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(De)centralization and the Missing Middle in Indonesia and Malaysia

Francis Hutchinson

ISEAS – Yusof Ishak Institute

E-mail: fhutchinson@iseas.edu.sg

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Abstract

Indonesia and Malaysia were both initially characterized by a powerful, centralized state apparatus and “soft authoritarianism”. Following the Asian Financial Crisis, they have had very different trajectories. In tandem with a transformative political liberalization process, Indonesia has implemented far-reaching decentralization reforms. Malaysia’s political context has remained relatively static, and it has proceeded to centralize important aspects of governance. Notwithstanding this initial difference, both cases display a notable similarity – the re-scaling of state power has occurred at the expense of the meso-level – provinces in Indonesia and states in Malaysia. Because they focus exclusively on the flow of resources and responsibilities away from central governments, prevailing decentralization frameworks conflate meso- and local-level governments and are thus not well-equipped to analyse who power does and does not flow to. The “missing middle” in both countries is all the more striking given the fundamentally different state formation processes, experiences of decolonization, and eventual systems of government in the two countries. Beyond pointing to the need to sharpen our conceptual tools for the study of decentralization, this commonality may tell us something about the nature of state power.

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30 Heng Mui Keng Terrace, Singapore 119614

T 6778 0955

F 6778 1735

E admin@iseas.edu.sg

W www.iseas.edu.sg

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Introduction

For students of democratization processes, Southeast Asia presents somewhat of a conundrum. Despite consistently high levels of economic growth and a growing middle class, up until the Asian Financial Crisis, Malaysia and Indonesia were led by “strong central state institutions” and had “soft authoritarian” political systems (Stubbs, 2001: 37).

The inability or unwillingness of the middle class to push for political liberalization was attributed to the “performance legitimacy” of the states in these countries, which were able to consistently deliver high rates of growth as well as social and political stability. This “performance” was, in turn, enabled by a favourable regional context, as well as a number of underlying factors.

First, these countries acquired or developed relatively cohesive state structures early on. In Malaysia’s case, the country inherited a large and well-articulated state apparatus from the British. Indonesia’s deep and traumatic revolution led to the forging of a strong, centralized state structure. In both countries, these centralized state apparatuses were reinforced by the long tenures of national leaders (Esman, 1972: 284; Stubbs, 2001: 40-41).

Second, in the immediate post-war period, the threat of communism constituted an existential threat to the viability of these countries. Effective responses required not only considerable coercive capacity to militarily defeat these challenges, but also formidable administrative capabilities to provide services to their populations in order to earn legitimacy. This was heightened by the influx of foreign capital during the Cold War. In the post-Cold War period, these states were able to construct other narratives to justify the centralization of power (Stubbs, 2001: 40, 46-47).

The Asian Financial Crisis constituted a profound challenge to the legitimacy of the Indonesia and Malaysian states, given that they were premised on providing rising incomes as well as

social and political stability (Acharya, 1999: 421). However, while the Crisis was a critical juncture for both countries, the political outcomes and ensuing changes to the structures of government were distinct in each.

Following the collapse of the New Order, the contours of Indonesia's political system changed in fundamental ways. The power of the executive was curbed, the role of the legislature was revitalized, and controls on political life were rolled back. In addition, this political liberalization was accompanied by an important rescaling of state power downwards to the local-level. Thus, financial resources and administrative authority in a wide range of areas – from health, education, natural resource management, and labour – were devolved to lower levels of government, particularly the city and regency level. This earned the country the label of “fast starter” in the World Bank's review of decentralization in Asia (World Bank, 2005: 7).

At first glance, Malaysia stands out in marked contrast. Relative to Indonesia, the country emerged from the Asian Financial Crisis with its political regime intact. Despite substantial economic contraction and political turmoil, the ruling coalition was able to retain power (Pepinsky, 2009). In line with its political continuities, Malaysia's government structures have not changed overmuch. Designed as a federal system, it has a collection of state governments with elected leaders. However, rather than rescaling power to a lower level, it has proceeded to relocate power upwards, from the state to the national level. An obvious exception to the decentralization trend, the country is not even mentioned in the World Bank's landmark review.

However, upon deeper examination, the two countries share a common characteristic – their rescaling processes have been at the expense of the meso-level, namely provinces in Indonesia and states in Malaysia.

In order to understand this phenomenon better, this article will seek to answer the following questions:

- Are there common patterns in the rescaling of state power in these countries and, in particular, similarities where power converges or disperses?
- How helpful are the prevailing concepts used in the decentralization literature for identifying and understanding these trends?
- Are there specific characteristics of meso-level governments that make them problematic sites of state power?

The remainder of this article will be divided into four parts. The first section will critically examine the key concepts used in the decentralization literature, particularly those related to the rescaling of state power. The second section will compare and contrast the rescaling processes in Indonesia and Malaysia, paying particular attention to the recipients of the various aspects of governance that are being transferred. The third section will analyse the identity of meso-level governments within each country's system of governance to see if they share any commonalities. The fourth and final section will conclude.

Defining Decentralization

As with other regions, Southeast Asia has been influenced by the “Silent Revolution” of decentralization. With the aim of improving citizen participation, improving service delivery, increasing transparency, as well as fostering competition for resources, central governments have established revenue-sharing mechanisms with, and devolved or delegated a range of responsibilities to, sub-national governments.

One of the most influential proponents of decentralization, Rondinelli, defines the concept as the “transfer of planning, decision-making or management functions from the central government and its agencies to field organizations, subordinate units of government, semi-autonomous public corporations, area-wide or regional development organizations, specialized functional authorities or non-governmental organizations” (1983: 188). Two decades later, the World Bank's definition is almost identical, with the addition of the private sector as a potential recipient of the devolved or delegated responsibilities (World Bank, 2001).¹

However, decentralization is a complex concept. It has a range of meanings across different disciplines as well as a number of conceptual tensions. Fesler notes three, in particular. First, centralization and decentralization are antinomies, and neither term can individually capture the full spectrum of possible governance arrangements. In addition, neither term has a mid-point. Second, decentralization essentially refers to the division of power, making it difficult to measure. Third, it is hard to measure “degrees” of decentralization within a given country,

¹ The Rondinelli-derived definition is arguably the most influential definition of decentralization, frequently referred to by the World Bank as well as agencies such as USAID's Center for Democracy and Government. Other agencies such as the UNDP adopt a more open-ended definition that can then be adapted to local contexts (Altmann et al 2000).

such as between different units such as regions, states or provinces, and local governments, or between equivalent units that are very distinct such as urbanized provinces and their rural equivalents (1965: 537).

Work done by the World Bank (2001) as well as Schneider (2003:33), seeks to increase the analytical power of the concept by “unpacking” decentralization into various component parts.

The most frequent distinctions are:

- fiscal: the proportion of resources and fiscal responsibility attributed to non-central government entities
- administrative: the degree of autonomy from central government control afforded to non-central government entities
- political: the extent to which non-central government entities undertake political functions such as representation and decision-making

In addition, the World Bank and other organizations such as the Food and Agriculture Organisation, and USAID often refer to a fourth category, namely:

- market: the degree to which the private sector is allowed to participate through privatization or deregulation (World Bank, 2001; Cistulli, 2002; Center for Democracy and Development 2000: 7).

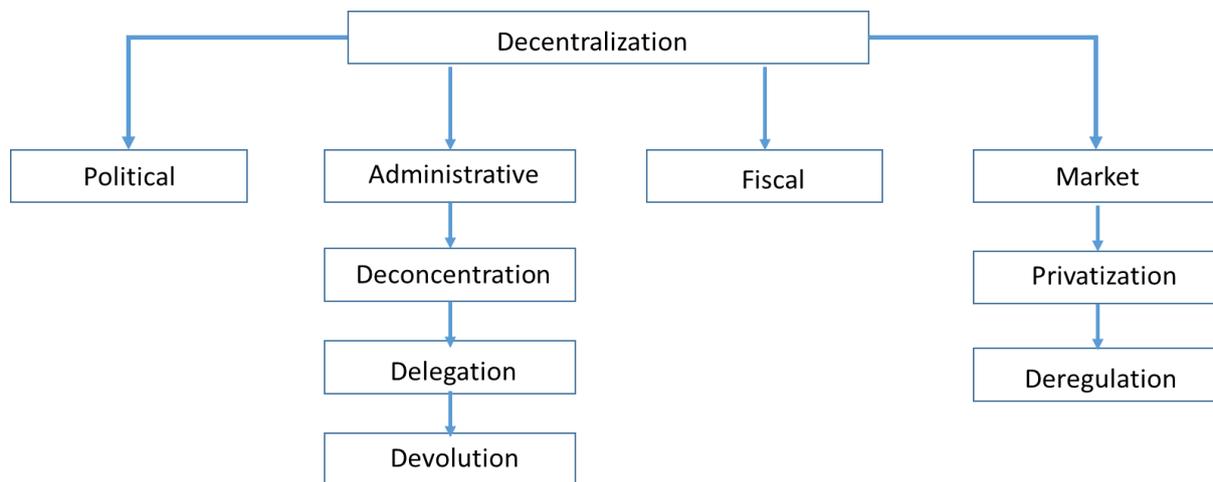
The four types of decentralization are depicted diagrammatically in Figure 1.

While not without an element of overlap, this greater degree of specificity helps advance our understanding of what aspect of governance is being decentralized. Transferring ear-marked public funds is very different from establishing elective office, and delegating oversight duties is distinct from relinquishing a specific revenue source.

However, while shedding light on *what* is being centralized, these definitions do not specify *who* the recipients of these responsibilities are. This is because the underlying assumption of decentralization is that it entails “the transfer of power and resources away from the central government” (Schneider, 2003: 33). Thus, the re-allocation of virtually any function of

governance away from the central government is understood to be a form of decentralization – regardless of the identity of the recipient.²

Figure 1: The Four Types of Decentralization



Source: Cistulli 2002

However, the potential recipients of state power identified by the World Bank include different state actors, as well as para-statal and private sector entities – which have qualitatively important distinctions. At the most immediate level, not all of the potential recipients are able to take on all four aspects of governance. While state actors such as provincial and local governments can be recipients of political, fiscal, and administrative responsibilities; non-state actors such non-government organizations and the private sector are unlikely to be attributed political functions such as representation.

In addition, the distinction between meso- and local-level governments merits considerably more attention. It is one thing to devolve administrative, political, and fiscal resources to a multitude of local-governments, and it is another to do so to large states and provinces, many with endogenously developed political institutions – including government structures – and

² This oversight is deeply rooted in political science and sociology, which tend to conceptualize the state as a group of organizations with functional (administrative, legal, coercive, and extractive) characteristics dominating a given territorial area and its people (Skocpol, 1985: 7). However, this overlooks the fact that some of these organizations themselves may have specific territorial characteristics.

with claims to cultural, social, or linguistic specificity. Furthermore, in many countries, meso-level governments provide representational and coordination functions on behalf of the centre, and are themselves locations of considerable state power. Thus, “empowering” the meso- or local-level implies fundamentally different types of decentralization and, indeed, potential challenges to central state power.³

Recent work by the World Bank has begun to recognize a distinction between meso- and local-level governments. However, their qualitatively different nature and the implications this has for decentralization processes are not drawn out. Rather, practitioners are encouraged to be cognizant that the choice of decentralizing to intermediate or local governments in a given country is influenced by “institutional incentive structures” that may privilege one or the other (Eaton, Kaiser, and Smoke: 2011: 20).

Therefore, while useful in deepening our understanding of what aspect of state power is transferred to non-central government entities, the prevailing decentralization framework does not differentiate between outcomes that transfer power to meso-level or local-level governments.

(De)centralization in Indonesia and Malaysia

Using the World Bank’s expanded decentralization framework, the paragraphs ahead will compare and contrast the rescaling processes in Indonesia and Malaysia. In each case, the structure of government as well as the allocation of revenue sources and responsibilities in the immediate pre- and post-Crisis periods will be analysed. Given this article’s focus on the flow of power to different parts of the state, the paragraphs ahead will limit themselves to administrative, fiscal, and political decentralization.⁴

³ State power is taken here to encompass its “despotic” and “infrastructural” varieties, namely: “power by the state elite itself over society” and “the power of the state to penetrate and centrally coordinate the activities of civil society through its own infrastructure” (Mann, 1984: 114).

⁴ Given the involvement of non-state actors, privatization-as-decentralization will not be dealt with here. However, there is no implicit reason to associate privatization with decentralization. As the section on Malaysia shows, privatization has been used as a mechanism to centralize federal control over formerly state government-owned assets (Hutchinson, 2014).

Indonesia

Indonesia has a unitary state structure. Unlike a federal system, there is no over-arching framework for the division of responsibilities, and sub-national governments carry out functions that are delegated to them by the central government. Due to Indonesia's geographic characteristics and cultural diversity, the desirable structure of government and extent of regional autonomy has proven a recurrent existential question for the country. Over the past decades, the country has undergone different periods of centralization and decentralization (Jaya and Dick, 2001: 218).

Under Suharto's New Order, which spanned 1966-1998, administrative, fiscal, and political power were highly concentrated. Case likens the country's governance structure at that time to a pyramid, with President Suharto at the top, with a small elite from the military, bureaucracy, and business in the middle, and a "broad social base" at the bottom (2002: 31). In a political sense, the country was classified as "authoritarian" (Pepinsky, 2009) or a "pseudo-democracy" (Case, 2002).

Following the aftermath of the Asian Financial Crisis and deep economic and social turmoil in Indonesia, Suharto was made to step aside. This ushered in a transition to a vibrant, if rather chaotic democracy. The constitution was amended, and the offices of President and Vice-President were made directly elective – rather than through the House of Representatives. In addition, term limits were introduced, presidential powers were curtailed, and oversight powers were granted to parliament. Controls over the establishment of political parties were initially loosened and then gradually tightened in a bid to encourage broadly-representative political parties (Crouch, 2010: 44-48).

These political reforms were accompanied by an ambitious decentralization programme. Envisioned as a means of restoring political rights to citizens, disrupting the country's pervasive patronage networks, and quelling calls for regional autonomy, Indonesia devolved extensive governmental responsibilities to the sub-national level. In order to avoid bureaucratic delays as well as ensure the legislative majority necessary to pass the measures, the decentralization measures were formulated quickly and passed through the House of Representatives in 1999 and put into effect in 2001 (Crouch, 2010: 92).

Administrative:

The New Order had established a hierarchical and uniform structure of government across the country. There were three principal levels: central; provincial; and local.⁵ The centre had paramount authority over the 27 provincial and some 300 local governments (Crouch, 2010: 88).

In addition, the central government retained exclusive control over a set of core state functions, such as external relations, monetary and fiscal policy, the judiciary, land management, and natural resources. It also retained primary responsibility for a range of others such as mining and energy, telecommunications, and industry, as well as key policy-making functions for virtually all the remainder (Shah et al., 1994: 17-20).

In certain areas, the centre shared functional responsibilities with the provincial and local levels. In particular, the provision of health, education, and agriculture services entailed considerable involvement from provincial and, to a lesser extent, local governments. In addition, provincial governments coordinated the efforts of the branches of central government agencies (Malley, 2003: 108). However, these divisions of responsibility were fluid and varied across the country, with the three levels of governments assuming distinct roles in different locations (Shah et al., 1994: 17-20).

This structure changed dramatically in 2001. Following the decentralization reforms, only foreign affairs, defence, security, religion, monetary and fiscal authority, and justice remained the sole prerogatives of the centre, in addition to several broad economic policy-making areas such as planning and high technology (Seymour and Turner, 2002: 38).

The provinces were not recipients of a significant share of the devolved responsibilities, instead restricted to dealing with: central government concerns in the regions; issues involving multiple local governments; and functions that local governments were not ready to assume. The remainder of responsibilities such as health, education, public works, agriculture, and labour – many of which had been previously located at the provincial level – were devolved to local governments. This constituted an important change, as prior to this, local governments had not

⁵ There are two further levels of government, the sub-district and village. Unlike the first three levels, these two were administrative and did not have elected assemblies. These will not be the focus of discussion.

been a site of significant power or responsibility. In addition, the hierarchical relationship between provincial and local governments was removed, with each level restricted, in theory, to its own field of activity (Schmit, 2008: 147, 160; Aspinall and Fealy, 2003: 4).

This functional reassignment was accompanied by a large-scale shift of human resources. In 1999, 88 percent of civil servants worked for the central government and 12 percent for sub-national governments. By 2002, the proportions were 24 percent and 76 percent respectively. However, as with the re-assigned functional responsibilities, local governments were largest recipients. Of the 3 million public servants working at the sub-national level in 2002, some 84 percent were in local governments, with only 16 percent working at the provincial level (Rohdewald, 2003: 260-1).

Following this initial re-assignment of administrative responsibilities, a number of issues began to emerge. Not least among them was the complexity inherent in the centre coordinating the work of the provinces and almost three hundred local governments. In 2004, a new law was passed that clarified and widened the scope of provincial government responsibilities. However, a considerable degree of overlap remains, and the bulk of responsibilities remain with local governments (UNDP, 2009: 8). The transaction costs inherent in dealing with many local governments have been exacerbated by the phenomenon of *pemekaran*, the establishment of new administrative territories. From 27 provincial and 300 local governments in 1999, the number of sub-national governments has increased to 34 provinces and more than 510 districts in 2014 (Hill and Vidyattama, 2014: 70).

Fiscal:

In line with its administrative system, during the New Order, Indonesia had one of the most centralized taxation systems in the world (Ma, 1997: 31). The most important sources of revenue such as corporate and income tax, VAT, and income from oil and gas were assigned to the centre. Of these, some, such as natural resources and property taxes, were then shared with sub-national governments. Provinces and local governments were dependent on minor taxes. Prior to revenue distribution, the centre accounted for 96 percent of all government revenue, with the provinces and local governments raising 2.8 percent and 1.1 percent of the total respectively. Following the re-distribution of resources, the proportions were 82.2 percent, 9.9 percent, and 7.9 percent respectively (Shah et al., 1994: 50).

This was mirrored in expenditure terms, with 76 percent of all government expenditure disbursed by the centre, with a further 8 percent disbursed by sub-national governments, but controlled via conditional transfers. The remaining 16 percent spent by sub-national governments was also indirectly influenced by central planning mechanisms. Given the mismatch between revenue and expenditures, sub-national government revenue covered only about one third of their expenditures, with the rest coming from the centre (Shah et al., 1994: xvii, xviii).

Following the reforms of 2001, Indonesia became one of the most decentralized countries in the world. The decentralization of disbursement and, to a lesser extent, revenue responsibilities have followed suit. Thus, in 2011 the central government accounted for 91 percent of government revenue and 64 percent of expenditure. Sub-national governments accounted for 9 percent of revenue and 36 percent of expenditure. Of this aggregate expenditure, provinces accounted for 9 percent and local governments for 27 percent (Shah et al., 2011: 1).

However, while sub-national governments now receive more revenues, they do not have more taxation powers. Stipulated percentages of government revenue collected at the central level are allocated to various levels of government, as are a set amount of natural resource revenue receipts. At present, the national government shares the proceeds from property tax, income tax, and natural resources (forestry, oil and gas, mining). For property tax as well as mining and forestry revenue, the bulk of revenue (64 percent) is allocated to local governments, with provincial governments getting smaller amounts (16 percent in each case) (Fadliya and McLeod, 2010: 6,8).⁶ For their part, provincial governments have a small set of minor revenue sources, such taxes on vehicles, fuel, and water – of which a portion is passed onto local governments (Jaya and Dick 2001: 226). Due to the proportion of revenue sources handled by the centre, provincial and district governments still depend on central transfers for 54 percent and 93 percent of their revenue, respectively (Shah et al., 2011: 1).

⁶ This is not the case for oil and gas, where the bulk of revenue is retained by the centre. For more details, please consult Fadliya and McLeod, 2010.

Political:

Under the New Order, elections were held for regional legislatures at the provincial and district levels. However, they were tightly controlled and subject to the same constraints as their national counterparts. The Golkar party monopolized most viable candidatures, the military and police had allocated seats, other political parties were rendered compliant through co-optation or surveillance, and non-sanctioned political activity was proscribed (Crouch, 2010: 88-89).

Governors and mayors were, in theory, elected by these assemblies. However, given their strategic importance, these elections were tightly controlled. For regional assemblies, the Department of Home Affairs decided on a short-list and instructed assembly members on central preferences. The two most popular candidates were then passed to the Minister of Home Affairs, who made the ultimate selection. An analogous process happened at the local level, where candidates were chosen by the Department of Home Affairs and then supervised by the provinces. During the New Order, first officers from the armed forces and then civil servants occupied the bulk of gubernatorial and local leadership positions (Malley, 2003: 107-08; Rasyid, 2003: 64).

Following the reforms, governors and local government heads were elected in a more transparent fashion by their respective assemblies. However, for the first few years, the elections were indirect, and assembly members elected their leaders – giving rise to extensive vote-buying. In 2004, sub-national elections were made direct and stipulations were made on who could run, requiring affiliation to established parties. Seeing as this did not eliminate money politics, all restrictions on who could run were lifted in 2007. That said, candidates for office still largely come from elite circles in the civil service, army, or business (Buehler, 2010: 276). The proliferation of parties and low levels of party discipline mean that national-level party leaders have little influence over provincial and local office-holders (Tomsa, 2014: 249).

Thus, decentralization reforms in Indonesia entailed a real and large-scale rescaling of state power downwards. The country's political liberalization reinvigorated elections at the provincial and local levels, and the substantial transfer of fiscal and administrative resources made these changes substantive. Upon closer inspection, however, it is clear that the local government level received the greater part of these resources and that provinces were, by and

large, by-passed. Indeed, many of the functions carried out now at the local level had been coordinated or provided by provinces in the pre-reform period.

Malaysia:

Malaysia attained independence as a federation. As such, the country's system of government aims to combine the centralised management of national issues with some element of self-rule among its constituent units. To this end, it has a multi-levelled system of government comprising: a federal government and three federal territories; 13 state governments; and approximately 150 local authorities. There are constitutionally-stipulated responsibilities for the centre and states, with separate lists for unique responsibilities as well as a concurrent list for shared responsibilities. Revenue sources are similarly specified (Federal Constitution of Malaysia, 1957; Bhattacharyya, 2010).

While the country reached independence with many of the features of a parliamentary democracy, a number of structural features favour incumbency, such as: short campaign periods; first-past-the-post electoral system; favourable delineation of constituency boundaries; and state ownership of print media (Funston, 2001). In addition, the Malaysian state inherited a number of coercive legal instruments and has seen institutional checks on executive authority weaken over time (Mauzy, 1993; Wain, 2009). As with Indonesia, Malaysia has been labelled as "authoritarian" (Pepinsky, 2009) and a "semi-democracy" (Case, 2002).

These characteristics have helped the ruling coalition retain an unbroken hold on power at the national level and in most of the states, as well as a two-thirds majority in the lower house until 2008. This unbroken hold on power has enabled the national leadership to pursue a relentless centralization drive, which has been pursued through a variety of tactics, shaped by changing national priorities and the specific responsibility or revenue source in question (Hutchinson, 2014).

The centralization drive has been enabled by a number of structural features. First, the ruling coalition's dominance in the Lower House has enabled it to amend the constitution frequently. Second, the Upper House was initially intended to protect state governments' rights through a majority of state-appointed senators. However, over time, the number of central government appointees has come to outnumber those appointed by states (Fong, 2008). Third, the career

incentives of state government leaders that belong to the ruling coalition privilege central, rather than local, prerogatives (Hutchinson, forthcoming).

Unlike Indonesia, however, the country did not experience a deep-seated political change in the wake of the Asian Financial Crisis. Following an initial period of political turmoil, the regime was able to emerge intact (Pepinsky, 2009).⁷ While a range of social movements have emerged and the opposition has been reinvigorated, the country's political context has remained remarkably stable (Weiss, 2004). Change has been bounded by the legacies of "Mahathirism", defined as an excessive reliance on the executive and under-developed political institutions (Welsh, 2005).

Administrative:

Due to its nature as a federation, the different levels of government in Malaysia have a very clear division of responsibilities. The constitution lays out responsibilities for the federal and state governments. Relative to other federations, Malaysia is quite "top-heavy", with an extensive list of responsibilities attributed to the centre. Beyond external affairs, fiscal and monetary policy, tasks such as education, health, and transport that are provided by state and provincial governments elsewhere are delivered by the centre in Malaysia. State governments, for their part, have a limited set of tasks, such as: land management; agriculture and forestry; local authorities and local government services; and religion.⁸ Responsibilities for housing, town and country planning, as well as public health are all shared with the federal government (Ninth Schedule, Federal Constitution of Malaysia, 1957).

This centralization drive has taken a number of forms. One is appropriation, when the central government absorbs tasks and responsibilities attributed to state governments. This has occurred with the oversight of local governments and supervision of state government-owned economic development corporations (SEDCs). With regard to the first, the constitution was

⁷ For a persuasive account of why the Malaysian regime was able to emerge from the Crisis, please consult Pepinsky (2009). He argues that Malaysia's more consistent policy response was enabled by a coalition of large Malay entrepreneurs and organized labour that pushed for capital account closure and loose fiscal policy, which enabled the regime to preclude further financial contraction and survive. Indonesia was unable to provide a consistent policy response, due to conflict between entrepreneurs with 'fixed' capital who wanted a closed capital account and those with 'mobile' capital who did not.

⁸ Under the constitution, local authorities are subordinate to state governments. They occupy a relatively minor role and have been charged with services such as waste collection and disposal, drainage, and maintenance of minor infrastructure.

amended to permit federal government regulation or oversight (Fong, 2008; Water Services Industry Act 2006). With regard to the second, despite SEDCs being charged with catalysing their respective economies, the federal Ministry of Public Enterprises was entrusted with wide-ranging supervisory powers – including over strategic, operational, financial, and personnel matters (Singh, 2011).

Privatization has been another component of the centralization drive. Local government services such as water, solid waste management, and sewerage that were initially provided by state governments or by local authorities were privatized to concessionaires. Following this, overall policy direction and regulatory oversight were attributed to the federal government. With regard to water, this involved amending the constitution, and with regard to the other two services, acts of parliament. In the case of sewerage and water sector infrastructure, key concessionaires are owned by the federal Ministry of Finance (Hutchinson, 2014).

Organizational duplication has also been used to centralize responsibilities. This can be seen with land management, another responsibility attributed to state governments in the constitution. In this case, five economic corridors have been established to catalyse growth in targeted sectors in areas outside the national capital (Malaysia, 2010). Sharing a RM 20 billion facilitation fund, these agencies under federal government oversight jointly manage some 76 percent of Malaysia's land area and are tasked with planning, promotion, and facilitation (Khor, 2011). However, these responsibilities cut across state boundaries and compete with state governments (Hutchinson, 2014).

Relative to other levels of government, the federal government has grown more in proportional terms. During the 1985-2005 period, central government employees increased from 424,000 to more than 1,040,000 – an increase of more than 140 percent. In contrast, the number of state government employees increased from 90,000 to 105,600, and local government staff from 50,000 to 54,000. Already accounting for 75 percent of all government employees in 1985, federal government employees amounted to 87 percent of the total in 2005. For their part, state government employees fell from 16 percent of the total to 9 percent over the same time period, and local government employees from 9 to 4.5 percent (Salleh and Osman-Rani, 1991; Siddique, 2013).

Fiscal:

The country's constitution establishes revenue sources for each level of government, as well as a series of minor grants and transfers from the federal to the state governments. As with governmental responsibilities, the structure is "top-heavy", with the centre receiving major sources of income such as: income tax, corporate tax, customs and excise, as well as sales and service tax. States for their part, are dependent on income from smaller and less flexible sources of income such as land, mines, forestry, and entertainment, as well as profits raised by commercial subsidiaries (Tenth Schedule, Federal Constitution of Malaysia).

Due, in part, to their restricted remits and the limited number of services they provide, state governments are quite financially autonomous. Over the 2005-2014 period, the state governments collectively generated between 77-80 percent of their own revenue, and only depended on federal transfers for the remainder (Ministry of Finance, 2008, 2014). In addition, the federal government does not "capture" any revenue raised at the state level.

However, as with service provision responsibilities, a number of important revenue sources have been appropriated by the federal government. The most significant is income derived from oil and gas. Despite natural resources being listed in the constitution as a source of state government revenue, the federal government secured control over oil and gas revenue through the Petroleum Development Act. This Act established Petronas, the national petroleum corporation, and bestowed it the rights to oil and gas found in Malaysia. State governments had to cede their claims over these resources found within the boundaries of their states. And, Petronas was bound to pay the federal government and the state in question five percent of revenue accrued (Loh, 2010).

In tandem with increasing responsibilities and staff numbers, the overall proportion of government revenue and expenditure handled by the centre is increasing. With regard to revenue, the proportion of federal and state government revenue to the total for 1986-90 was 79 and 21 percent, respectively. For 2006-10, the corresponding percentages were 91 and 9 percent, respectively – indicating a substantial decline in the relative size of state government budgets. In expenditure terms, the trend is similar, albeit less marked. In 1986-90, the respective federal and state government proportions were 84 and 16 percent. For 2006-10, they were 89 and 11 percent, respectively (Wee, 2011: 569).

Political:

The country's design as a federal system contemplates periodic elections at both the national and state levels. In both cases, representatives are elected for specific constituencies, and the party with the majority in the House (national level) or Legislative Assembly (state level) chooses their leader from those elected (Anuar, 2000).⁹ With one exception, the state of Sarawak, elections at the national and state level are held simultaneously. Indeed, the first state elections were held before their national equivalents as part of the decolonization process (Harper, 1999).

In theory, the separate remits of federal and state governments as well as their popular mandates makes them independent of one another. However, in practice, state leaders are less autonomous. At present, ten out of the country's 13 states are led by the ruling coalition, and of these nine are from the United Malays' National Organization (UMNO). UMNO has tight internal discipline, and candidates for national and state-level office have been decided by its national leadership since 1960 (Azeem Fazwan, 2011: 46). Furthermore, it is a frequent practice for state leaders to subsequently take up important national-level positions. And their position at the head of their faction in the legislative assembly is dependent on the support of legislative assembly-people, who are themselves subject to internal party disciplinary mechanisms. Non-performing state leaders can be eliminated through votes of "no confidence" (Crouch, 1996: 102). The central government can also exercise influence over opposition-led state governments by reducing their development budgets or, in certain cases, withholding income from petroleum (Loh, 2010).

Over the past five decades, Malaysia has undergone substantial administrative and fiscal centralization, with substantial responsibilities and revenue sources gravitating from the states to the centre. This trend was not interrupted by the Asian Financial Crisis and, in terms of both human resources and finances, state governments have diminished in importance. Looking at

⁹ With the exception of a period during the 1950s and early 1960s, Malaysia does not hold local government elections. They were suspended in 1965, ostensibly due to the confrontation with Indonesia. The running of local authorities was taken over by state governments and, in 1976, the Local Government Act made positions in local authorities appointive and the prerogative of state governments (Goh 2005). Thus, through securing influence over state-level leadership positions, the central government is able to control decisions at the local government level.

political representation, elections have proceeded uninterrupted at the state level. However, real autonomy is compromised given internal party mechanisms that bind the majority of state leaders to national leaders as well as the ability of the centre to penalize opposition-led states. In addition, this level of government is being “hollowed out” by the upwards gravitation of revenue sources and responsibilities.

To Summarize:

When applied to the two cases, the more expansive definition of decentralization is useful in enabling the various components of governance to be separated out and traced over time to ascertain the end result of the transfer of roles, resources, and responsibilities. That said, the standard usage of the decentralization framework and a focus solely on the relinquishing of resources would simply lead to the conclusion that Indonesia has decentralized aggressively and Malaysia has proceeded in the opposite direction.

However, when attention is turned from the entity relinquishing resources and towards its recipients, interesting commonalities emerge. The most striking is that, despite the contrasting direction of the re-scaling processes, the meso-level has been weakened in both cases. In Indonesia, the “winners” of decentralization reforms have been local governments, who have received the bulk of revenue and service provision responsibilities – many of which were formerly located at the provincial level. And Malaysia, despite its federal system and explicit division of responsibilities, has proceeded to move revenue sources and responsibilities from the state to the federal level.

There are also more specific commonalities. In Malaysia, state-level elections are an enduring feature of the country’s electoral system. And, Indonesia’s political liberalization has entailed a revitalization of provincial-level elections. However, while states and provinces continue to carry out important functions of political representation, their significance is called into question by the transfer of fiscal resources and administrative functions from the meso-level to other levels of government.

Having now identified an important commonality in the rescaling processes witnessed in Indonesia and Malaysia, the next section will explore the particular significance of meso-level

governments in these countries, seeking to understand *why* power has avoided this level of government.

Meso-level Governments in Indonesia and Malaysia

Despite their proximity and intense ties during the pre-colonial period, Indonesia and Malaysia had very different state formation and de-colonization processes. Reid contrasts Indonesia's "revolutionary" path to independence with Malaysia's "evolutionary/pragmatic" equivalent, and contends that it is this process that accounts for the former's unitary structure and the latter's federal model (2011: 210).

As with Malaysia, Indonesia had a variety of traditional monarchies in existence when the Dutch arrived. In certain areas of strategic importance, the Dutch installed entirely new governing structures and, in other more outlying ones, they maintained these political entities. Unlike Malaysia, however, these traditional monarchies were highly integrated into the Dutch colonial apparatus and in many ways were administratively indistinguishable from those areas under direct rule (Emerson, 1937: 416). Furthermore, during the struggle for independence, these traditional monarchies were swept away, and the result was a centralized, unitary state (Reid 2011).

Malaysia was also formed out of a patchwork of political entities with a considerable degree of internal diversity. On the peninsula, this included areas under direct British control as well as sultanates administered directly and indirectly. These were complemented by three protectorates on Borneo, which were also administered differently (Reid, 2011: 222). However, unlike Indonesia, distinctions were maintained and then incorporated into the design of the country's constitution and, due to the negotiated nature of the decolonization process, preserved in the transition to independence.

Notwithstanding these differences, the following paragraphs will argue that – albeit for different reasons – the meso-level of government has been a site of potential contestation for state power in both countries. Far from being simply determined by "institutional incentive structures" facing politicians who are faced with devolving power to an indistinguishable choice set of sub-national governments, the rescaling processes of each country was profoundly

influenced by the specific identity of provincial and state governments and the role they played in the state building and decolonization processes of the two countries.

Indonesia

The boundaries of Indonesia as they are seen today were a relatively late colonial construct. While the Dutch first began colonizing Ambon and Java in the early 1600s, it was only in the mid- to late-19th century that they moved to expand control to other parts of the archipelago – largely to forestall claims made by other colonial powers. Indeed, it was only in the first decade of the 20th century that the outlying parts of Sulawesi and Aceh were brought under the control of authorities in Batavia (Kahin, 1985: 2-3). It was also at this time, when the contours of the territory were being finalized, that nationalism emerged as a coherent political force against the Dutch (Kahin, 1985: 3).

Despite the country's geographic characteristics and diversity, the idea of a unitary republic was advocated by many nationalists. Upon the surrender of the Japanese, the Constitution of 1945 established a unitary structure for the country (Reid, 2011: 214). However, the nationalists' hold over the country was incomplete with substantial parts remaining under Dutch control. In the subsequent struggle against the Dutch for independence, the form of government the country was to have was also a topic of dispute.

In contrast to the nationalists' centralized structure, the Dutch attempted to gain popular appeal through offering a framework sensitive to the country's ethnic diversity and a semblance of popular participation. Thus, in areas they controlled, the Dutch began to advocate a federal system of government and local-level elections. However, given the centralized nature of the colonial-era administrative structures they had used before, this entailed the construction of new political units, or states. Initially, the Dutch tried to construct these entities along ethnic criteria. But, given the country's high degree of diversity, this proved difficult to do in practice. Following this, they created a collection of large states and also utilized pre-existing political entities – the sultans – that had previously been absorbed into the colonial government. These structures failed to arouse much enthusiasm, particularly on Java (Cribb, 1999a:10-11).

While the nationalists ultimately prevailed, the 1949 agreements contemplated Indonesia maintaining this federal framework. However, its limited legitimacy meant that the majority of

these new states opted to be absorbed into the nationalists' unitary structure (Cribb, 1999b: 176). That said, there was some resistance in outlying parts of the country like the Moluccas that did not agree with the dismantling of the federal system (Mackie, 1980: 672).

As with its colonial predecessor, the newly-independent government struggled to assert itself over the country's outlying territories and find the optimal balance between autonomy for the regions and central control. However, the association of federalism with the struggle for independence and Dutch attempts to retain control prompted many nationalist leaders, who were privately inclined to a federal arrangement, to oppose any such framework (Feith, 2007: 72).

As a result, the government was unitary, with a collection of ten large provinces with no ethnic or religious character, and two special regions for Jakarta and Yogyakarta (Reid, 2011: 214). During the 1950s and early 1960s, the number of provinces doubled in response to a number of factors. This included: requests from larger ethnic groups to have specific areas accorded provincial status; as well as geographic and logistical issues requiring a new provincial capital to enable more effective administration of remote areas. In other cases, provincial boundaries were used by the central government to deflate regional unrest by dividing unruly areas (Booth, 2011: 36). While some provinces with a majority ethnic or religious group were created, such as Central Java, Bali, and West Sumatra, they still contained other communities of significant size (Charras, 1993: 174).

For much of the 1950s, Indonesia allowed provinces a considerable amount of autonomy regarding the provision of services and raising of revenue. However, this tendency was checked when a number of regionally-based revolts took place in West Sumatra, South Sulawesi, and West Java took place. These had a number of causes, including resentment over: economic redistribution from resource-rich and commodity-producing regions towards the centre; domination of top government positions by Javanese; and unresponsive central government administration. However, it is important to note that these uprisings were not secessionary in nature. Rather, the focus was on the central acknowledgement of regionally- and locally-based issues (Cribb, 1999b: 177).

These uprisings were put down, and the country moved in a more centralizing direction under Sukarno's Guided Democracy, which was taken further under Suharto. First, enabled by a

natural resources boom and foreign aid, central transfers to the regions increased significantly. Second, a number of administrative measures heightened centralized control over provinces and made provincial governors important agents of central state control. Of note were procedural checks that enabled provincial governors to be effectively appointed by Suharto. These officials, then, became a key coordinating element of the centre in the regions, exercising supervisory authority over national level agencies working in the provinces (Malley, 1999b).

In contrast to earlier periods when governors were usually from the provinces they administered, under the New Order they were often from the military and overwhelmingly Javanese. While this was not opposed in the 1970s and 1980s, by the 1990s, there was a substantial degree of resentment over the practice of over-riding local preferences for representation (Malley, 2003: 108). Thus, under the New Order, provinces became simultaneously an important site of central state power, but also conflict between the centre and the regions.

However, while the New Order was very centralized, it is important to note that parts of the bureaucracy were aware of the limits of this model. They sought to enable some level of delegation of power that would enable local needs to be met, without having to decentralize significant amounts of power (Lane, 2014: 11). However, the options for reform were constrained by the fear of empowering local political forces. Conversely, reform elements outside the government did not openly advocate decentralization, but rather centred their demands on clean government, controlling corruption, and reducing the power of the executive (Lane, 2014: 4-5).

It was only following the end of the New Order that decentralization emerged as a topic. While one political party did openly advocate federalism, it was really the weakening of two centralizing forces within Indonesia's polity – politically-connected cronies and the Armed Forces – that enabled the bureaucracy – with the support of Habibie, Suharto's successor – to formulate the decentralization legislation (Lane, 2014: 19-26).

However, the options for reform were bounded. First, the unpalatability of the federal concept within the country's political discourse meant that a structure with strong, autonomous provinces would not be acceptable. The military, as well as most political parties, explicitly

condemned any such arrangement (Sukma, 2003: 67). This was explicitly stated by Ryaas Rasyid, the architect of the country's decentralization reforms:

any attempt to shift power to the provinces would have been read by the conservative Unitarians as promoting federalism, by extension placing at risk national coherence and integrity. .. the Habibie government maintained from its inception that the period of extreme centralism was over, but that it did not want to be labelled as federalist. The focus of regional authority was therefore on the district and municipality rather than provincial level of government (2003: 63).

Second, the perceived threat of “balkanisation” or dissolution of the country along ethnic lines, weighed heavily on policy-makers (Sukma, 2003: 67).¹⁰ At the heart of this was the fear of secession from specific areas within the country, namely East Timor, Aceh, and Papua (Charras 2005: 110). Facing the likely independence of the first and armed uprisings in the second and third, it was feared that the country would dissolve.

However, beyond these three areas, it is difficult to see that provincial boundaries would constitute the “seams” along which the country would disintegrate. Only a few provinces, such as Bali or West Sumatra had substantially homogenous religious or linguistic identities. In addition, the largest ethnic communities such as the Javanese and Malays span multiple provinces. Furthermore, given the country's overall heterogeneity as well as high rates of both state-sanctioned and informal migration, there is considerable diversity within provinces – making the construction of a mono-ethnic identity problematic (Cribb 1999b: 174-75). And, provincial boundaries have also proven very effective means of defusing regional unrest, as seen by the splitting of Papua into two provinces (Nolan et al., 2014: 412).

Regardless of the likelihood of provinces constituting an existential threat to the territorial integrity of the country, they did not emerge as key players in the post-New Order era. Instead, local governments were chosen as the recipients of financial and human resources delegated from the centre. Being significantly smaller units, they were seen as less viable as independent states, and also more likely to sub-divide ethnic groups into smaller entities (Aspinall and

¹⁰ According to Major-General Sudrajat, the armed forces information chief, “the danger is that federalism will lead our nation to disintegrate along ethnic lines, so we are talking about something far more serious than the secession of a couple of provinces” (Bourchier and Hadiz, 2003: 272).

Fealy, 2003: 4). Thus, it was thought that decentralizing to this level would not crystallize ethnic or religious differences, but rather encourage greater participation by citizens and also promote competition for investment and resources (Sukma, 2003: 69). That said, it can be counter-argued that this arrangement can lead to tensions between provinces and local governments, as well as between local governments themselves (Jacobsen, 2004: 65). And, territorial units that are too small and ethnically homogenous may actually heighten inter-ethnic conflict (Horowitz 2007: 963).

Thus, while the decentralization reforms did contemplate devolving considerable quantities of fiscal and administrative resources to the sub-national level, decision-making was bounded by the country's past and the specific association of provincial, or meso-level, governments with federalism and Dutch colonialism, as well as a potential threat to the country's physical integrity.

Malaysia

As with Indonesia, the identity of meso-level governments is entwined with the country's processes of state formation and decolonization. Unlike the Dutch, who sought to create a uniform system of government in all parts of Indonesia, the British process of colonization in Malaysia preserved a significant amount of the diversity between the various pre-existing political entities.

The British colonization of the component parts of Malaysia occurred in phases, taking different forms at different points in time, and giving rise to a variety of governance arrangements. These units or 'mini-states' can be grouped into five. The Settlements of Penang and Malacca were ruled directly by the British as Crown Colonies. The Federated Malay States of Perak, Selangor, Negri Sembilan, and Pahang were protectorates ruled by Sultans who had paramount authority over matters of religion and custom, but were treaty-bound to accept British advice in all other matters. Their administration was centralized in Kuala Lumpur. The Unfederated States of Perlis, Kedah, Kelantan, Trengganu, and Johor were also protectorates. But, while their treaty obligations were similar to those in Federated Malay States, their later incorporation into the British Empire meant that their administrations developed more endogenously. Sabah was administered by a private firm, the British North Borneo Company,

and Sarawak was ruled by the Brooke dynasty, who were British subjects (Gullick, 1992; Thio, 1969).

Seeking to incorporate these distinct political entities gave rise to a multi-centred state structure, comprising “nine legally sovereign states and ten monarchies (nine Malay and one British) but also ten legislatures, seven judicial systems, seven police forces and seven civil services” (Sopiee, 1974: 13). However, while the various political entities were preserved in greater or lesser measure, British presence dramatically changed the ethnic composition of the various territories. The Malays, living on the peninsula, were joined by large numbers of Chinese and Indian labourers, who engaged in trading, mining, or worked on plantations (Crouch, 1996: 18).

During the Second World War, the Japanese occupation did away with these various patterns of governance and sought to impose a uniform structure of government, with a strong central government and a collection of uniform provincial governments. Thus, the Straits Settlements and Federated Malay States were disbanded and their component units made into provinces (Office of Strategic Services 1944).

Due, in part, to the Sultans’ perceived collaboration with the Japanese, and seeking to capitalize on the opportunity to install a uniform structure of government, the British created the Malayan Union in 1946. While the Union kept the Sultanates, the country’s sovereignty was passed to the British Crown. Under this framework, the sultanates would still exist, but the formal authority of the sultans and the various state governments was nominal, as all resources and responsibilities would move to the national capital, Kuala Lumpur. This was also accompanied by liberal citizenship laws that incorporated the country’s Chinese and Indians on equal terms with the Malays (Stockwell, 1979: 18, 36).

The proposed Union led to the first visible manifestation of Malay ethno-nationalism. Given their relative economic marginalisation and fearing the loss of their status as the country’s original inhabitants, the Union was stridently opposed by the Malays. The Sultans were appropriated as “symbols of Malay political sovereignty and precedence” over other ethnic communities, and resistance was channelled through the newly-established United Malays’ National Organization (Lim, 1997: 18).

The British gave way, creating the Federation of Malaya in 1948. This framework preserved the Sultans, kept the separate states, and had stricter citizenship laws (Shafruddin, 1988: 5). However, the federal structure did entail a significant degree of centralisation, as a fair number of responsibilities and revenues were moved from the states to the central government (Suwannathat-Pian, 2011: 203). And, as a result of the negotiations between the British and UMNO, the size and reach of the federal government expanded significantly (Harper, 1999: 197).

This structure, in turn, shaped the negotiations for independence in the early 1950s. Three main parties were involved in the discussions. They were: the British; the Sultans; and the nationalist elite, represented by the Alliance coalition. Comprised of the three main ethnically-based parties, this coalition had done very well in municipal, state, and then national elections held under the aegis of the British. Albeit with important Chinese and Indian partners, UMNO was the *primus inter pares* due to the predominantly Malay composition of the electorate (Fernando, 2002: 94).

While both the British and the Alliance wanted a strong centralized government to drive development and combat a communist insurgency, they had to contend with history and incorporate the Sultans and the political entities that they headed to a much greater extent than either wanted. The Sultans had emerged re-invigorated as a political force in the wake of the uprising against the Malayan Union, and the Federation of Malaya agreement required their consent for any constitutional changes (Suwannathat-Pian, 2011: 299). In addition, a federal structure of government was important in a symbolic sense for the Malay community, as it acknowledged the area's pre-existing form of government and enabled their easier assimilation into a form of government that was more familiar (Means, 1976: 10).

While the Alliance's electoral victory had given it the legitimacy to negotiate on behalf of the country's main ethnic communities, the traditional rulers were still politically important and commanded widespread support among the Malay population. In addition, there was an underlying struggle between UMNO and the Sultans for the leadership of the Malay community. While the party's leaders recognized the Sultans as a symbol of Malay culture, they sought to capitalise on their administrative experience acquired in Malaya's various civil services as well as their role as the "guardians" of Sultans to assume the mantle of leadership for the Malay community (Amoroso, 2014, chapter 5).

As a result, in negotiations with the British, the nationalist elite sought to obtain a strong central government, placing more importance on securing an independent judiciary rather than preserving viable state governments (Fernando, 2002: 70-71). Disputes arose with the Sultans, on the other hand, who were intent on preserving their prerogatives. The disagreements centred on two main issues. The first was the role for the Council of Rulers, the body which brought the Sultans together to discuss national-level issues. The Alliance wanted its role to be purely ceremonial, and the Sultans sought to have an impact on policy. The second was on financial provisions for the states. The Alliance sought for the centre to retain the bulk of revenue sources, and the Rulers sought to maximize their financial autonomy (Fernando, 2002: 169-174).

In the end, the Alliance had to make concessions with regard to the Sultans and the scope and funding of state governments. The result of these negotiations was a structure that looked like a federation, but which had many features of a unitary system. Thus, the 1957 Constitution established a federal system of government, strongly oriented towards the centre. The government was a constitutional monarchy, headed by a king chosen on a rotating basis from the nine sultans, and a federal parliamentary system. The sultans were the constitutional heads of their respective states, and the various state governments – led by elected chief ministers [*mentri besar*] and state assemblies – had responsibilities restricted to land and religious matters (Federal Constitution of Malaya, 1957).

In addition to the top-heavy design of the constitution, another characteristic of the governmental system favoured the national-level leadership. Relative to other federal systems such as Australia, Germany, or Switzerland, which require – in addition to parliamentary majorities – popular referendums to change the constitution, it is relatively easy to amend the constitution in Malaysia. Depending on the article, a simple or two-thirds majority is sufficient (Fong, 2008: 198).¹¹

Relative to the Sultans, this dramatically favoured the country's elected leadership, with the head of the Alliance, Tunku Abdul Rahman, famously saying “it was, of course, not a perfect constitution... but we knew we were going to be in power with an overwhelming majority and

¹¹ Amendments to articles 159 and 161 need additional approvals.

if any changes appeared necessary we would amend the constitution” (Tunku Abdul Rahman, 1981: 15).

Beyond their overwhelming mandate in the run-up to independence and shortly after, the structural features favouring incumbency have allowed Barisan Nasional to command large parliamentary majorities, which, in turn, have allowed frequent amendments to the constitution. Indeed, by 2007, the constitution had been amended in no less than 50 instances (Fong, 2008: 211). Beyond increasing the power of the centre relative to the states, the BN-led parliamentary majority has also been used to reduce the prerogatives of the country’s royalty.¹²

Furthermore, while Malaysia’s federal structure is territorial, and not communal in nature, states and state level identities have proven powerful challenges to the construction of a national identity. In the run-up to independence, Penang, Kelantan, and Johor all had secessionary movements explicitly associated with state-level identity issues. While they were all ultimately unsuccessful, the nationalist elite was afraid that they could encourage similar movements elsewhere (Sopiee, 1974: 82).

However, this issue resurfaced after 1963, when the Federation of Malaya was expanded to include Singapore, Sarawak, and Sabah. Rather than reformulating the constitution and merging four territories, this process was, in essence, an expansion of the existing federation. Thus, the constitution was kept largely unchanged, but extended to incorporate the new states under an asymmetric arrangement which allowed them additional autonomy. However, this expansion was not frictionless and did pose questions about the viability of the new federation. Singapore left shortly after, and both Sabah and Sarawak emerged as defenders of local autonomy and the rights of states (Leigh, 1974).¹³ Fearing the potential of Sabah and Sarawak to nurture potential secessionist movements, the central government has proceeded to pare down much of the provisions for greater autonomy contemplated in the 1963 merger (Case, 2007: 129).

Thus, state governments in Malaysia were, to a large extent, not a desired feature of the Malaysian government apparatus. The nationalist elite wanted a strong and centralized state to

¹² It is also important to note that the Sultans’ power has substantially diminished since independence. In 1993-4, constitutional amendments passed through parliament removed much of their formal power (Wain, 2009: 203-13).

¹³ In the case of Sarawak, the Chief Minister was removed in 1966 through the declaration of a state of emergency by the Prime Minister. For more details, please consult Leigh (1974).

spearhead development. However, the pre-existing sultanates bounded the choice set for the Alliance, particularly given their reinvigoration in the struggle against the Malayan Union, and their legal recognition in the 1948 Federal of Malaya Agreement. Beyond their formal power, the Sultans also completed with UMNO for the leadership of the Malay community. Thus, the result of the tri-partite negotiations maintained the institutions of the Sultans and located more power at the meso-level than had been desired by the nationalist elite.

While the Alliance and its successor Barisan Nasional have been able to maintain an unbroken hold on power at the national level, this has proven harder for all the country's states. Thus, the state level has emerged as an important arena for political contestation. In addition, while the country's federal structure enabled the later incorporation of Sabah and Sarawak, these territories' distinct ethnic, cultural, and religious composition has also made them, and the state boundaries that comprise them, potential "seams" along which the federation could dissolve.

Given that state governments and their accompanying elections for leaders are a permanent site of political contestation, the national-level leadership has proceeded to "hollow out" this level of government by rescaling administrative and fiscal responsibilities upwards.

To Summarize:

This section has reviewed the state formation and decolonization processes in Indonesia and Malaysia to understand the identity and political associations attached to provinces and states in each. It has argued that, albeit for different reasons, provincial and state governments constitute a potential challenge to the legitimacy of the central government. In Indonesia, meso-level governments have been explicitly linked with colonialism and separatism, and even the ultimate dissolution of the country. Local governments, in contrast, had none of these associations and were ultimately chosen as the recipients of state power. In Malaysia, state governments were not a desired outcome of the nationalist elite. In addition, they were associated with the Sultans, who, at a certain level, constituted a source of competition for leadership. Furthermore, secessionist movements did arise in a number of states in the run-up to independence and have been a consistent factor in relations between the central government and Sabah and Sarawak.

Conclusions

By comparing and contrast the (de)centralizing processes in Indonesia and Malaysia, this article has attempted to answer three questions.

The first is whether – despite the different directions in which the rescaling of state power has proceeded in these two countries – there are common patterns in where power converges or disperses. This article has argued that in the two cases, the meso-level has either been bypassed or weakened. During the New Order in Indonesia, provinces were an important site of central state power, carrying out significant tasks of representation and coordination. Following the decentralization reforms, power and resources were transferred from the central and provincial levels to the local level. In Malaysia, state governments have been progressively weakened, as the central government encroaches into areas under the prerogative of states. And, in both cases, while the meso-level continues to carry out functions of representation, their significance is eroded by the hollowing out of administrative and fiscal responsibilities.

The second question related to the utility of prevailing concepts used in the decentralization literature. This article has argued that current frameworks are useful in ascertaining the overall flow of power and resources, particularly through a more detailed analysis enabled by analysing the transfer of administrative, fiscal, and political aspects of governance. However, the framework has a number of conceptual shortcomings. First, it prioritizes the flow of power and resources away from the original source, rather than seeking to understanding where it is flowing to. In addition, it treats sub-national governments – state/provincial and local – as interchangeable units of analysis, rather than explicitly recognizing their qualitatively different nature.

The third question sought to establish whether there are specific characteristics of meso-level governments that make them problematic sites for the concentration of state power. By comparing the state formation and decolonization processes in both countries, this article has argued that – unlike local governments which have been associated with basic service provision – meso-level governments have been important alternate sites for the expression of identity.

Due to its geography and diversity, Indonesia has long struggled to attain a balance between regional autonomy and central control. However, beyond this, federalism, understood as a

government structure enabling a significant degree of autonomy for regions, has been associated with colonialism. Furthermore, while not mapping exclusively onto provincial borders, long-running tensions in parts of the country have fuelled fears of separatism that provincial boundaries and greater autonomy were thought to fuel.

Despite Malaysia's established federal structure, states have also posed an existential challenge to the hegemony of the central state. First, the decolonization process resulted in a governmental structure with a more significant role for states and the sultanate than had been sought by the nationalist elite. This structure made state-level elections a permanent part of the political arena, and also enshrined a role for the sultans, who competed with UMNO for the leadership of the Malay community. Second, state boundaries also constituted potential fault-lines for the emerging nation. In the run-up to independence, secessionist movements were organized along state lines. And, following the incorporation of Sabah and Sarawak into the Federation, the potential of secession along state lines increased.

These arguments point to the need for the decentralization literature to develop a new conceptual vocabulary that attributes greater primacy to the identity of the recipients of state power, and in particular to appreciate the qualitative difference in reforms that privilege the meso- or the local-level.

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