opposition from multinational (and some domestic) mining companies, widespread international criticism, and in spite of tumbling commodity prices from 2013 onwards, the Indonesian government maintained the nationalist position. Indonesia’s mining sector provided a striking indication that resource nationalism in Indonesia was not tethered to global prices, as market cycles predict. Nor were these interventions reflections of an assertive state apparatus, exploiting its enhanced bargaining power over private capital.

Instead, localisation and industrialisation were the product of nationalist networks that represented a “complex set of public and private interests” (Doner 1992, 405). State-business coalitions were established through personalised and particularistic relations, rather than through business associations – indeed, sectoral peak bodies were divided when it came to resource nationalism and often opposed state intervention. In contemporary Indonesia the mining sector’s structural conditions – its ownership patterns, its economic value, and its political utility – were more favourable, and enabled the rise of an assertive nationalist policy shift.

The coal boom produced new extractive capitalists with expanding interests in a new frontier of precious mineral mining. The growth of this politically-connected class
of Indonesian miners underpinned the localising agenda of nationalist networks within government. Of course, there was strong competition amongst tycoons and politico-business elites for access to these profitable mines, and their alliances with state actors and with each other were unstable and fractious. But forced divestment presented them all with new opportunities. In addition, the mining industry’s ownership structure was polarized between foreign and domestic capital, and throughout the 2000s, foreign investment became increasingly concentrated in the precious mineral mining subsector. While this was a hugely profitable industry, it was less strategic for Indonesia in terms of overall state revenues and economic growth.

Ownership patterns help explain the fate of industrialising interventions too—though in a slightly different way. The nationalist vision for a value-added and industrialised minerals industry was broadly supported by industry, the executive, the DPR and by intellectuals and civil society groups associated with the industry. However, the decision to implement an export ban in 2014, and only for particular ores, was controversial and divisive. There were strong differences of opinion amongst the bureaucrats and politicians interviewed for this study regarding the policy’s efficacy, and whether it was in fact an accurate interpretation of the 2009 Mining Law.

The ban prevailed, however, because nationalist networks included influential business figures and political elites, some of whom saw opportunities for personal material benefit. This nationalist coalition faced off against structurally weaker opposition from within Indonesia’s nickel and bauxite sectors, which both made relatively moderate contributions to Indonesia’s overall economic development. Ownership structures were fragmented, and business preferences were poorly aggregated both in the formal sphere through business associations, and in the informal sphere where political connections and material influence matter immensely. When it came to the
copper industry, Freeport and Newmont’s structural power afforded them a series of concessions from the government – though not complete immunity.

The imperatives of electoral politics also bolstered the cause of nationalist protagonists when it came to both localising and industrialising forms of nationalism. This was, in part, because of the interdependence between the worlds of politics and business, and in part because of the rise of an assertive nationalist discourse in mainstream politics in the years since the end of the New Order.

For these reasons, compared to previous periods in Indonesian history and, as we shall see, compared to other sectors, nationalist networks faced relatively fewer political and economic constraints, and pursued a path of nationalist intervention that aligned with the preferences of a bullish, liquid and in many cases politically-connected class of extractive capitalists.
CHAPTER SIX

The Agribusiness Sector: A case of Muted Nationalism

Like the minerals sector, the global agribusiness industry enjoyed steadily increasing prices during the first decade of the 21st century. Increasing demand for agro-commodities from China, India and parts of Europe, triggered a new wave of foreign direct investment into the agricultural sectors of many developing, middle-income and even high-income countries. This influx of foreign capital met with consternation in some countries. In Brazil and Argentina, for example, opposition from civil society, politicians and local business groups compelled the government to enact new limitations on foreign land leases (Oliviera 2013; Perrone 2013). Similar events unfolded in Australia in response to business and public concerns over an upswing in Chinese investments in agricultural land (Fullerton 2012). In Indonesia, however, there was little nationalist mobilisation against foreign investors as they moved into the booming palm oil sector during the early 2000s, and proposals for localisation and industrialisation were largely muted.

Throughout 2013 and 2014, the Indonesian government was negotiating a new law to govern the plantations sector. During those negotiations, localising and industrialising interventions were included in a late version of the bill, but then rejected by the executive and left out of the final Law No. 39/2014 on Plantations (the 2014 Plantations Law). Despite the broader mood of nationalism in other resource industries, anti-foreign mobilisation was weak in this sector. Caps on foreign investment had increased for mining, oil and gas services, and horticulture during the mid to late 2000s.
But plantations seemed exempt from such nationalist change.

The government did not pursue the kind of assertive or disruptive program of downstream industrialisation that we saw in the minerals sector – with the one exception being the rattan sector, in which an export ban was introduced on raw and semi-finished rattan. Palm oil was conspicuously absent an aggressive downstream strategy. This outcome is particularly curious given the sector’s history of nationalist intervention, described in Chapters Three and Four. The New Order government regularly closed the dominant palm oil sector to foreign investors in order to protect local companies from competition, and placed restrictions and even bans on the export of crude palm oil (CPO) in order to serve downstream business interests. In the post-New Order period, demands for protection and caps on foreign investment came mostly from political elites and some smaller farmers’ associations. But these nationalist networks had little policy impact.

This chapter explains how the palm oil lobby was largely responsible for removing nationalist articles from the 2014 Plantations Law. It examines why the palm oil subsector, facing similar boom conditions to those experienced in the minerals and hydrocarbon industries, maintained a liberal policy trajectory that welcomed, rather than constrained, foreign capital flows, and that left downstream industrialisation primarily to market forces.

Mirroring the structure adopted in Chapter Five, the first section looks at localising nationalism. It argues the sector’s shifting ownership structures, which had evolved and become increasingly integrated into regional networks of capital with Malaysia and Singapore, undercut nationalist agendas. Linkages between foreign and domestic capital had the effect of dampening domestic business demands for localisation, lest a reduction in foreign investment impact domestic players access to regional capital. Unlike in the mining sector, where there remained enclaves of foreign domination and
clearly discernible targets for nationalist mobilisation, Indonesia’s palm oil sector was a “complex” of interdependence between domestic and foreign capital (Cramb and McCarthy 2016). In addition, unlike the mining sector, the largest and most profitable palm oil companies belonged to sprawling Indonesian conglomerates with interests across a range of sectors, assets abroad, and listings overseas as well. The coal miners, on the other hand, were largely focused in the extractive sectors with few overseas assets. This chapter suggests that the internationalisation of Indonesia’s lead agribusiness firms weakened demands for localisation emanating from this sector.

The second section examines value adding. Again, the interventions were far weaker in the plantations sector than those in minerals. And again, ownership structures in different segments of the industry help explain this variation. In the palm oil sector, several of the largest private companies had commercial interests up and down the palm oil value chain. These companies sought subsidies and tax breaks for their downstream refineries but opposed assertive interventions that might hurt their upstream investments. In other words, the integrated nature of the sector, and the presence of lead firms in both upstream and downstream sectors, prevented the emergence of an aggressive downstream policy.

The third and fourth sections of this chapter examine how economic and political factors conditioned the fate of nationalist networks, and compare these factors to the mining sector. I show how the palm oil sector was far more strategic to the Indonesian economy and the government’s developmental agenda, which constrained nationalist agendas that risked disrupting state revenue flows and developmental outcomes. Plantations also seemed to lack the political utility that we observed in the mining sector, specifically when it came to localising demands. The result was a more liberal-market approach to foreign investment and industrialisation, reflecting both the preferences of prevailing business interests, and the developmental objectives of state managers.
1. Localisation: A failed cap on foreign investment

This section traces the process that led to the 2014 Plantations Law, and looks specifically at the inclusion and subsequent removal of an article determining a 30 percent cap on foreign investment. It examines the fate of this nationalist proposal and explains why formal efforts to localise the sector were ultimately rejected by the Indonesian government. It draws comparisons with what took place in Indonesia’s mining sector and asks why nationalist mobilisation met with such different fates in two strategic commodity exporting sectors.

The analysis shows how prominent palm oil business interests had the proposal removed from the draft law. The story that emerges is of a concentrated and structurally powerful domestic business community rejecting nationalist intervention, and opposing rather than supporting nationalist policy networks. The sector’s largest and most profitable conglomerates benefitted from integration into regional networks of capital, and opposed interventions that might disrupt those networks. As was the case in the mining sector, ownership patterns were a key causal factor in this story of economic nationalism – though the outcome was very different.

1.1 Background

The Asian financial crisis forced the Indonesian government to pursue a program of liberalisation that extended into the agribusiness industries. In 1998, the IMF issued Indonesia with a Letter of Intent (LOI) that outlined conditions for a $43 billion bailout package. That letter committed the government to a series of conditions, including lowering taxes and export restrictions on forestry and agricultural products, such as logs,
timber, and rattan (Gellert 2005, 216). The LOI also required removal of any restriction on foreign investment in palm oil plantations. Gellert (1998, 81) offers a useful explanation of the IMF’s intervention:

With devaluation of the rupiah (from Rp. 2500 to Rp. 8500) and largely local inputs (i.e. forest and labor), palm oil exports have become more lucrative than ever. Perhaps that is why, in the second and third IMF attempts to bail out the Government of Indonesia (January and April 1998), a condition was inserted that required the nation to open palm oil development to foreign investors. In addition, the 1998 IMF agreement requires that CPO exports are to be allowed again; exports of palm oil were halted in January by government officials concerned to protect domestic supplies of cooking oil, since they feared a shortage might spark social unrest before and around the March re-election of Suharto.

Initially it was by no means guaranteed that these liberal reforms would remain in place. Indeed, in the late 1990s and through the early stage of the crisis, Suharto “surrounded himself with identifiably ‘nationalist’ policy makers” and resisted many of the IMF’s demands (Pepinsky 2008, 444). However, as the crisis deepened, and leading agribusiness tycoons like Eka Tjipta Widjaja, Sudono Salim, and Bob Hasan spiralled into debt, the coalitions for economic nationalism were severely weakened. Meanwhile, the economic managers and business coalitions in favour of a liberal and open trade policy remained strong, and continued to enjoy backing from international financial institutions and international capital in the years following the crisis (Rosser 2001; Basri and Hill 2008). This more liberal investment regime remained in place, and in the decade and half following the crisis, Indonesia’s palm oil sector experienced remarkable growth and high levels of foreign investment.

Nationalist networks emerged during negotiations over a new sectoral law. In early 2014, the ministry of agriculture began working with parliament to develop a new plantations bill that would revise and replace the existing law that had been passed in 2004 (Law 18/2004 on Plantations). The decision to revise the old law was made initially in response to a 2010 Constitutional Court decision, which found that parts of the 2004
law criminalised smallholders and farmers for entering company lands, which the Court deemed unconstitutional. The decision forced the law back to the parliament for revision. During the parliamentary deliberations, nationalist networks in the legislature used the opportunity to propose a cap of 30 percent on foreign shareholding in any plantation company operating in Indonesia (HukumOnline.Com 2014a).

While the bill was designed to cover the entire plantations industry, it appeared to target the lucrative palm oil subsector where foreign capital constituted a far greater share of investment than, for example, rubber or cacao, other key agricultural exports for Indonesia. Press coverage of the bill focused almost exclusively upon the impact it would have on palm oil. One international media outlet described the bill as follows:

Ostensibly, the intent is to allow smaller local [palm oil] players to participate in a sector presently dominated by large companies, many of which are listed giants from Malaysia and Singapore. Under possible new legislation, existing foreign players would be given up to 5 years to pare down their shareholdings. (Nikkei Asian Review 2014a)

Like the divestment clause in the 2009 Mining Law, this article in the bill directly contradicted the 2007 Investment Law, which outlined that foreign investors would not be subject to caps, restrictions or divestment. The proposal also conflicted with the Foreign Investment Board’s Negative Investment List (NIL), which outlines sectors where foreign investment is restricted. The NIL stipulated foreign investors could own up to 95 percent of an agricultural plantation, conditional upon recommendation from the ministry of agriculture.

However, the proposed cap never made it into the final bill. Where did the proposed cap come from? Who were its proponents? And why did this proposal for localisation fail to transpire?
1.2 Nationalist networks fail: The persistence of an open investment regime

The nationalist network that proposed the cap, unlike at previous points in the sector’s history, did not include the sector’s prominent conglomerates. The bill’s emphasis on local ownership was primarily the work of parliamentary commission IV on Agriculture, Forestry, Food and Maritime Affairs. Indeed, the nationalist network that lobbied for this change was almost entirely constituted by politico-legislative elites in the parliament, with some support from farmers associations in the cacao and rubber industries.

Partai Demokrasi Indonesia-Perjuangan (Indonesian Democratic Party of Struggle, PDI-P) played a lead role in pushing for greater restrictions on foreign investment. However, parliamentary records also highlight strong support from one of the prominent Islamic parties, the Partai Amanat Nasional (National Mandate Party, PAN) (Dewan Perwakilan Rakyat 2014, 75). Deputy chair of commission IV, Herman Khaeron of the Partai Demokrat, also made impassioned public statements about the critical need to curb foreign ownership of Indonesia’s plantations, and “protect the nation’s natural resources for the people” (Info Sawit 2014). In a parliamentary media publication, Khaeron explained that the 30 percent limitation on foreign investment was necessary, “because we want our community’s livelihoods and their aspirations be realised by the government, and for the government to ensure the Indonesian people’s prosperity” (Buletin Parlementaria 2014).

International media and the palm oil industry linked the proposal to the broader mood of resource nationalism (Adnan 2014; Zadek et al. 2014; Beckmann and Rakhmatillah 2014; McBeth 2014). Headlines warned that resource nationalism was spreading from the mining to the plantations sector (Reuters 2014b; McBeth 2014; Nikkei Asian Review 2014b). There was some truth to such analysis: those who worked on the

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1 Interviews: deputy chairman of parliamentary commission IV, 14 July 2015; plantation industry consultant, 6 September, 2014; representative from Gapki, 7 August, 2015
law said inspiration came in part from changes in the mineral mining sector.  
Parliamentary commission IV had also already introduced a new law on horticulture earlier that year, which included a similar cap on foreign investment. Legislators felt the same logic should be applied to plantations where foreign ownership was in fact much higher – at least in the palm oil sector.

While parliamentarians initially proposed the cap on foreign investment, the clause reflected a general nationalist thrust in the ministry for agriculture’s policy goals. The ministry laid out a strategic plan for 2009-14 that emphasized food and agricultural independence, and prioritised local produce over imports (Patunru and Rahardja 2015; Ministry for Agriculture 2009). The minister at the time, Suswono, was a senior member of the Partai Keadilan Sejahtera (Prosperous Justice Party, PKS), an Islamic party known for taking a nationalist position on resource issues generally, and whose faction in parliamentary commission IV supported the foreign investment cap. Some industry elites speculated that Suswono personally approved the idea of legislating the cap on foreign investment, but he was ultimately pressured by more senior members of the executive to resist the parliament’s proposal.

The 2014 bill was not the first effort by the ministry to facilitate more local ownership in the palm oil sector. In 2013, a ministerial regulation outlined that all foreign palm oil companies collaborating with farmers’ cooperatives should divest a minimum 30 percent of its shares to the cooperative after 15 years (Ministry of Agriculture Regulation 98/2013 on Plantation Licensing). The government’s intention was to empower local farmers and redistribute more of the commercial benefits from the palm oil industry to smaller-scale farmers. By most accounts, however, there was no attempt to enforce the new policy. The Palm Oil Farmers Association (Apkasindo) complained

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2 Interviews: deputy chairman of parliamentary commission IV, 14 July 2015; plantation industry consultant, 6 September, 2014; representative from Gapki, 7 August, 2015; researcher from Center for International Forestry Research, 14 August, 2015

3 Interview: deputy chairman of parliamentary commission IV, 14 July 2015
that the regulation was essentially redundant, because farmers had no means and no knowledge of how to buy such shares (Kontan 2013). In interviews, the industry peak body, the Association of Palm Oil Companies (Gabungan Pengusaha Kalapa Sawit, or Gapki), along with other stakeholders active in the industry, had little knowledge of the regulation and showed little concern for its consequences. Moreover, by 2014 the ministry’s energy was focused on the contents of the new plantations law, so little effort appears to have been made to monitor or enforce the 2013 regulation.

But when the plantations bill was signed into law in September 2014, the paragraph outlining a 30 percent cap on foreign investment had been dropped. The final version only outlined in general terms that foreign investment levels would be detailed in future government regulations. The minister and the parliament were at pains to assure the public that caps on foreign investment would be implemented via ministerial regulations in the near future. However, such regulations required political will on the part of the ministry to speed up design and implementation. To recall, by 2017, the mining sector had been subject to four different versions of a new divestment regime for foreign companies. But in the years between 2014, when the Plantations Law was passed, to the time of writing in late 2017, implementing regulations outlining caps on foreign investment for different plantations subsectors had failed to materialise, and the issue had apparently fallen off the ministry’s agenda.

1.3 Ownership structures

Why did the government reject parliamentarians’ proposal to cap foreign investment in the palm oil sector? In the past, the Suharto regime had imposed similar restrictions.

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4 Interviews: Gapki, 7 August 2015; Centre for International Forestry Research (CIFOR) staff 24 August, 2014
Barriers to entry were not so high as to preclude domestic business people from taking a larger stake in the sector. So why was this nationalist proposal not translated into a formal intervention of the sort found in mining?

The answer can be found in the palm oil industry’s ownership structure. Over the course of the 21st century, Indonesia’s palm oil subsector developed an ownership structure that was uniquely integrated between foreign and domestic actors. Many of the most prominent companies constituted a blend of Malaysian, Singaporean and Indonesian capital. The entanglement of foreign and domestic capital produced greater structural constraints upon lawmakers’ nationalist agendas, and also meant local industry players had different preferences than companies in the mining sector when it came to policies targeting foreign investment. These factors undercut mobilisation in the service of nationalist intervention, and meant the largest domestic palm oil companies were no longer lobbying for the protection they had demanded in the late New Order years.

Indonesia’s palm oil sector was once dominated by state-owned companies, domestic military affiliated companies, and a handful of the president’s cronies. As discussed in Chapter Four, during the 1980s and 1990s, the government was highly interventionist, and closed the palm oil sector to foreign investors (Lindblad 2015; Fane 1996). However, the Asian financial crisis and subsequent intervention from international financial institutions changed the investment rules in Indonesia’s plantations sectors. As we saw above, under pressure from the IMF, from 1999 economic policy makers lifted all trade restrictions on the plantations sector. At the turn of the century, the sector’s regulatory regime was the most liberal it had been since the colonial era.

Once restrictions on foreign investment in the palm oil industry were removed, investors took advantage of the new reforms, opening up concessions and buying up bankrupt and struggling domestic companies (Jiwan 2013; Casson 2000). Malaysian and Singaporean, and to a lesser extent American, companies entered the market with
enthusiasm, “both because of Indonesian companies’ urgent need for capital and the increasing limitation on expansion through land conversion within Malaysia” (Cramb and McCarthy 2016, 48). According to Cramb and McCarthy (2016, 16), “the Malaysian state took the opportunity to facilitate oil palm investment in Indonesia by both government-linked companies such as Sime Darby and Tabung Haji Plantations and politically well-connected private corporations such as Kuala Lumpur Kepong and IOI Corporation.” Many Indonesian companies, including the largest conglomerates, suffered unmanageable debt in the wake of the crisis, and were forced to sell off part of their assets to the Indonesian Bank Restructuring Agency (IBRA), which was set up with the IMF to manage the unfolding banking crisis. IBRA then sold some of these assets on to foreign buyers or, alternatively, facilitated “mandatory joint ventures and mergers” (Jiwan 2013, 52). The largest and most controversial case involved the Salim Group, which was forced to sell 180,000 hectares of palm oil plantations to IBRA. In 2001, the agency then sold those assets to Kumpulan Guthrie, a major Malaysian palm oil company (Bresnan 2005, 220–21).

As we shall see, most of the Indonesian conglomerates that dominated the palm oil industry prior to the crisis ultimately survived and then thrived in the post-New Order economic environment. But foreign capital now played a crucial role in a sector that had previously been almost entirely controlled by Indonesian companies. Over 85 percent of all foreign direct investment in Indonesia’s agricultural sector between 2008 and 2016 was channelled into palm oil (Prakasa and Oxfam 2016). Most of Indonesia’s other agricultural subsectors were dominated by local companies. For example, in rubber and cacao, independent smallholders account for over 85 per cent of production, and foreign companies play almost no role (Arifin 2013). It is only the lucrative palm oil industry that has attracted sizeable foreign investments. According to one analyst, by 2004, 60 percent

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5 Recall from Chapter Four that by the end of the 1990s, 69 percent of the planted area of oil palm plantation was controlled by eight Indonesian conglomerates (Casson 2000, 14)
of Indonesia’s palm oil plantations were held by foreign investors (Jiwan 2013, 52). Ten years later, in 2014, one report claimed that foreign investors held over 5 million of the total 8 million HA of dedicated palm oil lands (Adnan 2014).

Precise figures on foreign ownership, however, are difficult to obtain and estimates vary widely. In fact, differentiating between foreign and domestic enterprises is most difficult in this sector. Varkkey (2012, 351) suggests that through joint ventures with Indonesian partners and subsidiaries, Malaysian and Singaporean investors control over two thirds of Indonesia’s palm oil plantations. Sawit Watch, an Indonesian NGO, claims that after taking into account holding companies and foreign takeovers of small Indonesian companies, around half of Indonesia’s palm plantations are in foreign hands (Viva 2010). Apkasindo claims 40 percent of palm oil concessions are foreign owned, while the body representing both foreign and domestic companies, Gapki, estimates 30 percent of the industry is foreign owned (Harian Ekonomi Neraca 2013). Even if we take the most modest estimate to be accurate – Gapki’s 30 percent figure – the proportion of foreign investment was larger than in any other plantation sector, and larger than it had been during the New Order period.

Clearly, distinguishing between foreign or domestic companies in the palm oil industry is not simple. The companies that own the largest plantations are: Singapore-listed PT Golden Agri resources, Indonesia’s Salim Group, Singapore-listed Wilmar International, Malaysia-listed Sime Darby (formally Guthrie), and Jakarta-listed PT Astra Agro Lestari. Golden Agri Resources is listed on the Singapore stock exchange, but it is part of the Sinar Mas Group owned by Eka Tjipta Widjaja, one of Indonesia’s wealthiest ethnic Chinese tycoons. Other prominent Singaporean companies owned by Indonesian business people include First Resources, Bumitami Agri and Indofood Agri Resources (McBeth 2014). Indonesia’s Fangiono family own First Resources, but the family has distanced itself from direct ownership through layers of holding companies listed in the
British Virgin Islands. Wilmar International is one of the largest listed companies by market capitalisation on the Singapore stock exchange, and is a joint venture between Indonesian businessman, Martua Sitorus, and Malaysian tycoon, William Kuok. On the other hand, Jakarta-listed Astra Agro Lestari is a subsidiary of Astra International, which was set up by prominent Suharto-era Indonesian Chinese businessman William Soeryadjaya, and is thus often perceived as an Indonesian company. But since 1999, the Jardine Matherson Group, a Hong Kong listed company, has owned a controlling stake. These ownership structures are displayed Appendix B.

Beyond these prominent companies, there are hundreds of smaller ventures in which the shareholder structures are unclear. One industry insider revealed in an interview that the ministry of agriculture could only confidently ascertain the ownership of 30 per cent of the private companies operating in the sector. The rest are “grey”, and many use a system whereby an Indonesian company holds the plantation license, but is backed by Malaysian or Singaporean money. It is also common practice for an enterprise to begin with majority local ownership, and to have a well-connected Indonesian business person at its helm; but once the Indonesian leadership has helped facilitate the licensing process, their shares will be bought out by the foreign partner. Farmers associations and NGOs claim that Malaysian investors favour this model. McCarthy and Cramb (2016a, 445-6) explain that “interlocking ownership structures” are useful for all parties because by working with Singaporean and Malaysian companies, Indonesian businesses can “upgrade their position within global value chains by accessing technologies and thereby improving their productivity”; meanwhile Malaysian and Singaporean companies get access to land and cheap labour.

The palm oil industry’s complex ownership structure produced industry preferences distinct from those found in the mining sector, such that influential

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6 Interview: palm oil industry representative, 7 July 2015
7 Interview: palm oil industry consultant, 19 January, 2015
Indonesian business groups lobbied *against* restricting foreign capital. Once the proposed cap in the draft plantations bill became public knowledge, the sector’s peak body, Gapki, and the largest palm oil companies within it, began a swift campaign to have the 30 percent limitation removed from the bill.\(^8\) Gapki was not only acting on behalf of its foreign members, but also on behalf of prominent domestic companies that also opposed the bill. According to Gapki, members of the executive listened to the business community’s warnings that a cap would not only deter future investors, but would also devalue the price of Indonesia’s land and reduce CPO production.\(^9\)

The domestic industry opposed the foreign investment cap of 30 percent because it would potentially hurt Indonesian tycoons, many of whom had established relationships with businesses in Singapore, Hong Kong and China, and chose to list their companies outside Indonesia for tax purposes. The proposed legislation could negatively impact Malaysian and Singaporean companies like Sime Darby, Golden Agri and Wilmar, as well as Indonesian companies with majority or large foreign ownership, like Astra Agro Lestari, or the Rajawali Group’s Eagle Plantations, owned by Peter Sondakh, in which Malaysian company Felda held a 37 per cent stake (Hermansyah 2017; *Global Business Guide* 2014). Observers thus questioned how the proposed cap would work in practice, given the challenge of identifying foreign investors and deciding which companies it would affect (McBeth 2014). In addition, though data are not available, if many smaller enterprises were also backed by Malaysian capital in the manner described above, it is reasonable to assume that many middle-rung businesses were also ambivalent about the regulation.

Not only were many of the country’s most prominent CPO producers listed abroad, with high levels of foreign ownership, some of these agro-giants were globalised, international corporations with many investments abroad as well. Indonesian Chinese

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\(^8\) Interview: representative from Gapki, 7 August, 2015

\(^9\) Ibid
conglomerates have, in general, tended to hold more assets and make investments abroad than their priabumi business counterparts. The tendency has been to, “set up platforms in Hong Kong or Singapore from which internationalisation is pursued” in order to avoid accusations of disloyalty from their critics back home (Carney and Dieleman 2011, 112). A study by Carney and Dieleman (2011) surveyed the international foreign investments of Indonesia’s largest conglomerates and found very few in fact had noteworthy outgoing FDI. The exceptions were Salim and Lippo (mostly focused upon property), which the authors described as the country’s “emerging market giants”, followed by Sinar Mas (Carney and Dieleman 2011, 115). In 2016, the Boston Consulting Group identified Indonesia’s top three palm oil producers, Salim, Sinar Mas and Wilmar as Indonesia’s “global champions” (BCG 2016). For example, Golden Agri Resources of the Sinar Mas group owns over 200 subsidiaries which are incorporated all around the world (many in tax havens), from Singapore, Hong Kong, Bermuda, Pakistan, China, Malaysia and the Netherlands, and 20 percent of its revenues come from overseas investments in China.

Internationalised firms such as these will often oppose nationalist trade and investment policy. As Milner (1988) argues, protection becomes more costly as firms become more globalised and the benefits of protection tend to accrue not to the larger, globalised companies, but to their smaller, less efficient competitors. In this case, Indonesia’s corporate agro-giants had thrived for over a decade without state protection and simply did not need nationalist intervention.

In this case, therefore, nationalist networks were not aligned with prevailing business actors. After the Asian financial crisis, Indonesian business people took their finances abroad and domiciled their companies in Singapore and Malaysia. Investors from these countries also entered Indonesia and struck up partnerships with local players in order ensure access to land and cheap labour. The result was a highly integrated network of regional capital. Consequently, Indonesia’s private palm oil sector largely
opposed limitations on foreign investment, as such interventions might undermine their own business interests and their access to regional capital. For this sector’s internationalised firms, protection was neither necessary nor desirable. Some of the smaller farmers’ associations supported regulatory limits upon foreign investment; but their demands were drowned out by the more structurally powerful business groups.

2. Industrialisation: A liberal downstream strategy

Industrialising forms of resource nationalism were comparatively weak in the commercial plantations sector as well. Indonesia had long pursued a program for value-adding in its commercial timber industry. During the mid-to-late 2000s, the Yudhoyono administration introduced a ban on the export of raw rattan in order to subsidise the domestic furniture industry. When it came to designing industrial policy for the palm oil sector, however, the government’s policy approach remained liberal, flexible and non-interventionist. This section explains the government’s approach to industrialising forms of nationalism across Indonesia’s main agro-commodities, with a particular focus upon palm oil. It contrasts the highly interventionist approach taken in the minerals sector, with the market-based policies the government pursued for palm oil, which on the surface appeared suited to an assertive downstream regime.

This section argues that preferences of prominent private businesses largely determined the industrial policy options available to state managers. As we saw in the previous section, the sector’s ownership structure was concentrated around a small number of private conglomerates and tycoons. Some of these companies had commercial interests up and down the palm oil value chain. A series of tax-based concession for downstream refiners responded directly to the demands of the largest integrated agri-businesses companies with significant investments in CPO exports and downstream
processing. These companies preferred a market-oriented tax-based incentive that enabled them to continue exporting CPO, while still subsiding their downstream investments.

2.1 Background

In 2011, the Yudhoyono administration set out to attract investment in refineries for the production of palm oil derivatives (such as margarine, soap products, cosmetics and biodiesel). While there were whispers of proposed CPO export restrictions, the government refrained and instead used a tax mechanism to encourage companies to invest downstream. The Indonesian government’s liberal industrial policy in the palm oil sector confounded expectations. This was a sector with a long history of state intervention. As we saw in Chapter Four, the Suharto regime regularly placed restrictions on CPO exports in order to supply the domestic cooking oil industry.

Then, when deliberations began for the 2014 Plantations Law there were, once again, suggestions that compulsory value adding would be part of the sector’s new investment rules, as was the case for the minerals sector. However, just like the localising articles in the plantations bill, all reference to value adding, domestic market or local content requirements were removed from the bill before it was signed into law (Oxford Business Group 2015).

The absence of support for trade restrictions or domestic market obligations was particularly curious because Indonesia already had significant refining capacity that was being underutilised – making the sector a better candidate for export restrictions than the minerals sector. Why was the palm oil sector insulated from the sort of interventionist industrial policy observed in mining, especially given palm oil’s historical vulnerability to protectionism and trade restrictions?
2.2 Nationalist networks fail: The genesis of market-based industrialisation

During the global commodities boom, the Indonesian government introduced several interventions aimed at spurring agro-industrial development in various plantations subsectors. But nationalist agitation in pursuit of downstream industrialisation was weak. As we saw in the previous chapter, Hatta Rajasa, the coordinating minister for economic affairs (2009-2014), was a key architect of the Yudhoyono government’s Master Plan for Acceleration and Expansion of Indonesian Economic Development (known by its acronym, MP3EI). This policy document laid out a plan for downstream industrialisation across Indonesia’s resource-based economy. The plan enjoyed strong support from like-minded ministers of trade, Gita Wirjawan, and industry, Mohammad Hidayat. The MP3EI outlined three industrial groups - mining, agriculture, and human resources (Ministry of Industry 2013). According to Arfani and Winanti (2014, 39), the MP3EI was designed to motivate “strategies of industrial ‘downstreaming’ to cover a wide array of key commodities, areas and policy frameworks, ranging from rubber, palm oil and infrastructure to investment regulations.” Ultimately, however, the government’s approach was much more cautious and market-oriented when compared to what transpired in the mining sector. Why were there no powerful nationalist networks agitating for downstream industrialisation in this sector?

As CPO prices and production levels increased steadily during the 2000s, the Indonesian government began articulating a plan for value-adding for this sector as well. In 2011, the structure of palm oil exports was 60 percent CPO and 40 percent higher-value palm oil derivatives, such as cooking oils, biodiesel, and oleins, which are used in margarines and soaps. The ministry for industry stated that it wanted to turn things around, and “to see palm oil exports compromise 60 percent of processed products and
40 percent crude palm oil by 2015” (Yulisman 2013). It argued that Indonesia needed to begin producing and selling more sophisticated palm oil products, like neighbouring Malaysia. Indeed, Malaysia’s prosperous downstream industry appeared to motivate this shift in industrial policy. In a press release from early 2011, the ministry for industry lamented Indonesia’s “slow moving downstream palm oil industry” compared to the Malaysian industry, which produced hundreds of palm oil based products (Investor Daily 2011). Instead, Indonesia always just, “shipped out tanker loads of raw palm oil for processing into higher value cooking oil and margarine in Rotterdam, Mumbai and Kuala Lumpur” (Reuters 2012).

However, the government’s approach to its most strategic plantation commodity was market-based and the government pursued a tax mechanism to incentivise downstream investment. The ministry of finance introduced Ministerial Regulation No. 128/2011, which set out a new tax mechanism designed to attract investment into CPO fractionation and refining. Regulation 128 established a progressive export tax on CPO exports, which started at 22.5 percent when global CPO prices rose above $750 per ton and then, for every $50 rise in CPO prices, exporters had to pay an extra 1.5 percent above the initial tax rate (Yulisman 2013). At the same time the regulation lowered the tax rate on the export of refined CPO products from 25 to just 13 percent. This new tax regime, the first of its kind in the post-Suharto era, provided dispensations to refiners and encouraged producers to sell a portion of their CPO to local refineries rather than exporting all of their unprocessed product overseas. The 2011 regulation was, according to state managers, intended to help Indonesia compete with Malaysia in the downstream segment of the palm oil value chain (Investor Daily 2011).

Then, in 2014, parliament put forward a proposal for more assertive downstream interventions. The plantations bill, outlined in the previous section on localisation, also proposed new rules to facilitate greater downstream industrialisation. Parliamentarians
wanted an overarching legal framework that would compel palm oil companies to set aside a specific amount of their CPO for local processing facilities, and compel large companies to invest in downstream facilities (Global Business Guide 2014; HukumOnline.Com 2014a). However, as was the case with the proposed cap on foreign investment, this section of the draft bill was cut from the final law. The government rejected trade restrictions, such as limiting the volume of CPO exports, or mandating that companies direct a specific proportion of their CPO to domestic refineries rather than to customers overseas. The government’s approach continued to be market-oriented and producer-friendly. What explains this policy choice?

2.3 Ownership structures

In the palm oil sector, the downstream interventions largely responded to the preferences of private sector actors with interests in both upstream and downstream segments of the industry. Throughout most of the New Order, state-owned enterprises and military-linked companies were responsible for the majority of CPO production, and initially much of this CPO was allocated to domestic companies in the cooking oil industry. During the post-Suharto era, Indonesia’s agribusiness giants were more internationally networked, more autonomous, and with interests up and down the palm oil value chain. In other words, there was no sharp split in the ownership of upstream and downstream facilities, as was the case in the mining sector. This meant that companies with the greatest market share in the palm oil sector lobbied for a tax cut on refined palm oil products, but opposed attempts to introduce trade restrictions.

The downstream CPO sector was constituted by a handful of large multinational companies and Indonesian conglomerates; their ownership structures mattered for how industrial policy took shape. Indonesia’s downstream CPO refining sector was
concentrated around the country’s largest agribusiness companies: Astra Agro Lestari, Sinar Mas Agro Resources and Technology (SMART), First Resources, Indofood Agri Resources, Wilmar International and Salim Ivomas Pratama. Concentration in the downstream sector is a function of the fact that economies of scale matter immensely in CPO processing (McCarthy and Cramb 2016). In general, upstream CPO production delivers better margins than downstream refining and distribution (Hawkins et al 2016, 27). This is because the process of refining in fact only adds double the value of the traded raw commodity (unlike, for example, cocoa where the market value for processed consumer material goods is about ten times the sale value of the raw cocoa beans). So, when it comes to downstream palm oil refining, margins are better for those businesses with large investments in upstream CPO production and downstream refining and distribution. Where a company has large investments up and down the value chain, they can enjoy the profit margins of exporting CPO, and maintain a portion of their own CPO for domestic processing. By using their own CPO, they protect themselves from price fluctuations on global markets. The nature of the industry, therefore, means that mostly large integrated companies are attracted to downstream refining.

One study offers a useful explanation of why the big companies, like Wilmar, would benefit from the 2011 tax concession and how it would lead to further concentration of the industry:

Wilmar is the leading example of this principle: with some 29m mt of annual refinery capacity, Wilmar has a significant presence in the downstream sector in a number of important geographic areas (China and Africa), and product segments (speciality chemicals, consumer goods, food industry ingredients, biodiesel). As at 31 December 2015, Wilmar had 40 liquid bulk vessels and 14 dry bulk vessels under its owned and controlled tonnages. Wilmar processes more than 35% of all the palm oil produced in the ASEAN region. Moreover the company has deep reach into the major consumer markets for its products, including China. Wilmar therefore, has significant control along each link in the palm oil value chain. The company also has a sophisticated trading division, which is able to manage price volatility risk across its huge inflows of raw materials and outputted manufactured product. Margins are thin, but wealth can be generated even on thin margins when the trade flows are as large as Wilmar’s.
Indofood Agri (of the Salim Group) had far less refining capacity than Wilmar at just 1.4 million tons. But the company had the necessary infrastructure (much of which was established during the New Order) to ensure its downstream activities were profitable, with processing facilities in major cities and near water ports. SMART (owned by Eka Tjipta Widjaja) had a much larger refining capacity at 4.68 million tons. The company again owned the necessary infrastructure to ensure its refining business books significant profits, including sea ports, warehouses, bulk storage facilities and, again, it had a presence in strategic locations across the archipelago (Hawkins et al. 2016, 28).

The downstream sector was, thus, concentrated around a handful of companies owned by several of the world’s largest agribusiness companies and Indonesia’s wealthiest tycoons, whose investments stood to benefit from a policy intervention that reduced the export tax on processed products, while not interfering in CPO exports. Indeed, it was widely understood that several of the largest agribusiness companies by market share had “aggressively lobbied Jakarta to cut duties on refined palm oil” (Reuters 2012). Media reports emphasised that Wilmar, Sinar Mas and Musim Mas were particularly active in pressuring state policy makers. These companies had already made significant financial commitments to downstream refining facilities prior to the introduction of the government’s tax policy. Wilmar had committed US$900 million to develop soap and margarine factories, while SMART’s investments downstream totalled US$1 billion (Reuters 2011a). Wilmar and Sinar Mas had both been, “lobbying intensely,” in the lead up to the government’s tax changes (Reuters 2011a). In other words, the largest integrated agribusiness companies with both upstream and downstream investments had in fact demanded that the government offer refiners more in the way of financial concessions.
After the new tax regime was introduced, these large integrated companies framed their downstream investments as part of a partnership between the government and the private sector in pursuit of downstream industrialisation. In an interview with an industry publication, SMART stated that:

SMART wants to help the government in the most comprehensive way. We are expanding in Kalimantan, our factory in Surabaya is also growing, and in Belawan we are also adding [refining] capacity. So we are increasing our downstream capacity to process CPO that it is no longer exported. We are making products that have added value. (Agrina 2011)

Three years later, in 2014, Indonesia’s refining capacity had increased significantly, “jumping to 45 million tons per annum by the end of 2014, up from 30.7 million tons last year and more than double the 21.3 million tons of 2012” (Reuters 2014a). However, utilisation remained low, sitting around 50-60 percent that same year.

Given this excess capacity, and the government’s broad commitment to downstream industrialisation, a nationalist network of politicians and bureaucrats proposed a more interventionist approach to developing the downstream palm oil industry. The 2014 draft plantations law included passages that mandated agribusiness companies to keep their funds in Indonesian banks, adhere to strict local content requirements, and utilize domestic processing facilities (HukumOnline.Com 2014a). The proposition was met with strong opposition from the industry. Conglomerates like Wilmar, Sinar Mas and Salim were opposed to any state-imposed trade restrictions, because they wanted to continue exporting their CPO, while also enjoying a tax cut to improve the profit margin of their refined palm oil products. As we saw in the previous section, after intense lobbying by Gapki, the industry associations, and the sector’s largest companies, these passages compelling downstream processing were dropped from the bill (McBeth 2014).10

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10 Interview: plantation industry consultant, 6 September, 2014; representative from GAPKI, 7 August, 2015
In sum, the dramatic trade restrictions the government pursued in the mining sector did not materialise in Indonesia’s palm oil sector in part because of the nature of the sector’s ownership structures. The largest palm oil companies had integrated interests in the upstream and downstream sectors; in the mining sector, there was a far clearer distinction between the owners of upstream production, and the business interests in downstream processing. The largest palm oil companies, thus, demanded a policy regime that subsidised their downstream interests, without jeopardising their upstream revenues.

3. Economic Conditions

When it came to the fate of both industrialising and localising resource nationalism, the economic context presented constraints for nationalist protagonists. The policy influence of Indonesia’s giant, integrated palm oil companies was born not just from the size of their investments and profits, but also from the strategic place of the sector within Indonesia’s broader economy. The palm oil industry as a whole was fundamental to the government’s economic growth strategy, and in the eyes of the executive government, the economic risk of alienating both foreign and domestic investors was much higher than in other agribusiness subsectors, and in the precious mineral mining industry as well.

Back in the 1980s and early 1990s, when the Suharto government intervened regularly in the palm oil sector, this commodity was not a major earner of export revenue. However, the post-Suharto Indonesian governments at both the national and regional levels embraced the global demand for palm oil that exploded in the 21st century. According to McCarthy, due to its “comparative advantage in terms of labour and land costs, Indonesian policy makers have long identified oil palm as a key vehicle for economic growth” (McCarthy 2010). Agricultural commodities accounted for 12.5 percent of GDP in 2012. The vast majority of sectoral growth and revenue generation
during the boom came from the palm oil industry. Palm oil is also one of Indonesia’s most important earners of foreign exchange, for example in 2014 exports were valued at US$17.3 billion (Aurora et al. 2015). As a single commodity, its exchange earnings far outweighed those earned from other agricultural subsectors and also mining subsectors like copper, gold, bauxite or nickel (see Table 5.1 in the previous chapter). By 2010 the palm oil sector alone contributed to approximately 4.5 percent of Indonesia’s GDP. By comparison, the nickel and bauxite industries – which were subject to much more interventionist downstream policies – made more modest contributions to Indonesia’s GDP. During the boom, only coal and oil were worth more in export revenue to the post-New Order government than palm oil.

Expansion of the sector was also characterised by significant engagement with smallholders and domestic labour, with the livelihoods of many such persons dependent upon the growth and stability of large private palm oil companies. Commercial plantations incorporate and include – while often “adversely” – a large slice of the rural poor (McCarthy 2010; Borras et al. 2012). According to Lee et al (2014), between 2000 and 2009, the most rapid oil palm expansion in Indonesia was amongst smallholders, with annual growth rates of 11.12 percent, far higher than government estates (0.37 percent) and private companies (5.45 percent), indicating high levels of local and domestic engagement with the industry. This expansion took place in concert with private companies, who set aside land for, and purchased palm fruit from, small holders as part of the state’s various nucleus estate schemes. Over time, the state slowly reduced its role in the sector, and designed a regime in which smallholders depend upon private companies for land, resources and profits (Cramb and McCarthy 2016). According to analysts of agrarian change in Indonesia, towards the end of the New Order and into the democratic period, the state retreated from its once interventionist role in the industry, facilitating both the flow of foreign and private funds, and transferring responsibility for
nucleus estates and smallholder welfare over to private plantation companies (Cramb and McCarthy 2016; Pramudya, Hospes, and Termeer 2017). The 2014 Plantations Law further solidified these arrangements, and outlined that private companies must set aside 20 percent of their land for smallholder farmers. In sum, private plantations, both domestic and foreign, have become the source of employment and income for millions of Indonesian labourers and farmers.

The sector also employed approximately 3.2 million people in the upstream sector, with some analyses estimating that the palm oil industry supported 5 percent of Indonesian households, or approximately 12.8 million people (Hawkins et al. 2016, 8). According to one estimate, Indonesia’s total palm oil industry had a capital value of around US$130 billion in 2016 (Hawkins et al 2016, 8). The economic repercussions of export restrictions would, therefore, be far more serious than in sectors such as nickel or bauxite.

In this context, members of the executive were ambivalent about instituting localising nationalist policies that might disrupt foreign investment flows and potentially alienate domestic investors, as well as harm large numbers of smallholders and rural labourers. Restructuring the sector so as to limit foreign investors represented a risk that could have tangible consequences for Indonesia’s leading export industry. This point was advanced by Gapki and other organisations. For example, the Palm Oil Agribusiness Strategic Policy Institute emphasised that international capital was important for the sector’s development and its efficiency (Republika 2013a). Local governments also came out and opposed any attempt to limit the flow of foreign funds. The head of the District Government Association (Apkasi), Isran Noor, for example, expressed concern that placing limits on foreign investment would impact district governments’ income and local livelihoods (Republika 2013a). One senior parliamentarian who worked on the bill described how, after drawn-out discussions with the ministry of agriculture, it was
decided that “forced divestment was too risky…investments in palm oil are big and a lot of it comes from outside and if the foreign money leaves there may not be enough local capital to replace the big guys.”\textsuperscript{11} This lawmaker explained how it had been far easier to execute a cap on foreign investment in the 2013 Horticulture Law: “in horticulture there are only small and mostly domestic companies, so it was an easy victory.” In other words, horticulture was an easy win for nationalist protagonists: the sector did not present the same kind of structural constraints that palm oil did, with its immensely strategic role in the economy and its relative reliance on foreign capital.

This was the irony of how resource nationalism manifested in Indonesia. Nationalist victories came more easily in those sectors that least depended upon foreign capital. After the 30 percent cap was taken out of the plantations bill at the behest of the palm oil industry, parliamentarians stated that implementing regulations would need to be designed to meet the demands of farmers in other plantations subsectors, such as rubber and cocoa – which, of course, were already the domain of domestic business and almost entirely dominated by smallholders. In other words, the strategic economic value of the palm oil sector meant policy makers were more constrained in the policy tools they used to direct company behaviour toward industrial goals.

4. Political Conditions

The previous chapter explained how Indonesia’s democratic milieu provided a favourable context for nationalist networks, and contributed to a more nationalist regulatory regime in the mining sector than at any other point in the sector’s history. To what extent did

\textsuperscript{11} Interview: deputy chairman of parliamentary commission IV 2009-2014, 14 July, 2015
There were curiously few cases in this sector where nationalist protagonists were able to leverage electoral politics in pursuit of localisation and industrialisation. This absence is particularly striking, given that negotiations over the 2014 Plantations Law were reaching the final stages precisely around the time of the presidential elections in July of that same year. Nationalism was front and centre of the presidential campaign. In one press report, a long-time analyst of Indonesian politics, Douglas Ramage of Bower Group Asia, commented that, “You’d have to go back a long time in Indonesia to find examples of anti-foreign economic sentiment being expressed publicly”, in the way it was during the election in 2014 (McDonald 2014). However, when it came to issues pertaining to the agribusiness sectors both presidential candidates, Jokowi and Prabowo Subianto, homed in on problems of land rights, farmers’ welfare, and rural development; neither candidate took up the issue of foreign ownership or downstream industrialisation in the palm oil sector specifically.

Much like the mining sector, the plantations sector was marked by an overlap between public office and private interest, which might intuitively have prompted a more nationalist response from senior political elites. Those operating in the palm oil industry claim that the conglomerates in the palm oil sector have a close relationship with government elites at every level. Scholarly analyses similarly emphasise the importance of political connections and patronage to the expansion of the industry throughout Indonesia and Southeast Asia more broadly (Varkkey 2012; McCarthy, Gillespie, and Zen 2012; Hamilton-Hart 2015). McCarthy and Cramb (2016, 15) examine the industry’s growth throughout Indonesia and Malaysia and note that:

\[12\] Interview: researcher from CIFOR, 14 August, 2015; industry consultant, 6 September, 2014; representative from Gapki, 7 August, 2015
A key factor [in the industry’s expansion] is the common culture between Malaysia and Indonesia that facilitates the integration of business and policy elites...[a]cross the region, patterns of political patronage remain central to the prevailing political settlements, whereby politically connected “advisors” and “commissionaries”...are put on the company payroll...to facilitate access to land and provide an easy path through the regulatory regime.

The politico-business elites discussed in the previous chapter play leading roles in the agribusiness sectors too. Aburizal Bakrie’s company, Bakrie plantations, was a prominent palm oil producer. Prabowo also owned several companies with investments in plantations (Aspinall 2015a). While Prabowo’s nationalist vitriol referred in general terms to the control of Indonesia’s resources by ‘foreign forces’, he offered no specific condemnation of foreign incursion into Indonesia’s most strategic land-based resource – palm oil. Jokowi’s allies and financiers, Luhut Panjaitan and Surya Paloh also had significant interests in the palm oil sector (Sukirno 2013).

Why, then, did neither localising nor industrialising forms of resource nationalism become politically contentious issues? The answer is that the patterns of ownership described above had implications for the political tractability of resource nationalism, particularly when it came to localising demands. Industry stakeholders agreed that political mobilisation in pursuit of nationalist goals had been comparatively weak in the agribusiness sector, and that electoral competition did not serve to politicise foreign ownership as it had for other natural resource commodities. One important factor, interviewees suggested, was the opaque ownership structures discussed in the previous two chapters. Those integrated networks of regional capital made mobilising public opinion against foreign companies far more complex. For example, one palm oil expert from CIFOR felt that, “ownership structures are so murky...national boundaries are blurred when it comes to Indonesian, Singaporean and Malaysian capital, making any
kind of clear cut anti-foreign sentiment very difficult to mobilise within society and within government.”

The mining sector was characterised by complicated partnerships between foreign and domestic players, especially at the local level; but there were also prominent multinational companies that had little or no Indonesian ownership – America’s Freeport McMoran, Australian and British owned BHP Billiton, Australia’s Newcrest, Brazil’s Vale. One Indonesian businessperson with interests across several resource sectors stated that, “the historical wealth of these old companies makes them an easy political target, and an easy rent-seeking target.” These legacy Anglo-American companies symbolised powerful foreign capital, and their long histories of extraction (and in some cases poor human rights and environmental protection records) made them a target for nationalist mobilisation, and vulnerable to politicisation around election time.

Another CIFOR expert, with decades of experience working on Indonesia’s palm oil sector, explained that nationalist sentiment comes almost entirely from the parliament, and such sentiments do not have much traction within the industry or NGO community:

It’s true that much of the industry is Malaysian-owned - often through shares, not whole ownership - but Malaysian money and technology is welcomed, they have far greater technical expertise….Indonesian farmers’ and companies’ yields are still so much lower than the yields in Malaysian plantations. This undercuts any strong or widespread anti-foreign or anti-Malaysian sentiment.

In addition, the integrated ownership structures and regional networks that characterised palm oil’s ownership structure meant that the prominent domestic business elites with palm oil investments had no strong desire to endorse a cap on foreign ownership. The effect was that there were few powerful business or political elites backing or resourcing a popular nationalist campaign. This was very different to what happened in the mining

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13 Interview: 19 January 2015
14 Interview: prominent Indonesian business person with interests in palm oil and mining, 15 April 2014
15 Interview: Krystof Orbidzinski, CIFOR, 24 September 2014
sector, where high profile Indonesian businesspeople and politicians constantly vied for access to and control over lucrative mines operated by foreign multinationals such as Freeport, Newmont, BHP, and Rio Tinto.

Further, politicians felt that narratives of foreign exploitation in the palm oil sector would not resonate as broadly with the Indonesian public as they did in mining, or oil and gas. Those who worked in palm oil believed public mobilisation against foreign capital was much easier in the mining sector, because community participation is minimal but the rents are large. In the words of one prominent Indonesian businessperson with interests in both palm oil and mining:

> Plantations employ huge amounts of people, and those people will stay working for that company for decades, sometimes whole rural families will work for one company. Fathers and sons will work on the same plantations. This is very different to how communities engage, or actually don't engage, with mining companies.

Many politicians, according to this informant, both at the national and regional level, could see that rural populations and particularly smallholders were direct beneficiaries of the industry. These factors make palm oil less vulnerable to nationalist outbidding of the sort that politicians engaged in when it came to mining and, as we shall see, oil and gas.

The most salient political fault line in Indonesia’s palm oil sector fell between smallholder farmers and the big agribusiness corporations, regardless their national origin. Activists, farmers and politicians were more concerned with the relationship between corporations and the rural populations they engage through smallholder schemes and agricultural labour (Cramb and McCarthy 2016). During the 2014 presidential election, it was this fault-line that both candidates mobilised, rather than issues of

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16 Interviews: prominent Indonesian business person with interests in palm oil and mining, 15 April 2014; representative from Gapki, 7 August 2015; researcher from CIFOR 24 September 2015.
17 Interview: prominent Indonesian business person with interests in palm oil and mining, 15 April 2014
nationalism per se. For example, in the four presidential debates leading up to election day, both presidential and vice presidential candidates spoke about supporting farmers’ cooperatives, maintaining land for food crops and smallholders, and protecting farmers from competing with foreign imports of food staples. All of these issues came under the broad theme of food sovereignty (kedaulatan pangan) or food self-sufficiency (swasembada pangan). At these same debates, Prabowo and his vice presidential partner, Hatta Rajasa, often highlighted issues pertaining to foreign mining contracts, oil imports, and Pertamina’s right to oil and gas contracts. Questions of ownership and foreign investment in Indonesia’s most lucrative agribusiness sectors were not taken up by the candidates – despite the fact that the plantations law was then being debated in parliament.

Even the sectoral business associations that mobilised for the 2014 election campaign prioritised other issues. For example, Apkasindo (the Palm Oil Farmers Association) stated that it wanted the 2014 Plantations Law to limit the amount of land available to private companies, “whether domestic or foreign”, and to ensure that farmers’ rights to land were properly enforced (Siregar 2013). Apkasindo had previously expressed frustration at the encroachment of foreign investors into Indonesia’s farming land. For example, in 2013, the secretary general told the press that, “it would be best if foreign companies were no longer given licenses, because land is becoming less available, while the Indonesian population continues to grow” (Bisnis Indonesia 2013). But during the deliberations over the 2014 Plantations Law, and in the lead up to the presidential elections, Apkasindo did not lobby against foreign investment, instead focusing on promoting farmers rights vis-à-vis agribusiness corporations. Other farmers’ associations explicitly opposed the cap. The Association of Plantation Farmers (Gapperindo), for

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18 Coverage of all the debates can be found at: [http://indeks.kompas.com/topik-pilihan/list/3116/debat-capres-cawapres](http://indeks.kompas.com/topik-pilihan/list/3116/debat-capres-cawapres)
example, told the press that foreign investors helped farmers access new markets and new technologies (Maulana and Waradhitya 2014).

Nor did civil society organisations focus on foreign investment. Environmental and land rights groups targeted all big palm oil companies, whether foreign or domestic. NGOs active in the palm oil sector such as WALHI (Indonesian Forum for the Environment), Forest People’s Project, and AMAN (Indigenous People’s Alliance of the Archipelago), with the backing of transnational environmental organisations like Greenpeace and World Wildlife Forum, lobbied first and foremost for a moratorium on plantation licenses in order to stop the expansion of palm oil into what activists argued was land that should either be protected forest areas, or be reserved for other sorts of foods crops, industries and livelihoods. The transnational campaign against palm oil and its donors had little interest in supporting a protectionist narrative that favoured local companies but did not address these underlying issues.

In sum, mobilisation in pursuit of nationalist ends did not prevail in the palm oil sector – even under conditions of heightened electoral competition. The issue of foreign ownership was not easily mobilised for political ends given the complex and interlocking ownership structures that characterised the sector. Civil society actors, and often their international donors, were principally concerned about deforestation and, to a lesser extent, the labour conditions of plantation workers; there was much less interest in mobilising a public campaign rejecting foreign capital and calling for greater industrialisation of the industry.

5. Conclusion

Indonesia’s plantations sectors, and the palm oil sector specifically, was subject to far less nationalist mobilisation and intervention, compared to what took place in the mining
sectors. Integrated flows of foreign and domestic capital, and the strategic role that agribusiness played in the broader Indonesian economy constituted structural constraints upon nationalist policy agendas. These factors conditioned the preferences of prevailing business interests in the sector and prevented the formation of a powerful nationalist network. When the palm oil industry lobbied against the 2014 plantations bill, executive government listened and parliament’s proposals to limit foreign investment and compel downstream processing were thrown out in the final stages of the bill’s deliberation. Instead, a market-oriented approach to investment and industrialisation prevailed.

For localising resource nationalism, the nationalist network that proposed a cap on foreign investment was made up mainly of parliamentarians, political party elites, and representatives from the ministry for agriculture. The sector was characterised by a complex of regional capital networks, and the sector’s lead firms – also among the country’s largest conglomerates – had a more international orientation than the mining magnates that featured in Chapter Five. They were not, therefore, proponents of nationalist change.

Those who opposed the cap put forward similar arguments to those advanced by the foreign mining companies and industry associations who had opposed the new mining divestment regime. The palm oil industry, however, had far more success. According to Gapki, it and the companies it represented emphasised to the government that foreign firms, investment and technology, were central to the sector’s future growth.19 Industry consultants also warned the government that mass divestments would devalue land and undermine a key source of foreign exchange for the government (though the ministry of agriculture had insisted that the law would not be applied retroactively) (Reuters 2014b).

When it came to industrialisation, policy interventions again reflected the preferences of structurally powerful businesses. The 2011 tax intervention was intended

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19 Interview: representative from Gapki, 7 August, 2015
as a dispensation to the largest palm oil companies with investments in downstream processing. The government provided downstream investors in Indonesia with an advantage over their counterparts in Malaysia, with whom competition was fierce. The companies that lobbied for the tax concession still wanted to continue exporting CPO, because crude exports constituted a major segment of their business profits. Dramatic upstream export restrictions of the sort observed during the New Order, or that we saw in the mining sector in 2014, did not constitute a viable policy option for state managers because of the sector’s strategic value and the structural power of the dominant agribusiness firms. The government was wary about disrupting a major source of export revenue and strategic component of the overall national economy.

In short, the fate of nationalist intervention turned on support from structurally powerful business interests, and that support was not forthcoming. These findings cohere with the political economy studies that emphasise how business preferences and policy capabilities differ at the sector level, and according to how capital is organised and structured (Shafer 1994; Frieden 1991). Not only were Indonesia’s agribusiness giants’ preferences different to those of the domestic mining magnates, those preferences had also changed over time. Once a source of demands for protection, in the post-Suharto period Indonesia’s palm oil tycoons supported an open investment regime.
CHAPTER SEVEN
The Oil and Gas Sector: Nationalist Conflict and Policy Ambiguity

For much of the post-New Order period, nationalist mobilisation in Indonesia’s oil and gas sector produced extended periods of policy conflict and uncertainty. This uncertainty resulted from the intersection of political and structural factors. In the mining sector, nationalist networks had backing from influential businesses and political elites, and the economic and political conditions were conducive for an affective nationalist campaign. In the palm oil sector, nationalist networks were weak, and structural constraints were high, which muted nationalist mobilisation and intervention. For oil and gas, nationalist networks enjoyed both political and material influence; yet structural constraints remained formidable, and there was strong resistance to nationalist change from sections of the bureaucracy and private sector. The result was protracted regulatory ambiguity. Ambiguity was a function of how the government sought to placate nationalist networks, while still attempting to court foreign capital, upon which the sector depended.

This chapter explains the government’s equivocation in response to demands for greater localisation and industrialisation during the post-Suharto boom years. Nationalist networks spent much of the post-New Order period protesting Law 22/2001 on Oil and Gas (the 2001 Oil and Gas Law), which had liberalised the sector following the Asian financial crisis. The first section examines mobilisation in favour of localising the oil sector. Nationalist networks campaigned persistently for the government to enshrine ‘a
right of first refusal’ for the state-owned oil and gas company, Pertamina. A right of first refusal meant the government would automatically offer Pertamina the opportunity to take over expiring foreign contracts. Pertamina would then have the right to accept or refuse the offer and, if it refused, the contract would either be extended or put up for tender. Pertamina’s leaders lobbied the state for this dispensation, with the backing of a loose network of think tanks, representatives in the parliament, members of the bureaucracy, and civil society groups. However, nationalist protagonists fell short of their goal. The Yudhoyono administration avoided issuing formal privileges for Pertamina. The Jokowi government offered a commitment to Pertamina’s privilege ‘in spirit’, rather than in the letter of the law. Both governments neither rejected nationalist demands, nor resolved them; instead, they prevaricated.

The first part of this chapter argues that the post-Suharto political-economic context offered new opportunities for nationalist networks to influence policy outcomes. The liberal reforms introduced under the 2001 Oil and Gas Law had turned Pertamina into a more capable upstream operator with greater capacity to take over foreign blocks. A slow retreat of foreign investors from Indonesia’s depleting wells also created openings for Pertamina and local private companies. In other words, shifting ownership structures, much like in the mining sector, bolstered the case for a more localised investment regime.

However, lawmakers continued to face significant structural constraints in an industry that – while in the midst of a gradual transition – still depended upon multinational companies and foreign investment. The state was divided. Some in the ministry for energy and mineral resources supported Pertamina’s agenda; others in the ministry were hesitant to formalise privileges for the state-owned company, lest new foreign investors be turned off Indonesia’s stagnant exploration market. Oil production was declining, but domestic demand for petroleum was increasing. In this context, many
senior bureaucrats strongly opposed a localising agenda that might repel foreign investors.

In addition, localising agendas that favoured Pertamina alienated the domestic private sector. During the post-New Order period, Indonesia’s tycoons and powerful politico-business elites had begun to move into upstream production and exploration. Onshore, expiring, foreign-operated blocks were also their main target. Influential members of the executive – some of whom had direct interests in the oil and gas sector – did not want to institutionalise Pertamina’s privilege over local private players. In sum, nationalist networks were constrained by the industry’s structural dependence upon foreign capital, and by opposition from a small domestic private sector with allies in the executive.

Did nationalist networks achieve more success when it came to industrialising the downstream sector? The Yudhoyono administration outlined a plan to reinvigorate and expand Indonesia’s downstream oil refining industry. This downstream policy goal, however, was slightly different to the state’s objectives in the minerals and palm oil sectors. Here the downstream strategy focused on reducing Indonesia’s reliance upon expensive fuel imports. Oil booms were no longer a boon for Indonesia, which since 2004 had become a net importer of oil and fuel products. Despite consistently promising to invest in and expand refineries, the Yudhoyono government took little action. The second half of this chapter explains how the government was deeply divided once again on the question of developing Indonesia’s downstream industry. Vested interests in the lucrative oil-importing sector diverted nationalist demands and undercut the government’s enthusiasm for a nationalist downstream strategy.

However, nationalist networks had moments of policy success. More so than in the mining and plantations sectors, political mobilisation helped nationalist protagonists contend with structural constraints and defuse opposition from private sector interests. As
we shall see, electoral politics bolstered the cause of nationalists and underpinned the Jokowi administration’s shift towards a reformist-nationalist approach to both localising and industrialising the oil sector after winning office in 2014.

1. Localisation: The struggle for Pertamina’s privilege

Nationalist networks’ principal demand was statist in orientation. They wanted the government to provide the national oil company, Pertamina, with privileged access to foreign oil and gas contracts. The liberalisation of Indonesia’s economy following the Asian financial crisis had removed the state company’s regulatory powers and its downstream monopoly. However, in the decades following the post-Suharto reforms, several factors converged to give nationalist protagonists more influence over the trajectory of policymaking in Indonesia’s oil sector.

In this section, I argue structural shifts within the sector’s political economy created favourable conditions for the emergence of a localising investment regime. First, by the late 2000s, Pertamina was a much more efficient operator that it had ever been during the New Order, which bolstered nationalist arguments that the government should provide the company with greater dispensations. Second, the government no longer depended heavily on oil rents, and the sector itself was in decline, which made localisation a less risky and disruptive option than in the past. Third, the kinds of political imperatives that underpinned nationalist mobilisation in the mining sector were at work here as well, and Pertamina’s role in the sector became a prominent feature in national election campaigns.

However, this section also explains how policymakers were torn in different directions. While conditions became more conducive to nationalist change, the sector’s ongoing dependence upon foreign investment, and state managers’ anxiety about falling
oil production, undercut realisation of a coherent or assertive agenda for localisation. The result was regulatory conflict, stasis and ambiguity.

1.1 Background

In response to the Asian financial crisis, the IMF’s bailout package for Indonesia was contingent upon a set of sectoral reforms, including the establishment of independent regulatory bodies, reform of state-owned enterprises, and the unbundling of monopolies. The World Bank also pushed the government, “to consider implementing major changes and reforms, such as corporatisation, divestiture and privatisation of Pertamina” (World Bank 2000, 20). A principal recommendation was that Pertamina be made into a purely commercial entity, rather than the industry regulator, so it could then compete with private companies “on equal footing” (World Bank 2000, 20). In other words, the sector should be run by an independent regulator, and the national oil company should no longer enjoy upstream privileges. The Bank worked with the executive from 1998 to ensure these proposals were integrated into a new oil and gas law.

Such proposals were met with fierce opposition from Pertamina and the wider bureaucracy, and conservative networks were able to mobilise members of the legislature to oppose sectoral reforms (Tempo Magazine 19 July, 1999). However, in 1999, a PriceWaterhouse Coopers (PwC) report galvanised public opinion in favour of reform, and mobilised support from the country’s political leaders and prominent economists. The IMF commissioned PwC to provide an independent audit of Pertamina’s internal financial accounting. PwC never formally released the final report. However, sections were leaked

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1 Conservative factions within Pertamina lobbied and co-opted members of the Ministry and the parliament in order to prevent the draft from becoming law. Interviews: Kuntoro Mangkusubroto, former minister for energy and mineral resources (1998-1999), 12 January 2015; Kardaya Warnika, former senior official at the ministry for energy and mineral resources and former director of BP Migas (2002-2005), 28 November 2014.
to the media. Press reports revealed that from April 1996 to March 1999 Pertamina had unaccounted losses of US$5 billion due to, “embezzlement, illegal commissions, price mark-ups on procurement contracts, gross inefficiency and incompetence” (*ICIS News* 1999). PwC’s audit revealed the extent to which Indonesia’s national oil company had been, “pillaged by the Suharto’s and their cronies” (*The Jakarta Post* 2000).

Momentum for reform picked up speed. President Abdurahman Wahid (1999-2001) demonstrated strong commitment to reforming the state-owned sector, and Pertamina in particular. Wahid appointed Baihaki Hakim, former president of Caltex Pacific Indonesia, as the new CEO of Pertamina, and industry veteran Purnomo Yusgiantoro as minister, and gave them both full authority to implement PwC’s and the World Bank’s recommendations. By 2001 a new Oil and Gas Law had been formalised, which reorganised the sector and shifted the locus of power away from Pertamina.

The new law removed Pertamina’s regulatory responsibilities, denying the company access to much of its on and off-budget revenue streams. An independent body was established to take over Pertamina’s regulatory tasks: the Regulatory Body for Upstream Oil and Gas Activities (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas BP Migas, or BP Migas). BP Migas was quasi-independent. It was a non-profit, state-owned legal entity entirely separate from Pertamina. BP Migas formally sat outside of the executive branch of government - though the legislative and executive arms of government control had control over the appointment of its director.

Under the new law, the Production Sharing Contract (PSC) system remained the same, but Pertamina no longer signed and monitored upstream companies’ contracts (explained in Chapter’s Three and Four). Instead, all foreign and private companies’ contracts, operational reports and plans, taxes and fees, were managed by BP Migas.

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2 Wahid was head of Nahdlatul Ulama, the country’s largest Islamic organisation at the time, and was the first reformist President appointed as part of Indonesia’s democratic transition.
Even Pertamina now had to have its contracts and work plans approved by BP Migas.4

In the decade and half following the law’s introduction, nationalist mobilisation grew in strength. Nationalist networks demanded the state company be re-endowed with special privileges, and that its regulatory authority be reinstated. While such demands initially had little traction within the sector’s policymaking apparatus, by the end of the Yudhoyono presidency and the early Jokowi years, the prospect of a return to the New Order-era system appeared increasingly likely, though there was still no clear outcome at the time this study drew to a close.

1.2 Nationalist networks stall: Ambiguity over Pertamina’s right of first refusal

Nationalist networks in this sector were constituted by a broad set of loosely connected actors from within Pertamina’s leadership, its labour unions, affiliated think tanks and NGOs, together with loyalists in the bureaucracy and executive government. For some of these actors, a return to the previous system offered them enhanced material and political power. As we shall see, however, many in this broad coalition were committed to Pertamina’s privilege for ideological reasons. Whatever their individual motivations, the

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3 Wolf (2009, 33) provides a useful summary of how the law changed Pertamina’s role in the sector and its revenue sources: “Before the 2001 sector reform, Pertamina marketed the government’s share of PSC production volumes and retained 5 per cent of income as a marketing fee, which after taxes was 2 per cent. This fee typically accounted for at least half of Pertamina’s profits, and a substantial part of other profits came from charging a per barrel service fee for all products refined and marketed in the country (World Bank 2000a). Both arrangements thus boosted Pertamina’s financial and socio-economic standing, but did nothing to encourage efficient operational behaviour. The 2001 reform re-assigned the right to the government’s share to the newly founded upstream regulator BP Migas. Receipts from the sale of the state output now go directly to the Central Bank rather than through Pertamina’s accounts.”

4 The law also liberalised the import and distribution of petroleum products, and the rules around refining, storage and transport, which meant in theory Pertamina no longer had a monopoly over downstream sales. The reality, however, was that the company managed to retain its dominance over the retail of petroleum products, due to its sprawling infrastructure across the archipelago (PricewaterhouseCoopers 2016a). This was where the company was able to maintain its revenue flows following the sector’s restructure.
network was well-resourced and well-organised, and it enjoyed direct linkages and access to executive government.

The 21st century marked a new stage in Pertamina’s corporate development. The company embarked upon an aggressive campaign to expand its upstream exploration and production assets. During the New Order, Pertamina was a poor upstream operator and produced less than 5 percent of the country’s oil and gas. As Chapter Four explained, the company had little incentive to improve its operational capacity, because it enjoyed significant profits from the rents and fees associated with its regulatory tasks, and with its monopoly over the sale of state oil. The 2001 Oil and Gas Law, however, stripped Pertamina of these functions and turned it into a limited liability company. The new regulatory regime meant foreign companies were no longer forced to work with Pertamina. In order to succeed and compete with other contractors, Pertamina had to improve its corporate credentials and increase the profits it made through oil and gas production.

Pertamina’s corporate strategy from 2004 onwards, after it had been formally incorporated, was to acquire stakes in existing blocks and take over expiring foreign-operated blocks. This was a less risky strategy than investing in exploration. Under the terms of Government Regulation No. 35/2004 (an implementing regulation for the 2001 Oil and Gas Law), Pertamina was to participate in tenders and make applications to operate the country’s oil and gas blocks, in the same manner as private companies. According to these regulations, Pertamina could apply for new contracts, or apply to take over expiring foreign contracts, and the ministry would assess Pertamina’s proposals on their merits.

However, there were many within Pertamina’s management that felt the government should offer formal assistance to the national oil company in order to help expand its share of the country’s oil and gas resources. The company’s leadership
maintained that government support for the national oil company should be in the form of “privileges or special rights” to expiring foreign blocks (RMOL Co 2011b). Pertamina wanted a ‘right of first refusal’. Under this system, an expired contract for a foreign-operated block would be offered first to Pertamina, and the company would then decide whether it wanted to run the block, engage in a joint operating contract with the existing or new operator, or sell down its 100 percent share to other companies.

Successive Pertamina CEOs and senior bureaucrats in the company supported this approach. Former CEOs, Widya Purnama (2004-2006), Ari Soemarno (2006-2009), Karen Agustiawan (2009-2014), and Dwi Soedjipto (2014-), all publicly supported the idea of having a right of first refusal (Oil and Gas Financial Journal 2007; Damayanti 2010). The company’s leaders made regular appeals to the government by pointing out Pertamina’s poor production levels relative to the multinational giants operating in Indonesia, like Chevron and ExxonMobil, and implored the government to enshrine it first right to take over expiring foreign contracts (Energia 2014). Furthermore, proponents argued, if Pertamina was to compete in terms of size and profits with other state oil companies, like Malaysia’s Petronas or Brazil’s Petrobras, then it would need more in the way of government support (Detikfinance 2013b).

Pertamina’s leaders worked behind the scenes and leveraged a network of loyalists in the bureaucracy and the parliament in the endeavour to realise its policy demands. This approach reflected an established set of practices the company had employed during the New Order. For decades, the company had been a central cog in Suharto’s patrimonial political regime, and it had built up a web of loyal clients throughout the state that it continued to mobilise in the post-Suharto era in service of its nationalist agenda. These included sections of the ministry for energy and mineral

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5 Energia is a Pertamina sponsored publication.
resources, and members of the national parliament. This network lobbied behind the scenes to convince lawmakers in the ministry and the parliament, and the bureaucrats in the oil and gas regulator BP Migas, to support the company’s bid for specific oil and gas blocks, and to support its formalised right of first refusal. A former chair of the parliamentary commission VII on energy and natural resources stated in an interview that Pertamina had staunch supporters in the parliament and, while small in numbers, “they bark[ed] the loudest.”

This strategy, however, achieved little during the Yudhoyono years. Draft regulations on Pertamina’s first right kicked around the corridors of the ministry for energy and mineral resources for years but were never formalised. For example, in June 2009, the ministry drafted a regulation that, according to minister Purnomo Yusgiantoro (2000-2009), outlined the state oil company’s privileged right to expiring foreign contracts. The director general for oil and gas at the time, Evita Legowo, also stated publicly that the draft regulation was complete, and simply awaited the minister’s approval (Detikfinance 2009). However, the regulation never came to fruition, and seemed to disappear from the ministry’s agenda after President Yudhoyono won his second term in office in 2009.

By 2012, nationalist networks within Pertamina re-focused their energy on achieving legal changes via a different avenue. That year, a coalition of 30 public figures and intellectuals together with 12 civil society organisations brought a case to the Constitutional Court. The plaintiffs claimed BP Migas had undermined state control over natural resources, as mandated by Article 33 of the constitution. The regulator had

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6 Interviews: Kardaya Winarka, former director of BP Migas (2002-2005), and former chair of parliamentary commission VII on energy and natural resources (2014-16), 28 November 2014; Pri Agung, director of industry consulting company, Refominer, and advisor to parliamentary commission VII on energy and natural resources, 6 May 2014; Rangga Fadhillah, former journalist for the Jakarta Post at the energy desk and industry consultant for Bower Group, 23 May 2014

7 Interview: Kardaya Winarka, former director of BP Migas (2002-2005), and former chair of parliamentary commission VII on energy and natural resources (2014-16), 28 November 2014
instead, “opened the door to liberalisation” (Tempo Magazine 2012), they argued, and was acting in the interests of foreign companies, rather than in the interest of the nation (Hukumonline.Com 2015). Indonesia’s second largest Islamic organisation, Muhammadiyah, spearheaded the case, but it also included representatives from Nadlahtul Ulama, the largest Islamic organisation. Pertamina-affiliated actors from the company’s union formed a key part of the coalition, and prominent economists, like Kwik Gian Kie and Rizal Ramli, participated in the case as well. While Pertamina did not formally participate in the case, it was widely understood that sections of the company’s leadership had endorsed if not financed the initiative.

The Court found in favour of the plaintiffs, and ruled the regulator be dissolved. The Court based its decision primarily upon Article 33 of the Constitution, and found that “BP Migas’s statutory functions were insufficient to constitute ‘control’ of the sector” (Butt and Siregar 2013, 168). The majority also argued that the 2001 Oil and Gas Law undercut state control by denying state actors the capacity to directly appoint “state agencies or corporations in exploiting oil and gas reserves. The Law required them to go ‘through the proper competition and market mechanism’” (Butt and Siregar 2013, 113). In other words, the law required Pertamina to compete on equal terms with private and foreign companies. The Court’s decision favoured the nationalist position and supported Pertamina’s claim to special dispensations. The decision also meant that the parliament was now responsible for drafting revisions to the 2001 Oil and Gas Law.

The revision process, however, was wracked with conflict. Deliberations in parliament dragged on for years and at the time of writing in late 2017, the government and parliament had still not agreed on the law’s final form. In interviews conducted throughout 2014 and 2015, legislators and legal advisors working on the bill said that two points of contention dominated the years-long debates in commission VII: Pertamina’s privileged access to expiring foreign contracts, and the question of what form a new
regulator should take, including whether BP Migas’s regulatory responsibilities should be returned to Pertamina. They also suggested that, while many lawmakers on both the parliament and government side did not support returning regulatory responsibilities to Pertamina or providing it with extra privileges, Pertamina’s loyalists in the parliament were active and influential throughout the deliberations.8

Negotiations in the parliament were hampered by other problems. In 2013, the Corruption Eradication Commission (KPK) named the minister for energy and mineral resources, Jero Wacik, and the head of SKK Migas (the temporary body that replaced BP Migas following the court’s decision), Rudi Rubiandini, along with the head of commission VII, Sutan Bahtoegana, as suspects in several corruption cases. As a result, President Yudhoyono left office in 2014 without revising the 2001 Oil and Gas Law and without resolving the question of Pertamina’s right of first refusal.

The Jokowi government was thus handed the task of designing a new legal framework for expiring foreign contracts. During the early years of the Jokowi presidency, the parliament still struggled to reach an agreement on the 2001 Oil and Gas Law revisions. However, the tenor of debate became increasingly nationalist, and the notion that Pertamina had to be ‘dikuatkan’ or ‘strengthened’ by the new law was regularly expressed by both parliamentarians and the ministry. This was because a particularly lucrative foreign contract was approaching expiry. Pertamina’s first right became an increasingly urgent policy issue in 2015, as the government was set to decide the fate of several expiring foreign contracts, including for the Mahakam block – Indonesia’s largest LNG project, which contributed 25 percent of the country’s gas production – held by Total, a French oil and gas company.

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8 Interviews: Kardaya, former director of BP Migas (2002-2005) and former chair of parliamentary commission VII on energy and natural resources (2014-2016), 28 November 2014; Satya Yudha, deputy chair of Commission VII (2014-), 22 January 2015; Pri Agung, director of industry consulting company, Refominer, and advisor to parliamentary commission VII on energy and natural resources, 6 May 2014
With negotiations over the 2001 Oil and Gas Law still in limbo in the parliament (despite a change in parliament), the ministry for energy and mineral resources took the initiative to try and provide regulatory clarity. The government introduced Ministerial Regulation No. 15/2015. The regulation stated that Pertamina had the right to “request” an expiring work area. In the event that the existing foreign contractor wished to extend the contract, the Ministry together with SKK Migas, would evaluate both companies’ proposals, and a decision would be made based on “the national interest.” The regulation also stated that if the government decided to extend the foreign company’s contract, and reject Pertamina’s proposal, then Pertamina would be offered a “maximum” 15 percent participating interest in the block.

For many analysts, the regulation reflected the Jokowi government’s willingness to embrace a more statist-nationalist approach to the country’s energy sector. After all, the new regulation appeared to provide Pertamina with a guaranteed stake in all expiring foreign blocks. Yet the regulation left nationalist networks unsatisfied. The language did not clarify whether Pertamina did in fact now have a legally binding first right to an expiring foreign-operated block, and only outlined a maximum, rather than minimum, participating interest. The head of commission VII in parliament, Kardaya Warnika, stated in the press that the new regulation, “gave no legal certainty to Pertamina that it would be given control of expired foreign-operated oil and gas blocks” (Tempo 2015a). Nationalist protagonists felt the new regulation and the maximum 15 percent participating interest were just distractions, and the government had used language that deliberately eschewed a binding dispensation for the state company. Ultimately, it seemed, the Jokowi government tried to negotiate a compromise that provided Pertamina with new access to foreign-operated wells, while refusing to legislate an official first right of refusal.
Pertamina was not entirely convinced by the 2015 regulation either, and its demands for recognition in the revised 2001 Oil and Law law were argued with increasing clarity and confidence. In its 2016 annual report, for example, the company wrote:

The amendment of the laws for oil and gas is expected to return oil and gas from being market commodities back to strategic commodities controlled by the state to uphold energy independence and sovereignty. The amendment will strengthen Pertamina’s position as the national oil company (NOC) to represent the state in controlling strategic oil and gas resources and infrastructure. As a representation of the state, Pertamina should be prioritized in managing domestic oil and gas blocks and encouraged to expand to overseas blocks. The priority includes the right of priority to new blocks offered, the right of priority to existing contracts and the right of priority to expiring contracts.

In other sectors, the government had been comfortable formalising similar privileges for state-owned enterprises. In the electricity sector, for example, the 2009 Electricity Law gave the state-owned provider, Perusahaan Listrik Negara (PLN), a right of first refusal to supply electricity, taking precedence over private and commercial entities (Tharakan 2015). During the boom, Yudhoyono had signed off on a set of assertive nationalist interventions into the minerals sector, as we have seen. Why did the Yudhoyono government avoid nationalist demands in oil and gas? And what compelled a more conciliatory and in many ways statist approach from President Jokowi, particularly given that the boom was over by the time he came to power? Why was it that nationalist agitation produced such ambiguity in Indonesia’s oil and gas sector?

1.3 Ownership structures

Patterns of ownership in the oil and gas sector had begun an incremental but, I suggest, immensely important shift during the democratic era. Pertamina significantly improved its production performance and profitability. Meanwhile, an unprecedented number of local private players entered the upstream sector too. As Chapter Four explained, during the New Order period, upstream oil and gas production was almost entirely the domain
of foreign companies, and local companies engaged in this sector primarily via service contracts (piping, drilling and transport, for example). A structural shift towards greater domestic ownership in the post-New Order emboldened nationalist networks, but also produced more competition between state and private domestic capital.

As Pertamina’s performance improved during the post-Suharto period, arguments in favour of providing the company more privilege began to have more resonance in policymaking circles and with the public as well. Under the leadership of Karen Agustiawan (2009-2014), Pertamina doubled its revenues and profits. Domestically, the company had won the bid for several strategic fields that boosted its share of the country’s oil production. For example, after becoming CEO in 2009, Agustiawan successfully managed the purchase of a controlling share in BP’s North West Java Onshore block, and under Pertamina’s operatorship, the block’s daily production levels increased (McBeth 2013). Agustiawan then engineered the takeover of the West Madura block in 2011, which had been run by Kodeco Energy, a Korea-based oil and gas company, since 1981.9

The company’s contribution to Indonesia’s production levels increased in turn. At the start of the 21st century, Pertamina was producing around just 182,000 barrels of oil per day (bdp) (Hertzmark 2007, 22); by 2015, Pertamina was producing more of Indonesia’s oil than any other single company at 520,000 bdp (Rigzone 2015). According to one report, in 2012 Pertamina’s profits had improved 18.4 percent on the year prior, and in 2013 it became the first Indonesian company to make the Fortune 500 at 122nd place (The Jakarta Post 2014). These impressive gains were due in part to booming oil prices. However, Karen Agustiawan’s leadership had improved the company’s efficiency and turned Pertamina into a serious oil and gas operator. The notion that Pertamina could

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9 Initially, production volumes at the block dropped dramatically from 35,000 barrels of oil per day (bdp) in 2008 to just 1,200 bdp in 2013 after technical problems and bad weather delayed the development of new rigs (Detikfinance 2013a; McBeth 2013). But the government kept West Madura in Pertamina’s hands, production improved, and in 2016 it stood at 9,300 boepd (Boediwardhana 2016).
and therefore should be given unique access to expiring foreign contracts was thus becoming more legitimate and more feasible.

Pertamina was also highly dependent upon expanding its domestic assets. Unlike other national oil companies such as Brazil’s Petrobras, China’s CNOOC, or Malaysia’s Petronas, Pertamina had marginal interests and investments abroad. Under Agustiawan, Pertamina laid out a plan to ‘go international.’ In 2014, Pertamina’s international exploration and production arm was established, PT Pertamina Internasional Eksplorasi dan Produksi (PIEP), and by 2016, the company had acquired minor assets in Iraq, Malaysia and Algeria (Pertamina 2016). Overall, however, in the two decades after the end of the New Order period, the company’s business strategy was focused principally on expanding its domestic assets and it needed government assistance in order to achieve that goal.

However, shifting ownership structures also presented challenges to the state oil company. The post-New Order period was marked by a rise in the number of private domestic upstream players. These local private sector interests opposed regulatory concessions that favoured Pertamina. In what follows I offer a brief narrative that documents the striking transition toward domestic ownership of the country’s hydrocarbon resources. Appendix C provides a table of the PSCs under operation, and details their ownership structures, including the year that domestic companies farmed into or took over foreign-operated contracts. The transition has been made possible as foreign contracts expire, or as foreign operators leave in search of more attractive commercial opportunities outside of Indonesia. Domestic companies and Pertamina aggressively stepped-in to exert their control over dwindling reserves.

During the New Order, local entrepreneurs in the oil and gas sector, were active virtually only in services, which meant they provided technology and service contracts to Pertamina and foreign oil and gas producers. The services subsector was less capital
intensive and less risky than upstream exploration and production, and hence better suited to Indonesia’s small capitalist class. Only one Indonesian company had made significant inroads into upstream production during the Suharto Era – Medco. Arifin Panigoro was a pribumi businessman who established Medco in 1980 to supply oil and gas pipelines and drilling services to the big foreign oil and gas companies. His story was elaborated briefly in Chapter Four, where I explained how Medco was the first private domestic company in the sector, and how Panigoro used his personal connections to Suharto and the director general for oil and gas to acquire service contracts with foreign companies (TokohIndonesia.Com 2003). In 1992, Medco moved into upstream production by acquiring exploration and production contracts from an American company, Tesoro; in 1995 it acquired Stanvac’s Indonesia operations. With these acquisitions, Medco began a successful transition into the upstream sector.

Medco continued to expand following the liberal reforms of the post-Suharto period. By 2015 the company had a market capitalisation of Rp9.5 trillion and production levels of between 60,000 to 68,000 bdp of oil in 2013-2014 (Medco Energi 2015). The company emerged as the largest and most profitable private domestic upstream oil and gas company. While the company’s early beginnings relied heavily upon Pertamina contracts, in the post-New Order era Pertamina had become its principal competitor. In an interview, a representative from Medco explained that the company opposed further privileges for Pertamina, without enshrining privileges for private domestic companies too: “…we work with Pertamina on some blocks, but we compete with Pertamina too, and we wanted the new law to ensure we also have rights to expiring oil and gas blocks… competition is very intense for these expiring foreign blocks.”

Another prominent player in the domestic oil and gas scene was Energi Mega Persada (EMP). EMP was part of the Bakrie Group and owned by Aburzial Bakrie. Like

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10 Confidential interview: representative from Medco Energi, 10 January 2015
Medco, the company established its foothold in the upstream sector by ‘farming in’ to existing blocks when foreign operators farmed out, and by taking over expiring foreign contracts. For example, a Japanese company, Japex, had operated the Gebang Block in North Sumatra since 1985 as part of a joint operation agreement with Pertamina. When Japex farmed out in 2006 due to declining reserves, EMP moved in. EMP also took over the Bentu gas Block in Riau in 2006 from Spectre Resources, an American company that had operated the block since 1993 (Kurniawan 2015). However, EMP never reached the efficiency or productivity of Medco, and in 2015, the company produced just 11,454 barrels of oil per day, and 218 million standard cubic feet per day (mmscfd) of gas (Kurniawan 2015).

Other tycoons expanded into oil and gas after the turn of the century. Sukanto Tunoto, a Suharto-era Indonesian-Chinese tycoon who had made his fortune in forestry and agribusiness, established a petroleum exploration and production company in 2003, Pacific Oil and Gas. The following year the company purchased a 25 percent share in the Jambi Merang Block from Canadian company, Repsol. 11 In the coming years Pacific Oil and Gas engaged in joint operation agreements with Pertamina and several Chinese firms. Meanwhile, Indika Energy, an integrated energy company with subsidiaries working in coal mining, mining services and oil and gas services, also ventured into upstream production. One of its subsidiaries, Indika Multi Daya Energi was established in 2013 in order to purchase a 10 percent participating interest in Total’s Bird’s Head production sharing contract in Papua. Indika CEO, Wishnu Wardhana, introduced in Chapter Five, enjoyed a close relationship with the government. He was a personal associate of President Yudhoyono, a member of Partai Demokrat’s Convention Committee, and went on to manage Yudhoyono’s son’s political campaign for governor of Jakarta in 2017.

Another example was Patrick Walujo who established Samudra Energy in 2005 with funding from his private equity company, Northstar Group. Walujo was a rising star in Indonesia’s business community in the mid 2000s, having advanced through the ranks at Goldman Sachs and won several awards for his entrepreneurship (Wall Street Journal Indonesia 2014). Walujo married the daughter of prominent Suharto-era Indonesian Chinese tycoon, Theodore ‘Teddy’ Rahmat of the Triputra Group, Saritoga Capital and Adaro Energy. In 2010 Samudra Energy purchased a 20 percent stake in Husky Oil’s Onshore & Offshore Madura Strait Area in the Madura Straits block (Offshore Energy Today 2010). Canada’s Husky Oil continued to operate the block and maintained a 40 percent interest, while CNOOC also had a 40 percent interest. The deal came as part of Husky’s contract extension. Pertamina had expressed interest in either taking over or taking an interest in this contract. However, the government extended Husky’s contract and arranged for Samudra Energy to farm in to the project. It was precisely this sort of deal that would have been impacted by a policy in which Pertamina was given a formal first right of refusal.

These companies’ market share in the oil and gas sector remained minor, of course, compared to the foreign multinationals like Chevron and Exxon Mobil, and compared to Pertamina and Medco; but they were owned by some of Indonesia’s wealthiest tycoons and politico-business elites. It is impossible to map fully – and with certainty – the personal and financial relationships between these oil and gas companies and those in public office. Some, such as Aburizal Bakrie or Wishnu Wardhana, had clear links to the executive during the Yudhoyono era. Others were owned by tycoons whose empires stretched across the Indonesian economy, and these corporate entities and their owners enjoyed significant structural power. Kadin, the Indonesian Chamber of Commerce, whose management included many local businesspeople with interests in the

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hydrocarbon sector, explicitly opposed any formal privilege for Pertamina and instead emphasised that Indonesia’s domestic private sector should play a larger role in oil and gas exploration and production (Hukumonline 2010).

This situation was very different to what prevailed in the New Order years, when such entrepreneurs were highly dependent upon Pertamina for service contracts, and were the beneficiaries of the state company’s patronage. While many of the domestic companies continue to partner and contract with Pertamina, the contemporary context was marked by increased competition between domestic private and state capital, with some vying directly with Pertamina for expiring foreign contracts. The evidence presented here does not prove that such tycoons drove, directed or designed oil and gas policy to suit their interests; however, it is possible to show that, unlike in the mining sector, nationalist networks did not include structurally powerful capitalist actors from the private sector.

It is also worth emphasising that Indonesia’s oil sector, while in a process of structural change, remained heavily dependent upon foreign capital. Foreign interests were concentrated around several of the world’s most profitable multinational oil and gas companies. Chevron, ConocoPhillips, CNOOC, BP and Exxon Mobil produce the majority of Indonesia’s oil. Indonesia’s oil sector still relied upon the capital and technology of these multinational oil companies. In 2014, foreign companies were responsible for approximately 80 percent of Indonesia’s oil and gas production (PricewaterhouseCoopers 2014). According to SKK Migas, there were 79 production PSCs active in 2016. Pertamina was the operator for only 12 of these contracts, and many of those contracts were JOBs (Joint Operating Bodies), in which Pertamina partnered with an international company to jointly operate the field. Pertamina had participating interests in many other blocks, but it only operated a relatively small proportion. Of the remaining 67 contracts, 36 were operated by foreign multinationals, and the rest were
smaller blocks run by Indonesian private companies, or companies where ownership structures were unclear (see Appendix C for details of ownership structures of PSCs). As we shall see in the next section, a large slice of the policymaking community within the oil and gas sector resisted nationalist demands because they saw foreign capital as the only means of slowing a steady process of decline and stagnation in the exploration and production of Indonesia’s oil and gas.

1.4 Economic conditions

Economic conditions in the post-New Order period had an ambiguous impact upon the parameters for nationalist change. Since the 1990s, oil had slowly become more peripheral to the Indonesian economy. Exploration investment stagnated throughout the post-Suharto period, production remained sluggish, and after oil prices fell in 2014, oil and gas came to contribute just 4.46 percent of state revenues (PricewaterhouseCoopers 2016a, 12). It is striking that as the sector became less strategic, and as Indonesia’s wells dried up and became less accessible, there was a steady rise in nationalist mobilisation and a transition toward greater local ownership. In keeping with what we have witnessed in the mining and oil palm sectors, there appeared to be an inverse relationship in the sector’s contribution to the overall economy, and the capacity of nationalist networks to mobilise and demand a more nationalist investment regime. This trend bucks expectations, because analysts argue that nationalist interventions in oil and gas are “more likely in an environment of high and increasing reserves and production and when the country is a large net exporter” (Monaldi 2014, 2). Compared to previous points in Indonesian history, when reserves were high and oil was a backbone of the economy, the sector was now more and more accessible to local players, and localisation posed less and less of an economic risk to the Indonesian economy.
However, oil was still a strategic economic resource, and there were many in the government who strongly opposed formal interventions for localisation. Indonesia’s oil was increasingly difficult to extract from existing wells, and new prospects were primarily in difficult terrain or offshore, and thus required expensive and complex technology that foreign companies were best placed to provide (PricewaterhouseCoopers 2016b).

Under these circumstances, the government was deeply divided on what to do about Pertamina’s demands for a right of first refusal. Senior bureaucrats and industry experts doubted the state-owned company’s capacity to take over the country’s most strategic foreign contracts and feared the consequences for the broader investment climate. For example, senior staff at BP Migas (and its replacement, SKK Migas) emphasised that its priority for expiring oil and gas contracts was, above all else, improving production rates, which meant attracting investors from abroad. The director of BP Migas, Raden Priyono (2009-2012), expressed his scepticism publicly, and directly questioned Pertamina’s capacity to manage strategic foreign-operated blocks like Total’s Mahakam block in Kalimantan, which was not only complex, but contributed over 20 percent of Indonesia’s entire gas production. The directors general for oil and gas, Evita Legowo (2009-11), and Wiratmaja (2011-present), stated that their priority was sustaining investment, increasing production, and ensuring there was no interruption to Indonesia’s oil and gas supplies – in other words, the priority was not expanding Pertamina’s assets, but sustaining the country’s overall production levels (Detikfinance 2009; RMOL.Co 2011a). Another senior bureaucrat at the ministry of energy and mineral resources explained to the media in 2011 that, “we don’t want there to be a perception that Pertamina has a monopoly. We have to be balanced [in our tenders]” (RMOL.Co 2011a).
The Jokowi administration faced the same challenges. Jokowi’s, minister for energy and mineral resources (2014-2016), Sudirman Said, was concerned with falling production, and he did not believe the government’s priority should be formalising a right of first refusal for Pertamina. 13 From this perspective, we can see that Ministerial Regulation No. 15/2015 was intentionally ambiguous and was designed to provide the state with discretion when choosing how to award expiring oil and gas contracts. Indeed, when pressed by journalists, the director general for oil and gas, Wiratmaja Puja, admitted that this regulation gave Pertamina a first right in spirit rather than in the letter of the law. In one report, Wiratmaja stated that:

[under the regulation]… Pertamina will be prioritised, but the government does not have to choose Pertamina. The existing investor’s contract can be extended, and other companies can also apply. The principle here is that prioritising Pertamina must not become a disincentive for other investors. (Dunia Energi 2015)

The goal was clearly to try to appease nationalist demands without granting formal privileges to the national oil company, and thus avoid alienating much needed foreign capital.

1.5 Political conditions

More so than in either the mining or plantations sectors, electoral politics and the wider nationalist political milieu provided new opportunities for nationalist networks to mobilise public opinion. As explained above, nationalist networks within Pertamina lobbied parliamentarians, the ministry of energy and mineral resources, and members of executive government to back their proposal to expand Pertamina’s role. Alongside this

‘backdoor’ strategy, however, nationalist protagonists ran high-profile public campaigns in support of the state oil company.

A loose network of Pertamina-affiliated organisations, industry commentators and think tanks, mobilised to shape public debate on this issue. For example, Pertamina’s union, The United Federation of Pertamina Employees (FSPPB), and an associated group, the Solidarity of Retired Pertamina Employees (SPKP), regularly appeared in media reports and organised public seminars and workshops criticising the state for failing to adequately support its national oil company. Another prominent actor in this network was the industry think tank, Indonesia Resource Studies (IRESS), headed by outspoken commentator, Marwan Batubara, a former legislator for Partai Keadilan Sejahtera (PKS) (2009-2014). Marwan was amongst the most often-quoted industry analysts, and his institute was staunchly loyal to Pertamina. While there was nothing on the public record, several industry sources believed IRESS was partly funded by Pertamina in order to shape public debate in favour of the company’s interests. Kuturbi, a former Pertamina bureaucrat and member of the parliament (2014-2019) was another prominent supporter of Pertamina’s first right. Kuturbi had been an expert staff for Pertamina’s board of commissioners from 1977 to 2006 and had a PhD from the Colorado School of Mines, where many bureaucrats in the energy and mining sector obtained their graduate education. After retiring from Pertamina in 2006, he became an industry commentator, always available for media comment and consistently arguing against the liberalisation of Indonesia’s oil industry.

None of these organisations or individuals had particularly remarkable links to decision-makers in the ministry, or to political elites in government – this was the domain of senior Pertamina staff and directors. Instead, this nationalist network deployed a pro-Pertamina narrative to the media and attempted to shape public debate on sensitive questions regarding Pertamina’s rights and roles.
The strategy indicated that the company and its allies believed there was a broad popular preference in favour of Pertamina and local ownership, and that by launching a public campaign, lawmakers and elected officials would come under increasing pressure to respond to nationalist demands. The strategy had a discernible impact on state policy makers. For example, after Evita Legowo retired from her position as director general for oil and gas in 2012, she commented that by the end of her tenure nationalism had become the sector’s “number one headache” (McBeth 2013). Others in the ministry also complained in interviews about the challenges of managing increasingly widespread nationalist demands for Pertamina to take over foreign blocks while also trying to sustain much needed foreign investment.

The case of the Mahakam block is instructive. The campaign for Pertamina’s first right of refusal gained momentum when particular foreign resource contracts approached their expiry. French oil and gas company, Total, had been at Mahakam in East Kalimantan either exploring or producing oil and gas since 1968. Japan’s Inpex had a 50 percent share in the block, the rest was owned by Total. Mahakam had long been one of Indonesia’s most strategic oil and gas blocks, contributing to over 25 percent of Indonesia’s entire gas production, while also contributing 7 percent of Indonesia’s oil supplies (Singgih 2007). Total’s production sharing contract was first signed in 1977, and then the Suharto government extended it in 1997. This extension was set to expire in 2017. Total began negotiations over its contract extension with the Yudhyono government as early as 2009. Karen Augustiawan indicated that she wanted Pertamina to take a substantial interest in, or even take over, the block. Both Total and Pertamina, therefore, had expressed their interest in operating the strategic block.

A public campaign in favour of transferring Mahakam to Pertamina began in 2012-2013, off the back of the Constitutional Court’s decision to dissolve BP Migas. Emboldened by their victory in the courts, the nationalist coalition that brought down BP
Migas turned its attention to Mahakam. Marwan Batubara of IRESS organised this campaign, and told The Jakarta Post that, “the disbandment of BPMigas would ease the group’s steps to push the government to meet its demands [on Mahakam]” (Azwar 2012). Representatives from groups affiliated with Pertamina, together with members of Muhammadiyah and NU, plus prominent national economists such as Rizal Ramli, and Kwik Gian Kie, appeared in the media regularly, held seminars, and organised a petition demanding the government hand the block over to Pertamina and return Indonesia’s riches to the state.

However, Yudhoyono continued to equivocate. Negotiations between the government, Total and Pertamina stalled. Pertamina’s campaign, both backstage and frontstage, put the government under pressure. As the same time, economists and industry experts spoke increasingly of an impending energy crisis in Indonesia, as energy demand continued to rise, while accessible oil reserves were slowly being diminished (Mahfoedz 2014; Platts 2013). There were many in government who felt Indonesia could ill-afford to risk the country’s most strategic hydrocarbon block. As the contract negotiations became increasingly fraught, President Yudhoyono avoided making a decision and instead left the fate of the contentious block in the hands of his successor.

The Mahakam contract then became a site of political contestation during the 2014 presidential campaign. For example, at the Partai Demokrat convention, the question of Mahakam was raised. All three candidates for the party’s presidential nomination claimed they would reject Total’s extension request and transfer the operating rights to Pertamina (Republika 2014.). Presidential candidate, Prabowo Subianto, also promised that should he be elected, Mahakam would be transferred to Pertamina (Detikfinance 2014). In a televised presidential debate, Prabowo pushed Jokowi to comment on what he would do with problematic oil and gas and mining contracts. Jokowi’s response was balanced: he
said existing contracts should always be honoured, but once a contract has expired the
government should do what is best for the nation and its people (Sihaloho 2014).

Once in power, however, president Jokowi took an increasingly nationalist
position when it came to the oil and gas sector. Jokowi’s first minister for energy and
mineral resources, Sudirman Said (2014-2016), admitted he was sceptical about
Pertamina’s capacity to manage complex blocks such as Mahakam. Amien Sunaryadi,
the head of SKK Migas (2014-) voiced the same concerns, and stated that the government
needed to prevent Pertamina from capital over-reach. Media reports revealed that
Pertamina would need to invest over US$2.5 billion annually into the block in order to
maintain and extend its production levels (Cahyafitri 2015a). Domestic and international
industry experts were also sceptical about Pertamina’s capabilities (McBeth 2015;
Bloomberg 2015). In the words of one local analyst:

While an excess of nationalistic sentiment runs high among policymakers when it
comes to the discussion of Mahakam’s fate, little attention has been paid to the
enormous scale of the operation should Pertamina be left to operate it alone.
(Cahyafitri 2015a)

However, political pressure was mounting upon the new president. During the first half
of 2015, at the height of the Mahakam negotiations, Jokowi faced plunging approval
ratings. Inflation was on the rise, and several political missteps left the president looking
overwhelmed and out of his depth (Muhtadi 2015). The president’s political advisors
supported taking the most politically palatable position on the matter, and so favoured
transferring the block to Pertamina. Luhut Panjaitian, a close ally of President Jokowi,
was head of the Presidential Staff Office (Kantor Staf Presiden, KSP) during Jokowi’s
first year in office. Luhut and his team recommended that Pertamina take over the
operating rights for Mahakam, with a share split of 70 percent for Pertamina and 30
percent for Total (Tempo Magazine 2015). The minister for state owned enterprises, Rini

14 Interview: Sudirman Said, minister for energy and mineral resources (2014-16), 25 August 2016
Soemarno, another of Jokowi’s closest allies, also advocated for Pertamina’s rights to the block (Tribunnews 2015). Under intense political pressure, and after months of inaction and intrigue, the president decided in March 2015 not to extend Total’s contract, and in June the government announced it would transfer the operating rights and a 70 percent stake to Pertamina. The case of Mahakam aptly illustrates how elected officials and political figures seeking popular approval – or fearing a backlash – can turn to embrace or channel nationalist demands as a means of fortifying their political position. The nationalist networks that had long supported Pertamina’s right to Mahakam found new openings for influence in the 2014 presidential race, and in the president himself during a time of political vulnerability.

In summary, the post-Suharto political economy presented new opportunities for nationalist networks and their localising agendas. Pertamina had evolved into a more efficient and capable upstream operator, and as the sector’s value to the economy slowly eroded, so too did the structural constraints that had prevented localisation throughout Indonesia’s history. Democratic reforms also brought new prospects for nationalist actors to access and pressure economic policymakers.

However, in the eyes of nationalist protagonists, the government’s response to their demands for localisation was “setengah hati”, or “half-hearted” (CNN Indonesia 2015a). For while prior institutional reforms and structural shifts had created openings for their policy agenda, significant constraints remained. The sector remained highly dependent upon foreign investment, and many within government argued against policies that would favour Pertamina over other overseas investors. The statist nature of the nationalist demands also meant that domestic oil entrepreneurs were opposed as well, and these politically-connected companies lobbied against Pertamina’s first right.

These constraints prevented the emergence of coherent nationalist outcomes. Faced with conflicting priorities, President Yudhoyono sat on the fence and equivocated.
Jokowi, on the other hand, straddled the fence with Government Regulation No. 15/2015. This regulation was framed as a way of ensuring Pertamina’s privilege; but it avoided formalising a first right for the national oil company, which might alienate or narrow the opportunity for private investors – both foreign and domestic. Instead, Jokowi tried to appease nationalist demands and score political points by transferring the Mahakam block from Total to Pertamina. The result was that the investment regime was neither assertively nationalist, but nor was it open or liberal; instead regulatory ambiguity prevailed.

2. Industrialisation: In pursuit of a domestic oil refining industry

In the downstream oil sector, nationalist anxieties stemmed from Indonesia’s increasing reliance upon foreign oil imports. In 2004, domestic demand finally outstripped supply, and Indonesia became a net importer of oil and petroleum products. Since that point, Indonesia’s politicians, economists and civil society activists have intermittently lamented the state of the country’s oil refineries. Limited domestic refining capacity meant Indonesia was forced to import an increasing volume of refined petroleum products, which were more expensive than crude. Reliance on foreign oil imports was becoming a financial burden. A typical argument in favour of industrial nationalism emerged during the Yudhoyono years: more economically developed countries in the region were profiting from Indonesia’s exploding fuel bill, and to overcome this humiliation Indonesia needed to invest downstream and produce higher-value petroleum products.

This section looks at the nationalist campaign to curb petroleum imports and expand downstream development and asks why that campaign met with such limited success. The Yudhoyono administration emphasised its intention to build new refineries in order to manage the skyrocketing costs of fuel imports. But in the end little progress
was made. Jokowi sounded an even stronger political commitment to ending Indonesia’s reliance on foreign oil. Yet investment only trickled in to what remained a stagnant sector. In other words, despite strong nationalist mobilisation, including support from senior members of the executive government, nationalist interventions were weak and failed to produce results.

Industry experts and politicians put forward two alternative – though not mutually exclusive – explanations. The first emphasised economic constraints. According to many industry analysts, the state’s financial managers simply could not agree upon or coordinate an attractive fiscal regime to secure private investment into such a capital-intensive sector offering only low returns. The other explanation was that the government was in fact unwilling, rather than unable, to establish attractive investment terms due to lobbying efforts by domestic business players in the fuel importing industry, who profit from Indonesia’s lack of petroleum refining capacity.

Both explanations were compelling, and as discussed in the introductory chapter to this thesis, complex policy outcomes are almost always multi-causal. I suggest here that both factors explain stalled investment in Indonesia’s oil refining industry, and both demonstrate how capitalist preferences undermined the realisation of a nationalist network’s downstream goals. The fate of Indonesia’s oil refining industry reflected how, as a policy actor, capital can vote twice – once by directly lobbying (or purchasing) political elites, and once by indirectly withholding investment in the state’s industrial priorities (Haggard, Maxfield, and Schneider 1997, 38).

2.1 Background

Once the oil-exporting giant of East Asia, by 1995 Indonesia’s oil production began a process of irreversible decline. GDP growth was between 4 and 6 percent from 2004 to
2012, and this growth was accompanied by a sustained increase in demand for petroleum products from industry, transport sectors, and private consumers. As a result, the government was forced to rely more and more on crude oil and petroleum imports.

Petroleum product imports had long been part of Indonesia’s energy mix. In the early New Order period, a share of Indonesia’s crude oil production would be exported to Singapore for processing, then imported in the form of petroleum. According to Bresnan (1995, 90):

During the 1970s, there was a growing reliance on product imports from Singapore. This took place [through]…a complex pattern of two-way trade in oil between the two countries, with the main feature of these arrangements being the processing of Indonesian crude in Singapore. By the early 1980s…. To reduce dependence on foreign processors, a major programme for expanding and upgrading domestic refining began in 1983. These projects enabled Indonesia to substantially reduce refining in Singapore from 1987 onwards.

From the 1990s and into the post-Suharto period, however, successive Indonesian governments failed to expand and update downstream refinery technology. According to a PricewaterhouseCoopers report, “decades of under-investment in refining capacity resulted in the growing shortage in the supply of refined products relative to the expanding demand” (PricewaterhouseCoopers 2016c, 15). The government had seven refineries, all of which were operated by Pertamina, and all of which were built during the New Order period.

Between 2000 and 2009, the volume of crude oil imports rose from 78.6 million barrels to 119.6 million barrels per year (Ministry for Energy and Mineral Resources 2010a, 28). For fuel, meanwhile, imports increased from just over 90 million barrels to over 150 million barrels over the same period (Ministry for Energy and Mineral Resources 2012a). Indonesia’s gas production, on the other hand, increased from the mid 1990s and eventually contributed more to Indonesia’s export revenue than oil (PricewaterhouseCoopers 2016a). However, domestic gas demand is expected to outstrip
supply in a matter of years, and by 2020 Indonesia will likely become a net importer of gas as well (The Straits Times 2017).

Oil booms were, thus, no longer a boon for Indonesia. While high prices still increased export income and foreign exchange, a boom also meant the bill for oil imports would be much bigger. In 2008, Indonesia left the Organisation of Petroleum Exporting Countries (OPEC), the global oil producers’ cartel. Minister for energy and mineral resources, Purnomo Yusgiantoro, explained that, “as a net importer of oil, the country wanted world oil prices to fall while OPEC’s 12 other members did not” (Financial Times 2008). High prices upped the cost of burdensome fuel subsidies, and despite their crippling effect on the budget, President Yudhoyono was hesitant to reduce the subsidy for fear of a public backlash. Against this backdrop, nationalist networks pressured the government to expand the country’s refining capacity, in order to wean the country off fuel imports and refine more crude oil domestically.

2.2 Nationalist networks stall: kick-starting a stagnant petroleum refining industry

During the Yudhoyono era, as the volume of oil and fuel imports increased, policy makers within the ministry of energy and mineral resources, and particularly from the ministry for industry, increasingly argued that the petroleum deficit was a threat to Indonesia’s financial stability and energy security (Ministry for Energy and Mineral Resources 2010b). It was also becoming a politically sensitive issue, with critics in the media questioning Yudhoyono’s ability to manage the burgeoning costs of fuel imports.

Some of these critiques were framed in nationalist terms, and a loose network of state and non-state actors emerged to pressure the government to end Indonesia’s dependence on foreign countries’ petroleum products. Business associations, industry think tanks, media, and civil society organisations, questioned whether Indonesia should
be exporting crude oil at all, when it meant importing both crude and expensive petroleum products to meet domestic demand (*Republika* 2013; *Detik Finance* 2011; Notonegoro 2012; *Berita Satu* 2012). Politicians in the parliament also called for the government to improve downstream refining infrastructure in order to reduce the volume of expensive petroleum product imports (*Detik Finance* 2011; *Berita Satu* 2012). Nationalist networks routinely pointed out that Indonesia had fallen behind its neighbours when it came to developing oil refineries. ReferMiner, an industry think tank, explained in a 2012 report that:

> When compared to other countries in the Asia Pacific, the development of Indonesia’s refining capacity has been slow. As a result, other countries’ oil trade balance has continued to improve, while Indonesia’s has worsened. Even countries like Japan and Singapore, which do not have significant oil resources, have refining capacity far beyond Indonesia’s (Notonegoro 2012).

According to one report, Indonesia had become the region’s “largest importer of gasoil and gasoline. It typically import[ed] 9-10 million barrels of gasoline and 2.5-3.5 million barrels of gasoline every month” (Platts 2014). Refiners based out of Singapore, South Korea, and India had reportedly enjoyed a significant boost in profits in the decade to 2014, due to Indonesia’s growing demand and its lack of domestic refining capacity (Platts 2014).

In this sector, demands for state intervention were not emanating from an existing class of domestic downstream businesses. Pertamina owned all existing refineries, and would certainly benefit from new investments to revitalise old infrastructure. For the most part, however, protagonists inside and outside of government were, at least on the surface, motivated by a commitment to industrial nationalism. Mohammad Hidayat, minister for industry (2009-2014), was a key proponent. Hidayat promoted a new and expanded refining sector, not only because it would reduce Indonesia’s reliance on foreign petroleum, but because refineries could also motivate productive economic spill-overs in the form of petrochemical plants (Gunarto 2013). There was, therefore, a nationalist
argument in favour of improving Indonesia’s position within petroleum markets and expanding the industrial footprint of Indonesia’s domestic oil industry.

By 2010, downstream refineries had made their way to the top of the government’s strategic planning documents, including the ministry for energy and mineral resource’s annual Energy Outlook reports, its Strategic Plans, and the Master Plan for the Acceleration and Expansion of Indonesia’s Economic Development (or the MP3EI, explained in the previous two chapters). For example, back in 2008, the ministry’s Energy Outlook report¹⁵ made only a cursory reference to the country’s refineries, pointing in one section to the need for more capacity in order to meet domestic fuel demand (Ministry for Energy and Mineral Resources 2008). Two years later, in 2010, the ministry’s Energy Outlook dedicated significantly more space to explaining the oil trade deficit. It emphasised that downstream investment was now a policy priority. The report explained that with the price of oil rising, and local production declining, the government’s priority was to 1) reduce Indonesia’s dependence upon oil generally, and 2) reduce dependence upon fuel imports specifically. The strategy was to increase the role of coal in Indonesia’s energy mix and reduce dependence upon fuel imports through upgrading and expanding existing refineries, and facilitating investment in new refinery developments (Ministry for Energy and Mineral Resources 2010a, 88).¹⁶ The plan was for one new refinery to be built by 2018, another by 2024 and another by 2028. The government recognised the biggest challenge would be attracting the necessary investment, because to build three new refineries by 2030 was projected to cost US$18 billion (Ministry for Energy and Mineral Resources 2010a, 99).

¹⁵ The annual Outlook reports present detailed data on energy supply and demand, and offer projections into the future based on global conditions and particular policy scenarios.
¹⁶ By expanding coal production for domestic energy needs, the government projected that oil would go from being 39% of the country’s energy mix in 2010 to just 21% in 2030. The report also stated that three new refineries were needed to meet fuel demands, with capacities of 300,000 barrels per day and it proposed that one new refinery would take about six years to build (Ministry for Energy and Mineral Resources 2010a, 89)
Meanwhile, the ministry’s Strategic Plan 2010-2014 outlined seven priorities, including, “the realisation of [the ministry’s] important role in increasing the balance of trade by reducing imports” (Ministry for Energy and Mineral Resources 2010b, 35). The ministry stated that the principal source of this trade imbalance was poor downstream infrastructure – in other words, limited refining capacity. The government thus proposed to increase refining capacity to 1.313 million bpd by 2013 (Ministry for Energy and Mineral Resources 2010b, 106). Based on the government’s agenda, Pertamina claimed ambitiously it would be able to stop importing fuel products by 2016-2017 by upgrading its refineries (Viva 2011; Bisnis Indonesia 2011). In addition, the Yudhoyono administration’s wide-ranging industrial plan for the Indonesian economy, the MP3EI, listed oil refining as a top priority.

However, despite the government’s ostensibly urgent focus on refinery expansion, no progress was made. When Yudhoyono came to office in 2004, Indonesia’s oil refineries had a combined installed capacity of approximately 1.05 million bdp, and an output of about 950,000 bdp. When Yudhoyono left office in 2014, capacity was exactly the same (PricewaterhouseCoopers 2014, 13). Investment levels stagnated as well, and the government even rejected investment proposals from two Middle Eastern companies, Saudi Aramco and Kuwait Petroleum International, which together would have made a significant contribution toward meeting the government’s refinery development goals (Azwar 2013).

Why, given such strong rhetorical commitment to expanding Indonesia’s petroleum refining industry and weaning the country off fuel imports, did the Yudhoyono administration fail to realise its own investment and infrastructure targets? What were the constraints upon this policy agenda? Who were the policy networks that supported and resisted downstream industrial policy? And were domestic business interests aligned with, or opposed to, the various policy interventions proposed by the government?
2.3 Economic constraints

The nationalist vision faced significant economic constraints. Downstream refining was a complex, capital intensive, high-risk investment with relatively low rates of return. To make a refinery profitable, it needed access to a large and reliable volume of crude oil. In order to engage investors the government needed to create an attractive investment environment – such as tax holidays, and access to local crude or the ability for an investor to import its own crude, for example. According to a 2014 PwC report, “the sector has continued to attract interest from foreign investors, [but] at the time of writing none had moved beyond the discussion stage – investors were seeking incentives which, to date, have not been forthcoming” (PricewaterhouseCoopers 2014, 13). Local Indonesian analysts similarly noted the government’s inability to design an appropriate set of investment incentives. Ari Soemarno, former Pertamina CEO (2006-9), wrote an opinion piece in the national press in 2012 that explained how investors were interested in Indonesia’s oil refineries, but the regulatory conditions were not conducive (Kompas 2012).

The less contentious explanation for why incentives were not forthcoming was that the state bureaucracy was under-skilled and divided, and simply could not agree upon an appropriate incentive structure to attract the necessary capital. For example, in an interview, the chair of the Indonesian Petroleum Association (IPA) Sammy Hamzah, agreed that the government needed to set far more attractive terms if it wanted private investment in refineries. 17 Sammy explained that because refineries were capital-intensive, without serious incentives companies would be unwilling to invest in them. A

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17 Interview: 26 September 2014
lack of capacity within the government, he suggested, meant the financial incentives did not materialise, and neither did downstream investment:

The biggest problem under SBY was lack of coordination ….70% of the downstream sector’s problems, including refineries, could be solved with the right people in the top jobs.

Coordination problems and intra-government conflict were at times on public display. In 2013, for example, Yudhoyono’s ministers began sparring publicly over the issue. Hidayat criticised the former finance minister, Agus Martowardjo, for turning down promising investors from the Middle East in 2012, Kuwait Petroleum International and Saudi Aramco. Hidayat told the press that the government was to blame for the country’s petroleum crisis: “don’t bother lamenting the increasing volume of oil imports, when we never offer any concrete solutions” (Republika 2013b). Pertamina was also frustrated at the finance ministry’s decision. Then CEO of Pertamina, Karen Agustiawan, stated that publically that, “these strict regulations around fiscal incentives make it difficult for foreign investors to build refineries in this country. In the future, Pertamina will only look for companies who want to work together to provide crude to our existing refineries” (Surnadi 2013). The finance ministry, for its part, defended the decision, and claimed the companies’ demands risked state revenue and broke Indonesian laws. Kuwait Petroleum International and Saudi Aramco had demanded a tax holiday of up to 30 years, which contradicted existing regulations and practice.

It is also worth noting that beyond Pertamina, there were no reports of domestic investors expressing interest in developing refineries. As explained above, an increasing number of local companies had entered the oil and gas services sector and the upstream exploration and production sector, since the end of the New Order period. But refining required large capital investments, and the returns would be limited. The government had clearly been unable to create the right conditions to sustain the interest of overseas and
local investors. Without those conditions, the corporate sector – both local and foreign – was unwilling to channel funds into the state’s downstream industrial vision.

2.4 Ownership structures

A second argument advanced by many in the industry was that stalled refinery development was less a problem of state capacity, and more a problem of vested business interests. As was the case in the plantations and mining sectors, in order to understand the fate of industrialising resource nationalism, we need to observe and examine who owned what in the downstream sector and how much they owned. In other words, did nationalist agendas align or conflict with the dominant business interests in the downstream segment of the commodity’s value chain?

In this case, many industry insiders, journalists and politicians, believed that powerful vested interests in the oil importing business were actively inhibiting the development of a local refining industry. Oil trading in Indonesia had long been marred by corruption. During the New Order, President Suharto handed oil-shipping monopolies to family members and cronies, and from the 1980s onward, “family companies … handled all of Indonesia’s oil-product imports” in partnership with Pertamina (Borsuk 1998). The economic reforms of the post-Suharto period helped to turn Pertamina into a far more efficient and transparent state-owned company, and Suharto’s family formally divested its interests in the oil-trading sector.

However, in the years after the fall of Suharto, collusion and rent-seeking continued to plague Indonesia’s oil trading sector. Public figures intermittently pointed to an anonymous oil-trading mafia that they claimed was working against downstream development. For example, back in 2011 Satya Yudha, a former oil executive for a multinational company and a member of parliamentary commission VII for Golkar, told
the press that Indonesia desperately needed to expand its refining capacity, and suggested that particular business groups who benefited from petroleum imports were trying to prevent refinery development (Detik Finance 2011). Industry analysts also claimed that Indonesia’s increasing volume of fuel imports provided huge profits to a politically-connected business network, which was staunchly opposed to any expansion of Indonesia’s refining industry. These profits, so the theory went, lined the pockets of senior members of the ruling coalition, and dampened the government’s interest in downstream refining. One representative from the Indonesia Petroleum Association commented in an interview that “SBY put [political] party men in the ministry, rather than experts…”, which ensured that such politico-business networks could thrive.

But few analysts or industry insiders were able or willing to provide details on precisely who these business people were, and what their political connections looked like. One long time journalist on the energy desk for the investigative magazine, Tempo, stated in an interview that for years her team had been tracing the business interests and political connections of several individuals in the oil trading industry, and within Pertamina’s oil trading subsidiary, Petral (Pertamina Energy Trading). Petral was Pertamina’s sole trading arm and its job was to perform market intelligence and procure crude oil and petroleum products for Indonesia’s domestic market. However, the magazine was ambivalent about publishing detailed material for fear of reprisals from a man they believed was the most powerful businessperson in the energy sector: Muhammad Riza Chalid. According to this journalist, “Riza is behind virtually every company that supplies oil to Petral…..and Riza had directly impacted government positions and policy.” For example, one story often heard during interviews in Jakarta was that Riza had demanded that Ari Soemarno be removed from his position as

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18 Interviews: Faisal Basri, economist and lecturer at Universitas Indonesia, 15 May, 2015; Poppy Ismalina, lecturer and Universitas Gadjah Mada and industry consultant, 5 November 2014
19 Interview: 26 September 2014
20 Interview: 20 September 2014
Pertamina CEO in 2009 because he was trying to move Petral’s headquarters from Singapore to Batam to allow greater government oversight over Pertamina’s trading arm. The picture that emerged, therefore, was of a web of politically-connected businesses in oil trading, and particularistic interests within Pertamina, co-operating to defend an increasingly lucrative petroleum importing business. Such stories, however, were not substantiated nor detailed on the public record – until the election of President Jokowi.

2.5 Political Conditions

The downstream oil and gas sector was, arguably, the most striking case of how, despite economic constraints and unfavourable ownership structures, political imperatives can alter nationalist outcomes. Much of this thesis puts forward a structuralist argument about nationalist variation in Indonesia, foregrounding the critical role of sector-specific business preferences, shifting ownership and economic conditions. In this instance, however, political imperatives and personal agency motivated the Indonesian government’s turn towards a more nationalist downstream policy agenda.

Under Yudhoyono, downstream investors were not forthcoming, and evidence pointed to a politically-connected and materially powerful oil-importing network that pushed back against proposals for a reinvigorated downstream strategy. However, things changed after 2014. During the presidential election campaigns that year, oil prices, imports and corruption in the energy sector became contentious points of debate between the two candidates, Jokowi and Prabowo Subianto.

21 Interview: Tempo journalist, 20 September 2014; industry consultant from Bower Group Asia, 18 August 2014
As the 2014 presidential elections approached, several incidents served to bring the sector under greater scrutiny, and there was renewed public pressure to end entrenched corruption in the energy sector. Earlier I explained how a series of corruption cases had interrupted parliamentary negotiations over the 2001 Oil and Gas Law. To recall, in 2013 the KPK began investigating several cases involving the oil and gas regulator, SKK Migas, the ministry for energy and mineral resources, and several private sector players active in oil trading. In 2013, the KPK arrested the head of SKK Migas, Rudi Rubiandini for accepting a US$700,000 bribe from a Singaporean oil and gas company, Kernel Oil, in return for Rudi allocating several oil blocks to an affiliated company, and allocating an oil exporting contract as well (Jong 2013). Rudi’s arrest opened the door a series of other investigations. Soon after, in 2014, the KPK arrested Sutan Bhatoegana, head of commission VII in the parliament, and a prominent member of President Yudhoyono’s Partai Demokrat. He was charged with facilitating bribes in return for favourable decisions relating to the ministry’s budget. Then in September 2014, the KPK arrested the minister for energy and mineral resources, Jero Wacik, for extortion. Sutan was sent to prison for 12 years, and Jero for eight. While Yudhoyono himself was not directly implicated in these cases, Partai Demokrat was revealed to be at the centre of corrupt activities in the country’s lucrative and strategic oil and gas sector. 22 There was widespread speculation within the industry and the mainstream media that these hugely lucrative bribes were destined for Partai Demokrat’s political war chest in the lead up to 2014 (Berita Satu 2013; The Jakarta Globe 2013).

The effect was to taint the ruling coalition, and these cases became a useful point of leverage for Jokowi and his running mate, Jusuf Kalla, as the 2014 election campaign heated up. As the race tightened, the Jokowi camp went on the offensive, and accused

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22 During his trial, Sutan also revealed damaging testimony involving President Yudhoyono’s son and Partai Demokrat secretary general, Edhie Baskoro Yudhoyono. However, no charges were laid.
Prabowo’s coalition of harbouring connections to an oil-importing mafia. They linked Prabowo’s running mate, Hatta Rajsa, to the mafia’s activities, which they blamed for high fuel prices, inflated subsidies, and Indonesia’s dependence on foreign fuel markets. For example, in a live televised presidential debate, Kalla claimed that Prabowo and Hatta’s coalition included members of the “mafia migas” (Berita Satu 2014).

A flurry of media reports appeared in which political commentators and industry observers speculated that Hatta Rajasa was playing a central role in an informal oil-importing cartel. High-profile economist and former politician, Faisal Basri, for example, stated that “everyone in the industry knows he (Hatta) is involved….this mafia is content for Indonesia to import more and more fuel, and to leave refineries un-built, and for fuel subsidies to increase” (Tribunnews 2014). Emil Salim, another respected economist and former government minister, similarly accused Hatta of benefitting personally from a closed importing market. He stated that Hatta wanted fuel imports to increase and subsidies to remain, “because it benefits his business and his business network” (Tribunnews 2014). A pro-Jokowi network in early July published a book that claimed to map the mafia’s connections to Hatta, Yudhoyono, and Prabowo (Bisnis Indonesia 2014b).

The Jokowi camp, therefore, was able to frame Prabowo and Hatta as disingenuous nationalists, who claimed to be committed to reducing Indonesia’s dependence upon foreign oil, whilst enjoying personal rewards from the increasing volume of fuel imports. Nationalist protagonists had long urged the government to act against corruption and collusion in the downstream sector and to expand the country’s refining facilities. In 2014, election campaigning propelled their agenda onto the national stage, expanded the nationalist network in favour of downstream refining, and precipitated the new government’s reformist approach to the energy industry.
After winning office, Jokowi immediately put his election promises into action. He set out to succeed where his predecessor had failed and expand Indonesia’s refining capacity. After ordering several investigations into the oil importing industry, Jokowi disbanded Petral, Pertamina’s trading arm that had been responsible for organising the import of fuels from abroad. In 2014 and 2015, government-commissioned investigations confirmed the existence of this politically-connected oil importing cartel and Riza’s role in it. Jokowi’s new minister for energy and mineral resources, Sudirman Said, established an ad hoc team, the Oil and Gas Reform Team, to investigate the oil-importing sector—something no previous president or minister had ever attempted. Jokowi also ordered Australian accounting firm, KordaMentha, to conduct a forensic audit of Petral. Neither report was revealed in full to the public. But the ministry for energy and mineral resources confirmed that the audit revealed serious fraud, and that “intervention by third parties resulted in Pertamina paying higher prices for fuel and crude imports” (Reuters 2015). The audit found that in 2012-2014 only, third party intervention led to state losses of approximately US$1.46 billion (Tempo 2015b). In an interview, Faisal Basri, lead analyst for the Oil and Gas Reform Team, offered more detail. He stated that his team’s investigation revealed rigged tendering processes that effectively created an import monopoly for companies associated with Riza:

We found that there were only about 40 companies involved in tendering for the contracts to supply imported fuel to Pertamina, and the ownership of almost all of these companies could be traced back to Muhammad Riza Chalid….

The press questioned why the cartel had thrived under President Yudhoyono. Much was made of Riza’s connections to Hatta Rajasa (Tempo 2015b; Pribadi 2014; Tempo.Co 2015), especially when it was revealed that Riza had made substantial donations to the Prabowo-Hatta presidential campaign bid against Jokowi in 2014.

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23 Interview: 8 July 2015
Sudirman Said caused a media sensation in early 2015 when he told the press that in his previous role at Pertamina, all attempts to clean up Petral and look into this mafia, “stopped at Yudhoyono’s desk”, implying that President Yudhoyono had protected Riza’s business interests (CNN Indonesia 2015b; Republika 2015). President Yudhoyono stringently denied the accusation, Hatta Rajasa never faced corruption charges, and while Riza’s businesses undoubtedly suffered with the closing of Petral, he was never charged with wrongdoing. But the investigations appeared to substantiate claims industry insiders had been making for years – that Indonesia’s refineries were neglected to the benefit of vested business interests.

Following the reports, Jokowi approached downstream reform with enthusiasm. He disbanded Petral and moved responsibility for oil and petroleum procurement to a different section under Pertamina. The president also appointed Amien Suryanadi, former deputy chair of the KPK, to the oil and gas regulator, SKK Migas, which sent a clear signal to the industry that the new president was serious about ending the collusive and corrupt practices that had thrived during the Yudhoyono decade. The president also pledged to bring an extra US$25 billion in investment to develop Indonesia’s refineries through private and public funds. He ordered Sudirman Said to move quickly. In December 2015, Jokowi’s economic team unveiled an economic reform package, which included new incentives for foreign investors in the refining sector. The ministry and Pertamina also established the Refining Development Master Plan, which laid out a strategic plan to revitalise five old refineries through partnerships with private companies. 24 The government also inked deals with Saudi Aramco to invest in Pertamina’s Cilacap Refinery, and with Russia’s Rosneft for building a brand new refinery – Indonesia’s first in 22 years (Wardhani 2016). Meanwhile, Jokowi also outlined

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24 For further details see the government’s plans online at: https://kppip.go.id/en/priority-projects/refinery/refinery-development-master-plan-rdmp/
a plan for the Tuban refinery in East Java to become Indonesia’s “petrochemical industrial zone” (Government of Indonesia Cabinet Secretariat 2015)

Jokowi’s reformist zeal was not born purely out of commitment to his election promises. There was a personal motivation behind Jokowi’s downstream strategy. In the midst of the tightly fought campaign, Prabowo’s supporters had launched a harmful smear campaign, in which they accused Jokowi of being a Christian, of Chinese descent, and harbouring links to communists (Hearman 2014). A key vector for such rumours was a tabloid magazine, Obor Rakyat, which had been set up for the presidential campaign. Jokowi was reportedly incensed. Polls showed a dip in his polling numbers in June of 2014, which experts blamed on the aggressive smear campaign (Satu Harapan 2014). Jokowi was determined to take down both the publication and its financial backers. Press investigations through June claimed that Obor Rakyat had in part been financed Muhammad Riza Chalid (Tobing 2014). In an interview, Faisal Basri explained that Jokowi’s decision to disband Petral and disrupt the collusive networks in the oil sector’s downstream industry was motivated by the 2014 election campaign. The magazine was one small part of a much larger contribution by Riza to the Prabowo-Hatta presidential bid. Jokowi’s attack on the oil-importing cartel was, therefore, a reformist crusade underpinned by a personal vendetta.

In sum, electoral politics motivated a pronounced nationalist shift in the government’s downstream policy. Once in office, President Jokowi maintained the nationalist momentum through a series of interventions designed to expand refining capacity and extinguish an oil-importing cartel. Jokowi’s victory disrupted the collusive state-business relations that had developed in the oil trading sector under the Yudhoyono administration. The new president was less constrained by the demands of vested interests in the petroleum-importing industry than had been his predecessor. Jokowi’s commitment

25 Interview: 8 July 2015
to the cause reflected his reformist-nationalist electoral platform; but these were simultaneously acts of retribution aimed at his political adversaries and their financiers.

3. Conclusion

In Indonesia’s oil and gas sector, nationalist networks had long-faced formidable constraints to their localising and industrialising agendas. Throughout the colonial and New Order periods, domestic business had been unable to overcome the high barriers to entry that characterised the upstream oil and gas sector. The post-New Order period, however, brought structural changes that created new and more favourable conditions for nationalist mobilisation, particularly when it came to localisation.

Specifically, the liberal reforms introduced after Suharto’s resignation in 1998 facilitated Pertamina’s corporate revival and the company became a much more capable upstream operator than it had been in the past. Moreover, as foreign interest in Indonesia’s depleting oil wells began to wane, and as old foreign contracts approached expiry, more domestic private players, together with Pertamina, were able to move in to the upstream market by taking over foreign-operated wells. This slow erosion in foreign dominance, and the new corporate credentials of the national oil company, gave localising demands greater legitimacy and traction within policymaking circles. The sector’s economic contribution was also in decline, and local actors were entering the sector only to take a larger piece of a shrinking pie. These conditions were amenable to nationalist change, because localising interventions no longer brought such a hefty economic risk.

At the same time, this sector exhibited far stronger economic constraints than, for example, Indonesia’s mining sector. Post-Suharto governments were forced to deal with falling oil production and rising demand. Many within the industry and the bureaucracy argued there was an urgent need to attract investment into oil and gas exploration and
production, which would have to come from foreign investors. So, while Pertamina mobilised an influential nationalist network of supporters both within and outside of the state, nationalist agendas remained highly constrained. Senior bureaucrats and members of the executive were ambivalent about formalising Pertamina’s privilege during a time when the deficit between domestic demand and supply was widening, because foreign capital offered the possibility to revitalise a stagnant exploration sector. The outcome was a confused and conflicted approach to the sector’s investment policy, as the government attempted to appease nationalist protagonists without alienating foreign investment.

Downstream interventions were also marked by regulatory stasis and ambiguity. During Yudhoyono’s decade in office, booming global oil prices and increasing domestic demand meant the volume and cost of petroleum imports exploded. The government expressed its commitment to reducing Indonesia’s reliance on expensive imports from Singapore and other foreign countries. Policymakers, politicians, and industry analysts framed the problem in nationalist terms, claiming that Indonesia’s energy sovereignty and security were undermined by dependence upon expensive foreign fuel. The government responded by outlining a plan to expand domestic refining capacity. But as Yudhoyono’s time in government came to a close, those plans remained unrealised.

The picture that emerged was one in which ‘capital voted twice.’ First, economic constraints were high, and the government needed to offer appealing investment terms if it was going to attract the necessary private capital. However, those incentives were not forthcoming. One theory suggested bureaucratic conflict and incompetence was to blame. State policymakers could not agree on how far government should bend to private sector demands, and as a result, the investment regime was not sufficiently attractive and foreign and domestic investors withheld their capital. A second theory was more sinister. This interpretation claimed vested interests in the oil importing sector used their capital and
contacts in government to undermine a nationalist industrial vision that threatened their
profits, and dampened enthusiasm for an expanded downstream refining industry.

Electoral politics disrupted the status quo. Nationalist posturing in the lead-up to
the 2014 elections motivated President Jokowi’s reformist-nationalist approach to the
refining industry once he came to office. The new president pursued the politically-wired
business actors working in the oil importing sector, some of whom had financial
connections to his political adversaries. The government offered new financial incentives
and inked deals with foreign investors to expand downstream refining, as part of the
Jokowi government’s attempt to manage the cost of fuel imports and prevent against
dependence upon fluctuating foreign oil markets.

However, the structural economic constraints to downstream refining proved
difficult to overcome. In their 2016 report on Indonesia’s oil and gas sector, external
consulting agency, PwC, expressed scepticism that, even with added investment,
government targets would be met due to: “relatively long construction periods (four to
five years) and uncertainties arising from construction risk – particularly land
acquisition– [making] it difficult to ensure timely completion.” While there were several
new and promising foreign partnerships in the pipeline, development of the physical
infrastructure was yet to begin at the time of writing in late 2017. In other words, the
initial impetus for reform and refining investment was positive and much needed. But it
was not certain that Jokowi’s fresh approach would succeed where Yudhoyono’s had
failed.
PART IV

COMPARING AND CONCLUDING
CHAPTER EIGHT

Between Sectoral and National Policy Regimes

Following the Asian financial crisis, Indonesia’s economy and its resource industries underwent a process of reform. The government removed restrictive trade and industrial policies, and opened up previously closed sectors to foreign investment. By the end of the boom and into the early years of the post-boom period, however, each had evolved, reflecting distinct regulatory approaches to private investment and industrial development. This chapter develops the empirical arguments put forward in the previous three chapters and draws out the key comparative claims. It identifies the key mechanisms that, in the context of a global commodity boom, led to assertive nationalist interventions in the mining sector, ambiguous policy outcomes in the oil sector, and an open investment regime in the plantations industry.

In all three cases, policy outcomes were highly contingent upon business preferences and capabilities. Capital was structured differently in each sector, which produced distinct kinds of preferences when it came to localisation. At the same time, the government’s willingness and capacity to respond to nationalist demands was conditioned by perceptions of economic risk and political payoff, which were also sectorally determined.

Such findings reflect the arguments advanced in interest-based political economy studies, which emphasise a role for business preferences in determining economic policy trajectories at the sector level, and which foreground the structural conditions under
which those preferences are formed (Gourevitch 1977, 1986; Kurth 1979; Frieden 1991; and Shafer 1990, 1994).

The first section of this chapter reviews the key analytical and comparative claims that emerged from the empirical analysis. A second section of this chapter reflects more broadly upon the form and fate of nationalist intervention in Indonesia’s leading export sectors. I suggest unique policy regimes took shape during and after the boom which were broadly reminiscent of political economy categories typically used to classify states’ capitalist orientations: statist (oil and gas), nationalist (mining) and liberal (palm oil). These regimes reflect distinct patterns of ownership in each sector, and how lead firms displayed different characteristics and different kinds of nationalist preferences. The final section of this chapter moves from the sectoral to the national, and considers how those policy regimes cohere with or challenges extant characterisations of Indonesia’s political economy.

1. The sources of variation

This thesis began by recognising the ideological roots of economic nationalism in Indonesia. It emphasised how throughout Indonesia’s history and in the contemporary period as well, a large slice of the policymaking class expressed an ideological preference for localisation and industrial nationalism in the resource sectors. Political actors interviewed for this study also spoke of what they perceived to be broad-based societal support for a locally-owned and industrialised resource economy. As we have seen, demands for protection and privilege came from nationalist networks that included a diverse cross-section of state and non-state actors. Some were clearly positioned to benefit privately from nationalist outcomes; others had no personal material interest in
the resource sectors. In other words, ideological support for resource nationalism was strong in Indonesia.

Why, then, did nationalist mobilisation meet such varied ends across Indonesia’s resource sectors? The case study chapters offered a detailed picture of the form and fate of nationalist mobilisation. Using a process-tracing method, this thesis followed the trajectory of nationalist legislation, mapped the actors involved, and demonstrated the constraints and opportunities they faced in their attempts to institute a new nationalist policy regime. This section reviews those findings and synthesises the key comparative conclusions.

1.1 Comparing and explaining localising nationalism

To recall, localising forms of resource nationalism seek to restrict the space for foreign investors and open up new opportunities for local entrepreneurs and state-owned business. This form of resource nationalism is associated with a range of policies, including forced divestment of foreign companies to local parties, nationalisation, forced local partnerships, or prioritisation of state companies. Existing literature highlights how mobilisation in favour of these sorts of localising policies emerges and grows during a commodity boom (Wilson 2015; Haslam and Heidrich 2016). In Indonesia, across the oil and gas, mining, and agribusiness sector, the boom induced heightened calls for more local involvement in, and ownership over, the resource sectors. Nationalist networks that included politicians, business actors and civil society groups, lobbied for nationalist policy change. But policy outcomes varied across sectors, and nationalist networks faced constraints and opportunities that differed at the sector level.

In the mining sector, the boom ushered in a progressive policy of localisation that persisted despite the commodity downturn in 2013 and 2014. In the plantations sector,
however, parliamentary attempts to restrict foreign investment ultimately failed in the face of strong industry opposition. In the oil and gas sector, meanwhile, nationalist mobilisation in favour of Pertamina’s privilege had an ambiguous effect upon the investment regime, as state lawmakers attempted to appease nationalist demands without alienating much-needed foreign investment.

What accounts for these distinct outcomes, and what does variation tell us about the nature of state-business relations and the changing political economy of each sector? Variation suggests that nationalist policy outcomes were contingent upon much more than market cycles. When it came to localising forms of nationalism, each chapter has shown how the fate of nationalist mobilisation was intimately tied to the policy preferences of dominant local business interests, and their capacity to influence the decisions of legislators, state managers and the executive. From the late 20th and into the 21st century, patterns of foreign and domestic ownership slowly changed in each sector, which altered the constraints and opportunities for nationalist policy change.

In the mining sector, the growth of a more capitalised class of domestic mining magnates underpinned a new divestment regime that demanded foreign companies renounce majority shares in their Indonesian operations. The new rule was introduced under the 2009 Mining Law at the height of the mineral boom, but was consolidated via a series of implementing regulations that persisted long after prices had cooled. Wealthy business tycoons had moved aggressively into the coal sector in the early 2000s, and then began expanding their interests into the new frontier of precious mineral mining. Small and medium sized companies grew rapidly as well; the boom coincided with decentralisation and regional business elites in resource-rich provinces enjoyed remarkable profits from their new extractive investments. This new class of extractive capitalists stood to benefit from a more stringent divestment regime for foreign mining companies. Chapter Five showed how booms do not simply alter the bargaining power of
states vis-à-vis foreign capital; instead, booms can alter the structural power of domestic business interests, with more permanent implications for foreign investment.

When it came to localising efforts in the plantations sector, however, the prevailing regulatory regime remained open to foreign investment during the boom years, as attempts to impose limits upon foreign investment largely failed. This was primarily because structurally powerful business interests in the palm oil subsector, both domestic and foreign, opposed rather than supported caps on foreign investment. Historically, this sector had been a site of assertive nationalist intervention. Suharto intermittently intervened to subsidise the downstream cooking oil sector, or to protect his cronies from foreign competition. In the contemporary period, however, domestic business preferences had changed. Highly integrated networks of regional capital between Indonesian, Malaysian and Singaporean businesses, served to undercut anti-foreign agendas. The nationalist network that supported new limits on foreign capital in the 2014 Plantations Law consisted primarily of political elites motivated by either their ideological persuasion or political calculations, with inconsistent support from farmers associations. The sector’s lead firms, owned by groups such as Sinar Mas, Wilmar and Salim, were more internationally-oriented companies with subsidiaries listed around the world, and investments and assets in other countries. These business actors were opposed or were indifferent to nationalist intervention. The result was muted localisation and the persistence of an open investment regime that had been in place since the IMF’s liberal reforms of 1998.

Things looked different again in the oil and gas sector. Pertamina’s assets and influence increased steadily throughout the post-New Order era, and networks of nationalist actors within the company, parliament and the government, all fought to give the state enterprise more formal dispensations, and to roll back the liberal reforms of the 2001 Oil and Gas Law. In many ways, the sector was ripe for nationalist change. Reforms
introduced after the end of the New Order regime turned Pertamina into a more efficient and capable upstream operator. From 2014, Pertamina made several modest overseas acquisitions in Malaysia, Algeria and Iraq. However, the state-owned enterprise was a domestically-oriented and inward-looking company that sought policy interventions and contract decisions that could expand its reach over Indonesia’s depleting reserves.

As we saw, however, this sector presented economic constraints to localising agendas. Nationalist proposals drove deep divisions within Indonesia’s economic policymaking elite. Post-Suharto governments were forced to deal with falling oil production and rising demand. And around three quarters of Indonesia’s production continued to come from multinationals, making foreign dependence a structurally powerful constraint upon nationalist agendas. Nor did pro-Pertamina agendas enjoy support from Indonesian entrepreneurs and politico-business elites with new investments in the upstream exploration and production sector. As foreign production-sharing contracts reached their expiry dates in the post-Suharto period, opportunities opened up for private domestic players to farm-in or take over expiring foreign-contracts. The slow deterioration of Indonesia’s oldest and most productive oil and gas deposits also dampened interest from global oil majors, and local businesses were moving in and competing fiercely to take a larger slice of a gradually shrinking pie. So, while the investment regime became increasingly statist during the decade and half following liberalisation, the process was stilted, incoherent, and marked by regulatory ambiguity.

In the literature on resource and economic nationalism, scholars point to an association between strategic commodity sectors and state interventionism, and suggest that nationalist policies tend to target those sectors the state deems most strategic (Hsueh 2016; Haslam and Heidrich 2016a). In Indonesia, the situation was reversed. In the mining industry, policymakers viewed restrictions upon foreign ownership as a feasible policy option because foreign mines in the precious minerals subsector are lucrative, but
their overall contribution to economic development was comparatively small, making intervention less of an economic risk. The executive exercised greater caution in relation to the palm oil industry, which delivered the most export income, foreign reserves and employment benefits. And as the oil industry’s strategic significance diminished, nationalist networks gained ground.

The lucrative rents that resource sectors produce undoubtedly make them vulnerable to nationalist intervention. However, a sector’s contribution to national income and economic welfare can also limit a state’s willingness to intervene, regulate, and limit foreign capital. In the Indonesian case, the state targeted those subsectors where foreign investment was in fact lower, and where victories could be won easily without interrupting economic activities that delivered the most in terms of foreign exchange and distributional benefits.

Political mobilisation had more consequence in some sectors than others. In the mineral mining and oil and gas sectors, politicians deployed impassioned nationalist rhetoric, and engaged in heated public debates about controversial resource issues, such as Freeport’s contract, or the rights and privileges of the state-owned oil company, Pertamina. Politicians and bureaucrats took the nationalist position and adopted increasingly confrontational approaches to nationalist policy debates in order to bolster their public support. Extractives in particular cohered with a re-invigorated popular nationalism, in which broader narratives of exploitation and subjugation by foreign, neo-colonial forces feature heavily.

This strategy was less evident when it came to localising nationalism in the plantations sector. Political mobilisation in pursuit of nationalist goals had been comparatively weak in the agribusiness sector, and neither politicians, businesses nor activists attempted to politicise foreign ownership on the scale observed in the extractive sectors. Chapter Six explained how opaque ownership structures had implications for the
tractability of political campaigns. First, domestic conglomerates, business associations and politico-business elites did not try to provoke or organise public nationalist campaigns, in the way seen in the extractives sectors. Their preference overall was for an open investment regime. Meanwhile, integrated ownership structures made mobilising public opinion against foreign companies far more complex. Majority foreign-owned agribusiness companies were not as visible or as controversial as the large, Anglo-American mining companies with long and contentious histories of extraction.

1.2 Comparing and explaining industrialising nationalism

During the boom years, and particularly during the second term of the Yudhoyono administration (2009-2014), the Indonesian government also pursued a broad-based agenda for resource-based industrialisation. One of the principal claims that economic nationalists make is that laissez-faire economics leads underdeveloped, and particularly resource-rich, countries to become locked in uneven trade relationships with richer, industrialised countries. Industrialising policies, therefore, seek to remedy this imbalance. Nationalist protagonists pursue state interventions that try to reduce a country’s reliance upon the export of raw, cheap commodities, while directing investment into downstream, value-added industries. The goal is to produce higher value products at home, rather than import them from abroad.

Across Indonesia’s extractive and agribusiness sectors, policymakers and politicians articulated a vision for a downstream, value-added economy. Members of nationalist networks argued that Indonesia should no longer rely on exporting primary commodities to rich nations, only to purchase more expensive and higher value goods from those same wealthy, industrialised economies. Instead, the plan was for Indonesia to produce higher value products at home. This industrialising form of resource
nationalism was, according to its proponents, the path toward achieving Indonesia’s economic sovereignty. But policy interventions were highly uneven and varied across sectors.

For the mineral sector, the Yudhoyono administration introduced a total ban on the export of unprocessed mineral ores in order to compel the development of a downstream mineral smelting industry. To expand the downstream plantations sector, meanwhile, the government took a largely market-oriented approach, and used tax mechanisms and incentives to encourage downstream investments in various subsectors. In the oil and gas sector, on the other hand, strong nationalist rhetoric was, for the most part, not translated into serious policy change to attract investment in Indonesia’s stagnating downstream oil refineries.

Once again, patterns of ownership were a crucial causal mechanism that led to different policy outcomes in each sector. In the upstream mining sector, the minerals most affected by the export ban were nickel and bauxite. Unlike in the coal, copper, oil and gas, and palm oil sectors, neither nickel nor bauxite production was concentrated around a group of prominent domestic business interests. Aside from the state-owned company, PT Aneka Tambang (Antam), it was primarily small and medium sized companies that produced and exported Indonesia’s raw nickel and bauxite ores. These companies lacked structural power and political influence. The nationalist coalition that supported the ban, meanwhile, included a small but influential and wealthy network of politico-business actors that sought private benefits from a nascent smelting sector. Perceptions of economic risk mattered here too, and when it came to nickel and bauxite, policymakers argued the economic losses could be absorbed in pursuit of long-term financial rewards for the Indonesian economy.

When it came to the strategic palm oil industry, which had an oversupply of downstream refining capacity, the investment regime was subject only to tax incentives.
This strategy was driven by the preferences of structurally powerful business groups with significant investments in both the upstream and downstream segments of the sector. Agribusiness giants like Wilmar and Salim lobbied the government to lower taxes on processed palm oil products, but stopped short of demanding any restrictions or quotas on CPO exports, because such an intervention would hurt their own upstream profits. In other words, the integration of upstream and downstream ownership structures insulated the sector from the kind of assertive downstream interventions seen in minerals.

Meanwhile, in the oil and gas sector, downstream agendas looked different again. Here nationalist mobilisation sought to wean Indonesia off expensive fuel imports and refine more oil domestically. Nationalist mobilisation focused on boosting the country’s oil refining capacity as a means of reducing reliance on expensive foreign fuel imports. Throughout the Yudhoyono era, however, these efforts led to neither policy change nor an increase in investment. Refining was a risky business that required significant capital, and private investors were unsatisfied with the incentives offered by the Indonesian government. It appeared that state managers were incapable of agreeing upon an appropriate investment strategy. But much evidence also pointed to the influence of business preferences in the fuel-importing sector, which was concentrated in the hands of a politically-connected domestic oil ‘mafia.’ Senior industry and government representatives believed that this mafia’s profits flowed back into the pockets of the ruling political coalition, curbing their enthusiasm for an expanded domestic refining sector.

The comparative analysis of industrialising nationalism pointed also to differences in political utility among the sectors. There were instances where electoral competition offered nationalist protagonists new opportunities to influence policy outcomes. Though, only in oil and gas sector was there a clear causal link between electoral mobilisation and a nationalist turn in downstream policy. To recall, in 2014 Jokowi’s presidential campaign leveraged his opponents’ alleged connections to an oil-
importing mafia. The campaign put the industry’s downstream refining sector on top of the political agenda, and linked downstream development both to cheaper petrol prices, and the country’s position in global oil markets.

Overall, industrialising interventions were contingent upon support from predominant capitalist actors with interests – or potential interests – in the downstream segment of a particular sector, where value-addition takes place. To the extent that the downstream ownership structures were highly concentrated, and particularly in sectors deemed economically strategic, capitalist preferences had immense leverage and could direct nationalist policy outcomes (integrated pam oil companies; oil importing companies). In contrast, where upstream ownership structures were diffuse and fragmented, and particularly in a subsector that was less important to the overall health of the economy, a nationalist downstream vision was far easier to execute. Indeed, reflecting on those subsectors where the government deployed the most restrictive interventions – bauxite and nickel – we find their upstream ownership structures were fragmented, and their strategic value was limited.

1.3 The sources of cross-sector variation

Where much analysis of resource nationalism has focused upon state-level institutions, the empirical analysis presented here emphasised the role of sector-specific business preferences and sectoral conditions for explaining nationalist policy trajectories. The cross-sector comparison revealed that variation in nationalist outcomes – both localising and industrialising – was largely contingent upon the structure and behaviour of capital: who owned what and how much they owned, the role foreign capital played in a sector’s growth and revenue generation, the international orientation of lead firms, if the sector was fragmented by a large numbers of companies or concentrated around a small handful
of companies with a large market share, and how strategic the sector was to Indonesia’s economic growth.

Informed by the political economy literature on economic policymaking, this study foregrounded the role of business actors (Shafer 1994; Schneider 1997, 2014) in the production of localising forms of resource nationalism. Business associations mattered less for explaining nationalist outcomes; indeed, the peak bodies in each sector were often opposed to the nationalist interventions that prevailed. Instead, informal state-business relations mattered most. Policy networks of state and non-state actors that included structurally dominant corporate interests determined the fate of nationalist mobilisation.

The state, of course, was not absent. Different sections of government and the political elite were locked in extended and often deeply divisive negotiations, both internally, and with the business community, over the feasibility of localisation and industrialisation. Politicians and bureaucrats had to make risk calculations: would nationalist intervention disrupt crucial revenues? Would the political benefits make such risks worthwhile? In many instances, politico-business elites calculated the opportunities for private material gain from particular interventions too. The pathway to nationalist change was thus complex, and highly contingent. Nationalist networks of state actors and societal interests sought intervention to localise and industrialise Indonesia’s resource industries. The feasibility of their nationalist programs ultimately depended upon buy-in from prevailing business interests, whose preferences and capabilities were themselves a function of each sector’s evolving structural conditions.
2. Sectoral policy regimes

Beyond identifying the sources of nationalist variation, this thesis also articulates the different character of policy outcomes in each sector. It suggests that each sector came to reflect a distinct policy regime with regards to localisation and industrialisation: we find a statist regime in the oil and gas sector, a nationalist regime in the mining sector, and in the plantations sector the prevailing policy regime was liberal in orientation. These policy patterns reflected dominant business preferences and captured evolving patterns of state-business relations.

Many comparative studies of economic and resource nationalism attribute types of nationalism to particular types of states (Wilson 2015; Andreasson 2015; Haslam and Heidrich 2016b; Arbatli 2013). As Evans (1997, 82) argues, however, states play different developmental roles in different sectors, because “each sector presents distinctive constraints and opportunities for state involvement.” The preferences and capacities of the local entrepreneurial class, and of transnational capital too, Evans suggests, structure how the state intervenes in a given sector, and the kind of role that it plays in industrial transformation. I argue that in Indonesia’s resource sectors, the state interacted with capital to play different roles in each sector, which led to the emergence of these unique policy regimes. By suggesting sector-based, rather than state-based political economy categories, this thesis connects with a growing literature on subnational or sectoral ‘varieties of capitalism’, in which scholars find multiple regulatory systems existing within a single economy (Crouch, Schröder, and Voelzkow 2009; Witt and Redding 2013; Vogel 2006).

Indonesia’s mining sector exhibited a policy regime that most clearly reflected the principles of economic nationalism as articulated by Johnson (1965). Interventions reflected an effort on the part of state and non-state actors to localise the resource sectors
by transferring ownership from foreign to local hands, to support the growth of private companies and state-owned enterprises, and to add value to mineral resources such that Indonesia could move up the global mineral value chain, and compete with more economically-developed nations. The government narrowed the space for foreign capital in the upstream mineral mining sector, while directing investment downstream via an aggressive industrial intervention that banned the export of particular mineral ores. The regime that emerged had an overtly nationalist character, where the goal was to advance the position of national actors, companies and economies, relative to the position of foreign actors, companies and economies.

Meanwhile, in commercial plantations and specifically in the predominant palm oil subsector, a liberal regime prevailed in which government restrictions on foreign investment were minimal, and efforts to encourage industrial upgrading were characterised by market-oriented incentives. Nor were there comparable efforts to expand the market share of state-owned plantation companies. In his typology of state-level policy regimes, Wilson describes liberal-market policies as those in which, “the role of the state is limited to that of an arm’s length regulator – setting policies that provide rules for firms and markets, rather than directly participating or intervening in the operation of these markets” (Wilson 2015, 6). This was how policymakers largely approached investment and industrial policy in the palm oil industry. Proposals to cap foreign investment and more forcefully promote downstream value-adding were ultimately rejected by prominent business interests in the industry and, in turn, by the executive government.

To be sure, the sector’s state-business relations were not underpinned by liberal principles of efficiency and transparency. Experts on Indonesia’s palm oil sector stress the collusive nature of relations between firms and state actors, which enable companies to access land and labour, and avoid regulatory oversight when it comes to environmental
and labour standards (Hamilton-Hart 2015; McCarthy 2012, 2010). I contend, however, that on the particular question of localisation and industrialisation, corporate preferences were in favour of non-state intervention and a liberal investment regime. Such preferences cohered with government priorities for expansion, growth and broader developmental outcomes.¹

Meanwhile, during the boom, nationalist mobilisation and intervention in the oil and gas sector reflected a statist model, because it aimed to expand the role for Pertamina in the regulation, extraction and production of natural commodities. Like Arbatli (2013, 4), I differentiate between nationalism and statism, and contend that “statism entails direct state ownership and control of strategic…resources at the expense of both domestic and foreign private enterprises.” More so than in other sectors, nationalist actors were concerned principally with enhancing the regulatory power and market share of the state oil company in both upstream and downstream parts of the industry. The historical prominence of the state-owned giant gave Pertamina loyalists the material and political resources to mobilise a broad and sustained campaign in favour of elevating the company’s role in the sector.

To be sure, there are caveats and exceptions to my characterisation of these policy regimes. Nationalist policies in the oil and gas sector were not exclusively statist; nor did the state withdraw entirely from the palm oil sector and embrace an exclusively lassiez-faire economic approach; nationalist coalitions did not ignore the interests of state-owned

¹ Another caveat: There were important moments of state-business synergy in favour of nationalist policies in the palm oil sector that fall outside the empirical focus of this thesis, but that warrant brief mention here. Domestic palm oil companies have mobilised together with state actors and politicians for nationalist ends in regards the Round Table on Sustainable Palm Oil (RSPO). Indonesian palm oil companies opposed this transnational certification scheme, claiming it favoured the interests of multinational companies and NGOs (McCarthy 2012). Certification was, they argued, resource-intensive and set standards that could be met easily only by foreign multinational giants. Government defended the claims of its palm oil companies and the domestic industry more broadly, and so established the Indonesian Sustainable Palm Oil (ISPO) certification scheme. This moment of nationalist mobilisation was of a different tenor to the cases under examination here. However, it provides another example of how, in this sector, government and business interests cohered, and prevailing business actors, politicians, and state managers worked together against international standards that both parties felt threatened corporate profits and domestic revenue generation to the benefit of foreign companies.
companies in the mining sector. (Indeed, the Jokowi administration increased investment in state-owned minerals companies and encouraged their access to lucrative foreign operated blocks as well). These are not intended as exclusive or rigid typological classifications. Rather, these political economy categories characterise the general trajectory of nationalist institutional change, which emerged from the preferences of uniquely structured business interests in each sector.

3. Between sectoral and national regimes

This thesis focused upon identifying and explaining cross-sector variation. However, there were important continuities in the way the Indonesian government approached its resource sectors during and after the global commodity boom that reflect core aspects of Indonesia’s contemporary political economy. Scholarship on post-Suharto Indonesia has produced two influential characterisations of the nature of the state and its relationship with capital: one views contemporary Indonesia as dominated by an oligarchic class that is endowed materially and politically, and that displays striking continuity with the ruling class of the New Order period (a Neo-Marxist perspective) (Robison and Hadiz 2004; Winters 2011; Hadiz and Robison 2013); the other view emphasises the highly competitive nature of politics and state-business relations in post-New Order Indonesia (Mietzner 2013), and suggests that fragmented patronage-based networks constitute the organising logic of Indonesia’s political economy (a pluralist perspective) (Aspinall 2012).²

Many of the findings presented in this thesis confirm the arguments of oligarchy theorists. Robison and Hadiz (2004, 2013) and Jeffrey Winters (2011) start from the assumption that Indonesia’s political economy is governed by materially powerful actors

² Aspinall has expressed this idea most eloquently, but it coheres with characterisations
whose principal concern is wealth accumulation and defence.³ This thesis similarly took an interest-based approach, and started from the premise that material interests structure and help explain the economic policymaking process when it came to Indonesia’s resource industries. Across all three sectors, we found instances where influential politico-business elites pursued programs for localisation and industrialisation that could provide them with opportunities for private gain. The cast of tycoons and politicians that dominated these sectors was also familiar - the Salim Group, Sinar Mas, the Indonesian Chinese entrepreneurs behind Adaro, and of course the Bakrie Group. The individuals that have managed to accumulate immense material resources in these sectors confirm Robison and Hadiz’s observation of how business interests “incubated” under the New Order have prevailed in the post-New Order context (Robison and Hadiz 2004). Chua’s (2008) study of ethnic Chinese business in post-Suharto Indonesia similarly argues that the old conglomerates have prospered in the new political economy, less tethered to specific patrons in the executive or the military, and less constrained by (though not entirely free of) cultural and political discrimination.

The picture that emerged from the case studies, however, was not one in which oligarchic actors reigned over these sectors’ investment regimes. The picture was far more complex. Aspinall’s (2012) portrayal of a deeply “fragmented” political economy resonates more with patterns of policymaking across Indonesia’s resource sectors. Aspinall argues that fragmentation is born of the cross-cutting and competitive patronage-based alliances that permeate post-Suharto politics. In each sector we found conflict and competition between different networks of capital, and different politico-business coalitions. State managers and politicians calculated the policy paths that best suited their interests too. The result, as we saw in the oil and gas sector, was sometimes regulatory

³ For a detailed review of the oligarchy theory as applied to the Indonesian case, and an instructive examination of the analytical differences between its key proponents Hadiz, Robison and Winters, see: (Ford and Pepinsky 2013)
stasis and ambiguity, rather than victory for oligarchic forces. Political imperatives at times took policy down a particular nationalist path that did not align with the interests of powerful vested interests, as the case of downstream oil refining clearly demonstrated.

Another example: while particularistic interests within the Yudhoyono administration compelled the mineral export ban, many of the private smelter deals those individuals sought fell through. When Jokowi came to power, the government’s nationalist priorities changed and the ban was relaxed in order to boost the revenues of the state mineral mining company, Antam. The empirical case studies in this thesis illustrated, therefore, how fragmentation, collusive state-business relations, fluid coalitional politics, and cross-cutting alliances between the worlds of state and business all prevented the emergence of a predictable and coherent approach to regulating investment and industrial policy in Indonesia’s resource-based economy.

Another problem with the oligarchy thesis, is that it tends to cast business, and business-state relations, as undifferentiated and necessarily predatory. While many case studies in this thesis align with such a proposition, state-business collaboration and state intervention were also geared toward a set of broader economic objectives that tend to be washed out in scholarly characterisations of Indonesia’s contemporary political economy. I argue that alongside the predatory and particularistic deal-making that is ubiquitous in Indonesia’s resource industries, natural resource policy also came to approximate the characteristics of a re-emergent developmentalist economic model.

In the literature on developmental states, economic policy is viewed as the product of coordinated efforts by state and business to achieve mutual goals of profit, revenue-generation, industrial transformation, and growth (Evans 1989; Doner, Ritchie, and Slater 2005; Döring et al. 2017). Scholars have argued that the global commodity boom motivated the return of a developmentalist approach to resource-based growth in many countries around the world, and particularly in Latin America (Haslam and Heidrich
This “new developmentalism” is broadly concerned with transforming resource sectors into engines of industrial growth, as opposed to export-oriented enclaves. Such an agenda finds expression in policies that expand the participation of local firms and state enterprises, build corporate champions, and increase the developmental footprint of raw commodity sectors (Döring et al. 2017).

State managers and politicians articulated precisely these goals in each of Indonesia’s leading export sectors. The varied policy regimes that emerged were a product of how those developmental objectives were negotiated at the sector level with dominant business actors and politico-business elites, as each of the sectoral case studies demonstrated.

Developmental economic ideas have long been influential in Indonesian policymaking circles. Scholars of Indonesia labelled the New Order a “repressive developmentalist” regime (Feith 1981). Back then, economic planning was driven by the notion that the state’s principal role was to provide the conditions for fast-paced economic development, such that Indonesia could begin to catch up with the industrialised nations of East Asia and the West. The Suharto government justified repression of political dissent in the name of accelerated economic growth. While the contemporary Indonesian state no longer uses tools of oppression, developmentalist ideas continue to resonate among the policymaking class. The transition to democratic government, and the liberalisation of the Indonesian economy after the Asian financial crisis in 1997–98, has, somewhat ironically, produced a broader constituency for a nationalist-developmentalist model generally, and for resource nationalism specifically (Patunru and Rahardja 2015: Warburton 2017).

This is not to suggest that Indonesia’s resource sectors exhibited an ideal-type developmentalism. Far from it. Resource nationalism in the mining sector, for example, was disjointed and incoherent, and the state-business relations that underpinned localising
and industrialising nationalisms were characterised by high levels of collusion and particularistic deal-making. Competition between different state actors, political elites, and business networks caused much regulatory conflict. Nationalist regulations were constantly being amended and regulatory regimes were often characterised by high levels of institutional uncertainty. For example, there were three different iterations of the export ban between 2009 and 2017, and four different versions of the divestment law from 2010 to 2017. In archetypal developmental states, trade, investment and industrial policies emerge out of negotiations between well-organised business groups and effective, autonomous bureaucracies (Schneider 2015, 2–4). However, in post-Suharto Indonesia state-business collaboration was highly fragmented rather than coherent, informal rather than formal, and the necessary barriers to rent-seeking were largely absent (Schneider 2015, 4). In other words, while we can discern a new and more overtly developmental impulse within Indonesia’s resource sectors in the post-New Order period, the institutional ingredients for developmental success were missing.
CHAPTER NINE

Beyond Indonesia: Towards an explanatory model of cross-sector variation

This thesis was motivated by an empirical problem particular to the Indonesian case. As such, the study aimed to arrive at an internally valid, rather than generalisable, explanation for cross-sector variation. It adopted a detailed process-tracing method in order to uncover the composite causal mechanisms that led from a global price boom to varied expressions of resource nationalism in Indonesia. The analysis emphasised the contingency of nationalist outcomes upon sectoral characteristics. It identified a range of intervening variables, from levels of foreign ownership, firm internationalisation, and the political salience of different commodities, which all contributed to the varied form and fate of nationalist intervention across booming resource sectors.

In this closing chapter, I ask whether my conclusions about the sources of cross-sector variation in Indonesia are transferable to other countries. Such an endeavour requires stepping back from the empirical complexity presented in the preceding chapters, and distilling those observations into a simple, parsimonious model that can “shed light on generalisable causal mechanisms” (Beach 2017, 2). This chapter develops a fresh model for explaining cross-sector variation; however, I limit the model to localising forms of nationalism only in order to allow sufficient space to test its assumptions with a new country case.

The first section of this concluding chapter puts forward an explanatory model for intra-state variation when it comes to localising resource nationalism. The model
maintains that nationalist outcomes are ultimately contingent upon two sector-level variables: the strategic value of a sector or commodity to a country’s overall economic welfare; and the internationalisation of a sector’s lead firms. The first variable determines state actors’ willingness to pursue an assertive program of localisation, and the second variable captures prevailing business actors’ policy preference for state protection.

After specifying the model, this chapter explores its portability by applying it to another country case beyond Indonesia. In other words, I conduct an “out of sample test” (Slater and Ziblatt 2013, 10). I examine the case of Brazil, a country that displays many similar state-level characteristics to Indonesia – a democratic, middle-income, emerging economy, with strong history of economic nationalism – but where nationalist variation at the sector level looked very different. In this case, a liberal investment regime prevailed in the mining sector, while nationalist mobilisation was concentrated far more in the agribusiness sector. Slater and Ziblett (2013, 12) argue that to test the transferability of causal claims from a single case study (in this case Indonesia), we need to strategically select other out of sample cases that have representative variation. In this instance, the Brazil case allows us to test whether the model can explain why, in a country with similar state-level conditions, we find markedly different patterns of variation in the same two leading export sectors. The comparison thus takes on both a cross-country and cross-sector dimension.1

In the final section of this concluding chapter, I identify more out of sample cases that can further test the model’s transferability to countries with different state-level characteristics, such as high-income resource-rich countries with a liberal economic orientation. A thorough test of my model would require a systematic large-N study. Such an endeavour, however, is beyond the scope of the current thesis. The final section,

1 In the brief exploration of the Brazilian case, the oil and gas sector is excluded, and the analysis focuses upon the two sectors that exhibit clearest variation, and that contrast dramatically with the Indonesian case. At the close of this chapter, however, I review possible avenues for further analytical extension that include all three sectors and other countries.
therefore, sets an agenda for further research, and outlines the possibilities for a quantitative analysis that could further confirm or challenge the model that emerged from my qualitative assessment of nationalist variation in Indonesia.

1. An explanatory model for intra-state variation

Like many studies of economic policy outcomes, this thesis confronted the vexing problem of multi-causality, which emerges when “several different combinations of conditions” appear to contribute to a particular outcome or explain variation on the dependent variable (Ragin 1987, 20). Such contingent and multidimensional causal narratives are typical products of the process-tracing method and are not easily transferred to other cases.

However, process-tracing can still be used for the purpose of theory-building (Beach 2017; Goertz and Mahoney 2012, 100–114). The first stage of doing so involves providing a detailed explanatory narrative about the process that led to a particular outcome. The second stage is an iterative process, in which the researcher compares their empirical findings with existing theoretical propositions, in order to make causal inferences about the relationship between independent variables, mechanisms, and dependent variables or outcomes. These were the tasks to which much of this study has been dedicated. A third step is to distil those empirical arguments into a more general framework or model that can be tested with additional cases, from which “contingent generalisations” can be made (George and Bennett 2005, 32).

With an inductive analysis of nationalism across Indonesia’s resource sectors, this thesis identified a set of intervening variables that contributed to varied nationalist policy outcomes. In the detailed case study analyses, it was possible to elaborate and weigh up
the relative influence of each of these factors. However, for the purposes of designing a transferable model, the priorities are operationalisation and parsimony.

Other theorists of resource nationalism have similarly uncovered multiple intervening variables when trying to ascertain the causal pathways that lead to nationalist outcomes. In their study of country-level variation in Latin America, for example, Haslam and Heidrich (2016a) offer a detailed catalogue of variables which, they argue, either constrain or enable nationalist intervention. They present a sliding scale for each variable. One end of the scale implies strong incentives for nationalist intervention, and the other end denotes strong constraints upon nationalist action (Haslam and Heidrich 2016a, 233). The scale admirably reflects the complexity of policymaking across a wide range of countries and resource sectors in Latin America.

Based upon the findings presented in this thesis so far, it would be possible to develop a similarly expansive framework to that proposed by Haslam and Heidrich. Such an approach would capture how a set of intervening variables combine and form causal chains that either widen or narrow the opportunity for nationalist actors to exact policy change. One option would be adopt the concept of an ‘opportunity structure’, which has been used regularly in seminal scholarship on social movements and political protest. For scholars such as Tilly (1978) Tarrow (2011) and Kitschelt (1986), an opportunity structure is a useful explanatory framework to account for why social movements adopt distinct strategies and achieve such different policy results across countries and over time. For these scholars, an opportunity structure is a set of external, contextual variables (such as levels of political centralisation, types of representative institutions, or state strength) that filter or constrain actors’ strategic decisions and their capacity to enact policy change (Kitschelt 1986). In such frameworks, the focus is upon identifying changes in, and differences between, environmental-contextual factors – as opposed to the capacities or resources of protest groups or policy actors.
In many ways, an inclusive framework such as this is attractive. For the purposes of transporting my conclusions to other country cases, we could conceive of each sector as having a ‘nationalist opportunity structure’ that is determined by a set of contextual factors: the commodity’s strategic value to the domestic economy, sectoral patterns of ownership, firm internationalisation, political embeddedness of lead firms, and the political salience of a commodity or sector within a country’s wider political milieu. The key assumption would be that shifts in these structural variables combine to alter the constraints upon, and opportunities for, nationalist change. To apply it to other country cases, each of the variables would need to be specified and elaborated in order to paint a picture of the causal chain leading to nationalist variation.

However, in capturing complexity this sort of framework, much like the scale proposed by Haslam and Heidrich, is forced to sacrifice on parsimony. The goal of this final chapter is to try design a model that can more easily be operationalised and tested in a wider range of cases. Rather than go down the expansive route, in this section I instead identify just two proximate causal variables that determine nationalist outcomes at the sector level. One captures the most crucial determinant of state actors’ preferences – the extent to which government revenue and developmental outcomes rely upon a given commodity. The other variable captures how ownership structures underpin business preferences for nationalist intervention – the internationalisation of lead firms. Table 9.1 provides an illustration of the model and the relationship between the two variables.

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2 The complex nature of the framework is, no doubt, a function of the authors’ decision to compare policies across countries and industries, using a collection of edited essays on resource nationalism in Latin America.
TABLE 9.1: A model of cross-sector variation

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<th>Economic contribution</th>
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The following section offers a detailed specification of the model. However, before moving on, one exclusion requires justification. ‘Politics’ is omitted from the causal model. This may seem curious, given that political factors were identified and explained at length in the empirical chapters. The challenges of operationalisation, however, are immense. In cross-national studies of resource nationalism, the explanatory power of political institutional differences between countries, such as regime type, electoral systems, or level of political freedom, can be identified, measured and tested (Wilson 2015; Arbatli 2013; Domjan and Stone 2010). When it comes to cross-sectoral analyses, the political differences between sectors within a single state are less concrete and difficult to operationalise. Specifically, in this thesis, by tracing the process of nationalist policies in Indonesia’s resource industries, and providing a detailed history of each sector, I was able to explain and account for the position of each sector in Indonesia’s nationalist imaginary and compare the political traction of anti-foreign narratives in each case. Such an endeavour is more difficult, if not impossible, for a larger sample of country cases. Similarly, measuring the political embeddedness of prevailing capitalist interests requires intimate knowledge of a sector’s business elite and their closeness to national
policymakers. Such relationships are difficult to uncover even in an in-depth, single country case study.

For the purposes of portability, therefore, the role of politics in nationalist outcomes falls outside the explanatory model. Instead, the model presupposes a conducive political context. The model is designed for application to democratic countries, and assumes that electoral politics, ideological mobilisation, and collusive state-business favour nationalist outcomes. The model argues, however, that even under politically conducive circumstances, and even where ideological support for resource nationalism is strong (as in the case of Indonesia), structural sector-level features – strategic economic value and levels of internationalisation – will condition the policy outcomes that transpire and determine nationalist variation at the sector level.

1.1 Ownership structures and internationalisation

The model predicts that in sectors where lead local firms are highly internationalised, business demands for nationalist intervention will be weaker, leading to weaker expressions of resource nationalism. Conversely, the model predicts that in sectors where dominant domestic business actors have interests primarily in a single sector or industry, with little diversification or internationalisation, their demands for government protection and privilege in that sector will be stronger, leading to more assertive brands of resource nationalism.

The level of a firm’s internationalisation is operationalised by identifying firms’ foreign listing and levels of foreign shareholding, foreign sales as compared to total sales, foreign assets to total assets, and the proportion of overseas subsidiaries they possess (Ramaswamy, Kroeck, and Renforth 1996).
As outlined in Chapter Two, political economy studies of trade and investment policy demonstrate how, as a business or group expands its interests beyond its home country, it becomes more likely to support the liberal policies that enable its international expansion (Yoshimatsu 2000). Hamilton-Hart (1999, 4) explains that as lead firms and industries become, “internationally-oriented and competitive, they also become more concerned with access to investment sites and markets abroad than with protecting a domestic market.” Some political economy studies emphasise the different preferences of business with fixed-assets (like land or natural resources), versus mobile capital (such as firms in the financial sector) (Frieden 1991; Shafer 1990; Pepinsky 2008). However, corporate giants that have interests across a range of countries, markets, and often industries too, even if their portfolio is dominated by fixed assets in the agribusiness, energy or mining industries, can be considered highly internationalised. Firms that are globalised, and particularly large conglomerates, have distinct policy preferences to firms with narrow, sector-specific and domestically-focused assets (Haggard, Maxfield, and Schneider 1997; Hamilton-Hart 1999). From this perspective, in sectors dominated by internationalised lead firms, nationalist demands will be weaker, and assertive nationalist interventions are less likely to emerge.

Take Indonesia’s plantations sector, for example, which was dominated by firms engaged in regionally integrated networks of capital and involved some of the country’s most internationalised conglomerates: the Salim Group, Sinar Mas, and Wilmar. These groups all had prominent overseas assets and were all listed in internationally. Wilmar, like many other prominent Indonesian agribusiness companies, also had significant foreign ownership. The result was that lead firms were indifferent or opposed to assertive localisation.

The opposite was true of Indonesia’s mining sector. At the turn of the century, the largest and most profitable foreign-operated coal mines were transferred to Indonesian-
owned companies. The shift was fortuitously timed just before the global coal boom took off in 2003. The boom sent profits soaring for Indonesia’s new coal miners. With prices high, a new class of domestic mining giants emerged. These miners set their sights on the gold and copper subsectors, hitherto an almost exclusive domain of foreign capital. The majority of these domestic companies, such as Adaro, Indika and Bayan, were owned by individuals or groups whose business interests were limited to the extractive sectors: mining, oil and gas and energy services. Most were listed locally, and few had expanded their investments or mining assets overseas. Bumi Resources was part of a sprawling conglomerate owned by Aburizal Bakrie, which had some investments abroad, but these were not of the scale achieved by the Indonesian Chinese business groups discussed above (Carney and Dieleman 2011). These domestically-oriented miners demanded more protection and privilege, and argued that local companies such as themselves now had the capacity to takeover lucrative and complex foreign mines in the precious minerals sector.

In Indonesia’s oil and gas sector, lead firms were also less internationalised than in the agribusiness sector. While Pertamina’s leadership had outlined a vision to ‘go international’ like Petronas or Petrobras, in reality the company was still focused first and foremost upon expanding its domestic oil and gas reserves. To do so, Pertamina’s leadership demanded more state protection and privilege. The Indonesian case, thus, highlights how lead firms with higher levels of internationalisation tend to be less enthusiastic proponents of localisation, and such preferences can structure the outcome of nationalist interventions at the sector level.
1.2 Economic contribution

The model predicts that the more a government relies on a sector or commodity for revenue, the less likely it is that state actors will pursue an assertive and disruptive nationalist agenda. This variable is operationalised by identifying a commodity or a sector’s contribution to export revenue, foreign exchange and GDP.

This proposition stands in contrast to those studies that argue more valuable sectors tend to be subject to greater nationalist intervention (Haslam and Heidrich 2016b; Hsueh 2016; Helleiner and Pickel 2005). Evidence from Indonesia indicates that when a state relies heavily upon a particular commodity for export revenues and foreign exchange, state managers and politicians exercise caution, and are ambivalent to implement nationalist interventions that might disrupt revenue flows. This is not to suggest that extant scholarship is incorrect. All of the resource sectors studied in this thesis were strategic in different ways and to different degrees, and as a result were all subject to some level of nationalist mobilisation. The Indonesian case, however, indicates the potential for a threshold, whereby once an export sector becomes a key source of state revenue, bureaucrats and elected officials display more nationalist restraint out of concern for broader economic goals and the need to maintain their country’s economic fundamentals.

The model assumes that state policymakers and politicians act out of self-interest, and that their principal goal is to stay in power. Economic policymaking can often, in this context, reflect the interests of prevailing capitalist actors whose support the ruling coalition needs. However, that goal of self-preservation can sometimes lead state managers and elected officials to make economic decisions that conflict with the demands of powerful societal interest groups (Geddes 1996). If we assume that democratically elected officials and politicians within a ruling coalition, at a minimum, view economic
stability and revenue flows as necessary for their re-election, then to the extent that state budgets depend on a particular sector’s export revenue, government actors’ policy choices and their willingness to exact nationalist change, will necessarily be more constrained.

For example, in Indonesia the government pursued the most restrictive forms of localising nationalism in sectors and subsectors that were less strategic for the overall health of the economy. Efforts to localise a resource sector met with more success as that sector’s value to the economy waned. The economic risk of localisation was reduced, giving policymakers more freedom to pursue the national path. In sectors that made a crucial contribution to state revenue and the government’s developmental goals, like palm oil, nationalist agendas were more difficult to realise. The scale, value and contribution of palm oil made it too difficult for nationalist networks to intervene and demand greater localisation of the plantation companies working in this sector. Table 9.2 shows how in the palm oil sector, lead firms were highly internationalised, and the commodity’s contribution to state revenue was so great as to constrain nationalist agendas. This sector thus falls in the ‘liberal’ quadrant.

In the mining sector, those minerals set to be most affected by new divestment obligations were those that made a relatively modest contribution to overall growth and GDP levels, such as copper and gold (coal was already dominated by domestic miners). These were valuable and lucrative minerals for the national actors who stood to benefit; but localisation and the alienation of foreign investment was not expected to have widespread ramifications for the Indonesian economy. Bureaucrats and politicians were, thus, more willing to pursue the nationalist path here than in the palm oil sector. Lead mining firms were also less internationalised and more focused upon domestic expansion, and their preference was for localisation. As a result, mineral mining falls in the bottom right ‘nationalist’ quadrant.
Meanwhile, oil was an intermediate case. Chapter Seven demonstrated how nationalist interventions slowly became more feasible as the sector played a smaller and smaller role in the country’s economic prosperity. Over the course of the late 1990s and then through the first two decades of the post-New Order era, oil was projected to play a less important role in both exports and the domestic energy industry. As the sector’s strategic economic value dwindled, opportunities for localisation widened, and the government gave an increasing number of contracts and regulatory concessions to domestic players and the state-owned company. At the same time, in comparison to other commodities, oil and gas remained a crucial source of foreign exchange for Indonesia’s economy. Policymakers and politicians were deeply divided in their support for nationalist change and the level of economic risk they were willing to take. As we saw above, strong nationalist demands emanated from Pertamina and the national oil company’s loyalists. The result was an ambiguous set of policy outcomes. Overall the investment regime remained open to foreign investment, with few formal restrictions upon upstream multinational oil companies. Yet there were intermittent and increasing moments of statist-nationalist agitation and intervention, which irked investors and attracted criticism from industry experts and peak business bodies. The sector thus falls in the top right quadrant, which is defined as an intermediate-liberal investment regime.
Table 9.2 Cross-sector variation in Indonesia

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2. Sectoral variation beyond Indonesia: The case of Brazil

To what extent does this model transfer to other country case studies? In this section I look at Brazil, a country that shares many of the same state-level features as Indonesia. Brazil also exhibited sectoral variation when it came to resource nationalism. However, outcomes were reversed in two of Brazil’s resource sectors: agribusiness experienced an upswing in nationalist mobilisation and intervention during the boom, while the government did not pursue new interventions to localise the mining sector. To what extent can the nationalist model described above explain a different pattern of sectoral variation in a new country case study?

First, why Brazil? Like Indonesia, Brazil is an emerging middle-income country, albeit high middle-income, with a diversified economy. The natural resource sectors, however, continue to play a significant role in its economic growth. The global boom in mineral and agribusiness commodities drove impressive economic growth in Brazil during the mid 2000s. Also, like Indonesia, Brazil is a multi-party democracy with regular
free and fair elections, it has a large middle-class and business community, and a long history of state interventionism. Political economy studies tend to characterise the Brazilian state in terms similar to Indonesia, identifying state institutions as being marked by bureaucratic inefficiency and corruption in some arenas, while also displaying the features of an efficient, productive and developmentally-oriented state in other parts of government (Evans 1995; Schneider 2005, 1997). Both Brazil and Indonesia benefitted significantly from the commodities boom, largely as a consequence of their agribusiness sectors (soy and palm oil respectively), and their mining industries (iron ore and coal respectively).

Brazil was among the cast of countries marked by resource nationalism during the boom years. As was the case in Indonesia, during the commodity boom, Brazil’s leading resource sectors were subject to varied levels of nationalist intervention. The Brazilian government placed new and more stringent regulations upon foreign ownership in the agribusiness sector. Yet it retained a liberal investment regime in the strategic mineral mining sector. In what follows I use secondary sources to explore whether unique nationalist outcomes in Brazil can, like in the Indonesian case, be explained in terms of the internationalisation of lead firms in each sector, together with each commodity’s strategic economic value.

2.1 Background to the Brazilian case

During the commodity boom Brazil, like Indonesia, experienced an upswing in economic nationalism in its resources industries. During President Lula da Silva’s term in office (2003-2011), analysts of Brazil’s economy and politics began referring to the ‘return of the state’ and the emergence of a new state-led developmentalist model, within which
resource nationalism was a key ingredient (Singh and Massi 2016; Döring et al. 2017; Hopewell 2014).

However, as was the case in Indonesia, nationalist interventions varied from sector to sector. Nationalist mobilisation was assertive in the country’s strategic agribusiness industry. In 2010 the government introduced new rules to more tightly monitor foreign investments in Brazilian farmlands. On the other hand, we find almost no anti-foreign intervention in the mining sector, which remained open to foreign multinationals throughout and following the boom.

Why was the agribusiness sector subject to greater restrictions during the boom? This section begins by examining the state’s approach to the mining sector, which is dominated by iron ore. A second section looks at how analysts characterised resource nationalism in Brazil’s agribusiness industry and in particular the large soybean subsector. The analysis reveals how different levels of intervention into Brazil’s resource markets can be explained largely in terms of lead firms’ policy preferences, which were in turn determined by their level of internationalisation. Nationalist intervention was also contingent upon each sector’s economic contribution to the Brazilian government’s revenue streams and its developmental goals.

2.2 Brazil’s Mining Sector

Despite buoyant iron ore prices during the global commodity boom (2003-2013) and an increasing foreign presence in Brazil’s mining sector, there was little mobilisation or intervention in the service of localisation. Nationalist demands from lead firms were weak. This outcome, I argue, was a function of how the sector was concentrated around a highly internationalised Brazilian firm, which was inclined to favour an open, liberal investment market at home and abroad.
Brazil’s economy is highly diversified and industrialised. The mining sector contributed to just 1.1 percent of GDP in 2013. However, mining played an increasingly important role in the Brazilian economy during the boom and in maintaining the country’s impressive trade balance. According to a report by the International Council for Mining and Metals (2013, 6), ferrous ores and metal exports rose from 6.3 percent of total national exports in 1995 to 16.7 percent in 2010. Iron ore exports, in particular, were an important driver of growth during the commodity boom, and accounted for 13 percent of exports in 2013, which made it the country’s most strategic export commodity during the boom years. Brazil was a crucial actor in the global iron ore trade, accounting for 17 percent of production world-wide (KPMG 2015, 25).

During the boom years, Brazil’s government entered into negotiations with the parliament to introduce a new mining bill, which, among other changes, was set to increase royalties for all mining companies and establish a new regulatory agency for monitoring mining activities. However, throughout this period, the government maintained an open and liberal approach to foreign investment in the mining sector.

Historically, Brazil’s government had opened and closed mining to foreign investors at different junctures. Under the Mining Code (Act No. 227) of 1967 and the 1988 Constitution, the mining sector was closed to foreign investment. Much like Indonesia, however, Brazil went through a period of structural adjustment and broad-based liberalisation in the 1990s. In 1995, the Cardoso government (1995-2003) introduced wide-ranging liberal forms. Cardoso amended the 1988 Constitution and removed all restrictions on foreign ownership in Brazilian mining ventures, and restructured Brazil’s state-owned company Companhia Vale do Rio Doce (CVRD), which became known as Vale (Singh and Massi 2016, 161). The amendments outlined that only domestic companies may be granted exploration and production licenses; however, there were no limits on foreign ownership of domestic mining companies.
According to one analysis, following liberalisation in the mid 1990s, “foreign investment into the sector has been at a high level with over 500 transnational operations establishing themselves between 1990 and 2008” (Döring et al. 2017, 7). Foreign majors such as BHP Billiton, Rio Tinto, Newmont, Xstrata, and Anglo American had interests in Brazil’s mining sector, together with smaller foreign operators such as Yamana Gold.

Why did rising prices in the mid-2000s not shift the tenor of debate in the mining sector and motivate more demands for local control and protection from foreign competition? Not unlike the situation in Indonesia’s palm oil sector, the dominant domestic business actors had little interest in demanding a more localised investment regime. Preferences were, again, a function of the sector’s ownership patterns. The Brazilian company that monopolised the mineral mining sector, Vale, was highly internationalised, and the company’s leadership opposed resource nationalism and protectionism in other mineral-rich countries around the world. Unlike the extractive conglomerates in Indonesia’s mining sector, Brazil’s mining behemoth had a high level of foreign ownership, it was listed on multiple stock exchanges, and had mining operations all over the world. Vale thus embraced and promoted an open mining investment environment.

Iron ore and mineral production more generally was heavily concentrated around Vale. There were approximately 8,870 mining companies operating in Brazil at the end of the boom, but Vale was responsible for 79.8 percent of the country’s mineral production, and was a minority shareholder in several of the companies producing much of the remaining 20.2 percent (Döring et al. 2017, 11). As a single company Vale was also responsible for just over 9 percent of Brazil’s exports in 2014.

Vale was clearly no ordinary domestic firm. Once a successful state-owned enterprise, Vale benefitted from privileged access to licences, state subsidies and loans prior to the liberal shift that took place in 1990s (Casanova 2009, 43). Vale was one of
Brazil’s “national champions”, and during an earlier era of state protection and economic nationalism, it “gained a hold over [its] home markets and resources that would prove critical in the aftermath of [its] move into the global market” (Casanova 2009, 43). Vale was partly privatised in 1997 by the Cardoso government. Back then, privatisation was controversial, and the leftist Workers Party, in opposition at the time, was staunchly opposed to transferring ownership of an efficient and successful state-owned enterprise into private hands. However, the company’s performance and profits improved significantly, and in the following years it became “one of the most important players in the formation of a global market for iron ore” (Döring et al. 2017, 7). The company expanded its operations internationally, and after purchasing Canadian mining company, Inco, in 2006, Vale was ranked the world’s fifth largest mining company.

The company had a high level of foreign ownership. Vale was owned by a controlling shareholder group made up of Litel, a Brazilian pension fund, Bradespa (owned by Bradesco, a private Brazilian bank), BNDESPar, a subsidiary of the National Development Bank, and Japan’s Mitsui&Co group. Together, these companies owned 36 percent of the company’s shares (Vale 2017). Other Brazilian investors made up 12.45 percent, and the Brazilian government owned another 4.25 percent directly. The remaining 46.59 percent of Vale’s shares were owned by foreign investors (Vale 2017). Vale was also cross-listed in Sao Paulo, New York, Paris, Hong Kong and Madrid. Cross-listing generally makes a company more accessible to foreign shareholders, and can enhance its liquidity. In short, the sector was effectively monopolised by a company with an ownership structure that, while under Brazilian control, included a significant portion of foreign shareholders with multiple international cross-listings.

Further, Vale had significant overseas assets. Roger Agnelli, the company’s long-standing CEO (2001-2011) was a former investment banker in Brazil’s largest private bank, Bradesco. Agnelli expanded Vale’s operations by slimming down its inefficient
assets and acquiring mineral ventures abroad, taking majority ownership of mines previously owned by foreign companies. By 2008 Vale’s overseas sales accounted for 84 percent of its revenues (Casanova 2009, 44), and by 2012, the company had operations in 30 different countries. Vale’s success as a global mining company relied upon an open and liberal mining investment regime in other countries. The company’s commercial interests were threatened in Guinea, Indonesia and parts of South America during the boom as a result of nationalist mobilisation (Ernst & Young 2014).

At the same time, it would be wrong to characterise Vale as a completely independent multinational enterprise in the same category as BHP Billiton or Rio Tinto. Despite being privatised in 1997, analysts refer to Vale as a “quasi-state-controlled company” (Valle and Millard 2017). The government maintained control over the company’s strategic decisions and leadership appointments through its ‘golden share’, and Brazilian state banks and pension funds also had significant interests in the mining giant. During the presidency of Lula da Silva, analysts pointed to incidents, particularly the ousting of Agnelli in 2011, where government actors exercised influence over company decisions (Financial Times 2011).

Still, despite the loosening of foreign investment restrictions in the 1990s and an increase in the presence of foreign majors operating in the mining sector, the boom did not prompt Vale to lobby against foreign competition. Indeed, Vale and several other Brazilian conglomerates took up opportunities for foreign partnerships during the boom (Duddu 2014). Vale was one of the most globalised mining companies in the world, with significant overseas assets and high levels of foreign ownership. As such, the sector’s most prominent actor had little interest in pressing for a return to protection and localisation.

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3 This ‘golden share’ provides the government with veto power over important investment decisions, gives it special voting rights and allows the government to influence leadership appointments within the company.
In sum, not unlike Indonesia’s palm oil sector, the sector’s ownership structure produced business preferences that were opposed to, rather than supportive of, resource nationalism. Brazil’s mining sector constituted a case of where the internationalisation of a sector’s lead firms motivated the maintenance of a liberal and open investment regime.

2.3 Brazil’s Agribusiness Sector

The situation in Brazil’s mining sector contrasts with what transpired in the soybean sector, which came to dominate agricultural exports during the boom. The Brazilian companies that dominated the soybean sector were less internationalised, and their assets were narrowly focused in Brazil and, to some extent, other parts of South America. Brazil’s wider agribusiness and food sectors, encompassing beef, poultry, and sugar, were highly internationalised (Hopewell 2014). However, the soybean production sector which lobbied for new restrictions demonstrated far lower levels of foreign ownership and overseas foreign investments (Oliveira 2015, 15). These companies viewed foreign, and particularly Chinese incursion, into soy production and farmland as a threat to their own interests.

Agribusiness is a pillar of Brazil’s contemporary economy. During Brazil’s military dictatorship (1964-1985), the government intervened in the economy in order to stimulate industrialisation via import-substitution and the subsidisation of state-owned enterprises (Döring et al. 2017). During those years, the agricultural sector’s overall contribution to growth declined as the share of manufacturing and industry increased. Through the 1990s, however, Brazil embarked on a comprehensive program of liberalisation across the economy, including in the agricultural sector (Hopewell 2014). Liberalisation encouraged investment in technology, which improved yields, and allowed
Brazil to become a leading agribusiness hub for a range of crops, beyond the traditional tropical commodities such as coffee, bananas and tea.

From the mid-2000s, however, nationalist policy networks began to agitate for new restrictions on foreign investment in farmlands. In response, in September 2010, the Attorney General recommended new limitations upon the acquisition of national land by foreigners. President Lula quickly approved the legal opinion and it became binding. In practice, this meant that government agencies now had more responsibility to “monitor” and “authorise” not only foreign companies, but also Brazilian companies with majority foreign shareholding, that sought to invest in agricultural land. What motivated the shift toward localisation?

During the global agribusiness boom of the 2000s, Brazil enjoyed a huge boost in demand for its agricultural commodities. As Hopewell (2014, 296) describes:

In just a four-year period, from 2000-2004, total planted area grew by an area larger than the size of Italy or Vietnam (ICONE, 2006). Exports grew at rates as high as 20 per cent per year (Valdes, 2006). This was driven by the expansion of corporate farming, including the emergence of “mega farms” – large, professionally managed corporate farm groups benefiting from economies of scale, many with planted areas in excess of 1 million hectares.

A steady increase in the global price of soybean from approximately 400 Brazilian Real per metric ton in 2006 to over 1180 per metric ton in 2014 was, in particular, a boon for Brazil’s economy (Black 2015).

As prices went up, so did interest from overseas investors. Foreign multinationals had made significant investments across Brazil’s agricultural sector since the 1990s, particularly in the soybean subsector. While the exact numbers have been difficult for experts to obtain, reports suggest a significant increase in the number of investors based out of America, Argentina, Japan, Europe and more recently China, entering soybean production directly as well as through Brazilian-owned companies (Oliveira 2015). Much of the increase in demand for soybeans came from China, not only for its tofu industry,
but also as feed for its beef and poultry sectors. Between 2004 and 2006, the amount of soybean being exported to China doubled (Barrionuevo 2007). China was interested in investing directly in Brazilian farmland due to the increasing scarcity of land and water back home.

High prices and an increased presence of foreign agricultural companies prompted opposition from nationalist networks made up of civil society actors, business interests, and politicians. From the mid-2000s, these networks mobilised to oppose foreign investments in agricultural land. According to Oliveira (2015, 20), a leading scholar on land grabbing in Latin America, early nationalist opposition came from rural peasants associations, such as the Landless Rural Workers’ Movement (MST) and La Via Campesina. Back in 2007, these organisations mobilised against a Swedish-Finish forestry company’s acquisition of forested land in Southern Brazil, and claimed that this was, “a clear example of a foreign corporation taking advantage of weakened restrictions on acquisition of farmland” (Oliveira 2015, 20). The increased public attention forced the government to admit that in fact it had little solid data on precisely how much land foreign investors ‘owned’ or had interests in. In response, civil society groups and politicians requested to have the Attorney General “review and strengthen restrictions on acquisition of farmland by foreigners” (Oliveira 2015, 21).

Analysts suggest that La Via Campasina’s campaign back in 2007 sparked the beginning of a broader public debate about the extent and impact of foreign investment into Brazilian farmlands. Oliveira (2015, 21) describes how in the years that followed, the tenor of media and scholarly discourse changed:

…[debate] turned around concerns that foreign capital flowing into Brazilian farmland was merely speculative, associated with money laundering, a threat to national sovereignty (especially in border areas and the Amazon), and/or associated with the subordination of Brazilian natural resources to exploitation by the traditional and hegemonic agribusiness and extractive interests from the ‘old hubs’ of capital.
These ‘old hubs’ to which Oliveira refers were America, Europe, Japan and Argentina, from which the majority of foreign investments originated. High-profile Chinese investments also began to increase in the mid-2000s, an issue that proved politically sensitive, and anti-foreign language in the media entered a new phase of intensity. One scholar described how by 2010 a “political and media campaign [emerged] that identified foreign acquisitions as land grabbing and therefore as a direct attack to national sovereignty” (Ferrando 2015, 344). For example, in November of 2010, Oliveira writes, “an alarmist headline in one of Brazil’s leading newspapers claimed, “Foreigners buy 22 soccer fields per hour.”

However, while the public campaign was initially prompted by a nationalist network of civil society organisations, in was the entry of prominent soybean producer companies into the nationalist network that eventually compelled state intervention. Brazilian experts writing on this subject have largely framed the 2010 restrictions upon foreign land acquisitions as a response to domestic business lobbies, rather than to the demands of social movement activists. Oliveira (2013, 22), for example, argues, “…even though peasant and other leftist social movements remained opposed to ‘foreignisation’ of land, the high-level political orchestration [in favour of intervention] also involved clear coordination with certain sectors of Brazilian large-scale landowners and agribusiness companies.” Ferrando (2015, 347) agrees, and points to how the President of the Association of Soybeans Producers of Mato Grosso (Aprosoja) took to the press and claimed that, “the foreign thrust is worrisome, as it pushes the Brazilian competitor away from the business and allows the territorial occupation of Brazil.” This analyst suggests a pivotal role for Aprosoja in ensuring the success of the nationalist campaign.

Who are Brazil’s soybean producers and what is the sector’s ownership structure? According to Hopewell (2014, 297), “in the past two decades, there has been a dramatic expansion of Brazilian firms. Of the 40 leading agribusiness companies operating in
Brazil, 35 are Brazilian in origin.” Unlike in Indonesia’s palm oil sector, however, domestic business actors were indeed concerned about competition from increasing foreign investment. Domestic soy producers saw foreign competition, particularly from China, as a threat to their material interests (Ferrando 2015; Oliveira 2015). The largest soybean producers were: Grupo Bom Futura, an integrated agribusiness company, which operates exclusively in Mato Grosso state and has 550,000 ha of soy farmland; Grupo Amaggi, a leading integrated agribusiness company whose interests are focused firmly in Brazil, and primarily in Mato Grosso state; Bom Jesus, a vertically integrated company with 240,000 ha of farmland across the country, concentrated entirely in Mato Grosso state.

International reports on firm internationalisation demonstrate the difference between Brazil’s ‘soy kings’ and Brazil’s lead mining firms – and indeed Indonesia’s palm oil giants too. In the Boston Consulting Group’s assessment of lead firms from emerging economies, Brazil’s Vale, Petrobas, and a range of food and livestock conglomerates were marked global corporate champions in 2016 (BCG 2016). To recall, the three Indonesian companies included in this list were Golden Agri Resources of the Sinar Mas Group, Indofood of the Salim Group, and Wilmar International, also Indonesia’s three top palm oil producers. By contrast, none of the soy producers were included in BCG’s list of emerging global champions.

One expert argued that support and opposition to localisation of the foreign investment regime reflected a subsectoral divide within the agricultural industry. It is worth quoting Oliveira (2015, 22) at length in order to capture the different business preferences for localisation:

Formal positions taken by various agribusiness associations reflect a divided class, where those from areas where large-scale landowners operating primarily with soy and grain production supported restrictions to limit foreign competition with their own expansion…(e.g. the Agricultural Federation of Mato Grosso – FAMATO, and the Association of Irrigators of Bahia – AIBA), while opposition [to foreign investment restriction] came from landowner associations from...
regions where the sugar/ethanol industry and the forestry/cellulose industry were expected to lead agribusiness expansion (e.g. the Agricultural Federation of Mato Grosso do Sul – FAMASUL) and the main representatives of those specific agroindustrial sectors (the Union of Sugarcane Planters – ÚNICA, and the Brazilian Association of Planted Forests – ABRAP).

The interests of soybean producers were aggregated through the National Association of Soybean Producers of Mato Gross (Aprosoja). In 2010, Aprosoja expressed its concern that, “one million ha of Brazilian land (cultivated with soybean) was in foreign hands”, because such a trend pushes Brazilian companies out of the domestic market (Sauer and Leite 2012, 892). In other words, soy producers, the majority of which had primarily domestic assets and domestic ownership, supported new efforts to restrict foreign investment in farmlands.

However, nationalist intervention in the agribusiness sector was, in relative terms, not extreme. Ultimately, this case fell in the intermediate-liberal quadrant of the cross-sectoral model. This was largely because of the sector’s strategic domestic value. By the mid 2000s, the sector had become one of the most economically important sectors for the Brazilian economy. Like palm oil in Indonesia, Brazil’s export-oriented soybean subsector dominates commercial agriculture. According to Oliveira (2016, 348) “[s]oybean and its products (meal, oil and their derivatives) accounted for 12.9 percent of all Brazilian exports in 2013, second only to iron ore (13.4 percent), and significantly more than the next main export products, such as petroleum (7.2 percent), meat products (6.1 percent), land vehicles (5.8 percent), machinery (5.3 percent) and sugar and its derivatives (5.0 percent).” By 2016, soybean exports contributed to almost 40 percent of Brazil’s agribusiness exports and 10 percent of all exports, making it the largest earner of export revenue (US$19 billion) for the Brazilian government, overtaking iron ore. The new measures to curb foreign investments were thus limited in scope; the government avoided extreme restrictions on foreign investors that might disrupt crucial revenue flows.
As was the case in Indonesia, there was a political dimension to nationalist mobilisation that, while outside of the cross-sectoral model, forms an important backdrop to the story of business preferences and the capacity of business to determine policy outcomes. The issue of ‘foreignisation’ became increasingly salient as election season loomed in Brazil in 2010, and elected officials sought to bolster their nationalist image and obtain support from various interest groups. The agribusiness lobby, known as the ‘Ruralistas’ wields significant influence in parliament. According to Oliveira (2015, 22), “the timing selected by the Lula administration to announce the new restrictions (August 2010) demonstrates how it was intended to obtain the support from key sectors of the landed and agribusiness elite for the election of his picked successor from the Workers’ Party, current president Dilma Rousseff.” The nationalist path offered both a general political boost for the president and his political party, and provided an opportunity to gain direct political support from the rural caucus. Such political machinations emerged, however, because prevailing business preferences were in favour of nationalist intervention, and the economic constraints are sufficiently low.

In sum, leading domestic soy producers in Brazil’s agribusiness industry mobilised during the global commodity boom and demanded the government do more to restrict foreign investment. In response, the government introduced new regulations designed to monitor and limit foreign companies investing in Brazilian farmland. The dominant soybean sector was the domain of large Brazilian companies with little foreign ownership and whose assets were largely confined to Brazil. They favoured protection and intervention over an open investment regime, and underpinned the Brazilian government’s nationalist turn in the agribusiness sector.
Table 9.3: Cross-sector variation in Brazil

<table>
<thead>
<tr>
<th>Economic contribution</th>
<th>Internationalisation of lead firms</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Higher</td>
<td>Lower</td>
</tr>
<tr>
<td>Higher</td>
<td>Liberal</td>
<td>Intermediate-liberal</td>
</tr>
<tr>
<td></td>
<td><em>Mineral mining sector</em></td>
<td><em>Agribusiness sector</em></td>
</tr>
<tr>
<td>Lower</td>
<td>Intermediate-nationalist</td>
<td>Nationalist</td>
</tr>
</tbody>
</table>

3. Conclusion: Towards a multi-country study of cross-sector variation

By proposing a new model for cross-sector variation, this thesis laid the foundations for further comparative research across a wider range of countries and sectors. A more ambitious comparative research agenda could take different forms. A first and simple step would be to bring a third sector into the analysis of Brazil and Indonesia – the hydrocarbon sector would be the obvious candidate. A second approach would be to integrate a country or countries that add another layer of representative variation. By bringing a wider range of resource-rich countries into the analysis, particularly those with a more liberal economic orientation, we can further test the model’s robustness beyond emerging economy contexts, and beyond those countries more ideologically disposed to nationalist economic policymaking such as Indonesia or Brazil.

Australia would be a potential candidate for such a study. Australia is a high-income, developed country with a wealth of mineral and agricultural commodities that are fundamental to its economic growth and prosperity. The institutional context is distinct from Indonesia and Brazil, with stronger checks and balances and high levels of
transparency. During and following the boom, Australia’s mining and agricultural sectors were the subject of nationalist mobilisation. In the agricultural sector, the government introduced new regulations for screening and limiting foreign investment in Australian farmland; far less concern was shown toward the strategic mining sector (Reuters 2018; Worthington 2018).

A brief overview of the ownership structures and economic contribution of these two sectors also reveals differences that make Australia a promising candidate for testing the model. Iron ore and coal are strategic sectors for the Australian economy, making up 15 and 11 percent of exports respectively in 2015, with natural gas and gold also in the top five export products (5.3 percent each) (Australian Trade and Investment Commission 2017). Australia’s two most strategic agricultural exports are beef, compromising 2.7 percent of export revenue in 2015, and wheat, compromising 1.6 percent. What are the differences in terms of ownership structures and firm internationalisation between the two sectors? Foreign investment plays a much larger role in Australia’s mining sector than it does in agriculture. In 2013, 2 percent of foreign investment flowed into the agriculture sector, while 30 percent was directed to mining (Garnett 2013). In 2016, foreign-owned farmland in Australia stood at only 14 percent (Reuters 2018). The largest agricultural companies also tend to be Australian, often family-owned, with assets limited to Australia (Gettler 2014; Wagstaff 2016). Meanwhile, in the mining sector, “while numerous middle and small-sized companies operate, 35 per cent of the industry market share is dominated by BHP Billiton, Rio Tinto and Xstrata”, all of which are global multinational mining giants (Bice 2014).

On the surface at least, patterns of nationalist intervention appear confirm the model’s expectations: in the resource sector deemed most strategic for state revenue, and where we find highly globalised lead firms nationalist interventions were weaker than in the sector dominated by domestic companies, with limited international investments and
foreign ownership. This, of course, is not conclusive evidence of what drove sectoral variation in Australia’s resource industries. Indeed, preliminary research reveals that government concerns over Chinese investment were an important part of the story behind nationalist mobilisation. However, the point is to demonstrate that a structured, multi-country two-sector study that examines nationalist variation in Brazil, Indonesia and another case such as Australia would be a feasible and possibly rewarding way to test the model’s explanatory power.

There is potential for a quantitative analysis too, which can explore associations between the degree of localisation in a given country, and the internationalisation of its lead firms. It would be possible, for example, to use OECD data on ‘restrictiveness to FDI’ in 64 OECD and G20 countries, which is available at the sector level from 1997 to 2016. This would measure localising interventions across a larger number of cases. However, data on the internationalisation of lead firms for a wide range of countries would face significant challenges in terms of data collection. Historical data on firm internationalisation was compiled by the United Nations Conference on Trade and Development (UNCTAD) in 2007. But most scholarship on firm internationalisation has a regional or country focus due to the difficulty of gathering firm-level data across a wide range of countries (Kwok and Reeb 2000; Altomonte et al. 2013; Wang et al. 2012). Still, it would not be impossible for a long-term research project to build a dataset of lead firms in the resource sectors of OECD and G20 countries. The first step would require arriving at an empirically and conceptually satisfactory index for measuring internationalisation, which as this thesis has shown is multidimensional (constituted by such factors a firm’s overseas assets, level of foreign shareholding, overseas listing). A second step would involve compiling lists of lead firms in the selected countries for each resource industry. Firms’ levels of internationalisation would then be measured and coded, along with their

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country of origin and their sector. Such a dataset could then be used to look at whether, under boom conditions, levels of firm internationalisation in a given sector are associated with lower levels of localisation across a wider range of countries. This would be a research project of significant size and is best pursued if a structured, smaller-N multi-country study, such as the one described above, produced promising results.

To conclude I return to the principal propositions and contributions of this thesis. The global rise in commodity prices from 2003 to 2013 renewed scholarly interest in the relationship between resource booms and patterns of economic policymaking. Analysts pointed to a discernible rise in nationalist agitation and intervention in resource-rich countries around the world. The introduction to this thesis explained how conventional market-cycle theories suggest resource nationalism rises and falls in response to commodity cycles. Related research on the resource curse similarly points to how booms motivate nationalist intervention in extractive, forestry and cash-crop industries too.

However, comparative scholarship emphasises the diverse expressions of contemporary resource nationalism across resource-rich countries. These scholars compare and explain how, facing similar boom conditions, governments have tracked very different policy paths when it comes to their resource industries. Not only has new research revealed distinct patterns of nationalist policymaking across resource-rich countries, but in many cases, years after the boom ended, nationalist interventions continued to emerge and persist. Comparative work demonstrates that market-cycle theories cannot account for nationalist variation. A starting premise of this study, therefore, was that resource nationalism was contingent upon more than simply a market mechanism. This thesis contributed to the growing body of work on the drivers of nationalist variation in resource-rich countries. However, it refocused the analytical lens upon the sector level, and proposed that intra-state variation needs explaining too.
A detailed, inductive analysis of variation across Indonesia’s lead export-oriented resource sectors revealed that nationalist outcomes were contingent upon business preferences, which were themselves a function of both sectoral and firm-level ownership patterns. With conclusions drawn from the Indonesian case, this thesis explored the possibility of portability. The intention was to contribute to the study of resource nationalism beyond Indonesia and offer a fresh framework with which to explain why, even within a single country, nationalism appeals and prevails in some cases, but fails to transpire in others.
## APPENDIX A
Profiles of Indonesia’s Major Mining Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Structure*</th>
<th>Listing</th>
<th>Local takeover</th>
<th>Owner</th>
<th>Production in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Kaltim Prima Coal** | • 65%, Bumi Resources (Bakrie)  
• 30% Tata Power (India)  
• 5% Kutai Timur Sejahtera (local government owned company). | Indonesia | 2003           | Aburizal Bakrie | 53.5 million tons |

Bumi Resources acquired 100% of KPC from Rio Tinto and BHP in 2003. Bumi is an Indonesian listed company owned by tycoon and former Golkar party chair, Aburizal Bakrie. Bumi Resources was majority owned by several international banks, with Credit Swiss holding over 20%. The heavily indebted Bakrie Brothers is the holding company for Bumi Resources and, after the end of the boom, much of the company’s shares had to be sold off to meet debt repayments.

| **Arutmin** | • 80% Bumi Resources (Bakrie)  
• 20% Bakrie Group | Indonesia | 2001           | Aburizal Bakrie | 28.8 million tons |

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1 List of CoW holders obtained from Lucarelli (2010) and *Profil Perusahaan Pertambangan Mineral dan Batubara 2015* (Ministry of Energy and Mineral Resources 2015); production taken from company reports, using 2013 figures as this was the height of the boom; ownership collated by the author from company reports and Indonesian and foreign media reports.
BHP Billiton sold its 80% interest in Arutmin in 2001 to PT Bumi Resources. In 2004 Bumi acquired another 19.99% of Arutmin bringing its ownership to 99.99%. In 2007, Bumi sold 30% to India’s Tata Power, claiming the company wanted to use the capital to expand into copper and gold. Tata Power sold their stake back to a Bakrie affiliated company in 2014 through a series of debt restructuring initiatives.

<table>
<thead>
<tr>
<th><strong>Adaro Indonesia</strong></th>
<th><strong>Indo Tambang Megah</strong></th>
</tr>
</thead>
</table>
| • 43.91% Adaro Strategic Investments  
• 35.23% Public  
• 6.18% Garibaldi Thohir  
• 14.68% Other key shareholders  
Indonesia  
2009  
Edwin Soeryadjaya, Theodore Permadi Rachmat, Garibaldi Thohir, Ir. Subianto  
52.3 million tons | • 65% PT Banpu Minerals  
• 35% public  
Singapore  
NA  
Foreign  
29.1 million tons |

Until 2001, Australian company New Hope Mining owned 50% of Adaro and America’s Mission Energy owned 10% and the remaining 40% was owned by Sukanto Tanoto, a New Order era tycoon with interests in energy and pulp and paper. New Hope sold down to 40% as contractually obliged in 2001. Tanoto’s stake was sold by a consortium of banks to finance unpaid loans following the Asian financial crisis. In 2005, New Hope and Mission sold their remaining shares to a consortium of banks. In 2009, Adaro Strategic Investments bought a controlling stake in the company, a joint venture by a group of high-profile Indonesian businessmen: Edwin Soeryadjaya, Theodore Permadi Rachmat, Garibaldi Thohir, Ir. Subianto and Santiago S. Uno. These members of five wealthy Indonesian families (all associated with the New Order-era Astra conglomerate owned by William Soeryadjaya) own Adaro either personally or through companies they control, and remain as the majority investors with 64.77% of shares.

PT Banpu Minerals is listed in Singapore and the company is owned by Thailand's PT Banpu Public Company Ltd.
<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Country</th>
<th>Year</th>
<th>Owner/Founder</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Berau Coal</td>
<td>51% PT Armadian Tritunggal (Indonesia), 39% Aries Investment Limited (Australia), 10% Sojitz Corporation (Japan).</td>
<td>Indonesia</td>
<td>2009</td>
<td>Eka Tjipta Widjaja</td>
<td>23.2 million</td>
</tr>
</tbody>
</table>

Armadian is 99% owned by Berau Coal Energy, which since 2012 was owned (84.74%) by Asia Resource Minerals (the rest is 15.26% public). ARM was at one time a joint venture between Bakrie, Recapital Advisors, a private equity company set up by Rusan Roeslani in 1999 (with Sandiaga Uno of Adaro) that had purchased Berau back in 2009, and Nat Rothschild of the prominent British family. The partnership fell through, and ARM was then bought out by a consortium of Asian investors via Asia Coal Energy Ventures in 2015, which is listed in Hong Kong and is financed by the Sinar Mas Group, owned by Eka Tjipta Widjaja.

| Kideco Jaya Agung        | 46% Indika Inti Corpindo, 5% PT Muji Int Utama, 49% Samtan Co                      | Indonesia | 2003 | Sudwikatmono and Wiwoho Basuki Tjokronegoro | 15.43 million |

Kideco was initially owned by Samtan, a Korean based company. Indika bought a majority stake when Samtan was obliged to divest in 2003. Indika Inti Corpindo is a subsidiary of Indika Energy, owned by Wiwoho Basuki Tjokronegoro and Agus Lasmono, heir of the Suharto’s cousin and New Order-era tycoon Sudwikatmono.
<table>
<thead>
<tr>
<th>Bayan Resources</th>
<th>Low Tuck Kwong, Singaporean-born Indonesian citizen signed a Second Generation CCoW for the Gunungbayan mine site in East Kalimantan in 1994, from which he expanded to acquire four more Second and Third CCoW all in East Kalimantan after 1997.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 51.59% Low Tuck Kwong</td>
<td></td>
</tr>
<tr>
<td>• 20.00% Korea Electric Power Corporation</td>
<td></td>
</tr>
<tr>
<td>• 10.00% Enel Investment Holding BV</td>
<td>Indonesia</td>
</tr>
<tr>
<td>• 5.96% Engki Wibowo</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
</tr>
<tr>
<td></td>
<td>Indonesia (State Owned)</td>
</tr>
<tr>
<td>Tambang Batubara Bukit Asam (state owned company)</td>
<td>The product of nationalisation of the Dutch state’s coal mining interests.</td>
</tr>
</tbody>
</table>
Freeport's ownership structure is a source of consternation for the Indonesian government and mining industry. Its original contract had no divestment obligation. The second contract it signed in 1991 to extend its operations over the Grasberg mine, included an obligation to divest 51 percent after 20 years. When the contract was signed, Freeport offered the government an initial 9-10%, but the government declined and Aburizal Bakrie was given the opportunity to purchase the shares. Bakrie then sold those shares to Bob Hasan, one of Suharto’s Indonesian Chinese cronies. Freeport’s contract also included an ‘escape clause’, so when the Suharto government introduced a regulation in 1994 reducing foreign divestment requirements to just 5 percent, Freeport was no longer held to the divestment terms in its contract. The regulation allowed foreign companies to buy back divested shares, and Bob Hasan sold his shares back to Freeport at an inflated price.

At the time of writing, Freeport had not reached an agreement with the government on how to sell down and at what price, in order to meet the new divestment rules and divest another 39%.

### Copper

<table>
<thead>
<tr>
<th>Freeport Indonesia Co.</th>
<th>81.28% Freeport-McMoRan Copper &amp; Gold Inc.</th>
<th>USA</th>
<th>Freeport McMoran</th>
<th>Foreign</th>
<th>885 million pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.36% Indonesian Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9.36% others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Freeport’s ownership structure is a source of consternation for the Indonesian government and mining industry. Its original contract had no divestment obligation. The second contract it signed in 1991 to extend its operations over the Grasberg mine, included an obligation to divest 51 percent after 20 years. When the contract was signed, Freeport offered the government an initial 9-10%, but the government declined and Aburizal Bakrie was given the opportunity to purchase the shares. Bakrie then sold those shares to Bob Hasan, one of Suharto’s Indonesian Chinese cronies. Freeport’s contract also included an ‘escape clause’, so when the Suharto government introduced a regulation in 1994 reducing foreign divestment requirements to just 5 percent, Freeport was no longer held to the divestment terms in its contract. The regulation allowed foreign companies to buy back divested shares, and Bob Hasan sold his shares back to Freeport at an inflated price.

At the time of writing, Freeport had not reached an agreement with the government on how to sell down and at what price, in order to meet the new divestment rules and divest another 39%.

<table>
<thead>
<tr>
<th>Newmont Nusa Tenggara</th>
<th>82.2% Amman Mineral Investama (50% owned by Panigoro’s Medco, 50% by Agus Projosasmito’s AP Investment)</th>
<th>USA</th>
<th>2016</th>
<th>Foreign</th>
<th>161 million pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17.8% PT Pukuafu Indah,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Newmont Mining Corporation, an American owned and Dutch listed company, initially owned a controlling share of Newmont Nusa Tenggara through the Nusa Tenggara Partnership, the company’s subsidiary. When Newmont was contractually obliged to divest, a consortium of regional government owned companies formed PT Multi Daerah Bersaing, backed by Aburizal Bakrie, and arranged to purchase the shares at below market price in 2007. At that stage, the ownership structure was: 56% Nusa Tenggara Partnership B.V., (45% owned by Newmont Mining Corporation and 35% owned by Japan’s Sumitomo Corp), 17.8% PT Pukuafu Indah, 24% PT Multi Daerah Bersaing, 2.2% PT Indonesia Masbaga Bersaing.

After years of conflict over the new divestment requirements and downstream processing rules, Newmont decided to leave the Indonesian market. In 2017, Arifin Panigoro’s Medco and Agus Projosasmito bought a controlling share in the mining operation by buying out Nusa Tenggara Partnership’s 56%, and purchasing the 24% owned by PT Multi Daerah Bersaing (owned by Aburizal Bakrie) and the 2.2% PT Indonesia Masbaga Bersaing.

<table>
<thead>
<tr>
<th>Gold</th>
<th>Freeport Indonesia Co.</th>
<th>See above</th>
<th>See above</th>
<th>900,000 ounces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nusa Halmahera Minerals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 75% Newcrest (Australia)</td>
<td>Indonesia</td>
<td>NA</td>
<td>Foreign</td>
</tr>
<tr>
<td></td>
<td>• 25% Antam</td>
<td></td>
<td></td>
<td>312,711</td>
</tr>
</tbody>
</table>
Newcrest was awarded the contract for the Gosowong mine in 1993 and divested shares gradually to Antam as per the terms of its contract. Troubled negotiations over increasing local ownership and changing the terms of its CoW led to its work plan and budget being blocked by the Indonesian government in 2018.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Location</th>
<th>Year</th>
<th>Ownership Type</th>
<th>Ounces</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Archipelago Resources plc.</strong></td>
<td>100% PT Archi Indonesia</td>
<td>Indonesia</td>
<td>2009</td>
<td>Indonesian</td>
<td>147,000</td>
</tr>
<tr>
<td></td>
<td>Archipelago Resources was a British-based mining venture until 2009, when a</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>majority stake in Archipelago was acquired by Peter Sondak’s Rajawali Group.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sondak took the company private in 2013 and was then fully acquired by the</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>G-Resources Group Ltd.</strong></td>
<td>16.6% CST Mining Group Ltd.</td>
<td>Hong Kong</td>
<td>2006</td>
<td>Indonesian-Foreign partnership</td>
<td>281,477</td>
</tr>
<tr>
<td></td>
<td>6.57% BlackRock Investment Management (UK) Ltd.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>79.13% Public shareholding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>G-Resources is listed in Hong Kong but incorporated in Bermuda and was set up</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>to buy Agincourt’s Martabe Gold mine in Sumatra. The contract for Martabe was</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>once operated by Newmont, but Agincourt bought the mine in 2006, which was</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>then taken over by Australia’s Oxiana, and finally G-Resources in 2009. In</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2016, G-Resources sold the Martabe mine in Sumatra to a buyers’ group consisting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>of EMR Capital (associated with Australian mining businessman Owen Hegarty) and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesian tycoons, Martua Sitorus (of Wilmar International, a leading agribusiness company) and the Hartono family (one of Indonesia’s richest Indonesian Chinese tycoons).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Ownership Details</td>
<td>Country</td>
<td>Year</td>
<td>Nationality</td>
<td>Production</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------</td>
<td>---------</td>
<td>------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>J Resources Nusantara</td>
<td>92.5%. J Resources Mining Limited. Public. 7.5%</td>
<td>Indonesia</td>
<td>2011</td>
<td>Indonesian</td>
<td>103,000 ounces</td>
</tr>
</tbody>
</table>

J-Resources was set up in 2011 by Indonesian businessman Johan Lensa and his son Jimmu, who acquired several mining assets in Indonesia from British based company, Avocet.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Country</th>
<th>Year</th>
<th>Nationality</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antam Tbk</td>
<td>65% Government 35% Public</td>
<td>Indonesia</td>
<td>NA</td>
<td>Indonesian (State Owned)</td>
<td>82,370 ounces</td>
</tr>
</tbody>
</table>

Established in 1968 when Suharto merged several smaller state owned mineral companies.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Country</th>
<th>Year</th>
<th>Nationality</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newmont Nusa Tenggara</td>
<td>See Above</td>
<td></td>
<td></td>
<td></td>
<td>48,000 ounces</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Country</th>
<th>Year</th>
<th>Nationality</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tin</td>
<td>65% Government 35% public</td>
<td>Indonesia</td>
<td>NA</td>
<td>Indonesian (State Owned)</td>
<td>26,204 ton (concentrate); 23,718 tons (metal)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Details</th>
<th>Country</th>
<th>Year</th>
<th>Nationality</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Ownership Structure</td>
<td>Country</td>
<td>Year</td>
<td>Type</td>
<td>Quantity</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------</td>
<td>--------</td>
<td>----------</td>
<td>----------------</td>
</tr>
<tr>
<td>Kobah Tin</td>
<td>75% Malaysian Smelting Corporation&lt;br&gt;25% Pt Timah</td>
<td>Indonesian</td>
<td>2013</td>
<td>Foreign</td>
<td>1,900 ton</td>
</tr>
<tr>
<td></td>
<td>The mine was owned and operated by Malaysian Smelting until 2013 when its contract expired. The government handed the asset to PT Timah, who was then to operate the mine in partnership with three local-government owned enterprises set to obtain shares. The plan fell through and the mine remained closed and inactive at the time of writing.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nickel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vale</td>
<td>58.73% Vale (Brazil)&lt;br&gt;20.9% Sumitomo Metal Mining Co Ltd (Japan)&lt;br&gt;20% public</td>
<td>Brazil</td>
<td>NA</td>
<td>Foreign</td>
<td>75,802 t nickel in matte</td>
</tr>
<tr>
<td></td>
<td>Vale has reached an agreement with the government to divest a further 20 percent by 2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Antam</td>
<td>65% Government&lt;br&gt;35% public</td>
<td>Indonesia</td>
<td></td>
<td>Indonesian (State Owned)</td>
<td>18,249 tni Ferronickel; 11,521,212 wmt ores</td>
</tr>
</tbody>
</table>
APPENDIX B

Foreign Ownership in Leading Palm Oil Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Planted Hectares</th>
<th>Listing</th>
<th>Group</th>
<th>Owner</th>
<th>Foreign ownership over 30 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golden Agri</td>
<td>485,606</td>
<td>Public - Singapore</td>
<td>Sinar Mas (PT SMART)</td>
<td>Eka Tjipta Widjaja (Indonesian Chinese)</td>
<td>Unclear</td>
</tr>
<tr>
<td>IndoFood Agri</td>
<td>336,675</td>
<td>Public - Singapore</td>
<td>Salim Group</td>
<td>Anthony Salim (Indonesian Chinese)</td>
<td>No</td>
</tr>
<tr>
<td>Astra Agro</td>
<td>297,862</td>
<td>Public - Indonesia</td>
<td>Astra International</td>
<td>Jardine Matherson Group (Hong Kong)</td>
<td>Yes</td>
</tr>
<tr>
<td>Sime Darby</td>
<td>247,412</td>
<td>Public - Malaysia</td>
<td>Permodalan Nasional Berhad</td>
<td>Malaysian Government</td>
<td>Foreign owned (Malaysia)</td>
</tr>
<tr>
<td>First Resources</td>
<td>207,575</td>
<td>Public - Singapore</td>
<td>Eight Capital</td>
<td>Fangiono family (Indonesian Chinese)</td>
<td>Unclear; Eight Capital is owned by companies listed in the British Virgin Islands</td>
</tr>
<tr>
<td>Wilmar International</td>
<td>198,466</td>
<td>Public Listed - Singapore</td>
<td>Wilmar International</td>
<td>William Kuok (Malaysian) and Martua Sitorus (Indonesian Chinese)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

2 Company list and planted area sourced from Hardman & Co. (2016); ownership compiled by author using company reports, media reports and Panama Papers data.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Shares (Hectares)</th>
<th>Ownership</th>
<th>Manager Company</th>
<th>Manager Name</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eagle High Plantations</td>
<td>171,931</td>
<td>Public Singapore</td>
<td>Rajawali Corporation</td>
<td>Peter Sondakh (Indonesian Chinese)</td>
<td>Yes</td>
</tr>
<tr>
<td>Asian Agri</td>
<td>160,000</td>
<td>Private</td>
<td>Royal Golden Eagle (Raja Garuda Mas)</td>
<td>Sukanto Tanoto (Indonesian Chinese)</td>
<td>Unclear</td>
</tr>
<tr>
<td>PT Perkebunan Nusantara IV</td>
<td>158,550</td>
<td>State Owned</td>
<td>Indonesian State Owned</td>
<td>Indonesian State Owned</td>
<td>No</td>
</tr>
<tr>
<td>Makin Group</td>
<td>140,000</td>
<td>Private</td>
<td>Gudam Garam</td>
<td>Susilo Wonowidjojo (Indonesian Chinese)</td>
<td>Unclear</td>
</tr>
<tr>
<td>Musim Mas</td>
<td>130,000</td>
<td>Private</td>
<td>Musim Mas Group</td>
<td>Bachtiar Karim (Indonesian Chinese)</td>
<td>Unclear</td>
</tr>
<tr>
<td>Sampoerna Agro</td>
<td>130,000</td>
<td>Public Indonesia</td>
<td>Sampoerna Strategic Group</td>
<td>Sampoerna Family (Indonesian Chinese)</td>
<td>Majority owned by Sampoerna Agri Resources, private company, domiciled in Singapore with shareholders in the Virgin Islands</td>
</tr>
<tr>
<td>KL Kepong</td>
<td>109,251</td>
<td>Public Malaysia</td>
<td></td>
<td>Malaysian private equity group and state-owned companies</td>
<td>Foreign owned (Malaysia)</td>
</tr>
<tr>
<td>Goodhope Asia Holdings-Agro Indo Mas</td>
<td>99,340</td>
<td>Public Colombo</td>
<td>Carson Cumberbatch</td>
<td>Sri Lankan private holding company</td>
<td>Foreign owned (Sri Lanka)</td>
</tr>
<tr>
<td>Company Name</td>
<td>Tons</td>
<td>Country of Incorporation</td>
<td>Company</td>
<td>Owner(s)</td>
<td>Foreign Owned</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-------</td>
<td>--------------------------</td>
<td>---------</td>
<td>----------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Dharma Satya Nusantara (DSN)</td>
<td>90,000</td>
<td>Indonesia</td>
<td>Triputra</td>
<td>Winarto Oetomo, Theodore Rachmat, Liana Salim and Subianto families (Indonesian Chinese)</td>
<td>No</td>
</tr>
<tr>
<td>Genting Plantations</td>
<td>76,065</td>
<td>Indonesia</td>
<td>Genting Group</td>
<td>Tan Sri Lim Goh Tong</td>
<td>Foreign owned (Malaysia)</td>
</tr>
<tr>
<td>Bakrie Sumatera Plantations</td>
<td>61,662</td>
<td>Indonesia</td>
<td>Bakrie Global</td>
<td>Aburizal Bakrie</td>
<td>No</td>
</tr>
<tr>
<td>Anglo-Eastern Plantations</td>
<td>60,860</td>
<td>London</td>
<td>Genton International</td>
<td>Genton International, a private company domiciled in Hong Kong, owns the controlling share</td>
<td>Yes</td>
</tr>
<tr>
<td>Sipef Group</td>
<td>46,169</td>
<td>Brussels</td>
<td>Sipef Group</td>
<td>Belgian group, Ackermans van Haaren, owns controlling share</td>
<td>Yes</td>
</tr>
<tr>
<td>Austindo Nusantara Jaya Plantation</td>
<td>45,605</td>
<td>Indonesia</td>
<td>Austindo Nusantara Jaya</td>
<td>George Tahija</td>
<td>No</td>
</tr>
</tbody>
</table>
## APPENDIX C

### List of Active Production Sharing Contracts by Year of Domestic Farm-in/ Takeover

<table>
<thead>
<tr>
<th>Operator</th>
<th>Partners</th>
<th>Share Structure</th>
<th>Year of Domestic Farm-in/ Takeover</th>
<th>Controlling Share</th>
<th>Details</th>
<th>Block</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Petrochina International Java Ltd</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pertamina Hulu Energi Tuban, PT</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JOB Pertamina - Golden Spike Energy Indonesia</td>
<td>Pertamina Hulu Energi Raja Tempirai, PT</td>
<td>50</td>
<td>1989</td>
<td>Domestic</td>
<td>The two companies have operated the block since 1989. Fahmi Idris, a senior Golkar politician and former minister for industry was revealed as a shareholder and director of Golden Spike via the Panama Papers</td>
<td>Raja&amp;Pendopo Block, Ons. South Sum.</td>
<td>Oil: 97,020, Gas: 170,120</td>
</tr>
<tr>
<td></td>
<td>Golden Spike</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

3 Organised by year of domestic takeover or farm-in. The list of PSCs was supplied by SKK Migas and cross-checked with the Extractive Industries Transparency Index (EITI) Report (2014). Shareholding data is taken from EITI (2014), and updated by the author using individual company reports, together with industry, foreign and Indonesian press reports on acquisitions and farm-ins. All production levels are taken from EITI (2014) as this was the most recent date for which reliable data could be obtained across all producing PSCs. Oil is measured in barrels, and gas is measured in MSCF (thousand standard cubic feet).
<table>
<thead>
<tr>
<th>Company</th>
<th>Acquisition Date</th>
<th>Year</th>
<th>Domestic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Medco E&amp;P Indonesia</td>
<td>1995</td>
<td>100</td>
<td>Domestic</td>
<td>Medco acquired Kampar from Stanvac in 1995.</td>
</tr>
<tr>
<td>PT Medco E&amp;P Indonesia</td>
<td>1995</td>
<td>100</td>
<td>Domestic</td>
<td>Medco acquired South Sumatra from Stanvac in 1995.</td>
</tr>
<tr>
<td>PT Medco E&amp;P Rimau</td>
<td>1995</td>
<td>95</td>
<td>Domestic</td>
<td>Formerly operated by Stanvac, ExxonMobil, then Medco took over Stanvac Indonesia’s operations in 1995.</td>
</tr>
<tr>
<td>Lapindo Brantas Inc.</td>
<td>1996</td>
<td>50</td>
<td>Domestic</td>
<td>EMP owns the controlling stake in Lapindo Brantas, which it bought from Huffington Corporations (USA) in 1996.</td>
</tr>
<tr>
<td>PT Prakarsa Brantas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Minarak Brantas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JOB Pertamina - Medco E&amp;P Tomori Sulawesi</td>
<td>1997</td>
<td>50</td>
<td>Domestic</td>
<td>When Union Texas signed a new PSC for its Senoro block in 1997, it was changed to a JOB with Pertamina. Union Texas sold out to Arco (also American) in 1999, who then sold out to Medco in 2001.</td>
</tr>
<tr>
<td>PT Medco E&amp;P Lematang</td>
<td>2002</td>
<td>51.1176</td>
<td>Domestic</td>
<td>In 1987 oil was discovered by Enim Oil (USA). In 1997 the block was taken over by Amerada Hess (USA), who then sold their interest to Medco in 2002. The contract extended for another 10 years in 2016 and Medco took over the other shareholders to obtain 100% interest</td>
</tr>
<tr>
<td>Lundin Lematang BV</td>
<td></td>
<td>25.8824</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lematang E&amp;P Limited</td>
<td></td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Owner 1</td>
<td>Ownership</td>
<td>Year</td>
<td>Region</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>-----------</td>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td>Medco E&amp;P Bengara</td>
<td>Medco Energi</td>
<td>100</td>
<td>2001</td>
<td>Domestic</td>
</tr>
<tr>
<td>EMP Malacca Strait S.A (Kondur Petroleum S.A.)</td>
<td>EMP Malacca Strait S.A (Kondur Petroleum S.A.)</td>
<td>34.46</td>
<td>2003</td>
<td>Domestic</td>
</tr>
<tr>
<td>- PT Imbang Tata Alam</td>
<td>PT Imbang Tata Alam</td>
<td>26.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- OOGC Malacca Limited</td>
<td>OOGC Malacca Limited</td>
<td>32.58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Talisman (Jambi Merang) Limited</td>
<td>Talisman (Jambi Merang) Limited</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Pacific Oil &amp; Gas (Jambi Merang) Limited</td>
<td>Pacific Oil &amp; Gas (Jambi Merang) Limited</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kangean Energy Indonesia Ltd.</td>
<td>Kangean Energy Indonesia Ltd.</td>
<td>60</td>
<td>2004</td>
<td>Domestic</td>
</tr>
<tr>
<td>Company Name</td>
<td>Partner Company</td>
<td>Ownership Share</td>
<td>Year</td>
<td>Negotiation Details</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>----------------------------------</td>
<td>-----------------</td>
<td>------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>EMP Exploration (Kangean) Ltd.</td>
<td></td>
<td>40</td>
<td></td>
<td>and then Bakrie’s EMP took 100% interest in 2004. Then in 2007, EMP farmed out 60% to Kangean Energy Indonesia, controlled by Japex and Mitsubishi.</td>
</tr>
<tr>
<td>Mobil Cepu Ltd.</td>
<td>Mobil Cepu Ltd.</td>
<td>20.5</td>
<td>2005</td>
<td>Join ownership between Pertamina and Mobil. ExxonMobil owns Mobil Cepu, and first discovered significant reserves in 2000. Pertamina then demanded a stake in the contract. The shareholding structure took the government years to negotiate. In 2005 Pertamina and ExxonMobil signed a PSC giving the latter operatorship, and providing Pertamina with a 45% share. A consortium of district government-owned companies (the last four companies listed) were divvied up 10 percent of the shares. Financial backing of Asri Dharma Sejahtera came from Surya Paloh, Chair of Nasdem party and a media mogul.</td>
</tr>
<tr>
<td>Ampolex (Cepu) PTE. Ltd.</td>
<td></td>
<td>24.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Pertamina EP Cepu</td>
<td></td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Sarana Patra Hulu Cepu</td>
<td></td>
<td>1.091</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Blora Patragas Hulu</td>
<td></td>
<td>2.182</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Asri Dharma Sejahtera</td>
<td></td>
<td>4.4847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Petrogas Jatim Utama Cendana</td>
<td></td>
<td>2.2423</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUMD Benuo Taka</td>
<td>BUMD Benuo Taka</td>
<td>100</td>
<td>2005</td>
<td>The block was formally operated by Vico (Virginia Indonesia Oil Company). The declining oil reserves prompted the company to sell out as the block was no longer commercially viable. A regional-government owned enterprise took over in 2005.</td>
</tr>
<tr>
<td>Sumatera Persada Energi</td>
<td>Sumatera Persada Energy</td>
<td>100</td>
<td>2005</td>
<td>SPE is a subsidiary of Asiabumi, an Indonesian oil and gas company with an unclear ownership structure. It was awarded the PSC in 2005</td>
</tr>
<tr>
<td>Company (Location)</td>
<td>Company (Location)</td>
<td>%</td>
<td>Year</td>
<td>Type</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----------------------------------------</td>
<td>---------</td>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>Santos (Madura Offshore) Pty. Ltd.</td>
<td>Santos (Madura Offshore) Pty. Ltd.</td>
<td>67.5</td>
<td>2005</td>
<td>Foreign</td>
</tr>
<tr>
<td>Petronas Carigali (Madura) Ltd.</td>
<td></td>
<td>22.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Petrogas Pantai Madura</td>
<td></td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMP (Bentu) Ltd. (Kalila (Bentu) Limited)</td>
<td>EMP (Bentu) Ltd. (Kalila (Bentu) Limited)</td>
<td>100</td>
<td>2006</td>
<td>Domestic</td>
</tr>
<tr>
<td>Emp Korinci Baru Limited</td>
<td>EMP Korinci</td>
<td>100</td>
<td>2006</td>
<td>Domestic</td>
</tr>
<tr>
<td>JOB Pertamina - EMP Gebang</td>
<td>Pertamina Hulu Energi Gebang, PT</td>
<td>50</td>
<td>2006</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Energi Mega Persada Gebang Ltd. (EMP)</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMP Tonga</td>
<td>EMP Tonga, PT (PT Mosesa Petroleum)</td>
<td>71.25</td>
<td>2007</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>PT Kencana Surya Perkasa</td>
<td>23.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PT Petross Petroleum Production</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Star Energy (Kakap) Ltd.</td>
<td>Star Energy (Kakap) Ltd.</td>
<td>31.25</td>
<td>2007</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Premier Oil Kakap BV</td>
<td>18.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SPC Kakap Limited</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Novus UK (Kakap) Ltd.</td>
<td>13.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Percentage</td>
<td>Year</td>
<td>Operator</td>
<td>Details</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------</td>
<td>------</td>
<td>---------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>PT Pertamina Hulu Energi Kakap</td>
<td>10</td>
<td></td>
<td></td>
<td>Prajogo Pangestu, of Barito Pacific, an Indonesian Chinese tycoon that made a fortune in the timber sector during the Suharto era.</td>
</tr>
<tr>
<td>Natuna UK (Kakap 2) Ltd</td>
<td>6.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Novus Nominees Pty Ltd</td>
<td>2.75</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Novus Petroleum Canada (Kakap) Ltd</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Camar Resources Canada Inc.</td>
<td>35</td>
<td>2007</td>
<td>Domestic</td>
<td>In 2007, Medco purchased a controlling interest in Camar Bawean Petroleum of Canada.</td>
</tr>
<tr>
<td>Camar Bawean Petroleum Ltd.</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pertamina Hulu Energi ONWJ Ltd.</td>
<td>58.2795</td>
<td>2009</td>
<td>Domestic</td>
<td>BP sold its 46% stake to Pertamina in 2009 and Pertamina became the operator. The SOE later increased its share by buying out foreign companies’ participating interests (Inpex and Talisman), bringing its share to 58.28%; Bakrie’s EMP purchased China’s CNOOC 36.72% stake in 2012.</td>
</tr>
<tr>
<td>EMP ONWJ Ltd.</td>
<td>36.7205</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kufpec Indonesia (ONWJ) BV</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT SRP Langgak</td>
<td>50</td>
<td>2010</td>
<td>Domestic</td>
<td>Chevron’s contract was not extended in 2010, and instead the government handed operatorship to Riau provincial government-owned company, SPR. Kingswood Capital is a Singaporean company with unclear ownership.</td>
</tr>
<tr>
<td>SPR Langgak, PT</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kingswood Capital</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Pertamina Hulu Energi West Madura</td>
<td>80</td>
<td>2011</td>
<td>Domestic</td>
<td>The contract was first signed in 1981 with Kodeco as the operator and Pertamina had a 50 percent stake. In 2011, after extended negotiations, the government decided to extend the</td>
</tr>
<tr>
<td>PHE WMO, PT</td>
<td>10</td>
<td></td>
<td></td>
<td>West Madura, East Java, offshore</td>
</tr>
<tr>
<td>Kodeco Energy Co., Ltd</td>
<td>50</td>
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<td></td>
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</tr>
<tr>
<td>Company Name</td>
<td>Partnership Details</td>
<td>Percentage</td>
<td>Year</td>
<td>Contract Type</td>
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<tr>
<td>Petroset Ltd.</td>
<td>PT Petronusa Bumbakti</td>
<td>51</td>
<td>2013</td>
<td>Domestic</td>
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<tr>
<td></td>
<td>PetroChina International Selat Panjang Ltd.</td>
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<td></td>
<td>International Mineral Resources Inc.</td>
<td>4</td>
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<tr>
<td>Saka Indonesia Pangkah Ltd.</td>
<td>Saka Indonesia Pangkah Ltd.</td>
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<td></td>
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<td>BOB PT Bumi Siak Pusako - Pertamina Hulu</td>
<td>PT Bumi Siak Pusako</td>
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<td>PT Pertamina Hulu Energi</td>
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<tr>
<td>CNOOC SES Ltd.</td>
<td>CNOOC SES Ltd.</td>
<td>65.5409</td>
<td>2014</td>
<td>Foreign</td>
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<tr>
<td>Company</td>
<td>Owners</td>
<td>Shares</td>
<td>Year</td>
<td>Type</td>
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<td>----------------------------------------------</td>
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<td>PT Pertamina Hulu Energi OSES</td>
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<td>20</td>
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<td>Domestic</td>
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<tr>
<td>Saka, Ltd.</td>
<td></td>
<td>8.9086</td>
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<td>Kufpec Indonesia SES BV.</td>
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<tr>
<td>Total E&amp;P Indonesie</td>
<td>Total E&amp;P Indonesie</td>
<td>50</td>
<td>2015</td>
<td>Domestic</td>
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<tr>
<td>INPEX Petroleum Ltd.</td>
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<td>50</td>
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<tr>
<td>Mobil Exploration Indonesia Ltd. (Pertamina)</td>
<td>Mobil Exploration Indonesia Ltd.</td>
<td>100</td>
<td>2015</td>
<td>Domestic</td>
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<td>Medco Energi Internasional</td>
<td>ConocoPhillips Indonesia, PT</td>
<td>40</td>
<td>2016</td>
<td>Domestic</td>
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<tr>
<td></td>
<td>INPEX Natuna Ltd</td>
<td>25</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>INPEX Natuna Ltd</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virginia Indonesia Co. (VICO)</td>
<td>Virginia Indonesia Co.</td>
<td>7.5</td>
<td>2016</td>
<td>Domestic</td>
</tr>
<tr>
<td></td>
<td>Saka Energi</td>
<td>26.25</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>ENI</td>
<td>26.25</td>
<td></td>
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<tr>
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<td>Opicoil Houston</td>
<td>20</td>
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</tr>
<tr>
<td></td>
<td>Virginia International Co. Lic</td>
<td>15.625</td>
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366
<table>
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<tr>
<th>Company Name</th>
<th>Contractor Name</th>
<th>PSC</th>
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<th>Notes</th>
<th>Location</th>
<th>Oil</th>
<th>Gas</th>
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<tr>
<td>Universe Gas &amp; Oil Company, Inc.</td>
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<td>3.375</td>
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### PSCs with unclear operating status

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<th>Company Name</th>
<th>Contractor Name</th>
<th>PSC</th>
<th>Operating Status</th>
<th>Notes</th>
<th>Location</th>
<th>Oil</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevron Indonesia Co.</td>
<td>Chevron Indonesia Co.</td>
<td>92.5</td>
<td>--</td>
<td>Foreign</td>
<td>East Kalimantan, Ons. Off.</td>
<td>5,891,465</td>
<td>27,457,625</td>
</tr>
<tr>
<td>INPEX Offshore North Mahakam Ltd.</td>
<td></td>
<td>7.5</td>
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<table>
<thead>
<tr>
<th>Company Name</th>
<th>Contractor Name</th>
<th>PSC</th>
<th>Operating Status</th>
<th>Notes</th>
<th>Location</th>
<th>Oil</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>ConocoPhillips (South Jambi) Ltd.</td>
<td>ConocoPhillips (South Jambi) Ltd.</td>
<td>45</td>
<td>--</td>
<td>Foreign</td>
<td>South Jambi 'B' Block, Ons. Jambi</td>
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<tr>
<td>Petrochina International Jambi B</td>
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<td>30</td>
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<tr>
<td>PT Pertamina Hulu Energi South Jambi</td>
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<td>25</td>
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</table>

### PSCs operated by foreign companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Contractor Name</th>
<th>PSC</th>
<th>Operating Status</th>
<th>Notes</th>
<th>Location</th>
<th>Oil</th>
<th>Gas</th>
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<tbody>
<tr>
<td>PT Chevron Pacific Indonesia</td>
<td>PT Chevron Pacific Indonesia</td>
<td>100</td>
<td>--</td>
<td>Foreign</td>
<td>Rokan block, Ons. Central sumatera</td>
<td>--</td>
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<tr>
<td>Chevron Makassar Ltd.</td>
<td>Chevron Makassar Ltd.</td>
<td>72</td>
<td>--</td>
<td>Foreign</td>
<td>Off. Makassar Strait</td>
<td>1,250,090</td>
<td>5,512,662</td>
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<tr>
<td></td>
<td>PT Pertamina Hulu Energi Makassar Strait</td>
<td>10</td>
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<td>PSC expires in 2020</td>
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<tr>
<td></td>
<td>BUT Tiptop Makassar Limited</td>
<td>18</td>
<td></td>
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<td></td>
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<tr>
<td>Chevron Canal Ltd.</td>
<td>Chevron Canal</td>
<td>32</td>
<td>--</td>
<td>Foreign</td>
<td>Ganal Block, Lepas Pantai</td>
<td>--</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Contractor Name</th>
<th>PSC</th>
<th>Operating Status</th>
<th>Notes</th>
<th>Location</th>
<th>Oil</th>
<th>Gas</th>
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<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Company</td>
<td>Participating Interest</td>
<td>Production (bbl)</td>
<td>Location</td>
<td>Notes</td>
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<td></td>
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</tr>
<tr>
<td>-------------------------------</td>
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<td>------------------</td>
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<td></td>
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<tr>
<td>ENI</td>
<td>20</td>
<td></td>
<td>Kalimantan Timur</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Sinopec</td>
<td>17</td>
<td></td>
<td></td>
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<tr>
<td>ConocoPhillips (Grissik) Ltd.</td>
<td>54</td>
<td></td>
<td>Corridor Block, Ons. South Sumatera</td>
<td>Oil: 10,557,039</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Pertamina Hulu Energi Corridor</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Talisman (Corridor) Ltd.</td>
<td>36</td>
<td></td>
<td></td>
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<tr>
<td>BP Muturi Holdings B.V.</td>
<td>1</td>
<td></td>
<td>Muturi Block, West Papua</td>
<td>Oil: 449,073 Gas: 78,321,000</td>
<td></td>
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<tr>
<td>CNOOC Muturi Ltd.</td>
<td>64.77</td>
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<tr>
<td>Indonesia Natural Gas Resources Muturi, Inc.</td>
<td>34.23</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BP Wiriagar Ltd.</td>
<td>37.6</td>
<td></td>
<td>Wiriagar Block, Ons. West Papua</td>
<td>Oil: 150,854 Gas: 26,310,000</td>
<td></td>
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</tr>
<tr>
<td>Talisman Wiriagar Overseas Ltd. (BP Wiriagar)</td>
<td>42.4</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>KG Wiriagar Petroleum Ltd.</td>
<td>20</td>
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<tr>
<td>Petrochina Int'l Jabung Ltd.</td>
<td>27.85715</td>
<td></td>
<td>Jabung Block, Ons. Jambi.</td>
<td>Gas: 15,142,000 Oil: 3,540,696</td>
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<tr>
<td>Petrochina Int'l Bermuda Ltd.</td>
<td>30</td>
<td></td>
<td>Kepala Burung Block, Salawati Basin</td>
<td>Oil: 733,151 Gas: 567,033</td>
<td></td>
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<tr>
<td>Petrochina Int'l Bermuda Ltd.</td>
<td>25.936</td>
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Notes:
- Foreign
- Contract expires in 2023
- Contract expires in 2020
- The PSC was signed in 2005 and will be up for extension in 2035.
<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
<th>Percentage</th>
<th>Status</th>
<th>Ownership</th>
<th>Block</th>
<th>Oil</th>
<th>Gas</th>
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<tr>
<td><strong>RHP Salawati Island</strong></td>
<td>Pertamina Hulu Energi Salawati Basin, PT</td>
<td>34.064</td>
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<tr>
<td><strong>BP Berau Ltd.</strong></td>
<td>BP Berau Ltd.</td>
<td>48</td>
<td>Foreign</td>
<td>Expired in 2017 and at time of writing new ownership was unclear</td>
<td>Berau, Off.</td>
<td>Oil: 588,832</td>
<td>Gas: 31,229,000</td>
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<tr>
<td></td>
<td>MI Berau BV</td>
<td>22.856</td>
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<tr>
<td></td>
<td>Nippon Oil Exploration (Berau) Ltd.</td>
<td>17.144</td>
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<td>KG Berau Petroleum Ltd.</td>
<td>12</td>
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<tr>
<td><strong>BP Wiriagar Ltd.</strong></td>
<td>BP Wiriagar Ltd.</td>
<td>37.6</td>
<td>Foreign</td>
<td>Contract expires in 2023</td>
<td>Wiriagar Block, Ons. Irian Jaya</td>
<td>Oil: 59,515</td>
<td>Gas: 3,164,000</td>
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<tr>
<td></td>
<td>Talisman Wiriagar Overseas Ltd. (BP Wiriagar)</td>
<td>42.4</td>
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<td>KG Wiriagar Petroleum Ltd.</td>
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<tr>
<td><strong>Premier Oil Natuna Sea B.V.</strong></td>
<td>Premier Oil Natuna Sea B.V.</td>
<td>28.7</td>
<td>Foreign</td>
<td>--</td>
<td>Natuna Sea Block “A”, Off.</td>
<td>Oil: 80,265,658</td>
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<tr>
<td></td>
<td>Natuna 1 BV (Petronas)</td>
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<td></td>
<td>Kufpec</td>
<td>33.3</td>
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<td></td>
<td>Natuna 2 BV (Pertamina / PTTEP)</td>
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<td><strong>Pearl Oil (Sebuku) Ltd.</strong></td>
<td>Pearl Oil (Sebuku) Ltd.</td>
<td>70</td>
<td>Foreign</td>
<td>Pearl Oil was a wholly owned subsidiary of Aabar Energy until 2008 when it was acquired by the Mubadala Investment company from the UAE.</td>
<td>Sebuku</td>
<td>Oil: 22,611,844</td>
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<td>Total E&amp;P Sebuku</td>
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<td>INPEX South Makassar Ltd.</td>
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<tr>
<td>IOB Pertamina - Talisman (Ogan Komering) Ltd.</td>
<td>Pertamina Hulu Energi Ogan Komering, PT</td>
<td>50</td>
<td>--</td>
<td>Joint domestic, foreign</td>
<td>In March 2007, Talisman sold its 50% to Jadestone Energy (Singapore). The contract expired in 2017 but the government was yet to decide on whether the contract would be taken over by Pertamina.</td>
<td>Ogan Komering, Ons. Sumsel</td>
<td>Oil: 1,043,717 Gas: 3,324,557</td>
</tr>
<tr>
<td>-----</td>
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<tr>
<td>Talisman (Ogan Komering) Ltd.</td>
<td>50</td>
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<td></td>
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<td></td>
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<tr>
<td>Energy Equity Epic (Sengkang) Pty. Ltd.</td>
<td>Energy Equity Epic (Sengkang) Pty. Ltd.</td>
<td>100</td>
<td>--</td>
<td>Foreign</td>
<td>Energy Equity is owned by Australia's Energy World Corp</td>
<td>Sengkang, Ons. South Sulawesi</td>
<td>Gas: 15,965,455</td>
</tr>
<tr>
<td>Inpex Masela, Ltd</td>
<td>INPEX Masela, Ltd</td>
<td>65</td>
<td>--</td>
<td>Foreign</td>
<td>Inpex signed PSC in December 2, 1998 and expires in 2028</td>
<td>Masela Block, Timor Sea - Maluku</td>
<td>Under development</td>
</tr>
<tr>
<td>Shell</td>
<td>35</td>
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<tr>
<td>Citic Seram Energy Ltd.</td>
<td>Citic Seram Energy Ltd. (China)</td>
<td>51</td>
<td>--</td>
<td>Foreign</td>
<td>Citic Ceram, the Operator and majority equity owner, is a Chinese oil and gas company. The PSC expired in 2019 and Citic and its partners will seek an extension</td>
<td>Seram Non Bula</td>
<td>Oil: 1,003,528</td>
</tr>
<tr>
<td>KUFPEC (Indonesia) Limited</td>
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<tr>
<td>GULF Petroleum Investment Co.</td>
<td>16.5</td>
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<tr>
<td>LION International Investment Ltd.</td>
<td>2.5</td>
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<td></td>
</tr>
<tr>
<td>Kalrez Petroleum (Seram) Ltd.</td>
<td>Kalrez Petroleum (Seram) Ltd.</td>
<td>100</td>
<td>--</td>
<td>Unclear</td>
<td>Kalrez is wholly owned by South Sea Petroleum Holdings, an investment holding company domiciled in Hong Kong.</td>
<td>Bula, Ons. Seram</td>
<td>Oil: 149,438</td>
</tr>
<tr>
<td>Company Name</td>
<td>Company Name</td>
<td>Percentage</td>
<td>Ownership Type</td>
<td>Details</td>
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<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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<tr>
<td>Triangle Pase Inc.</td>
<td>Triangle Pase Inc.</td>
<td>100</td>
<td>Foreign</td>
<td>Triangle Pase began operating the field since 2009, after it purchased ExxonMobil's stake in 2009. Triangle, an Australian firm, sold its entire stake and operatorship to Enso Asia Inc (EAI) in 2016, which appears to be an Indian company.</td>
<td></td>
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</tr>
<tr>
<td>Pase Block, Ons. Aceh</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Oil: 2,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gas: 146,170</td>
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</tr>
<tr>
<td>IOA Total E&amp;P Indonesie</td>
<td>PT Pertamina Hulu Energi Tengah Area</td>
<td>55</td>
<td>Foreign</td>
<td>Contract expires October 2018 and is amongst a list of contracts speculated to be transferred to Pertamina</td>
<td></td>
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<td></td>
<td>Total E&amp;P Indonesie</td>
<td>22.5</td>
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<td></td>
<td>INPEX Tengah</td>
<td>22.5</td>
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<tr>
<td>INPEX Petroleum Ltd.</td>
<td>INPEX Petroleum Ltd.</td>
<td>50</td>
<td>Foreign</td>
<td>Both Chevron and Inpex reported their plans to surrender the contract when it expires in March 2018</td>
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<td></td>
<td>Chevron Indonesia</td>
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<tr>
<td>ConocoPhillips (South Jambi) Ltd.</td>
<td>PT Pertamina Hulu Energi South Jambi</td>
<td>25</td>
<td>Foreign</td>
<td>Operations were shut down due to depleted wells, making the block uncommercial. Government was in talks with ConocoPhillips about the future of the block.</td>
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<td></td>
<td>ConocoPhillips (South Jambi) Ltd.</td>
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<td></td>
<td>Petrochina International Jambi B</td>
<td>30</td>
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<tr>
<td>Eni Krueng Mane, Ltd</td>
<td>ENI</td>
<td>100</td>
<td>Foreign</td>
<td>ENI is an Italian oil and gas company</td>
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<tr>
<td>Santos Northwest Natuna B.V</td>
<td>Santos</td>
<td>50</td>
<td>Foreign</td>
<td>Both Santos and AWE are Australian companies</td>
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<td></td>
<td>AWE</td>
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<td>GDF SUEZ Exploration Indonesia BV</td>
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References


spectator/as-far-as-the-eye-can-see-the-families-who-own-the-most-of-australia/news-story/ac7cee3166a8690cdeb7d50a8ced6391d.


