

# Rent Seeking: A Study Of Rent Seeking Practices And Relations Between Rulers And Businessmen In The Decentralization Regime

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## Abstract

This simple article will describe the practice of rent seeking and the relationship between the rulers and entrepreneurs in the decentralized regime. The case study taken in this study is the corruption case of the Granting of Nickel Mining Business Permits by the Governor of Southeast Sulawesi Province (Nur Alam) in Buton Regency and Bombana Regency 2009-2014. This study was written to see the typology of rent seeking practices that occurred in the corruption case of nickel mining business permits in Buton Regency and Bombana Regency, Southeast Sulawesi Province in 2009-2014. Moreover, this study also looks further into the relationship between entrepreneurs and the rulers that occurred in the area. To answer and examine this problem, the author uses various KPK report documents and media reviews of various investigative reports related to the case, then abstracts it in the theoretical framework of rent seeking. The author realizes that this data collection model is too early to draw conclusions without conducting field studies. The temporary findings of this paper are that the practice of rent seeking in the decentralized regime illustrates that the practice of rent seeking has shifted to the regions in various forms such as bribery. Moreover, the author sees a tendency for other practices in the form of rent seizing, namely the practice of rent seeking that occurs when bureaucrats try to obtain the right to allocate rent generated from state institutions for their own personal interests as was done by Nur Alam, the Governor of Southeast Sulawesi Province. Moreover, the relationship between entrepreneurs and rulers in the author's view tends not to occur state capture, but what occurs is crony capitalism.

## Keywords:

Rent seeking; Corruption; and Decentralization

## INTRODUCTION

Market involvement in development activities and public services cannot be separated and avoided by the state or government. It is said so, because the state or government needs the private sector to drive the wheels of the economy. However, the relationship of mutual need or dependence between the private sector

and the state or government does not always have a positive impact, there is also a tendency to have a negative impact. The tendency of the negative impact of the relationship between the state and the private sector is if this relationship only benefits individuals, groups, and not on the basis of the interests of citizens or the people.

This statement can be studied and proven in the New Order regime era, which provided convenience and special treatment such as monopoly or oligopoly

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to several companies that had special closeness to the ruler of the New Order regime, Soeharto. For example, there was a monopoly right to market wheat in the western part of Indonesia, which in addition to having a population of two-thirds of the population in Indonesia and a purchasing power much higher than that of the population in the eastern region. Moreover, since 1968 the right to import cloves has only been given to two entrepreneurs, namely Liem Sioe Liong and Probosutejdo (Chaniago, 2012).

The phenomenon of the relationship between the ruler or state and entrepreneurs as in the example in the study of political economy is often called the practice of rent seeking. In Kruger's view, this rent seeking practice occurs when there are restrictions from the government on economic activities, especially imports, then various forms of rent seeking practices arise and various parties will compete to obtain the import permit. Sometimes this competition is carried out legally, but in many cases the practice of rent seeking is carried out through bribery, corruption, smuggling, and black market (Krueger, 1974).

However, after the issuance and implementation of Law No. 22 of 1999 and Law No. 32 of 2004 concerning Regional Government and Law No. 33 of 2004 concerning Central and Regional Financial Balance and the existence of direct elections at the regional level, the bureaucratic control over the economic sector of society in the Soeharto regime which was strong, slowly shifted and changed to the regions. Entrepreneurs who were previously subordinate to bureaucrats slowly became active sponsors in the direct election process.

Capital owners influence policy makers through individuals who are "tied" through financial assistance to win voters. The purpose of this is for business interests.

The implementation of regional autonomy, as regulated in Law No. 22 of 1999 and Law No. 32 of 2004, is expected to increase transparency and accountability of government. However, the reality shows that decentralization also expands the space for corrupt practices in the regions (Hadiz, 2010). A recent study by ICW (2023) revealed that more than 60% of corruption cases in Indonesia in the last five years occurred at the local government level, mostly related to the mining and infrastructure sectors.

Moreover, the implementation of the regional government law package and the holding of direct elections at the local level provide space and opportunity for entrepreneurs to become policy makers by nominating as members of the DPRD or regional heads such as regents, mayors and governors. In Hadiz's view (Hadiz, 2010), this decentralization of power has only become a new playing field for the old oligarchic powers that grew during Soeharto's reign and consolidated their power to the regional level.

Meanwhile, using a different term from Haidz, the situation in Max Weber's analysis is said to give rise to "political capitalism", namely a system that allows positions and connections to be used to seek profit by rent seeking and utilizing control over resources, such as licenses, connections, permits and import-export authorities, to reap profits without investing capital in production activities. Weber uses the term "Political Capitalism" for a system that allows

positions and connections to be used to obtain profit. In Weber's view, this system is often found in pre-modern economies, such as China (see the book *The Theory of Social and Economic Organization*. 1964. New York: The Free Press. page 25).

Therefore, starting from the description above about the changes in the landscape of the political system and economic configuration with the implementation of the decentralization policy, which in Hadiz's view is only a playing field for the old oligarchs or borrowing Weber's term as "political capitalism", will be examined more deeply in this article by taking a case study of corruption in the granting of nickel mining business permits in Buton Regency and Bombana Regency, Southeast Sulawesi Province, by Governor Nur Alam in 2009-2014.

It is well known that the mining sector in Southeast Sulawesi Province is a potential sector and is often the destination for domestic and foreign investors to invest in the mining sector. Based on data from the Central Statistics Agency (BPS) in 2015, there were 253 companies that had conducted exploration, especially in Buton Regency, Konawe Regency, and North Konawe Regency in Southeast Sulawesi.

However, the potential of the region has not been optimally utilized by the Southeast Sulawesi Provincial Government. One indicator can be seen based on the increasing number of poor people in the area. Data from the BPS of Southeast Sulawesi Province states that the number of poor people in Southeast Sulawesi Province in March 2015 was 321.88 thousand people and there was an increase in the number of poor people by

7.8 thousand people from the previous year. This situation illustrates that the average expenditure of the poor tends to be further away from the poverty line and the disparity in expenditure of the poor is also widening.

As a reinforcement of the premise and findings of BPS, based on the research findings of Indonesia Corruption Watch (Danang, et al., 2013) that the poor management of potential in the region is caused by the existence of political business relations built between entrepreneurs and the authorities. The argument of the thesis of this finding is also suspected to have occurred in the case of corruption in the granting of nickel mining permits in Buton Regency and Bombana Regency, Southeast Sulawesi Province, by Governor Nur Alam in 2009-2014.

The phenomenon of granting mining permits and other permits related to business interests, often becomes a mode for regional heads to gain personal profit. Generally, this practice occurs in areas rich in natural resources and is closely related to regional head elections. In general, every time a regional election approaches in areas rich in natural resources, there is a tendency for an increase in the granting of mining business permits. Unfortunately, the granting of such concessions to mining investors is often accompanied by compensation in the form of bribes or gratuities.

As another example to strengthen the thesis is the sting operation of the Regent of Tanah Laut Regency, South Kalimantan, namely Andriansyah, who received a bribe of one billion from Andrew Hidayat, the owner of PT Mitra

Maju Sukses. The bribe or gift was given by Andrew Hidayat to Andrianyah as a form of reward for the smooth running of the mining business permit of PT. Mitra Maju Sukses in Tanah Laut Regency.

A series of research findings and corruption cases in the granting of mining permits have problems when related to the dream of implementing a decentralization policy. The decentralization policy is expected to accelerate the welfare of citizens and bring public services closer to citizens, but it has resulted in new problems such as "decentralization of corruption."

Starting from these problems, this article will look deeper into the case of corruption of nickel mining permits in Buton Regency and Bombana Regency, Southeast Sulawesi Province, by Governor Nur Alam in 2009-2014. This study will examine the typology of rent seeking practices that occurred in the case with a theoretical framework of rent-seeking and describe the groups involved. Moreover, by using the case study as a unit of analysis, this article will also look further into the relationship or relations between the rulers (state) and entrepreneurs (market) after the decentralization policy, for example, the relationship is in the form of "konco capitalism" as in Yoshihara Kunio's view or in other forms.

## RESEARCH METHOD

The approach used in this study is a qualitative approach with document study techniques, content analysis, and literature review to see the typology of rent seeking practices that occurred in the nickel mining business permit corruption case in Buton Regency and Bombana

Regency, Southeast Sulawesi Province in 2009-2014. The data sources for this study include: KPK report documents and media reviews of various investigative reports related to the case. This study aims to see the typology of rent seeking practices that occurred in the nickel mining business permit corruption case in Buton Regency and Bombana Regency, Southeast Sulawesi Province in 2009-2014.

This article uses a literature review method with a descriptive approach to explain the results of the analysis of several sources of scientific papers or articles. Literature studies are used through reading, reviewing, and recording things related to the problems that are the focus of this article. This is in line with Nazir's opinion (2003) that literature studies are data collection techniques using review studies of books, literature, notes, and reports that are related to the problems being solved. Meanwhile, to make it easier for readers to understand the application of the literature review, this article is presented descriptively.

## RESULTS AND DISCUSSION

### *Rent Seeking: A Theoretical Study*

The study of rent seeking initially developed in the 1967s. There are two important figures and economists in writing about rent seeking, namely Gurdon Tollock and Anne Kruger. However, although Anne Kruger was the first economist to use the term "rent seeking", historically Tollock was the first to write about the concept of rent seeking practices.

Tullock's (Tullock, 1967) main premise in this rent seeking concept is

based on the assumption of various young economists at that time who stated that the welfare cost of a tariff or commodity price and the form of market monopoly were not important to be studied further because they did not affect economic conditions. This assumption was refuted by Tullock who stated that commodity prices were not only determined by welfare costs such as taxes, wages, production costs, but also included social costs such as bribes and costs to maintain security.

The main premise is based on Tullock's illustration that: First, in a monopolized market there is a strong tendency for very high social costs to mitigate threats from any party, for example social security costs, for other entrepreneurs so as not to damage the market. Second, the many strict procedures related to exports and imports, then there is the potential for other social costs such as bribes to facilitate and smooth the procedure. Third, the many lobbyists such as in the USA as parties used by entrepreneurs to obtain import or export permits, then other social costs also arise.

Therefore, social costs in many cases tend to be part of the investment and then the social costs are included in determining a commodity price. As a simple illustration that the government only gives limited beef import permits, a company X bribes the permit giver to obtain the import. The bribe given is categorized as a social cost. This social cost then becomes part of determining the price of a commodity in the market. In Tullock's view, this symptom occurs as an indirect cost transfer from consumers to producers to bear the burden of social

costs, which should not occur and be borne by consumers.

Tullock's rent seeking concept is not much different from Anne Kruger's (1974) research findings on rent seeking in the context of import permits. The main premise in Kruger's writing is that government restrictions on economic activities make import permits valuable. To obtain such permits, it is sometimes done legally, but on the other hand, this condition gives rise to rent seeking in various forms such as bribery, corruption, smuggling, and black markets. This situation illustrates that power is used to influence the market and companies gain profits in unhealthy ways, for example by bribing the authorities to obtain monopoly import rights or licenses.

In the author's view, there are two important arguments outlined by the two economists. First, this rent seeking practice tends to have a major impact on economic conditions and this is different from the premise of classical economists who state that this rent seeking practice is not a negative activity but rather a positive activity to spur economic activity. Second, this rent seeking practice will take many forms such as bribery, corruption, and smuggling, if the state always imposes restrictions or limits on economic activity.

Although the description of both economies provides important contributions and as the foundation stone of the concept of rent seeking, the concept tends to be abstract and difficult to distinguish between rent seekers and non-rent. However, the distinction between rent seekers or not is studied and described by James B Buchanan (1980) the fundamental difference between the

behavior of rent seekers and non-rent seekers.

Buchanan's writing is more detailed and clear how to distinguish between rent seeking and profit seeking (Buchanan, 1980). Rent seeking in his view is a practice carried out by entrepreneurs who obtain privileges from the state to provide certain goods and services by lobbying and bribery. These types of entrepreneurs do not produce value, but rather transfer value. Meanwhile, profit seeking is a practice carried out by creating value. Entrepreneurs like this often maximize their own profits and/or based on the opportunities available in the market structure.

Unfortunately, in the author's view, Buchanan's description of the differences in rent seeking practices still tends to be centered on one entity, namely, entrepreneurs. In the author's view, this distinction tends to be simplistic regarding the rent seeking practices that occur and ignores state actors or rulers. Whereas in the author's view, Tullock and Anne Kruger's description of rent seeking practices also involves other actors such as the state or government and other groups who also take part in rent seeking practices such as thugs.

### ***Rent Seeking Practices in Indonesia: A Review of Research Results***

In simple terms, studies on rent seeking practices in Indonesia can be divided into two groups. The first group, rent seeking practices are seen from an economic perspective. One example is Erna Zetha Rahman's thesis. This thesis analyzes the relationship between rent

seeking activities and economic growth, which focuses on the New Order era, specifically the research period 1984-1993. The findings of this thesis state that there is a relationship between rent seeking activities and economic growth at that time (Rahman, 1997).

The author's criticism of the findings of this thesis lies in the perspective built with a classical economic framework that views the practice of rent seeking as a positive activity to spur and stimulate economic activity. By using this approach, of course the findings of the thesis are relatively weak and tend to ignore the practice of rent seeking comprehensively, for example, related to the symptoms that influence and the political and economic structures that existed at that time.

The second group in the study of rent seeking practices is often viewed from a political economy perspective, for example, looking at the relationship between the state and the market or the rulers and entrepreneurs. An example of this second group is the thesis written by Yulion Zalpa (2016). His study examines the relationship patterns between the Regional Government (bureaucrats and regional politicians) and entrepreneurs in the coal mining business in Lahat Regency, South Sumatra in 2008-2014.

The findings of this study reveal and prove that rent seeking practices color coal mining management activities in Lahat Regency. The relationship patterns that exist between local governments and entrepreneurs are summarized in three major patterns. First, through organizations that oversee coal entrepreneurs in which there are individuals from local governments and

central elites who are included in the structure so that they are able to influence and urge local government policies for the benefit of entrepreneurs. Second, entrepreneurs are directly connected to the local government, these entrepreneurs are relatives or close friends of the local government elite, and third, entrepreneurs use third parties to connect with the local government, in this case foreign investors use native people who have close ties with the local government as company managers.

Another thesis as part of the second group, examines the economic perspective of politics by focusing on the relationship between the state and entrepreneurs, namely the thesis of Desi Rahmawati (2014). The findings of this thesis state that the structural logic that works in Asahan Regency is not based on recognition between actors and agents that have existed since the New Order, but on excessive recognition of capital or economic welfare and status; both of which work as symbolic capital. These structural aspects are not a single product of the New Order but a product of all national and local regimes that are continuously utilized and maintained.

The author argues that the two theses written by two different people have advantages and disadvantages. The first thesis written by Yunion Zalpa (2016) contributes additional data on the relationship between the rulers and entrepreneurs after the reformation. Unfortunately, the researcher of the thesis only narrated the findings of the three patterns and has not abstracted them in a theoretical framework about the three patterns, for example proving or weakening the existence of state capture

or whether what happened was “konco capitalism.”

### *Theoretical Foundation and Analytical Framework*

As has been described in the theoretical review in the literature review of this paper that in simple terms there are two important approaches in the study of rent seeking. The first approach sees rent seeking from a classical economic perspective. In the classical economic theory approach, it states that rent seekers are interpreted neutrally or do not have a negative impact on the economy, and can even provide benefits and positive impacts to spur economic activity.

Meanwhile, the concept of rent-seeking in political economy studies outside the classical economic approach is considered a negative behavior. It is said so, because each interest group tries to gain large economic benefits with small efforts. To gain such large profits, the lobbying process is carried out by them. This phenomenon in Olson's view (1982) the lobbying process has a major impact because it results in slow decision-making and the economy does not respond quickly and appropriately to changes and developments that occur.

The author sees that the practice of rent seeking in contemporary political economy studies tends to separate the relationship between the domains of government or rulers and the market or entrepreneurs. This difference is thought to be due to the differences in the characteristics of the two entities and if these two entities are not separated, it has the potential to cause rent-seeking practices with various forms of variants such as bribery and corruption.

The author's position certainly agrees more with the argument from the perspective of contemporary political economy in viewing the practice of rent seeking, compared to the argument of the classical economic group. This statement is certainly not without argument. The author's argument departs from Tullock's logic in viewing welfare costs, which are not only about taxes and wages, but also more than that. Tullock explains that there are other social costs such as bribes and various other forms of "rent seeking" whose costs tend to be greater than the classical economic view which only sees welfare costs in the triangle consisting of taxes without seeing things that happen outside the procedure.

The second argument of the author is based on Kruger's findings that state restrictions on economic activities will have an impact on various forms of rent seeking practices. Thus, this description explains that Kruger implicitly explains that there is a relationship between the state (ruler) and the market (entrepreneurs) to mutually "benefit" each other.

Therefore, starting from the academic position, the author will examine more deeply the practice of rent seeking by using a case study of corruption of nickel mining business permits in Buton Regency and Bombana Regency, in Southeast Sulawesi in 2009-2014. This case will be used as a unit of analysis to find out more deeply the typology of rent seeking practices. The conceptual framework to describe the typology of rent seeking practices, the author uses the concept of Michel L. Ross (2001) by dividing rent seeking and rent seizing.

In Ross's view (2001), rent seizing consists of two parts, namely: first, companies seek profits made by the state by bribing or giving bribes to politicians or bureaucrats. This division is often referred to as rent creation. Second, politicians and bureaucrats seek profits from power by threatening companies through regulatory instruments. Meanwhile, rent seizing is the practice of rent seeking that occurs when state actors or bureaucrats try to obtain the right to allocate rents generated by state institutions for their own personal interests.

Moreover, this article does not only look at the typology of rent seeking practices that occur. However, this article will also examine more deeply the types of rent seekers, namely bureaucratic capitalists or crony capitalists as explained by Yoshira Kunia (1998). This study is important to do because at the end of this article the author will look at the relationship between the state (ruler) and the market (entrepreneur) with the rent seeking practices that occur in this case study.

#### ***First discussion: Corruption of Nickel Mining Business Permits in Southeast Sulawesi Province and Rent Seeking Practices***

The corruption case of nickel mining permits in Buton Regency and Bombana Regency, in Southeast Sulawesi Province, began with the findings of the KPK investigation, that Nur Alam received a "kick back" or commission from PT Anugrah Harisma Barakah [AHB], which obtained the nickel mining permit.

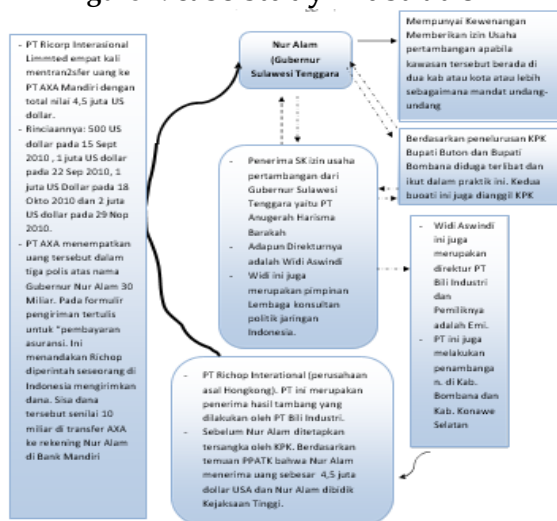
In a press release from the KPK, it was stated that Nur Alam had violated



the rules by issuing a Decree on Approval of Mining Area Reserves, Mining Business License (IUP) Exploration, and a Decree on Approval of Increasing the Mining Business License from Exploration to Mining Business License for Production Operations. In addition, the KPK, using PPATK data, stated that Governor Nur Alam was suspected of receiving funds of approximately Rp. 60 billion from a mining entrepreneur with ties to PT Billy Indonesia, a mining company operating in Southeast Sulawesi (Tempo, May 1<sup>st</sup> 2017).

In simple terms, the following is an illustration of the image (this image was compiled by the author of this paper using two main sources of Tempo magazine investigations based on PPATK reports and media reviews of official statements from the KPK related to this case) of the practice of corruption in mining business permits that occurred in two regencies, Buton and Bombana, which involved the Governor of Southeast Sulawesi, Nur Alam.

**Figure 1. case study illustration**



**Figure 1. Above is the result of data analysis**

Based on the description above, it can be seen that the practice that occurred in the corruption of mining business permits in the two areas in Southeast Sulawesi Province is a rent seeking practice. In Ross's view, this rent seeking practice was seen when PT AHB and various other companies such as PT Richop International Limited sought profit by bribing politicians or bureaucrats. This bribery was intended to provide convenience and special treatment related to mining business permits.

Moreover, corruption of mining business permits is not only a rent seeking practice. The author sees a tendency towards rent seizing practices, namely rent-seeking practices that occur when state actors or bureaucrats try to obtain the right to allocate rents generated from state institutions for their own personal interests. 20 However, the findings of this rent seizing practice as mentioned by the author still tend to be weak in terms of data, because the data collected by the author is still a study of KPK report documents and media reviews of various findings in the case.

### *Corruption of Nickel Mining Business Permits in Southeast Sulawesi Province: A Study of State and Business Relations*

In the context of the relationship between the ruling elite group (Governor of Southeast Sulawesi Province, Regent of Buton, Regent of Bombana, and other bureaucrats) with entrepreneurs (PT AHB, PT Richop Internasional) there tends to be no one strong against the other. This means that the ruling group wants to get by issuing mining business permits even through lobbying and

bribery, and on the other hand, the entrepreneur group also has a tendency to collect for personal interests or their group networks.

Based on literature review, rent seeking practices can be classified into rent creation, where entrepreneurs seek profit by bribing officials, and rent seizing, where bureaucrats try to allocate state resources for personal gain (Ross, 2001). In the case of Southeast Sulawesi Governor Nur Alam, indications of both practices were found:

1. Rent Creation: PT Anugrah Harisma Barakah (AHB) and PT Billy Indonesia gained profit through bribes to regional officials.
2. Rent Seizing: Nur Alam used his power to issue permits that benefit certain groups in exchange for financial rewards

The relationship between the rulers and business groups (entrepreneurs) by placing the mining permit corruption case as the unit of analysis of this paper, shows that there is a tendency for state capture not to occur. This means that in the local context, especially in Southeast Sulawesi Province, there is no grip from oligarchic business groups or "hostage-taking" by entrepreneurs against the rulers to influence policies to suit their interests.

Therefore, the author sees that what actually happened in Southeast Sulawesi Province with the corruption case as the unit of analysis is crony capitalism (*kapitalisme konco*), namely that entrepreneurs gain great benefits by having a "close relationship" with state administrators. Meanwhile, the administrators who carry out this model

are bureaucratic capitalists, namely the rulers who have or are currently serving and use their respective positions to accumulate capital, one of which is with the rent seeking practice model as interpreted by Kuno (1998).

In the context of the case in this article, there is no dominance of business groups over government policies as in state capture. Instead, this case is more directed towards crony capitalism, where close relationships between public officials and businessmen create an exclusive economy that benefits certain groups (Yoshihara, 1998). This phenomenon is further exacerbated by the weak monitoring system in the regions.

## CONCLUSION

The practice of rent seeking after the reform, using the case of corruption of mining business permits in Southeast Sulawesi Province, tends or relatively illustrates that the practice of rent seeking has shifted to the regions. Moreover, the author sees a tendency for the practice of rent seizing, namely the practice of rent seeking that occurs when bureaucrats try to obtain the right to allocate rent generated from state institutions for their own personal interests. Both practices tend to occur in Southeast Sulawesi Province.

Moreover, the relationship between entrepreneurs and rulers in the author's view has a tendency not to experience state capture. This means that in the local context, especially in Southeast Sulawesi Province, there is no grip from oligarchic business groups or "hostage-taking" by entrepreneurs against rulers to influence policies to suit

their interests. Because their relationship, entrepreneurs and rulers, is mutually beneficial to each other.

Therefore, the author sees that what actually happened in Southeast Sulawesi Province with corruption cases as the unit of analysis is crony capitalism, namely that entrepreneurs gain great benefits by having "close relationships" with state administrators. Meanwhile, the organizers who carry out this model are bureaucratic capitalists, namely rulers who have or are currently serving and use their respective positions to accumulate capital, one of which is with the rent seeking practice model.

## THEORETICAL IMPLICATIONS

As explained previously in the description in the literature review, the author's position is more in agreement with the argument from the perspective of contemporary political economy in viewing rent seeking practices, compared to the argument of the classical economic group. The argument of both authors is based on the findings of Kruger (1974) who saw that state restrictions on economic activities would have an impact, one of which was on various forms of rent seeking practices. Thus, this description explains that implicitly Kruger explains that there is a relationship between the state (ruler) and the market (entrepreneurs) to mutually "benefit" each other. Based on the description of the discussion in this paper, the practice of rent seeking as explained by classical economists will have a positive impact on the economy, of course it has not been proven in this case. The practice of rent seeking in the description of the discussion in this paper

has a greater negative impact, namely state losses.

The practice of rent seeking in decentralization in Indonesia, as seen in the case of mining permits discussed in this article, shows that regional autonomy has not been fully successful in suppressing corruption. On the contrary, decentralization actually provides more space for the practice of rent seeking and crony capitalism. Therefore, it is necessary to strengthen the monitoring system and reform policies so that natural resource governance is more transparent and accountable.

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