# THE PATTERNS OF UNDERDEVELOPMENT IN INDONESIA: A STUDY OF REGIONAL DISPARITIES

By

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Dedicated to my beloved late mother:

Elizabeth Lay-Raga

and my dearest father:

Paulus Lay

# ABSTRACT

## THE PATTERNS OF UNDERDEVELOPMENT INDONESIA: A STUDY OF REGIONAL DISPARITIES

The purpose of this study has been to explore the tendency of regional underdevelopment and disparities and the underlying causes of their persistence. Five criteria are used to determine the extent of spatial differences: regional income per capita, spatial distribution of industries, capital investment, and post-secondary education, and spatial patterns of poverty. I in regards to the underlying causes of the problems, four schools of thought have been elaborated: Regional Self-Balance, Regional Imbalance, Structural Dependency, and State policies.

The data demonstrate that in Indonesia not only does regional underdevelopment and disparities exist, but also the tendency for them is to increase over time. The data also reveal that the Eastern provinces suffer the most in regards to low level of per capita income, lack of industries and industrial activities, lack of capital investment, chronic poverty, and lack of adequate institutions for human development.

In explaining the underlying causes of regional underdevelopment and disparities, this study found that none of the existing theories provide an adequate explanation. This is due to their overemphasis on economic factors, while ignoring the political culture of the country.

The overall analysis comes to the conclusion that the centralizing tendency of the working of market forces, together with geographic barriers, the colonial legacy, and discriminatory policies against the outer islands have been reinforced by the strong centripetal tendency of power in the Indonesian political sphere. The last point stems from the political culture of the dominant group: the Javanese. Therefore, economic determinism as an explanation of regional backwardness and disparities of Indonesia must be tempered by an analysis of the political culture.

December 6, 1991

Cornelis LAY

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This study is far from being perfect. I, of course, am responsible for every single error and mistake throughout this study.

# CHAPTER I

# INTRODUCTION

## I. BACKGROUND AND PROBLEM STATEMENT

It is safe to say that almost all countries, even a tiny ones, have a regional problems, in the sense that there are differences in prosperity between regions within each country. Naturally, factors and resource endowments are unequally distributed in space in every country. These relative static and fundamental spatial disparities in space are called "geographical inequalities" by Sundaram[1]. Upon this pattern, differential intervention in space in the process of development inscribe another pattern of inequality -- developmental inequalities. There are also socio-economic inequalities that stem from differences among human beings in terms of class, sex, ethnicity, group, culture, religion, income and differences in opportunity structures, and in access to the fruits of development that arise because of the exploitation of human beings over their fellow beings[2].

Indonesia is no exception. Regional underdevelopment and

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[1]. K.V. Sundaram, ***Geography of Underdevelopment, The Spatial Dynamic of Underdevelopment***, Concept Publishing Company, New Delhi, 1983, p. 5.

[2]. ***Ibid.***, pp. 5-6.

disparities were and still are among the main problems of the archipelago. The problems are sometimes described as a pattern of contrast, especially between the island of Java and the outer islands or similarly between the Western and the Eastern parts of the country. Comparatively, Java is a resource poor region among the islands of Indonesia, but the population and economic, industrial, political, administrative, educational, and cultural activities are heavily concentrated in this area. Most of the major cities including the capital, Jakarta, are located on Java. On the other hand, the outer islands are rich in natural resource endowments, and as a result, their economic activities are still confined to raw material extraction for export. They serve as the hinterland to both Java and capitalist centres forming a centre-periphery relationship. A study of Geertz almost thirty years ago, for example, came to the conclusion that, "if ever there was a tail which wagged a dog, Java is the tail and Indonesia, the dog"[3].

Despite marked degree of unevenness in development among the different regions and provinces, there is little comparative information available on levels of development and lack of development. A study group on regional income set up

[3]. Clifford Geertz, ***Agricultural Involution, the Process of Ecological Change in Indonesia***, University of California Press, Berkeley, 1963, p. 13.

under the chairmanship of Hendra Asmara[4] in 1970 was the first effort to understand regional problems of the country. This study was provided some estimates of regional income disparities for the years of 1968-72. According to this study, regional disparities in Indonesia were quite striking with regards to natural resource endowments, the level of productivity per capita, the quality of labor and the efficiency of resource use and organization.

Regional backwardness and disparities are also reflected in the allocation of capital investments which tend to concentrate on Western part of Indonesia, especially, on the island of Java. Estern Indonesia, consisting of 9 provinces,[5] was and still is the area that has suffered the most since the early 1960s. A report of the weekly bulletin, **Tempo**,[6] shows that during 1967-68 to May 28, 1990, domestic investment in this area of more than 22 million people (inter-cencus 1985) or about 13.55% of total Indonesian population, was only Rp.6.69 trillion (6.5% of total domestic investments) compared to Rp.102 trillion (93.5%) invested in the West. The figure of foreign investment during the same period also demonstrates the same tendency. The Eastern half of the country recieved

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[4]. Hendra Asmara, **Regional Income Disparities**, ***Bulletin of Indonesian Economic Studies***, Vol. XI, No. 1, March 1975.

[5]. Those are the provinces of West Nusa Tenggara, East Nusa Tenggara, Maluku, Irian Jaya, Central Sulawesi, South Sulawesi, Southeast Sulawesi, North Sulawesi, and East Timor.

[6]. ***TEMPO***, July 7, 1990, p. 25.

US$2.7 million (7.7%), while the Western part US$32 million (92.3%).

Using the level of poverty to measure regional underdevelopment and disparities, as we will see later, it also demontrates that the Eastern half of Indonesia was and still is the worst badly affected area.

The Indonesian government has recognized these problems, at least since the early 1970s as was clearly reflected in their efforts to overcome the regional backwardness and disparities.

Since the REPELITA I (the first five-year development plan) between 1969 and 1974 the government introduced the *INPRES* (President grant-in-aid) programs as the distributional mechanism throughout the country[7]. The programs channel central government development funds through the local government structure by a system of direct and flexible subsidies. The *INPRES* program is a system of funding bypassing many established bureaucratic channels. It enables the rapid utilization of capital for the development project. According to MacAndrews, et.al.,[8] this system has been of enormous

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[7]. The *INPRES* is an acronym for Instruksi Presiden (President Decree) By the end of REPELITA II (1974-79), there were six *INPRES* programs: *Inpres Propinsi* (Provincial Development Grant), *Inpres Kabupaten* (District Development Grant), *Inpres SD* (Elementary School Grant), *Inpres Kesehatan* (Health Grant), *Inpres desa* (Village Grant), and *Inpres Pasar* (Shops and Market Grant).

[8]. Colin MacAndrews, Atar Sibero and H. Benjamin Fisher, **Regional Development and Planning Implementation in Indonesia: The Evolution of a National Policy** in R.P. Misra, (ed.), ***Regional Development. Essays in Honour of Masahiko Honjo***, Maruzen Asia, 1982, p. 48.

significance in stimulating development in Indonesia. During the REPELITA II (1974/79) the *INPRES* regional development subsidies programs were expanded. During this period, between 15 and 20 per cent of the national development budget was devoted to serve the *INPRES* programs. This accounted for up to 20 per cent of the provincial development budgets. The *INPRES* programs were expanded further during the last three REPELITAs. The amount of the *INPRES* subsidies to the local governments at the provincial, district, and village level went up, thus increasing the financial resources available for local area development[9].

During the REPELITA II major goals of regional development were to integrate sectoral planning at the regional level, recognize specific development problems and the potentials in different regions, give special attention to backward regions, increase regions participation in development planning, and integrate all the individual regions within the framework of the national economy[10]. Accordingly, a Presidential decree in 1974 established the *BAPPEDA*s (Regional Development Planning Boards) in all provinces. The *BAPPEDA*s function to coordinate the sectoral programs of both Central and Provincial government departments (*Dinas Daerah*)

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[9]. *Ibid.*, p. 51-2.

[10]. see *Ibid.*, p. 48. See also, A. Madjid Ibrahim and H. Benjamin Fisher, Regional Development Studies and Planning in Indonesia, *Bulletin of Indonesian Economic Studies*, Vol. XV, No. 2, July 1979; K.V. Sundaram, Geography of Underdevelopment, *Op Cit*, pp. 146-54.

at the provincial level. These *BAPPEDA*s were extended to the districts level (*Kabupaten* and *Kota Madya/ Derah Tingkat II*) in each province during the REPELITA III (1979/84).

Coupled with the expansion of BAPPEDAs, there were other types of supporting activities for regional development during REPELITA 'II[11]. The first one introduced the concept of regionalization. The economy was divided into a number of regions[12]. The second was the establishment of regular regional and national consultations. Finally, the commissioning and carrying out of a large number of regional development planning studies occurred in this period. Conducting these studies at provincial and multi-provincial levels has been seen as a necessary step toward a creation of a regional planning capacity. It was estimated that by 1978, around fifteen such studies have been accomplished or were under way at cost of approximately US$17 million to the donors and US$3 million in counterpart funding by the Indonesian

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[11]. MacAndrews et.al., *Op. Cit.*, p. 49.

[12]. There are 4 major regional centers (Pusat Wilayah Utama), established in Medan (North Sumatera), Jakarta, Surabaya (East Java) and Ujung Pandang (South Sulawesi). These major regional centers are the centers for 10 regional centers (Pusat Wilayah). The Medan center covered the provinces of Aceh, North Sumatera, Riau and West Sumatera. The Jakarta center covered South Sumatera, Jambi, Bengkulu, Lampung, Jakarta, West Java, Central Java, Yogyakarta and West Kalimantan. While the Surabaya center's areas of covering are the provinces of East Java Bali, Central Kalimantan, South and East Kalimantan. The last Pusat Wilayah Utama covered the whole provinces of Eastern Indonesia (South, Southeast, North and Central Sulawesi, both Nusa Tenggara, Irian Jaya, Maluku and East timor), see Ibrahim and Fisher, *Op. Cit.*, p.116-7.

government[13].

During the REPELITA III (11979-1984) the focus was given to coordinating the different regional planning efforts, building up the capacities of local government planning organizations, and implementation of local areas plans in selected parts of the country[14]. Other important policies to overcome regional backwardness and disparities during this period were related to the emphasis on the geographic distribution of development funds particularly to the more backward and isolated regions and on rural development activities at the village level through existing as well as new institutions and programs[15].

Although the Indonesian government has put many resources and efforts to achieve a balance development among regions, as we will see later, spatial disparities remain. The distributional policies undertaken so far have only a peripheral effect in bringing an equilibrium development among regions. The regional backwardness and disparities resulted from the combination of the working of the market, the colonial legacy, discriminatory policies, the geographic barriers and the political culture of the country. The

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[13]. see a Madjid Ibrahim and H. benjamin Fisher, **Regional Development,....,** ***Op. Cit.***, pp. 116-118.

[14]. Loekman Soetrisno and Mubyarto, **Problems and Challenges in the Implementation of the Provincial Development Program,** ***PRISMA***, No. 45.

[15]. MacAndrews, ***Op. Cit.***, pp. 51-2; Albert Van Denham and Hariri Hadi, **Planning and Participation at Lower Levels in Indonesia,** ***Prisma***, No. 45, pp. 72-83.

aforementioned government policies have proven to be superficial treatments of the underlying problems.

This study is an exercise of exploratory research into causes of regional underdevelopment and disparities in Indonesia with special reference to the Eastern half of the archipelago. Due to the availiability of data, this study will limit itself to cover only the period of what is called the **New Order**[16] government of Indonesia that came to power after the failure of Indonesian Communist Party's (PKI) abortive coup in September 1965. The following questions are the focus of this study: What are useful parameters to meassure regional underdevelopment and disparities and what is the tendency of them in Indonesia over time? Finally, what are the underlying structural causes of regional underdevelopment and disparities of Indonesia?

## II. THESIS

I will argue that first, there is a tendency of regional underdevelopment and disparities to worsen in Indonesia over time. Second, the aforementioned tendency is clearly reflected in the widening of both economic and social gaps between the

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[16]. The **New Order** government refers to the government led by President Soeharto that came to power in 1966 after the failure of the Indonesian Communist Party's coup. This term is used to distingush Soeharto's regime from Soekarno's which was known as the **Old Order.**

Western and the Eastern parts of the country. Third, there is no single theory that can be used in examining and explaining the underlying causes of regional underdevelopment and disparities in Indonesia. I will argue that the centralizing tendency inherent in the working of market forces, together with the geographic barriers, colonial legacy, and discriminatory policies undertaken by the Indonesian government against the outer islands have been reinforced by the strong centripetal tendency of power in Indonesian political sphere.

## III. METHODOLOGY

The measurement of regional underdevelopment and disparities will be based on the comparison of the economic and social conditions of the regions and provinces with the national average. The economic indicators used include regional per capita income, the distribution of capital investment and development projects, the distribution of industries and industrial activities including the levels of productivity (value added per worker and sector) and levels of interregional migration. The social indicators will focus on levels of poverty and the spatial distribution of post-secondary education.

Documentary and library research of secondary sources

were used in data collecting. All statistical data is provided and published by the Indonesian government, international development agencies, such as the IMF and the World Bank, and previous studies conducted by other researchers.

## IV. THE OUTLINE OF THE STUDY

The study will be organised as follows. Chapter I is the introduction, which contains of the background to the problem, problem statement, the thesis of the study, and methodology. Chapter II outlines briefly the features of the country, such as geography, demography, political history and economic performance of Indonesia. This chapter is designed to provide a context in which regional underdevelopment and disparities take place. Chapter III provides some evidence of regional underdevelopment and disparities in order to demonstrate their pattern, level and tendency. Four criteria are used to determine the regional backwardness and disparities. First, regional income per capita, second, spatial distribution of industries and industrial activities. Third is spatial distribution of capital investment. Fourth is spatial pattern of poverty, and lastly is spatial distribution of post-secondary education. Chapter IV describes the theoretical frameworks which describe the causes and solutions of the problems of regional backwardness and disparities. Four

schools of thought will be elaborated. First is Regional Self-Balance school of thought, second Regional Imbalance school of thought, third is Structural Dependency school of thought, and finally State Policies school of thought. Chapter V will show and argue that none of these theories can adequitely explain the problem of regional disparities in Indonesia, and proposes an alternative explanation from a political perspective. Chapter V is the conclusion providing both the summary and the agenda for the future.

# CHAPTER II

# INDONESIA: COUNTRY PROFILE

## I. GEOGRAPHY

The Republic of Indonesia, until the Second World War the Netherlands East Indies, is the largest archipelago country in the world with more than 17,000 islands (see map). This consists of a total area of 5,193,250 sq Km of which is 2,0227,087 sq Km is land mass. There are five major islands: Sumatra (473,606 sq Km), Java and Madura (132,107 sq Km), Kalimantan (539,981 sq Km), Sulawesi (189,216 sq Km) and Irian Jaya (421,981 sq Km)[1]. Historically, the archipelago has been described as rich in natural resource endowments[2]. Oil and natural gas fields are found in the areas of Kalimantan, Sumatera, and in the sea of Java. Also, copper, tin, gold, coal, manganese, bauxite, nickel and many other natural resources are found in various parts of the archipelago[3].

Comparatively, Java is a resource poor-region among the

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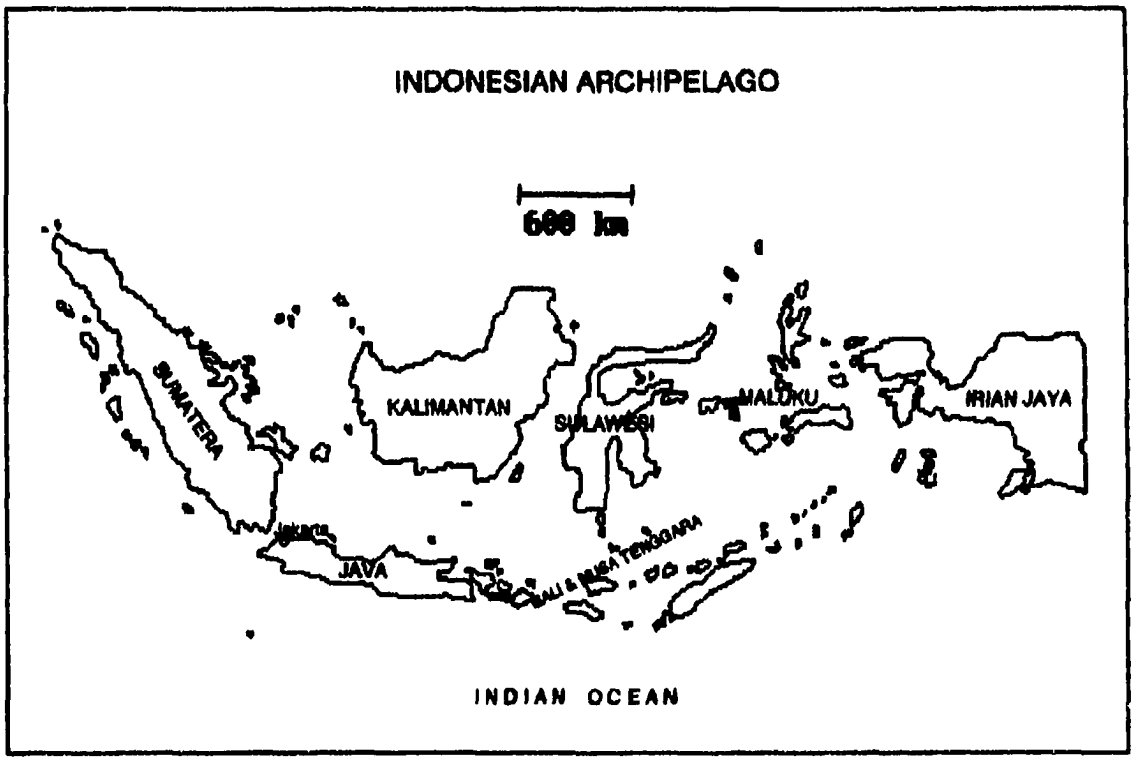
1. Department of Information Republic of Indonesia, *Indonesia 1989, An Official Handbook*, p. 19.

2. Paul Wheatley noted that "land of gold" was a frequent historical term in describing Indonesia, see *The Golden Khersonese*, Kuala Lumpur, 1961, pp. xxi-xxiv.

3. For a brief discussion see W.F. Wertheim, *Indonesian Society in Transition*, Greenwood Press, Publishers, Westport, Connecticut, 1956, pp. 16-21.




islands of Indonesia, but it is the political, economic, military and cultural center of the country. Most of the major cities including the capital, Jakarta, are located on Java. On the other hand, the outer islands are rich in natural resource endowments, and as a result, their economic activities are still confined to raw material extraction for export. In many ways, they serve as the hinterland of Java. A study by Geertz almost thirty years ago came to the conclusion that, "if ever there was a tail which wagged a dog, Java is the tail and

Indonesia, the dog"[4].

Geologically, there is a clear distinction between the larger islands of Sumatera, Kalimantan, Java, Irian Jaya, and Sulawesi which all lay in the Sunda and Sahul Shelves. These islands have extensive coastal lowlands fringed by shallow seas. The islands to the east of Bali and Kalimantan and Irian Jaya all rise from great ocean depths and barely have a coastal plain.[5]

Java is endowed with many active volcanoes, providing it with more chemically basic ajecta than in the outer islands, especially in Sumatera where the volcanoes are less active and produce more acidic ash and lava. As a result, Java generates more fertile soils which are renewed at a rate faster than those in the outer islands. Similarly, since much of the sediment is derived from the volcanic interior, the low lands in Java benefit from the enormous amount of it carried by rivers. This provides valuable plant nutrients. The absence of volcanoes in the outer islands means that soil has developed from very different parent rocks, which are, according to Drake,[6] often deficient in plant nutrients.

Climatically, there is a considerable variation in the

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[4]. Clifford Geertz, ***Agricultural Involution, the Process of Ecological Change in Indonesia***, University of California Press, Berkeley, 1963, p. 13.

[5]. Cristine Drake, ***National Integration in Indonesia. Patterns and Policies***, University of Hawaii Press, Honolulu, 1989, p. 10.

[6]. ***Ibid.***, p. 12.

amount and seasonality of rainfall. Many localized dry seasons occur due to the topography in relation to the direction of the prevailing monsoon winds. However, there is a major climatic contrast between much of the archipelago and the southern area. The former experiences constant and year-round rainfall, while the latter experiences a marked dry season that increases in duration with proximity to the Australian continent. The dry season is also influenced by a high-pressure system from Australia between April and September. This leads to more open deciduous forests and savanna vegetation in the eastern part of Nusa Tenggara. The result is wind erosion and difficult periods of drought that reduce the potential of the land for agriculture.[1]

These physical and climatic differences lead to existence of two different agricultural systems: the sweden or slash and burn agriculture predominates in the slightly settled regions of the outer islands and intensive wet rice cultivation in Java and Bali.

The geographical nature of the country, as will be discussed later, is one of the key factors underlying the persistence of regional problems in the country.

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1. *Ibid.*

## II. DEMOGRAPHY

According to projections of the 1985 inter-census, in 1990 Indonesia would have a population of more than 182 million people making it the fifth most populous country in the world[8]. Indonesia's population has increased remarkably fast during the current century: from about 48.5 million in 1920 to 182.6 million in 1990[9]. Sixty-seven percent of the population consists of persons under 30 years of age. Most of the people live in the rural areas. According to the inter-cencus of 1985, more than 121 million people (73.7%) are in rural areas, while the corresponding figure for urban population is around 43 million (26.3). During the last decade the population growth rate was 2.32% per annum[10]. The spatial distribution of the population is very unequal as clearly presented in table 2.1.

Table 2.1 clearly demonstrates the uneven distribution of the population. The island of Java accounts for less than 7% of total land area of the archipelago has of total population more than 60%. The population density of Java and Madura, a tiny island near Java, was 755 per sq Km in 1985 compared to 69, 14, 61, and 106 and 6 for Sumatera, Kalimanatan, Sulawesi,

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[8]. The population projection for 1995 was and 199,647,000; 216,116,000 and 231,412,000 for the year of, 2000, and 2005 respectively; BPS, ***Statistical Pocketbook of Indonesia***, 1988, Jakarta, p. 23.

[9]. ***Ibid.***

[10]. ***Ibid.***, pp. 32-33.

Nusa Tenggara, and Maluku (Maluccos) and Irian Jaya respectively.

The maldistribution of the population is also reflected in land utilization. While the proportion of cultivated land on Java is about 70%, on the Outer Islands it is only about 4%.[11] This pattern of uneven distribution of the population is another crucial factor underlying the regional problems.

The vast majority of Indonesians are of Malay origin, having emigrated from mainland Asia in several waves since 2500 BC. The Malay majority, however, are by no means homogeneous. As a result, there are more than three hundred and sixty different dialects spoken, making communication between different ethnic groups and cultures impossible[12]. In the Eastern part of the country (Irian Jaya) are Melanesian, and some of their influence extends further west. There are about four to five million Chinese, some Indians and Arabs scattered throughout the country. As a result, a relatively artificial language, **Bahasa Indonesia**, based on the lingua franca of the region's trading communities, was developed to facilitate communication during the drive for national independence.

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11. Geertz, ***Loc. Cit.***

12. Frank R. Lebar, ***Ethnic Groups of Insular Southeast Asia***, Human Relations Area Files Press, New Haven, 1972; For a brief desciption of some of the main ethnics and cultures see Selo Soemardjan, ***Indonesia, A Socio-Economic Profile***, sterling Publisher Private Limited, 1988, chapter 3, pp. 54-82; Wertheim, ***Op. Cit.***, pp. 21-37.

Table 2.1 Area and Number of Population by Privince/Island, 1985

| Province/Island | As % of Total area of Indonesia | Population (,000) | As % of Total Population | Density per Sq Km |
|---|---|---|---|---|
| SUMATERA | 24.67 | 28,016 | 19.87 | 69 |
| DI Aceh | 2.88 | 2,972 | 1.81 | 54 |
| North Sumatera | 3.69 | 9,422 | 5.74 | 133 |
| West Sumatera | 2.59 | 3,698 | 2.25 | 74 |
| Riau | 4.93 | 2,548 | 1.55 | 27 |
| Jambi | 2.34 | 1,745 | 1.06 | 39 |
| South Sumatera | 5.40 | 5,370 | 3.27 | 52 |
| Bengkulu | 1.10 | 943 | 0.57 | 45 |
| Lampung | 1.74 | 5,905 | 3.60 | 177 |
| JAVA | 6.89 | 99,852 | 60.87 | 755 |
| DKI Jakarta | 0.03 | 7,885 | 4.81 | 13,365 |
| West Java | 0.41 | 30,830 | 18.79 | 666 |
| Central Java | 1.78 | 26,945 | 16.44 | 788 |
| DI Yogyakarta | 0.17 | 2,930 | 1.79 | 925 |
| East Java | 2.50 | 31,262 | 19.06 | 652 |
| KALIMANTAN | 28.11 | 7,722 | 4.71 | 14 |
| West Kalimantan | 7.65 | 2,819 | 1.72 | 19 |
| Central Kalimantan | 7.95 | 1,118 | 0.68 | 7 |
| South Kalimantan | 1.96 | 2,273 | 1.39 | 60 |
| East Kalimantan | 10.55 | 1,512 | 0.92 | 7 |
| SULAWESI | 9.85 | 11,554 | 7.04 | 61 |
| North Sulawesi | 0.99 | 2,313 | 1.41 | 122 |
| Central Sulawesi | 3.63 | 1,511 | 0.92 | 22 |
| South Sulawesi | 3.79 | 6,610 | 4.03 | 91 |
| Southeast Sulawesi | 1.44 | 1,120 | 0.68 | 40 |
| NUSA TENGGARA | 4.61 | 9,336 | 5.69 | 106 |
| Bali | 0.29 | 2,649 | 1.61 | 476 |
| West Nusa Tenggara | 1.05 | 2,995 | 1.83 | 148 |
| East Nusa Tenggara | 2.49 | 3,061 | 1.87 | 64 |
| East Timor | 0.78 | 631 | 0.38 | 42 |
| MALUKU AND IRIAN JAYA | 25.87 | 2,980 | 1.82 | 6 |
| Maluku | 3.88 | 1,609 | 0.98 | 3 |
| Irian Jaya | 21.99 | 1,371 | 0.84 | 6 |
| T O T A L | 100.00 | 164,047 | 100.00 | 85 |

Source : BPS, ***Statistical Pocketbook of Indonesia***, 1988.

# III. POLITICAL HISTORY

## A. PRE-COLONIAL PERIOD

The political history of Indonesia prior to the era of colonialism has been characterized at first by a period of bipolar spatial political organization (Srivijaya vs Majapahit) during the 7th to 14th centuries followed by a period of multi-polar political organization from 14th century to colonialization.

In this first period, Srivijaya based in South Sumatera (7th to 13th centuries) was in conflict with the powerful Hindu Kingdom of Majapahit, based in East Java. The sea-based empire of Srivijaya based its power on the monopolistic control of trade and shipping[13], while the Kingdom of Majapahit was based on wet-rice agriculture. Srivijaya, according to John D. Legge[14], was cosmopolitan in character and had a high degree of social equality and tolerance. In contrast, Majapahit was hierarchical, aristocratic and military in character and buttressed by magico-religious power.

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[13]. Srivijaya's power during the fifth to the twelveth centuries lay in its ability to control the Malacca Straits and enforce customs duties and port dues from ships using the prevailing moonsonal winds in their foyages from Arabia, Persia, India, and ceylon to the spice ilands (Maluku) and China, Drake, ***Op. Cit.***, p. 21.

[14]. John D. Legge, ***Indonesia***, Printice-Hall, Englewood, New Jerssey, 1964, p. 29.

Due to the improvement in shipbuilding and navigation technologies, fluctuation of trade and international politics, Srivijaya's domination came to an end in the early 12th centuries.[15] The absence of agricultural base and other industries further aggravated the empire's demise. Thus, when Marco Polo visited Sumatera in 1292, Srivijaya had disintegrated into eight kingdoms.

The declining of Srivijaya paved the way for Java to gain a predominant position in the archipelago. After defeating Srivijaya, Majapahit reached beyond the border of present Indonesia to include Champa in North Vietnam, Kampuchea and the Philippines (Berg doubts this, arguing that Majapahit's supremacy was limited only to Java, Madura and Bali),[16] during 14th and 15th century.

According to Reinhardt,[17] despite threats a various times by the Islamic commercial empire of Malacca in the fifteenth century, the Javanese kingdoms have been the center of political influence and arbitrator of rivalries in the area. Majapahit, especially under Hayam Wuruk (the king of Majapahit in the fourteenth centry) and Gadjah Mada (its prime minister between 1331 to 1364), not only established itself as agriculturally based power but also as a commercial empire. Similarly, Gadjah Mada unified administration and codified

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15. Drake, *Op. Cit.*, p. 21.

16. Berg in Welthheim, *Op. Cit.*, p. 52.

17. John M. Reinhardt in *Ibid.* p. 22.

laws and customs which were still used as late as the nineteenth century.[18] Majapahit's power came to an end in 1518.[19] After the decline of Majapahit, the political history of the archipelago was marked by a multipolar political organization reflected in the existence of many small independent kingdoms before they were conquered by the Dutch. However, the collapse of Majapahit and emergence of a multipolar organization did not necessarily mean the end of Javanese political domination.

The Javanese interprete and believe that power is something concrete, homogeneous, constant in total quantity, and without inherent moral implication. As a consequence, the central question is not of exercising power as it is in Western political theory, but of accumulating and centralizing power. This can only be accomplished through the dismantling of all regional powers and absorbing them to the center, Java. An excellent study by Moejanto whose examination of old Javanese literature can be used as an illustration. Moejanto focuses his study on the concept of *Keagungan-Binantaraan*,[20]

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[18]. ***Ibid.***, p. 23.

[19]. For a brief discusion see, Pradjumna P. Karan and Wilford A. Bladen, **The Geopolitic Base**, in Ashok K. Dutt, (ed.), ***Southeast Asia, Realm of Contrasts***, 3rd ed., Westview Press, Boulder-London, 1985, p. 23; Department of Information Republic of Indonesia, **Indonesia 1990**,, ***Op. Cit.***, pp. 24-26.

[20]. The power of kings of Mataram (an old Javanese empire) was described as so greatful in the sense that they owned everything in the world, including every life of othersone. In the world of *wayang*, as Moejanto argues, such a king was described as *gung-binathara, bau dhendhanyakrawati* (celestially grand, maintaining the law and ruling the

an ideal picture of both the king and kingdom according to the Javanese world. He found that in the Javanese culture the greatness of the power of the king was characterized by the vastness of the territory of his kingdom; the number of conquered territories and the nature of the tributes offered by conquered kings; the faithfulness of regents and officials in carrying out their duties and attending the court on appointed occasions; the grandeur of the court ceremonies and the heirlooms (*pusaka*) and ceremonial equipment he owned; the size of his army; and his wealth and number of honourary and his fame.[21] From the above explanation, it is clear by now that the ideal type of king and kingdom in Javanese concept requires both the existence a very strong center which is incomparable to the peripheral areas. So that it is not surprising that in Javanese culture, neither division of power, nor competing powers exist. Authority is not divided, rather it is a totality. Thus, the Javanese always assert, "*Ngendi ana surya kembar*" (there is only one sun in the world).[22] The history of Mataram, as Moejanto described, demonstrates clearly the necessities for the existence of a strong center and weak peripheral areas. According to Moejanto's study, the king of Mataram, Senapati, in his effort

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world, see G. Moejanto, ***The Concept of Power in Javanese Culture***, Gadjah Mada University Press, Yogyakarta, 1990, p. 102-3.

[21]. ***Ibid.***, p. 104.

[22]. ***Ibid.***

to fulfill the *keagungan-binantaraan* first centralized all form of power in his hand,[23] then established the number of satellites through conquering first the whole of Java, then the outer islands or *Tanah Sebrang* as the Javanese used to call them. Since the concept of *keagungan binantaraan* put the greatness of Mataram in an uncomparable, Mataram stood without an equal. Accordingly, the conquering of *tanah sebrang* was important, because it was a source of prestige, wealth and military strength,[24] and most important was that this conquering from the Javanese's point of view was a symbol that power remained at the center, Mataram.

I hope it is clear by now that since the very beginning the power relations between Java and the outer islands was based on the form of central-periphery relationship in which Java was the center, and the outer islands played their role as peripheries. This situation clearly still exist today. The logic of the Javanese conception of power requires a very strong center which is syncretic and absorptive in character. This center, as Moejanto's study demonstrates, is usually realized in the person of a ruler.

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[23]. ***Ibid.***, p. 108.

[24]. ***Ibid.***, p. 109.

## B. COLONIAL PERIOD

Beginning in the 16th century, the country was colonized first by the Portuguese,[25] then by the Dutch for about 350 years, and finally by Japan during the Second World War for more than three years. It became independent on August 17th, 1945 after a long liberation struggle. It gained full sovereignty in 1949 inspite of persistent political and military actions of a Dutch government which wanted to retain the colony[26].

The effect of the Dutch colonialism on the archipelago was ambivalent. In one extreme, it linked more systematically the archipelago in terms of administration, law, and communication, bringing a unity not experienced before. The Dutch rule also provided the rationale for adopting the boundaries of the Netherlands East Indies Company as the limits of the new independent Republic.

On the other extreme, the Dutch rule was uneven throughout the archipelago. The colonial power not only deliberately preserved existing differences among the already diverse people and kingdoms in pursuit its policy of "divide

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[25]. The Portuguese arrived in Indonesia in 1511 after conquering the Islamis Kingdom of Malacca on the Malay Peninsula. Its hegemony came to an end following the Dutch conquest of Malacca Strait in 1640, **Indonesia 1990, *Op. Cit.***, p. 27. As a result the Portuguese had a very limited influence in the archipelago.

[26]. The military and political conflicts between Indonesia and the Dutch came to an end on December 27th, 1949 after they reached an agreement during the **Round Table Conference** held in Denhaag.

and rule". The unequal treatment of different areas and ethnic groups, according to Drake,[27] exacerbated old rivalries and created new cleavages. Also, during the colonial period, the Chinese (whom were imported in great numbers as laborers throughout the seventeenth century) were preferred by the Dutch as intermediaries in their intercourse with the Javanese[28]. This not only led to failure of capitalism to generate an indigenous capitalist class or bourgeoisie as Robison argues.[29] Instead it provided the foundation for the Chinese business people to dominate the post-Independence economy. This was further facilitated by the introduction of legal discrimination and stratification based on race and religion developed by the Dutch. Within this stratification, the Dutch employee of the Company occupied the uppermost social strata, followed by the free citizens (Dutch, Mestizos, and enfranchized Christian slaves, in that order), the Chinese; and the Indonesians mostly slaves (called **Inlanders**) formed the lowest stratum[30].

By the mid-eighteenth century, according to Drake, the

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[27]. Drake, ***Op. Cit.*** p. 25.

[28]. Weltheim, ***Op. Cit.***, p. 58.

[29]. Richard Robison, ***Indonesia. The Rise of Capital***, Asian Studies Association of Australia, Canberra, 1986, p. 3.

[30]. Weltheim, ***Op. Cit.***, pp. 136-141. Discrimination, as Weltheim notes, was found every where in the field of government and justice, eligibility for official positions and teaching. Only the **Inlanders** were subject to compulsory service for public works and forced labor on the government plantations.

archipelago was separated into three distinct areas resulting from uneven treatment by the Dutch. In Eastern Indonesia she notes that the Dutch influence was intensive and oppressive. She argues,

> "(b)y regulating and destroying the means of production and prosperitiy of the Inlanders (by cutting down unauthorized clove and nutmeg trees to maintain high prices in Europe, and by improving their monopoly on trade), the Dutch succeeded not only in breaking the power of the previously proud and independent kingdoms of the Mallucas (such as Ternate and Tidore), but also in decimating their population and reducing the survivors to bondage and poverty"[31]

The case of the island of Timor, shared by both the provinces of East Timor and East Nusa Tenggara,[32] demonstrates the negative impact of the penetration of colonial power into the islands. This island had very substantial resources, especially sandalwood. Jan Huygen Van Linschoten wrote in 1596, "Timor, has whole wildernesses of sandalwood and from thence it is carried to and throughout

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[31]. Drake, ***Op. Cit.***, p. 27.

[32]. Before the period of colonialism, the island of Timor was under the dynasty of Maromak Oan (Son of God). By 1856, the Portuguese and the Dutch signed an agreement dividing this kingdom into two parts. The Western part, excluding a small patch of land, hereafter belonged to the Dutch, while the Eastern part to the Portuguese. The kingdom of Maromak was splintered further into small weak principalities. Before independence in 1945 this small island had eighteen *Swaparaja* (self-governing areas), see Ace Partadiredja and Willem H. Makaliwe, **An Economic Survey of East Nusa Tenggara, *Bulletin of Indonesian Economic Studies***, Vol. X, No. 1, March 1974.

India, where it is used by Indians, Moors, Heathens and Jews."[33] The sandalwood had been exploited by the Chinese and the Javanese traders together with the Dutch and the Portuguese for the international market before and during the period of colonialism.[34] The sandalwood trade, as investigated by the English historian Boxer,[35] was from the beginning extremely profitable for the Portuguese. He noted that during the eighteenth century the import duties levied on sandalwood in Macao (the Portuguese trading-post in China) were sufficient to defray the cost of the local government. Historical evidence also demonstrates that sandalwood was the main reason for the opening up of this island.[36] In 1613, before the founding of Batavia (now Jakarta), the Dutch had deeply infiltrated into Timor and signed the first sandalwood contracts for the north coast. The first Dutch Governor in the Malayan archipelago received, among other instructions, the order to organize the sandalwood business. The struggle between the Dutch and the Portuguese, the last struggle between these two colonial powers in Indonesia, was a matter

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33. Linschoten as cited in F. J. Ormeling, ***The Timor Problem. A Geographic Interpretation of An Underdeveloped Island***, Martinus Nijhoff, Groningen, 1956, p. 98.

34. ***Ibid.***, see also, M. Hadi Soesastro, **East Timor: Question of Economic Viability** in Hill, (ed.), Unity and Diversity... ***Op. Cit.***, p. 209.

35. Boxer, **Fidalgos in the Far East** (1948) as summarized in Ormeling, ***Op. Cit.***, pp. 97-8.

36. ***Ibid.***, pp. 92-103.

of control of the sandalwood trade.[37]

The island of Timor is not the only area in which colonial powers penetrated deeply. The islands of Malluccos (Maluku) is another example. Historically, this province was the heart of the spice islands and the jewel of the Dutch East Indies. Now, the dominance of this province in the spice trade is over. Paul Meyer and Hardjodimedjo describe this province as "something of a backwater".[38] Even the poorer natural resource areas like West Nusa Tenggara have been used, according to Darusman, as a major rice exporters since the colonial period.[39]

In other areas, especially in Sumatera and Kalimantan, the Dutch penetration was much slower. It was only limited to a few strategic fortress settlements along the coast and in Padang in West Sumatera before the mid-nineteenth century. However the development of plantations and mines brought about the extention of Dutch authority and exploitation of the lands during the mid- to late nineteenth century.

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[37]. The Dutch-Portuguese sandalwood controversy (although literature makes no mention of sandalwood in these conflicts) only ended by the treaty of 1916. However, as de Haan pointed out, even long time after the treaty (during 1930s), the Dutch Forestry Service had systematically cut sandalwood trees in the frontier areas for fear of their being stolen by inhabitants of Portuguese Timor (now East Timor). It is likely, as Ormerling argued that the Portuguese did the same on their territory, *Ibid.*, p. 99.

[38]. Paul A. Meyer and Martono Hardjodimedjo, **Maluku: The Modernization of the Spice Islands** in Hal Hill, (ed.), **Unity and Diversity**, *Op. Cit.*, p. 549.

[39]. Darusman as cited in Lorraine Corner, **East and West Nusa Tenggara: Isolation and Poverty** in Hill, (ed.), *Ibid.*, p. 187.

It was Java where the Dutch influence was the greatest, solidifying it as the center of the archipelago. Thus, the casting of the island of Java as a center of economic, political and military power is also partly a colonial legacy. Previous to the Dutch colonization in 1600s there were many decentralized economic and political centers or kingdoms, mainly on Java and in harbour principalities scattered throughout the archipelago. On Java and Madura alone, there was the island-state of Mataram[40] under the Prince Sultan Agung, the harbour principality of Bantam in Western Java, and the principality of Madura (defeated by the Dutch in 1680) under Prince Trunojoyo. On Sumatera, to the north, there was the Moslem Kingdom of Aceh (defeated by the Dutch only as late as 1903 after 30 years of war), while in the Eastern part of the archipelago there was the Moslem Kingdom of Ternate (conquered by the Dutch 1605) and the principality of Goa under Sultan Hasanuddin (conquered by the Dutch in 1667) in South Sulawesi, to mention but a few[41].

During the 17th and 18th centuries, the United East India

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[40]. The Kingdom of Mataram was divided by the Dutch into three houses: the Hamengkubowono's of Yogyakarta, the Pakubowono of Surakarta, and Mangku Negara's of Surakarta in 1657. The seizure of the Kingdom of Mataram was possible only (after the failure of Sultan Agung in attacking Batavia in 1528 and 1529) through the politics of **devide et empera** where the Maduranese, the Makassarese, the Chinese and the Balinese played an important role in disintegrating the Kingdom, see David Joel Steinberg, (ed.), ***In the Search of South Asia.***, Revised Ed., University of Hawaii Press, 1985, p. 89; Weltheim, ***Op. Cit.***, p. 57.

[41]. See, Weltheim, ***Op. Cit.***, pp. 54-56; **Indonesia 1990**, ***Op. Cit.***, pp. 27-28.

Company (VOC),[42] focused its activities on Java, and to some extent on the island of Maluccos (the richest spice area in those days). This made Java the centre of economic, political and military power. By 1750, as noted by Weltheim, the VOC succeeded in consolidating its supremacy over the areas around the seaports of Semarang (now the capital of the province of Central Java) and Surabaya (now the capital of the province of East Java). By the end of 17th century, the Dutch completely dominated the north coast of Java. During the 19th century Java, through its vegetable and its manpower, had been the main source of profits for the Dutch. Only after 1900, the increasing need for raw materials, mainly petroleum and rubber by the industrial world did the Dutch government start to exploit the outer island. However, Java, especially Batavia, remained the center of economic, political and military power[43].

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[42]. In the search for spices to be sold in the European market, the VOC arrived in Indonesia in 1602, establishing its headquater in Batavia, now Jakarta, in 1619, *Ibid.* The VOC received military and political support from the state of the Republic of the Netherlands by conquering, among others, the Portuguese, (after they conquered the Malacca Strait from the Portuguese in 1640 the only part of the archipelago that remained in the hands of the Portuguese was East Timor.) Britons, Javanese, Maduranese, and the harbor princes of Bantan and Ternate. See, Weltheim, *Op. Cit.*, 54-55. In protecting the VOC from frequent pirate attacks on the high seas, Dutch warships were ordered to accompany the VOC. Mismanagement and corruption forced this Company into bankruptcy, and on December 13, 1799 the VOC was taken over (nationalized) by the Dutch government, see Indonesia 1990, *Op. Cit.*, pp. 27-28.

[43]. For detail, see Weltheim, *Op. Cit.*, pp. 52-89; Steinberg, *Op. Cit.*, pp. 151-59.

## C. POST INDEPENDENCE PERIOD

The political history of post independence Indonesia is usually divided into four periods[44]. The first is the period of the struggle for independence between 1945 and 1949. The second is the period of Parliamentary Democracy from 1950 until the proclamation of martial law on March 14, 1957 following the widespread growth of regional movements outside the island of Java. This period formally came into an end in 1959 when Soekarno proclaimed the return to the Constitution of 1945. The third period is that of Guided Democracy, also called the **Old Order**, between 1957 and 1966. Finally there is the **New Order** period from 1966 up to the present.

During the first two periods, the political system was based on the idea of liberal democracy. However, the lack of experience in exercising democracy and the absence of a supra-local political system either before[45] or during the colonial period,[46] together with the very diversity of the country made

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[44]. See for example, Ulf Sandhaussen, **Indonesia: Past and Present Encounters with Democracy** in Larry Diamond, et.al. (ed.), ***Democracy in Developing Countries, Asia***, Vol. 3, Lynne Rienner Publishers, Boulder, 1989; Richard Robison, ***Indonesia, The Rise of Capital***, Asian Studies Association of Australia, Canberra, 1988; Arief Budiman, **The Emergence of Bureaucratic State in Indonesia** in Lim Teck Ghee, (ed.), ***Reflection on Development in Southeast Asia***, Asean Economic Research Unit, Institute of Southeast Asian Studies, Singapore, 1988.

[45]. See also footnote 5.

[46]. It is important to bear in mind that the archipelago had been tied together under the Dutch rule. However, the history of the country had proven that the main reason why the Ducth government had remained in controlling the archipelago for more than three centuries was its **politics**

political consensus impossible. The failure to reach a substantial agreement between the Moslems who demanded that Islam be the ideology of Indonesia and the nationalists and other minority groups who wanted to keep the **Pancasila**[47] as the state ideology resulted in polarization of the country into two distinct and opposite political forces.

Political and ideological tension and conflict among parties were aggravated by regional rebellions, starting in the middle of the 1950s. All of these brought about political instability and national disintegration, retarding the possibility for economic development[48]. During the period of 1950 to the early 1960s economic and political dissatisfaction were main forces driving regional rebellions outside the

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of devide of empera. It was clear from, for intance, the politics of the Dutch against the Kingdom of Mataram, see footnote 6.

[47]. The Pancasila literally means 'five principles' : (1) belief in the one and only God, (2) just and civilized humanity, (3) the unity of Indonesia, (4) democracy guided by the inner wisdom of deliberations of representatives, and (5) social justice for all the Indonesian people. These five principles were first introduced by Soekarno in his speech on the 1st of June 1945. The full translation of Soekarno's speach is published in Herbeth Feith and Alan Smith, **Indonesia**, in Roger M. Smith, (ed.), ***Southeast Asia, Documents of Political Development and Change***, Cornell University Press, Ithaca, 1974, pp. 174-82. The Pancasila was adopted as the national ideology of the country at this time and remains so today, Indonesian ideology ever since.

[48]. One reflection political instability was frequent changes of the cabinet. During the period 1950 to 1957, Indonesian cabinet ministers changed 25 times. Some of them were in power only for a month, while the longest term was 23 months, see Arbi Sanit, ***Sistem Politik Indonesia, Kestabilan, Peta kekuatan Politik dan Pembangunan*** (***the Indonesian Political System, Stability, the Political Power Constalation and Development***), Rajawali, Jakarta, 1985, p. 65. Under this condition, it was impossible for one cabinet to draw up a rational and sustainable economic development plan or program.

island of Java.[49]

Various organizations: the **South Mallucan Republic Movement (RMS)** (1940s to the end of 1960s, now based in the Netherlands) in Maluku, the **Free Aceh Movement (GAM)** during 1970s to early 1980s (and its revival during the last three years) in Aceh[50], the **Free Papua Organization Movement (OPM)** in Irian Jaya (they received weak local support), and the **Fretelin** movement in East Timor[51], were all based on the issue of anti-Javanese domination.[52]

Political, ideological and regional conflicts forced the charismatic President Soekarno, backed by the Army,[53] to proclaim martial law in 1957 and to create a new political system in 1959, called **Guided Democracy**. Within this polical system, a "triangle" comprised of the army, the Indonesian Communist Party (PKI), the largest communist party outside the

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[49]. For detail see Ulf Sundhaussen, ***The Road To Power: Indonesian Military Politics 1945-1967***, Oxford University Press, Kuala Lumpur, 1982, pp. 107-111; Harold Crouch, ***The Army and Politics in Indonesia*** (Revised Edition), Cornell University Press, Ithaca, 1988, pp. 32-33; Abdurrahman Wahid and Dorodjatun Kuntjoro-Jakti, **Government Responses to Armed Communist and Separatist Movements in Indonesia: Islamic and Military Perspectives, in Chandran Jeshurun, (ed.), *Governments and Rebellions in Southeast Asia***, Institute of Southeast Asian Studies, Singapore, 1985, pp. 166-179.

[50]. ***Tempo***, variuos issues, 1989 to 1991.

[51]. see for example, an interview with Xanana Gusmao, the East Timor Guerilla Commander, Inside Indonesia, No. 25, December 1990, pp. 7-9.

[52]. see for example, Wahid and Kuntjoro-Jakti, ***Loc. Cit.***

[53]. Donald Hindley, **President Sukarno and the Communists: The Politics of Domistication**, ***American Political Science Review***, Vol. LVI, No. 4., December 1962.

Sino-Soviet block at that time,[54] and Soekarno became the main political forces[55]. However, there was a high level of mutual suspicion in the relationship between the PKI and the army. This brought about an insecure situation that depended greatly on Soekarno's ability to keep a delicate balance between the interests of these two opposed powers. In this problematic political framework military actions were undertaken in 1962 against the Dutch for control of West Guenea[56] (which became part of Indonesia in May 1963 and is now called Irian Jaya), and the policy of confrontation with Malaysia from 1963 to 1966[57]. The latter brought about difficulties for the country, especially in terms of international relations with the Western countries and their international fincancial agencies[58].

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[54]. Hindley, *Ibid.* See also, David Ransom, Ford Country: Building an Elite for Indonesia, in Steven Weissman, (ed.), *The Trojan Horse, A Radical Look at Foreign Aid*, Ramparts Press, San Francisco, 1974, p. 104. It was reported that by 1963 the PKI had three million members, compare to eight thousand at Independence, and an estimated seventeen million were members of its associations.

[55]. Harold Crouch, *The Army and Politics in Indonesia*, Revised Ed., Cornell University Press, Ithaca, 1988, pp. 43-68; Guy J. Parker, The Role of the Military in Indonesia, in John P. Johnson, (ed.), *The Role of the Military in Underdeveloped Countries*, Princeton University Press, Princeton, 1962, pp. 218, 227-230.

[56]. Crouch, *Ibid.*, pp. 50-50-51; Sandhaussen,...., *Op. Cit.*, p. 436.

[57]. Crouch, *Op. Cit.*, pp. 55-62, 69-75.

[58]. For example, the IMF cancelled its aid in support of the 1963 stabilization program at the beginning of the confrontation with Malaysia, see, Mary Sutton, Indonesia, 1966-1970 in Tony Killick, (ed.), *The IMF and Stabilization, Developing Country Experiences*, St. Martin's Press, New York, 1984, p. 79.

The high level of suspicion in the relationship between the PKI and the army reached its peak on the night of 30 September 1965. The former made an attempt to remove through an assassination the anti-PKI elements within the army. Despite the fact that six top generals were killed, the coup attemp failed and within days the army, under the command of General Soeharto, carried out a successful counter-coup. It was estimated that about 800,000 people, the PKI's members and sympathizers, were killed[59]. Conditions became more explosive when students who were fully supported by the army made for the streets in militant demonstrations and set up a 'street parliament' to put forth their demands called **Tritura**: to ban the PKI, to replace Soekarno's cabinet ministers, and to reduce the prices of basic necessities. Under these very difficult conditions, Soekarno gave up his previous "triangle" arrangement and granted General Soeharto the power to restore order and security. This was effected by a presidential order known as the **Eleven March Order** of 1966 by which Soeharto banned the PKI and formed a new cabinet. But Soekarno remained the chief executive until the **Peoples Consultative Assembly (MPR)**[60] relieved him of his presidential duties and appointed Soeharto as Acting President in March 1967. One year later

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[59]. Julie Southwood and Patrick Flanagan, ***Indonesia, Law, Propaganda and Terror***, Zed Press, London, 1983, p.p. 65-80.

[60]. According to the 1945 Constitution the highest power is vested in the hands of the MPR which convenes once every five years. This body appoints the President and Vice-President.

Soeharto assumed presidential power and he has remained in power ever since.

## *IV. ECONOMIC DEVELOPMENT*

Economic development has been a "sacred" issue in Indonesia since the New Order government came to power in 1966. General Soeharto, the new president of Indonesia, provided the necessary conditions for economic development. Since the state was bankrupt it was not possible for the State to undertake measures to raise the necessary capital resources for economic development domestically. External support was seen as the key to development. This meant that renegotiating aid and redirecting capital were critical for the New Order government[61]. It also meant that the New Order government had to regain the sympathy of the Western capitalist powers.

In both renegotiating aid and redirecting capital, the IMF played a very critical role. However, before the Fund was willing to do this, the Indonesian government had to convince foreign creditors and potential foreign investors that it would give high priority to debt rescheduling, infrastructure rehabilitation, currency stabilization, removing controls on private investment, curtailing the activities of state

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[61]. It is important to bear in mind that under the Old Order government economic and political policies in Indonesia were based on economic autarchy and actively anti-imperialist foreign policies, see Donald Hindley, President Soekarno, *Op. Cit.*

corporations, and providing guarantees to foreign investors[62]. The most precise statement was made with Western creditor countries[63] under the chairmanship of the Netherlands[64]. It was also made in December of 1966 at the Paris Conference of IGGI which consisted of an agreement that:

> a. market forces were to play a central role ...
>
> b. state enterprises were to be placed on a competitive footing with private enterprises, ending prefential access to state credit and foreign-exchange allocations. State monopolies in the import sector were to be ended. ... state corporations were freed from the requirement to sell at artificially low prices. They could now charge market prices, operate economically and thereby no longer require subsidies.
>
> c. the private sector was to be stimulated by the removal of import licence restrictions....
>
> d. foreign private investment would be encouraged by the introduction of a new law which would provide taxation and other incentives and gurantees[65].

The aforementioned agreements were realized through the promulgation of a series of policies. Chief among these were the ending of the policy of confrontation with Malaysia and

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[62]. Richard Robison, **Indonesia**,..., *Op. Cit.*, p. 137.

[63]. These countries are the Netherlands, France, the USA, West Germany, United Kingdom, Australia, and Japan, plus the IMF and observers from Canada, New Zealand, the Switzerland. Later, they became a consortium of creditor countries of Indonesia, known as "Inter-Governmental Group on Indonesia" (IGGI).

[64]. Sutton, *Op. Cit.*, p. 79.

[65]. Thomas and Panglaykim as cited in Robison, *Op. Cit.*, pp. 137-38. See also, Sutton, *Op. Cit.*, p. 80 which cited the statement of the Indonesian delegation in the meeting with Western creditor countries, September 1966.

the end of formal price controls in 1966; the return of many nationalized enterprises to their former owners and the promulgation of less restrictive Foreign Investment Law in 1967, the rationalization of banking and interest rates in 1968, and the end of multiple exchange rates between 1968 and 1971[66]. All of these policies were undertaken under the supervision, or even dictation[67] and assistance of the IMF, the World Bank and the IGGI.

These favourable conditions paved the way for the rescheduling of debt and re-opening of access to the international networks of finance from private and government sources, as well as from the international financial and monetary institutions. These were marked by the re-opening of the dialogue between the Indonesian government and the Fund. In June 1966, an IMF mission visited Jakarta to discuss the re-entry of Indonesia into the IMF[68]. One month later, a program of stabilisation and rehabilitation, designed by the IMF and the IGGI, was launched with the aim of controlling inflation and restoring production. This was followed by the very substantial inflow of foreign grants and loans into the country. From 1966 to 1970, foreign grants and loans increased

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66. See for example, Benedict R. O'G. Anderson, ***Language and Power, Exploring Political Cultures in Indonesia***, Cornell University Press, Ithaca, 1990, p.112.

67. Richard Robison, ***Op. Cit.***, p. 133.

68. Officially Indonesia applied for re-entry into IMF membership in July 1966, then rejoined in February 1967.

substantially. From US$ 119 million in 1966, they rose to US$ 265 million in 1967 and 1968, and went up to US$ 314 million and US$ 407 million in 1969 and 1970, respectively. Direct investment and other long-term capital rose from US$ 71 million in 1966 to US$ 267 million in 1967. It went down to US$ 254 million in 1968 but grew again to US$ 314 and US$ 356 in 1969 and 1970, respectively. Another calculation made by Anderson demontrates that between 1968 and 1969, over half a billion dollars ($US 534 million in 1969 alone) in aid from the Western goverments flowed to Indonesia (compared to $US 660 million and $US 500 million total net government expenditure and receipts in 1957 and $US 200 million and $US 180 million in 1960). Between 1968 and 1973, the cummulative aid amounted to over US$3 billion[69].

The result of the stabilization and rehabilitation program, together with a massive inflow of foreign investments and grants was very impressive: inflation was brought under control (see table 2.2) and the capacity to produce increased, paving the way for the country to plan its economic development. However, as argued by Anderson,

> "... the money came directly and exclusively to the center .... In other words, not only was the power of state vis-a-vis society vastly enhanced, but within the state the center came decisively to dominate the periphery"[70].

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[69]. Anderson, *Loc. Cit.*

[70]. *Ibid.*, p. 113.

Table 2.2 Indonesia: Consumer Prices and the money supply, 1966-74 (annual percentage changes)

| Year | Jakarta cost of living index | | Money supply |
|---|---|---|---|
| | Yearly | December to December | (M2) |
| 1966 | 1044.7 | 635 | 753.8 |
| 1967 | 171.0 | 112 | 132.0 |
| 1968 | 128.0 | 85 | 125.6 |
| 1969 | 15.9 | 10 | 57.8 |
| 1970 | 12.3 | 9 | 36.4 |
| 1971 | 4.4 | ... | 27.6 |
| 1972 | 6.5 | ... | 48.5 |
| 1973 | 25.8 | ... | 41.6 |
| 1974 | 40.7 | ... | 40.4 |

Souce: IFS, various issues and published Fund documents as extracted in Sutton, *Op. Cit.*, p. 69, table 3.7.

As in the case of many developing countries, the Indonesian government believed that modernization through development planning was the only path to pursue a just and equitably prosperous society. Accordingly, in 1969 the MPR established the **Guidelines of State Policy** for a systematic pattern of national development, based on the premise that development of all the Indonesian people in all aspects of life, and therefore of the entire society was attainable.

Based on this pattern, **long term development goals** (25 to 30 years) have been drawn up in a series of **Five Years Development Plans -- REPELITA**. At the beginning, Indonesian development was designed to follow the five stages of growth theory identified by Rostow in the early 1960s[71]. The

[71]. W.W. Rostow, *The Stages of Economic Growth, A Non-Communist Manifesto*, Cambridge University Press, London, 1960.

government planned a strategy, concentrating on economic sectors, that Indonesia would move its political economy from a traditional society into an age of high mass consumption.

It was also assumed that mobilization of domestic and foreign capital were the keys to accelerate economic growth[72]. Accordingly, the planners, most of them graduates from the University of California at Berkeley in the USA, followed the model of growth of Harrod-Domar that hypothesizes that the rate of GNP is determined by the ratio of national saving to national output, where "the more an economy is able to save -- and invest -- out of its given GNP, the greater will be the growth of GNP"[73].

Using these orthodox policies and benefiting from two rounds of oil price increases during 1970s giving huge windfall gains for Indonesia,[74] the country was not only able to remove its problem of balance of payments, but experienced rapid economic growth, especially during 1966 to 1981 as presented in table 2.3. The GDP growth rates of Indonesia during 1966 to 1981 were among the highest in the world. As a low-income economy, Indonesia demonstrated remarkable economic

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72. This view was very popular at the end of 1960s and early 1970s. For example, see Ali Murtopo, ***Strategi Pembangunan Nasional*** (***The National Development Strategy***), CSIS, jakarta, 1982.

73. M.P. Todaro, ***Economic Development in The Third World***, 4th ed., Longman, New York, 1989, p. 66.

74. In 1971-72, oil income accounted for 26.2% of total national export (Rp.112.5 billion). The figure shot up to 65.8% (Rp. 8,170.4 billion) between 1982 and 1983, see Arief Budiman, The Emergence ..., ***Op. Cit.***, p. 119.

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[73]. M.P. Todaro, ***Economic Development in The Third World***, 4th ed., Longman, New York, 1989, p. 66.

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performance during that period in comparison with other low-income economies.

Table 2.3 GDP Growth Rate in Indonesia, 1966-86

| Year | Growth Rates (%) |
|---|---|
| 1966 - 1971 | 8.6 |
| 1971 - 1976 | 8.0 |
| 1976 - 1981 | 8.1 |
| 1982 | 2.2 |
| 1983 | 4.2 |
| 1984 | 6.1 |
| 1985 | 2.3 |
| 1986 | 3.2 |
| 1987 | 3.6 |
| 1988 | 5.7 |

Sources: 1966-1981: "World Bank Report," No.5066-IND, 1984 p. 203; 1982-1987: Department of Information Republic of Indonesia, Indonesia 1989, An Official Handbook, 115; 1988: Department of Information Republic of Indonesia, *Indonesia 1990, An Official Handbook*, p. 109.

Indonesia's GDP growth rates were even higher than those of countries in the East Asia (see table 2.4)

The Indonesian economic success, however, was by no means devoid of criticism. Monopoly over economic activities by the non-indigeneous (the Chinese) business people is one of the sensitive issues faced by the archipelago. During 1967 to 1980, for instance, the total share of non-indigeneous private investment in Indonesia accounted for 29.95%. The corresponding figure for indigeneous private investment was 11.20%. The

rest belongs to the state and others.[75]

Apart from the per centage of sharing, foreign investment preferred and chose their Chinese counterparts in joint ventures. In 1974, for example, 70% of the 138 joint ventures, the Indonesian parners of the Japanese investors were local Chinese.[76]

Table 2.4 Growth rates 1965 to 1989

| Country Group | Average Annual Growth of GDP (%) | | | | |
|---|---|---|---|---|---|
| | 1965-73 | 1973-80 | 1980-86 | 1987 | 1988 |
| Low and Middle income economies | 6.6 | 4.8 | 3.8 | 4.5 | 5.4 |
| Low-Income Economies | 6.0 | 4.6 | 6.1 | 6.1 | 8.9 |
| Middle-Income Economies | 6.9 | 4.9 | 2.5 | 3.5 | 3.0 |
| Sub-Saharan Africa | 5.9 | 2.7 | 0.3 | -1.1 | 2.5 |
| East Asia | 7.9 | 6.5 | 7.9 | 9.6 | 10.0 |
| South Asia | 3.6 | 4.1 | 5.6 | 3.2 | 8.9 |
| Europe,Middle East and North Africa | 7.5 | 4.2 | 3.2 | 1.4 | 2.4 |
| Latin American and the Caribbean | 6.5 | 5.1 | 0.9 | 3.0 | 1.2 |
| High Income Economies | 4.6 | 3.0 | 2.5 | 3.4 | 4.3 |
| OECD members | 4.5 | 2.9 | 2.6 | 3.4 | 4.3 |

Source: ***World Development Report 1990***, Statistical Appendix, p.161, table A.4.

Monopoly over economic activities by Chinese business operators, as discussed before, is partly a colonial inheritance, and partly a result of the the policies of the Indonesian government. Another criticism is related to the widening of the socio-economic gap between the rich and the

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[75]. ***Tempo***, 14 March 1981, p. 71, as cited by Budiman, ***Op. Cit.***, p. 121, table 3.

[76]. Palmer as cited in Budiman, ***Ibid.***, p.121.

poor as reflected in, among others, the declining income share by the lowest strata in Indonesia (see table 2.5)

Table 2.5 Income Distribution in Indonesia

| Year | Gini Coefficient of income distribution | % of Income Recieved by the lowest 40% |
|---|---|---|
| 1961 | 0.30 | 25.3 |
| 1964 | 0.22 | 25.5 |
| 1971 | 0.30 | 26.8 |
| 1976 | 0.34 | 12.7 |
| 1980 | 0.46 | 10.4 |

Source: Hasibuan in Budiman, *Op. Cit*, p.125,table 4.

Another area of concerns, questioning the success of economic development of Indonesia, is related to the issue of uneven development. The development strategy, according to many experts on Indonesia, was pursued without great concern about its impact on different regions, at least during the first **REPELITA** (1969-1974)[11]. Most of the development was concentrated on the Western part of the country, especially on the island of Java, relegating other regions to the sideline of the development process. Chapter III provides in greater detail the evidence of regional underdevelopment and disparities of the archipelago.

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[11]. Hendra Asmara, **Regional Income Disparities**, ***Bulletin of Indonesian Economic Studies***, Vol. Xi, No. 1, March 1975, p. 41; K.V. Sundaram, ***Geography of Underdevelopment, The Spatial Dynamic of Underdevelopment***, Concept Publishing Company, New Delhi, 1983, p. 146; Colin MacAndrews, et.al., **Regional Development Planning and Implementation in Indonesia: The Evolution of a national Policy** in R.P. Misra, (ed.), ***Regional development, Essays in Honour of Masahiko Honjo***, Maruzen Asia, 1982, p. 44.

# CHAPTER III

# THE TENDENCY TOWARDS REGIONAL UNDERDEVELOPMENT AND DISPARITIES

There are numbers of criteria that can be used to trace the extent of regional backwardness and disparities. The per capita income criterion was argued as one of the simplest and best known means to identify spatial differences. However, it is important to note that this creterion is far from being satisfactory, simply because it is not distribution-sensitive. A high per capita income in one region does not necessarily mean that every one in that region receives the same amount of income. Bearing in mind such limitation, this study will use this criterion as a preliminary step to examine the extent of regional backwardness and disparities in Indonesia.

Since the level of development of a region is determined by the level of industrialization, the spatial distribution of industries will be the second criterion used in identifying the extent of regional backwardness and disparities. The availibility of capital is another critical factor in determining the development or backwardness of a region. The spatial distribution of capital will be the third criterion used in this study to examine spatial differences.

Poverty is one of the main problems in many developing

country, including Indonesia. In many ways, the existence or the absence of poverty in a region reflects the levels of developemnt or the backwardness of the region in question. Islam and Khan argued, "the designation of any 'problem region' crucially depends on prevailing levels of poverty in any given region...".[1] The spatial distribution of poverty will be used as one of the criteria in identifying the extent of regional backwardness and disparities in Indonesia.

The last criterion used is the spatial distribution of post-secondary education. This is very important as a measure of regional backwardness since human capital is one of the most important aspects in determining the level of development. The lack of human capital in a region not only reflects the backwardness of such a region, but also, blocks the possibilities for development. That is to say, it is impossible for a region to be developed where human capital shortages prevail. Post-secondary education is one of the most important institutions, at least in Indonesia, in providing human capital for development. A skewed distribution in the availability of such institutions will, in turn, affect the extent of regional backwardness.

The following sections will discuss these four criteria in more detail.

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[1]. Iyanatul Islam and Habibullah Khan, **Spatial Patterns of Inequality and Poverty in Indonesia,** ***Bulletin of Indonesian Economic Studies***, Vol. XXII, No. 2, August 1986, p. 90.

## I. REGIONAL INCOME DISPARITIES

Despite a marked degree of unevenness in development among the different regions and provinces, there is little comparative information awilable on levels of development and underdevelopment. A study group on regional income established under the chairmanship of Hendra Asmara[2] in 1970 was the first effort to understand regional problems of the country which are sometimes described as a "plenum and vacuum pattern of contrast," between, especially the island of Java and the outer islands, and between the Western and the Eastern[3] parts of the country in general.

Asmara's study provided some estimates of regional income disparities for the years of 1968-72. According to this study, regional disparities in Indonesia were quite striking with regards to natural resource endowments, in the stock of people-made capital per head, the quality of labor and the efficiency of resource use and organization.

In regards to natural resource endowments, a major factor in regional disparity arises from the concentration of oil and timber resources in few a regions, Riau, East Kalimantan and Aceh. This is clear from Asmara's computation, based on

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[2]. Hendra Asmara, **Regional Income Disparities**, ***Bulletin of Indonesian Economic Studies***, Vol. XI, No. 1, March 1975.

[3]. The Eastern Hemisphere consists of 9 out 27 provinces. They are the provinces of West Nusa Tenggara, East Nusa Tenggara, Maluku, Irian Jaya, Central Sulawesi, South Sulawesi, Southeast Sulawesi, North Sulawesi, and East Timor.

Williamson's measurement of regional inequality,[4] taking the income generated from oil resources into account, presented a highly distorted picture (see table 3.1).

Table 3.1 Coefficient of Regional Income Inequality, 1968-72

| Year | Including Oil | Excluding Oil | |
|---|---|---|---|
| | | All regions | Excluding three regions |
| 1968 | 0.571 | 0.340 | 0.236 |
| 1969 | 0.632 | 0.362 | 0.233 |
| 1970 | 0.730 | 0.439 | 0.224 |
| 1971 | 0.849 | 0.509 | 0.257 |
| 1972 | 0.945 | 0.522 | 0.262 |

Source: Asmara, *Op. Cit.*, p. 53 (Table 8).

Asmara's study demonstrates the existence of regional disparities, and a tendency for them to increase.

By 1968, the coefficient of regional disparities (excluding oil) was 0.340. In a short period of time, it grew more than 1.5 times to reach its peak of 0.522 in 1972. This is considerably high according to Williamson's standards.

In comparison with other countries, the Indonesian coefficient of regional income disparity (oil excluded) was of

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[4]. The Coefficient of regional inequrlity is "a weighted coefficient of variation which measures the dispersion of regional income per capita levels relative to the national average. Each regional deviation is weighted by its share in the national population", J. G. Williamson, **Regional Inequality and the Process of National Development: A Description of the Pattern**, in L. Needleman, (ed.), ***Regional Analysis***, Penguin Books, 1968, p. 111. It is located between 0 and 1 where 0 indicates perfectly equal distribution while 1 means perfectly unequal distribution.

the same order of magnitude as for the Philippines, Colombia and Puerto Rico as indicated in table 3.2.

It is important to keep in mind that such comparisons have to take into account that the magnitude of regional disparities is also determined by the number of regions. Thus, the small country of Puerto Rico had a high degree of regional disparity mainly due to the unusually large number of regions in the country.

Table 3.2 Coeffient of Regional Income Inequality, Selected Countries

| Country | Years Covered | Vw | Number of Regions |
|---|---|---|---|
| Australia | 1949/50-59/60 | 0.058 | 6 |
| New Zealand | 1955 | 0.063 | 10 |
| Canada | 1950-61 | 0.192 | 11 |
| United Kingdom | 1959/60 | 0.141 | 15 |
| United States | 1950-61 | 0.182 | 46 |
| Sweden | 1950,55,61 | 0.200 | 25 |
| Finland | 1950,54,58 | 0.331 | 16 |
| France | 1954,55/56,58 | 0.283 | 21 |
| West Germany | 1950-55,60 | 0.205 | 9 |
| Netherlands | 1950,55,58 | 0.131 | 11 |
| Norway | 1952,57-60 | 0.309 | 20 |
| Ireland | 1960 | 0.268 | 26 |
| Chile | 1958 | 0.327 | 9 |
| Austria | 1957 | 0.225 | 9 |
| Puerto Rico | 1960 | 0.520 | 38 |
| Brazil | 1950-59 | 0.700 | 21 |
| Italy | 1951,55,60 | 0.360 | 19 |
| Spain | 1955,57 | 0.415 | 50 |
| Colombia | 1953 | 0.541 | 16 |
| Greece | 1954 | 0.302 | 11 |
| Yugoslavia | 1956,59,60 | 0.340 | 8 |
| Japan | 1951-59 | 0.244 | 46 |
| Philippines | 1957 | 0.556 | 10 |
| India | 1950/51,55/56 | 0.275 | 18 |
| INDONESIA | 1972 | 0.522 | 26 |

Sources: Williamson, *Op. Cit.*, p.112 (table 1), 113-114.
For Indonesia, Asmara, *Op. Cit.*, p. 53 (table 8).

Based on a quite similar income per capita measurement for the years 1975 to 1982 Kameo and Rietvelt also came to the conclusion of the exsistence of regional disparities, and a tendency for them to increase over time (table 3.3).

It is clear from table 3.3 that from 1975 to 1977 there was a tendency for regional disparities to increase. They decreased slightly in 1978, but increased in 1979, and reached a peak at 0.541 in 1980. In 1981, they went down slightly, and further in 1982.

Table 3.3 Gini Co-efficient of Regional Disparities, Indonesia 1975-82

| Year | Gini Co-efficient |
|---|---|
| 1975 | 0.469 |
| 1976 | 0.476 |
| 1977 | 0.477 |
| 1978 | 0.443 |
| 1979 | 0.524 |
| 1980 | 0.541 |
| 1981 | 0.518 |
| 1982 | 0.508 |

Source : Kameo and Rietvelt, "Regional Income Disparities: Comment", as cited by Soetrisno and Mubyarto, **Problems and Challenges in The Implementation of the Provincial Development Program**, ***PRISMA***, No. 45 (without year of publishing), p. 35.

Based on per capita Regional Gross Domestic Product (RGDP) but excluding oil, Asmara classifies the provinces of Indonesia into nine categories (see table 3.4).

Table 3.4 Provinces Classified according to RGDP, 1972

| Per Capita GDP (excl.oil) ('000s) | Provinces |
|---|---|
| 15 - 20 | West Nusa Tenggara (18), East Nusa Tenggara (20) |
| 20 - 25 | West Kalimanatan,Yogyakarta,South Sulawesi,Central Sulawesi,North Sulawesi |
| 25 - 30 | Central Java, West Java, South East Sulawesi, West Sumatera, Bali, |
| 30 - 40 | Lampung,Bengkulu,South Kalimantan,East Java,Irian Jaya, Aceh |
| 40 - 50 | Maluku, Jambi, North Sumatera, South Sumatera |
| 50 - 75 | DKI Jakarta (55), Central Kalimanatan (63) |
| 75 - 100 | Riau (88) |
| 100 - 200 | |
| 200 - 250 | East Kalimantan (222) |

Note: excluded East Timor
Source: Hendra Asmara, *Op. Cit.*

The above classification is enlightening in regards to the inter-provincial income disparities for the year of 1972. It is clear from Asmara's classification that in per capita RGDP terms, East Kalimantan was first, followed by Riau and Central Kalimantan while the smallest per capita RGDP was to be found in West Nusa Tenggara. This classification also demontrates that the per capita gap among provinces was afactor 12, demonstrating that regional disparities were truly enormous. Furthermore, Asmara's study clearly shows that the Eastern part of Indonesia was the most deprived area. Five out of the seven poorest provinces were found in this part. They were the provinces of West and East Nusa Tenggara, South, Central and North Sulawesi.

This evidence is further strengthed by the 1976 National Census information which shows that per capita income

expenditures for the Eastern Provinces of Indonesia were the lowest (table 3.5). Based on this per capita expenditure criterion, Islam and Khan classified into three groups as presented in table 3.6.

Islam and Khan's classification once again shows that five out of the eight lowest ranking provinces in terms of per capita expenditure were found in the eastern half of the country (Southeast Sulawesi, East Nusa Tenggara, Maluku, North Sulawesi and West Nusa Tenggara). It also shows that no single province of the Eastern region could be categorized as a high ranking province while the reverse was true of the Western part of the country.

Table 3.5 Regional Disparities in Terms of Per capita expenditure Criterion, Indonesia, 1976.

| Province | Rp/month (Jakarta=100) | as % of National | Expenditure rank |
|---|---|---|---|
| JAVA | | | |
| Jakarta | 8,987 | 191 | 25 |
| West Java | 5,032 | 107 | 18 |
| Central Java | 4,011 | 85 | 5 |
| East Java | 4,175 | 88 | 7 |
| Yogyatkarta | 4,941 | 105 | 14 |
| SUMATERA | | | |
| West Sumatera | 4,577 | 97 | 11 |
| North Sumatera | 4,934 | 105 | 13 |
| South Sumatera | 4,993 | 106 | 15 |
| Lampung | 3,600 | 77 | 2 |
| Bengkulu | 5,022 | 107 | 17 |
| Riau | 5,005 | 106 | 16 |
| Jambi | 5,491 | 117 | 21 |
| Aceh | 6,290 | 137 | 24 |
| KALIMANATAN | | | |
| West Kalimantan | 5,403 | 115 | 19 |
| Central Kalimantan | 5,716 | 121 | 23 |
| South Kalimantan | 5,537 | 117 | 22 |
| East Kalimantan | 5,412 | 115 | 20 |
| SULAWESI | | | |
| North Sulawesi | 4,167 | 89 | 6 |
| South Sulawesi | 4,684 | 99 | 12 |
| Central Sulawesi | 4,389 | 93 | 10 |
| Southeast Sulawesi | 3,330 | 71 | 1 |
| BALI AND NUSA TENGGARA | | | |
| Bali | 4,387 | 93 | 9 |
| West Nusa Tenggara | 4,247 | 90 | 8 |
| East Nusa Tenggara | 3,645 | 77 | 3 |
| MALUKU AND IRIAN JAYA | | | |
| Maluku | 3,943 | 83 | 4 |

Note: the rank is based on ascending order which is the poorest provinces are ranked first. Excluded Irian Jaya and East Timor

Source: SUSENAS 1986 as cited in Iyanatul Islam and Habibullah Khan, *Op. Cit.*, p. 84 (table 1).

Table 3.6 Provinces Ranked Into Expenditure Groups

| Low (1.0-8.0) | Medium (8.5-16.5) | High (17.0-25.0) |
|---|---|---|
| Southeast Sulawesi | Bali | Bengkulu |
| Lampung | South Sulawesi | West Java |
| East Nusa Tenggara | Central Sulawesi | West Kalimantan |
| Maluku | West Sumatera | East Kalimantan |
| Central Java | North Sumatera | Jambi |
| North Sulawesi | Riau | South Kalimantan |
| East Java | South Sumatera | Central Kalimantan |
| West Nusa Tenggara | Yogyakarta | Aceh |
| | | Jakarta |

Note: The eastern provinces of Irian Jaya and East Timor were excluded. East Timor was not yet part of Indonesia when SUSENAS was undertaken in 1976.
Source: Islam and Khan, *Ibid.*, p. 85 (table 2).

Other data for the years of 1983 to 1988 also show the same tendency (table 3.7). Table 3.7 confirms that the poorest provinces in terms of per capita RGDP were and still are associated with the Eastern part of Indonesia. It also shows that Jakarta had a per capita RGDP more than six times larger than the three poorest provinces of Eastern Indonesia (East Nusa Tenggara, West Nusa Tenggara and East Timor) for each year during the priod of 1983 to 1988.

Table 3.7 Per Capita RGDP at Current Prices, by Provinces, 1983-1988
(Excluded oil, gas, and their products) (Rupiahs)

| Province | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| DI Aceh | 423.220 | 464.875 | 523.217 | 567.190 | 635.113 | 701.259 |
| North Sumatera | 387.519 | 446.141 | 475.549 | 520.496 | 634.350 | 735.800 |
| West Sumatera | 346.365 | 398.043 | 438.901 | 493.851 | 576.667 | 656.431 |
| Riau | 400.744 | 467.561 | 503.065 | 538.428 | 607.188 | 679.911 |
| Jambi | 297.628 | 339.133 | 370.041 | 392.950 | 445.785 | 490.231 |
| South Sumatera | 483.871 | 527.798 | 576.417 | 620.957 | 704.691 | 772.585 |
| Bengkulu | 305.299 | 338.771 | 387.634 | 463.990 | 532.080 | 584.847 |
| Lampung | 197.944 | 218.952 | 232.532 | 292.236 | 341.472 | 378.841 |
| Jakarta | 1.087.338 | 1.286.136 | 1.354.775 | 1.456.109 | 1.639.208 | 1.839.849 |
| West Java | 288.028 | 357.936 | 406.267 | 455.851 | 526.529 | 627.616 |
| Central Java | 265.190 | 305.100 | 341.194 | 383.468 | 435.327 | 524.377 |
| DI Yogyakarta | 267.827 | 309.809 | 340.012 | 392.838 | 434.315 | 490.944 |
| East Java | 357.486 | 412.613 | 449.446 | 501.430 | 565.137 | 658.130 |
| West Kalimantan | 322.202 | 262.232 | 396.362 | 454.094 | 538.627 | 630.331 |
| C. Kalimantan | 461.220 | 515.603 | 576.231 | 651.151 | 748.425 | 850.683 |
| S. Kalimantan | 390.349 | 443.720 | 478.414 | 522.865 | 608.149 | 708.118 |
| E. Kalimantan | 671.734 | 820.368 | 850.709 | 949.314 | 1.166.537 | 1.392.550 |
| North Sulawesi | 300.013 | 326.053 | 349.276 | 368.515 | 421.710 | 464.454 |
| Central Sulawesi | 257.030 | 294.513 | 321.472 | 349.396 | 385.571 | 432.562 |
| South Sulawesi | 276.608 | 313.177 | 356.480 | 397.682 | 427.358 | 487.309 |
| SE. Sulawesi | 285.329 | 337.743 | 337.439 | 366.483 | 407.678 | 514.930 |
| Bali | 350.914 | 419.215 | 545.509 | 632.570 | 720.593 | 813.110 |
| W. Nusa Tenggara | 178.733 | 213.937 | 233.453 | 248.245 | 268.905 | 293.769 |
| E. Nusa Tenggara | 171.466 | 200.039 | 217.125 | 237.342 | 267.503 | 289.333 |
| Maluku | 312.613 | 369.812 | 393.921 | 442.517 | 555.869 | 648.925 |
| Irian Jaya | 384.323 | 407.172 | 444.738 | 532.957 | 594.258 | 629.842 |
| East Timor | 138.454 | 158.991 | 179.793 | 207.039 | 254.850 | 296.487 |

Source: BPS, "Regional Income of Provinces in Indonesia by Industrial Origin", 1983 - 1988, Jakarta, p. 131 (Table 22)

Even if one compares Jakarta's per capita GRDP with the provinces rich in natural resources it was and still is far ahead of Aceh, Riau and South Sumatera. Jakarta's per capita RGDP was 2.6, 2.7 and 2.3 times that of Aceh, Riau, and South Sumatera respectively for the year 1988.

The data presented so far permit one to simply conclude that the problem of regional backwardness and disparities of

Indonesia is to be understood primarily in terms of uneven distribution of natural resources. The Eastern regions are poor in resources, making them less developed, while others are rich, causing them to be more developed.

However, a recent study by Mubyarto demonstrates that this conclusion is not warranted. Focusing on the rural economy of Indonesia, Mubyarto found that regions with abundant natural resources had experienced economic decline in comparison to those without natural resource endowments during the period 1980 to 1987. The reverse tendency was true for some regions without any natural base (Table 3.8).

Mubyarto's study demonstrates that three provinces of Sumatera, the oil and natural gas provinces of DI Aceh, South Sumatera and Riau from which almost all of Indonesian oil and natural gas come from, experienced, especially for their rural people, economic deterioration. The provinces of West and Central Kalimantan (the main areas of gold and forestry industries) and Irian Jaya (the major contributor of gold, silver and cooper[5]) also shared the same tendency during 1980 to 1987. Their rural economies declined in rank from 3 to 23 (West Kalimantan), from 4 to 14 (Central Kalimantan) and from 14 to 25 (Irian Jaya). In contrast, the province of DI. Yogyakarta, one of the poorest provinces (ranking 24th out of 26 provinces) in the 1960s, and still the fourth poorest

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[5]. Department of Information Republic of Indonesia, ***Indonesia 1990, An Official Handbook***, Jakarta, p. 153.

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[5]. Department of Information Republic of Indonesia, ***Indonesia 1990, An Official Handbook***, Jakarta, p. 153.

province in terms of its per capita GRDP in the early 1970s (see table 3.4), became the 12th richest province in 1980, and the richest in 1987.

Table 3.8 Rural area Per capita expenditure,1980-87.

| Province | 1980 (rupiahs) | 1987 (rupiahs) | Ranking 1980 | Ranking 1987 |
|---|---|---|---|---|
| DI Aceh | 141,264 | 251,640 | 1 | 7 |
| South Sumatera | 128,592 | 247,044 | 2 | 11 |
| West Kalimantan | 126,060 | 181,752 | 3 | 23 |
| Jambi | 122,496 | 280,296 | 4 | 4 |
| Central Kalimantan | 121,296 | 229,644 | 5 | 14 |
| West Sumatera | 119,088 | 306,540 | 6 | 1 |
| Riau | 116,940 | 195,012 | 7 | 19 |
| East Kalimantan | 112,764 | 284,676 | 8 | 3 |
| Bengkulu | 110,160 | 270,864 | 9 | 5 |
| North Sumatera | 109,428 | 247,044 | 10 | 10 |
| North Sulawesi | 106,560 | 248,916 | 11 | 8 |
| South Kalimantan | 103,440 | 242,712 | 12 | 12 |
| Central Sulawesi | 101,484 | 256,284 | 13 | 6 |
| Irian Jaya | 94,884 | 128,040 | 14 | 25 |
| West Java | 90,336 | 248,196 | 15 | 9 |
| DIY | 83,784 | 300,912 | 16 | 2 |
| West Nusa Tenggara | 83,112 | 224,232 | 17 | 15 |
| Maluku | 81,048 | 190,128 | 18 | 20 |
| Lampung | 80,124 | 205,908 | 19 | 18 |
| East Java | 78,984 | 216,348 | 20 | 16 |
| South Sulawesi | 78,576 | 181,896 | 21 | 22 |
| Southeast Sulawesi | 77,868 | 182,100 | 22 | 21 |
| Central Java | 76,716 | 211,212 | 23 | 17 |
| Bali | 69,108 | 232,608 | 24 | 13 |
| East Nusa Tenggara | 66,240 | 173,364 | 25 | 24 |

Source : Mubyarto, *Ekonomi Dualistik*, SEMINAR PAPER at PPSK, Yogyakarta, March 16th, 1989.

Mubyarto's study provides insight and valuable information with regard to the level of development of a

region or province taking into account the fact that Indonesia is still an agricultural society in which most of the population depends on subsistence agriculture. Recognizing the fact that most of the people of the provinces of DI Aceh, Riau, and South Sumatera, as well as Irian Jaya, West Kalimantan and Central Kalimantan, which experienced rural economic deterioration are still rural dwellers, Mubyarto's study provides evidence of the backwardness of these provinces in question. Therefore, despite the abundance of natural resources and a high level of per capita income in these regions, they remain very much underdeveloped. From this it is possible to conclude that an abundance of natural resources by no means generates economic welfare. In other words, prosperity of a region is not simply a function of its natural resource endowments.

None-the-less from Mubyarto's study it is also clear that the rural people of the Eastern provinces occupied the lowest rank in comparison with their counterpart in the Western part of the archipelago. Five out of the six poorest provinces in 1987 were in Eastern Indonesia. They were the provinces of Irian Jaya, East Nusa Tenggara, South Sulawesi, Southeast Sulawesi, and Maluku.

## II. SPATIAL DISTRIBUTION OF INDUSTRIES

The problem of regional backwardness and disparities becomes even clearer if one takes into account the concentration and diffusion of industries and industrial activities in Indonesia. The distribution of manufacturing, measured by the number of establishments, share of employment, and value added, for example, shows excessive concentration in Java as presented in table 3.9.

Table 3.9 Regional distribution of manufacturing by major regions, 1971

| Indicators of | Percentage distribution in | | | | | |
|---|---|---|---|---|---|---|
| Development | Java | Sumatera | Kalimanatan | Sulawesi | Other Ilds | Total |
| 1971 Population | 63.8 | 17.5 | 4.3 | 7.2 | 7.2 | 100 |
| Total establishments | 74.8 | 14.5 | 3.0 | 5.4 | 2.3 | 100 |
| Large | 82.7 | 12.6 | 1.4 | 1.5 | 1.8 | 100 |
| Medium | 71.9 | 14.5 | 3.0 | 5.4 | 2.3 | 100 |
| Food & Tobacco | 71.4 | 13.5 | 3.8 | 8.5 | 2.8 | 100 |
| Textiles | 95.6 | 2.6 | 0.1 | 0.5 | 1.2 | 100 |
| Wood, etc. | 42.1 | 45.2 | 6.9 | 3.2 | 2.6 | 100 |
| Rubber, etc | 72.2 | 23.5 | 3.2 | 1.0 | 0.1 | 100 |
| Others | 82.7 | 15.5 | 1.7 | 5.5 | 2.5 | 100 |
| Total workers | 85.1 | 10.6 | 1.4 | 1.5 | 1.4 | 100 |
| Large | 87.3 | 10.0 | 1.0 | 0.7 | 1.0 | 100 |
| Medium | 78.5 | 12.2 | 3.0 | 3.8 | 2.5 | 100 |
| Food & Tobacco | 89.6 | 7.0 | 0.6 | 1.4 | 1.4 | 100 |
| Textiles | 94.2 | 3.2 | 0.1 | 0.6 | 1.9 | 100 |
| Wood, etc. | 41.6 | 33.0 | 15.7 | 2.6 | 7.1 | 100 |
| Rubber, etc. | 72.2 | 23.5 | 3.2 | 1.0 | 0.1 | 100 |
| Others | 82.7 | 10.6 | 0.6 | 4.8 | 1.3 | 100 |
| Total Value added | 80.3 | 16.6 | 1.3 | 1.0 | 0.8 | 100 |
| Food & Tobacco | 89.6 | 11.6 | 0.3 | 1.0 | 1.0 | 100 |
| Textiles | 95.2 | 3.1 | - | 0.3 | 1.4 | 100 |
| Wood, etc. | 42.4 | 33.3 | 16.2 | 2.5 | 5.6 | 100 |
| Rubber, etc. | 60.3 | 35.7 | 3.8 | 0.2 | - | 100 |
| Others | 80.3 | 16.6 | 1.3 | 1.0 | 0.8 | 100 |

Source: ***Statistic Industry 1971***

Table 3.9 demontrates the heavy concentration of manufacturing industry in Java. The only exceptions were wood and rubber industries in which Sumatera and Kalimantan had a high share relative to their population, and the relatively large proportion of establishments in the food and tobacco industries (8.5%) in Sulawesi. However, the share of employment and value added in Sulawesi was small reflecting the small average size of these establishments. The above table also records that the share of the Eastern part (Sulawesi and the other islands)[6] relative to its total population (14.4% of all Indonesians) was very small. It accounted for 7.7%, 2.9% and 1.8% of total number of establishments, workers and value added respectively, further reflecting the impoverishment of this area in comparison with the Western region.

In all of provinces of the Eastern Indonesia, there is only one industrial centre, called Kawasan Industri Makasar, KIMA, based in South Sulawesi. It was assumed that its benefits will spread to the other provinces (islands). However, after more than 5 years of operation, only 16 firms have established in the center of 86 ha due to the limitation of infrastructure (phones, etc.).[7]

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[6]. It is important to note that Bali which is not a part of Eastern Indonesia was also included.

[7]. ...., **Saudara "Tiri" itu Terus Menanti (The "Step" Brothers are still waiting for)**, *Tempo*, July 7, 1990, p. 24-25; ...,**Tidak Cukup Dengan Keringanan Pajak (It is Not Enough only by Tax Consessions)**, *Tempo*, July 14, 1990, p. 89.

The pattern remains unchanged during the earlier years of the 1980s. A study conducted by Hill demonstrates that industrial activities in 1983 were still concentrated in Java.

Table 3.10 Java-Outer Islands distribution of 10 major industries, 1983 (% of total industry Value Added)

| Industry | Value added (Rp. million) | Java | Outer Islands |
|---|---|---|---|
| 31420 Kretek | 509,518 | 100 | 0 |
| 37100 Basic metal | 200,574 | 51 | 49 |
| 33133 Plywood | 199,368 | 8 | 92 |
| 31181 Sugar refining | 182,754 | 100 | 0 |
| 32112 Weaving | 180,244 | 98 | 2 |
| 35120 Fertilizer | 141,050 | 61 | 39 |
| 36310 cement | 129,907 | 61 | 39 |
| 32111 Spinning | 108,129 | 98 | 2 |
| 38130 Structural Metal product | 98,165 | 91 | 9 |
| 38430 Motor vihicles | 91,354 | 98 | 2 |

Source: Hall Hill, **Concentration in Indonesian Manufacturing'**, ***Bulletin of Indonesian Economic Studies***, Vol. 23, No.2, August 1987.

The absence of an industrial base in the outer island is also reflected in the very small contribution (in both absolute terms and percentage) of large and medium scale industries to the RGDP. This is, especially true of the Eastern provinces as presented in the next two tables.

With exceptions of Maluku and to some extent, North Sulawesi, table 3.11 and 3.12 show that the contribution of both large and medium scale industries to RGDP of the Eastern provinces was very small, reflecting the absence of an industrial base in this region.

As a consequence of the concentration of industrial, economic, and educational (that will discused later) educational activities in Java, especially in Jakarta, it has become the first destination of migrants from all over the archipelago.

Table 3.11 Contribution of Large and Medium scale Industries to RGDP at current prices, by provinces 1983-1988 (million rupiahs) (excluded oil)

| Province | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| Di Aceh | 64.004 | 86.385 | 117.764 | 129.885 | 155.153 | 162.911 |
| N. Sumatera | 421.728 | 585.568 | 641.136 | 725.087 | 919.153 | 1.123.373 |
| W. Sumatera | 48.255 | 56.484 | 74.510 | 81.811 | 105.507 | 120.902 |
| Riau | 52.013 | 61.806 | 66.569 | 70.729 | 89.494 | 114.865 |
| Jambi | 20.148 | 31.645 | 53.622 | 60.301 | 77.739 | 85.333 |
| S. Sumatera | 460.311 | 525.114 | 538.868 | 552.537 | 704.394 | 783.104 |
| Bengkulu | 1.161 | 1.460 | 3.374 | 4.299 | 5.228 | 2.548 |
| Lampung | 72.476 | 90.969 | 112.886 | 138.233 | 177.942 | 212.557 |
| Jakarta | 1.172.665 | 1.337.855 | 1.733.801 | 2.006.377 | 2.509.897 | 3.304.016 |
| West Java | 1.179.596 | 1.682.335 | 2.056.707 | 2.395.041 | 3.098.446 | 3.743.615 |
| Central Java | 590.517 | 804.075 | 988.419 | 1.133.383 | 1.285.732 | 1.614.015 |
| Yogyakarta | 33.926 | 33.006 | 35.401 | 44.747 | 65.373 | 76.741 |
| East Java | 1.342.999 | 1.630.985 | 1.759.343 | 2.085.725 | 2.382.506 | 3.000.510 |
| W. Kalimantan | 66.554 | 85.080 | 91.586 | 139.618 | 161.430 | 204.381 |
| C. Kalimantan | 40.967 | 50.633 | 55.109 | 101.842 | 103.223 | 114.837 |
| S. Kalimantan | 90.001 | 102.696 | 101.918 | 107.499 | 159.589 | 193.701 |
| E. Kalimantan | 58.597 | 74.673 | 121.108 | 217.162 | 286.166 | 324.218 |
| N. Sulawesi | 36.261 | 40.712 | 45.642 | 47.644 | 55.637 | 61.729 |
| C. Sulawesi | 15.151 | 16.804 | 19.680 | 23.333 | 27.048 | 23.759 |
| S. Sulawesi | 48.977 | 54.656 | 61.783 | 76.850 | 106.225 | 128.910 |
| SE.Sulawesi | 1.248 | 1.224 | 2.709 | 3.249 | 2.898 | 4.028 |
| Bali | 11.552 | 14.180 | 17.188 | 27.186 | 47.123 | 56.391 |
| W.Nusa Tenggara | 2.594 | 2.985 | 4.778 | 6.592 | 7.981 | 9.489 |
| E.Nusa Tenggara | 631 | 2.189 | 2.963 | 3.711 | 2.784 | 3.648 |
| Maluku | 19.158 | 28.296 | 38.456 | 55.371 | 108.604 | 164.341 |
| Irian Jaya | 1.889 | 1.643 | 1.890 | 2.096 | 3.328 | 3.897 |
| East Timor | 609 | 725 | 122 | 258 | 338 | 468 |

Source: Extracted from BPS, ***Regional Income of Provinces in Indonesia by Industrial Origin***, 1983-1988, Jakarta, pp. 148-186 (Table 39-66).

Despite the Jakarta government's policy of restricting

migration into the city, Jakarta had been the first or second destination of migrants from 23 out of the 25 other provinces and the first destination from 18 provinces.

Table 3.12 Contribution of Large and Medium Scale Industries to RGDP at Current Prices, by Provinces 1983-1988 (as % of RGDP of given Region) (Excluded Oil)

| Province | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| DI Aceh | 5.41 | 6.47 | 7.64 | 7.57 | 7.89 | 7.31 |
| North Sumatera | 12.88 | 14.38 | 14.43 | 14.56 | 14.80 | 15.25 |
| West Sumatera | 3.91 | 3.92 | 5.89 | 4.43 | 4.82 | 4.77 |
| Riau | 5.40 | 5.42 | 5.59 | 5.06 | 5.50 | 6.12 |
| Jambi | 4.24 | 5.64 | 8.43 | 8.60 | 9.52 | 9.07 |
| Sout Sumatera | 18.66 | 18.74 | 17.60 | 16.25 | 17.71 | 17.74 |
| Bengkulu | 0.44 | 0.49 | 0.94 | 0.96 | 0.98 | 1.39 |
| Lampung | 6.98 | 7.54 | 8.39 | 7.78 | 8.15 | 8.35 |
| Jakarta | 15.00 | 13.92 | 16.48 | 17.08 | 18.28 | 20.65 |
| Wset Java | 13.90 | 15.57 | 16.55 | 16.79 | 18.39 | 18.23 |
| Central Java | 8.48 | 9.92 | 10.78 | 10.84 | 10.74 | 11.07 |
| Yogyakarta | 4.44 | 3.69 | 3.56 | 3.85 | 5.03 | 5.16 |
| East Java | 12.39 | 12.86 | 12.56 | 13.17 | 13.18 | 14.07 |
| West Kalimantan | 7.80 | 8.65 | 8.30 | 10.77 | 10.22 | 10.73 |
| Central Kalimantan | 8.56 | 9.17 | 8.66 | 13.72 | 11.74 | 11.14 |
| South Kalimantan | 10.60 | 10.44 | 9.42 | 8.93 | 11.19 | 11.46 |
| East Kalimantan | 6.26 | 6.25 | 9.38 | 14.44 | 14.87 | 13.52 |
| North Sulawesi | 5.40 | 5.46 | 5.60 | 5.45 | 5.46 | 5.41 |
| Central Sulawesi | 4.16 | 3.94 | 4.10 | 4.34 | 4.41 | 3.35 |
| South Sulawesi | 2.80 | 2.72 | 2.66 | 2.92 | 3.70 | 3.88 |
| Southesat Sulawesi | 0.41 | 0.34 | 0.73 | 0.78 | 0.60 | 0.64 |
| Bali | 1.28 | 1.30 | 1.19 | 1.61 | 2.41 | 2.52 |
| West Nusa Tenggara | 0.50 | 0.47 | 0.67 | 0.86 | 0.94 | 1.00 |
| East Nusa Tenggara | 0.13 | 0.37 | 0.45 | 0.50 | 0.33 | 0.39 |
| Maluku | 4.05 | 4.93 | 6.12 | 7.65 | 11.65 | 14.72 |
| Irian Jaya | 0.38 | 0.31 | 0.31 | 0.28 | 0.39 | 0.40 |
| East Timor | 0.74 | 0.75 | 0.11 | 0.19 | 0.20 | 0.23 |

Source: My calculation based on **Regional Income**,...Op. Cit.

According to the national Census of 1970[8] net migration into Jakarta constituted 40% of all net lifetime migration from other provinces or accounted for two-thirds of all migrants to urban areas of Java.

Table 3.13 Lifetime Migration rates by Provinces, 1971, 1980 and 1985 (as percentage of enumerated population)

| Province | In-Migrants | | | Out-Migrants | | | Net-Migrants | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1980 | 1985 | 1971 | 1980 | 1985 | 1971 | 1980 | 1985 |
| D.I Aceh | 3.0 | 5.5 | 5.4 | 3.3 | 4.4 | 4.0 | -0.3 | 1.0 | 1.4 |
| North Sumatera | 8.0 | 6.6 | 5.0 | 2.9 | 5.0 | 6.0 | 5.1 | 1.6 | -1.0 |
| West Sumatera | 3.1 | 3.9 | 3.7 | 11.6 | 16.4 | 15.1 | -8.5 | -12.6 | -11.4 |
| Riau | 12.5 | 15.9 | 12.3 | 2.6 | 4.0 | 3.7 | 9.9 | 11.9 | 8.6 |
| Jambi | 15.6 | 20.4 | 19.6 | 2.7 | 3.3 | 2.9 | 12.9 | 17.1 | 16.7 |
| South Sumatera | 9.5 | 13.2 | 10.7 | 5.8 | 7.2 | 6.9 | 3.7 | 6.0 | 3.8 |
| Bengkulu | 6.9 | 15.8 | 12.7 | 4.8 | 5.1 | 4.2 | 2.1 | 10.7 | 8.5 |
| Lampung | 36.1 | 39.8 | 38.9 | 1.1 | 1.2 | 1.9 | 35.0 | 37.4 | 29.6 |
| Jakarta | 39.7 | 39.8 | 38.9 | 2.9 | 6.2 | 7.5 | 36.8 | 33.6 | 31.4 |
| West Java | 1.7 | 3.5 | 4.4 | 5.5 | 5.4 | 5.4 | -3.8 | -1.9 | -1.0 |
| Central Java | 1.2 | 1.3 | 1.9 | 8.2 | 12.7 | 12.3 | -7.0 | -11.4 | -10.4 |
| Yogyakarta | 4.0 | 6.4 | 7.8 | 10.7 | 9.2 | 22.4 | -6.7 | -2.8 | -14.6 |
| East java | 1.1 | 1.5 | 1.8 | 2.9 | 5.5 | 5.8 | -1.8 | -4.0 | -4.0 |
| Bali | 1.0 | 2.6 | 2.0 | 2.7 | 4.8 | 6.0 | -1.7 | -2.2 | -4.0 |
| W. Nusa Tenggara | 1.5 | 1.9 | 2.0 | 0.6 | 1.6 | 1.4 | 0.9 | 0.3 | 0.6 |
| E. Nusa Tenggara | 0.4 | 1.3 | 1.4 | 1.1 | 1.7 | 1.9 | -0.7 | -0.5 | -0.5 |
| East Timor | --- | --- | 2.9 | --- | --- | 1.3 | --- | --- | 1.6 |
| W. Kalimantan | 1.0 | 4.2 | 2.9 | 1.7 | 2.9 | 2.6 | -0.7 | 1.3 | 0.3 |
| C. Kalimantan | 7.1 | 14.7 | 12.3 | 1.6 | 2.6 | 3.2 | 5.5 | 12.1 | 9.1 |
| S. Kalimantan | 3.9 | 6.9 | 8.0 | 5.0 | 8.2 | 8.6 | -1.1 | -1.3 | -0.6 |
| East Kalimantan | 5.4 | 24.1 | 25.3 | 3.2 | 2.8 | 3.2 | 2.2 | 21.3 | 22.1 |
| N. Sulawesi | 2.8 | 4.2 | 3.2 | 3.5 | 5.7 | 6.5 | -0.7 | 1.6 | -3.3 |
| C. Sulawesi | 5.6 | 14.4 | 11.2 | 3.8 | 2.6 | 2.1 | 1.8 | 11.7 | 9.1 |
| S. Sulawesi | 1.3 | 1.8 | 1.9 | 4.7 | 8.5 | 8.2 | -3.4 | -6.7 | -6.3 |
| S.E. Sulawesi | 3.6 | 11.1 | 14.3 | 4.3 | 9.6 | 6.1 | -0.7 | 1.6 | 8.2 |
| Maluku | 3.9 | 8.9 | 7.9 | 3.4 | 4.6 | 5.2 | 0.5 | 4.3 | 2.1 |
| Irian Jaya | 22.3 | 8.4 | 11.3 | 4.3 | 1.4 | 1.9 | 18.0 | 7.0 | 9.4 |
| Total | 4.8 | 6.8 | 7.0 | 4.8 | 6.8 | 7.0 | 0.0 | 0.0 | 0.0 |

Source: BPS, Migrasi,... *Ibid.*, p. 19 (Table 2.2).

[8]. R. M. Sundarum, Inter-Provincial Migration, *Bulletin of Indonesian Economic Studies*, Vol. XII, No. 1, March 1976.

Other provinces that also had a net migration were Lampung (Sumatera) and Irian Jaya. However, it is important to note that Lampung and Irian Jaya were among target provinces of government-led transmigration.[9]

The patterns of inter-provincial migration in Indonesia remained unchanged during the seventies and eighties as seen in table 3.13.

## III. SPATIAL ALLOCATION OF CAPITAL INVESTMENTS

Regional backwardness and disparities are also reflected in the allocation of capital investments. The distribution of capital investments in development projects demonstrates a tendency for development and growth to concentrate on the Western part of Indonesia, especially in the island of Java, which consists of five out of the twenty-seven provinces, including Jakarta, the national capital (see table 3.14).

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[9]. Provinces with incentives to received transmigrants are DI. Aceh, North Sumatera, West Sumatera, Riau, Jambi, South Sumatera, Bengkulu, West Kalimantan, Central Kalimantan, South Kalimantan, East Kalimantan, North Sulawesi, Central Sulawesi, South Sulawesi, Southeast Sulawesi, Maluku and Irian Jaya, BPS, ***Migrasi Penduduk di Indonesia***, Jakarta 1986/87, p. 35.

Table 3.14 Domestic and Foreign Investments, 1968-August 1989 (Excluding Oil).

| Islands | Domestic Investment | | Foreign Investment | |
|---|---|---|---|---|
| | Project | million | Project | Million |
| Java | 3,761 (64.52%) | 40,197,416 (60.27%) | 906 (78.37) | 16,543.4 (64.22%) |
| Sumatera | 993 (16.86%) | 14,600,679 (21.89%) | 112 (9.69%) | 5,346.3 (20.75%) |
| Kalimantan | 598 (10.25%) | 6,244,667 (9.36%) | 51 (4.42%) | 577.4 (2.24%) |
| Sulawesi | 276 (4.73%) | 2,075,828 (3.11%) | 28 (2.42%) | 1,550.6 (6.02%) |
| Bali,Nusa Tenggara | 147 (2.52%) | 1,269,669 (1.90%) | 34 (2.94%) | 609.2 (2.36%) |
| Maluku,Irian Jaya, Timor Timur | 133 (2.28%) | 2,124,915 (3.19%) | 24 (2.08%) | 1,098.3 (4.26%) |
| Various Regions | -69 | 276,371 | -2 | 36.0 |
| Total | 5,829 | 66,697,545 | 1,156 | 25,761.2 |

Source: BPS, ***Monthly Statistical Bulletin***, September 1989.

Table 3.14 demonstrates that about 60% of total domestic and foreign investment flowed to Java from 1968 to 1989. Of this, 44% of domestic investment was located in Jakarta and the area of West Java around Jakarta, while the corresponding figure for foreign investment was more than half of total investments.[10]

The disparity becomes even worse if one compares the Eastern and the Western parts of the country. The former, consisting of 9 provinces, has historically received the least investment since the early 1960s. The following table

[10]. BPS, ***Monthly Statistical Bulletin***, September, 1989.

extracted from a report of the weekly bulletin, **Tempo**,[11] shows the uneven spatial distribution of domestic and foreign investments in both nominal terms and number of projects during 1967/68 to May 28, 1990.

Table 3.15 Domestic and Foreign Investments, 1967/68 - May 1989
(rupiahs)

| Investment | Western Indonesia | Eastern Indonesia |
|---|---|---|
| Population 1990 (projection) | 158,896,179 | 23,754,179 |
| % of total Population | 86.99 | 13.01 |
| Domestic Investment | | |
| Projects | 6,25 | 489 |
| % to Total Projects | 92.87 | 7.13 |
| Rupiahs (trillion) | 102 | 6.69 |
| % to Total | 93.8 | 6.16 |
| Foreign Investment | | |
| Projects | 1,521 | 85 |
| % to Total Projects | 94.71 | 5.29 |
| US$ (million) | 32 | 2.7 |
| % of Total | 92.22 | 7.78 |

Source: For population figure is my calculation based on BPS, **Statistical**....., ***Op. Cit.*** Data for investments is extracted from ***TEMPO***, July 7, 1990.

The above table shows that both domestic and foreign investments in Eastern Indonesia, an area of almost 24 million people or about 13% of all Indonesians, for the whole period of the **New Order** government were far less than its relative share of population. This area received about 7% of total domestic investment in both absolute terms and number of projects. The figures for foreign investment also displays the

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11. ***TEMPO***, July 7, 1990, p. 25.

same tendency where the region received less than 8% and 6% of total foreign investment in nominal terms and number of projects respectively. It is clear from the above data that regional disparities in regards to the distribution of capital investments have existed and even more importantly, they tend to worsen over time.

## IV. SPATIAL PATTERN OF POVERTY

Taking the poverty level as a social indicator to measure regional backwardness and disparities, the data reveals that the Eastern half of Indonesia was and still is the worst affected area with regards to chronic poverty (table 3.16).

Table 3.16 demonstrates the tendency for poverty to decline in Indonesia as a whole; 20 out of 26 provinces lowered the level of poverty in the region. Chief among them were the provinces of North Sulawesi (31% reduction), Maluku (29.65% reduction), East Java (24.32% reduction), Central Sulawesi (23.40% reduction), Yogyakarta (18.21% reduction), Lampung (15.51% reduction), and South Sumatera (12.46% reduction). However, 6 provinces experienced increased levels of poverty of the last ten years. The natural resource provinces of East Kalimantan and Riau, together with a raw material-based province of Central Kalimantan and an industrial-based province of North Sumatera, experienced an

increase in poverty level. This once again suggests that an abundance of natural resources by no means is the catalyst for development. While the two poorest provinces of East and West Nusa Tenggara seem to follow the logic of the Cumulative Causation theory of Myrdal[12] where poverty becomes a reinforcing circle.

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[12]. See chapter 4.

Table 3.16 % of population below poverty line
by province, 1976 and 1987

| Province | Head Count Ratio (%) | | Change (%) |
|---|---|---|---|
| | 1976 | 1987 | |
| Jakarta | 3.0 | ---- | ---- |
| DI Aceh | 6.6 | 3.53 | 3.07 |
| East Kalimantan | 3.0 | 4.58 | 1.58 |
| Jambi | 10.7 | 5.62 | 5.08 |
| South Kalimantan | 7.2 | 6.01 | 1.19 |
| South Sumatera | 20.0 | 7.54 | 12.46 |
| West Sumatera | 14.1 | 7.94 | 7.06 |
| DIY | 27.1 | 8.89 | 18.21 |
| Bengkulu | 16.8 | 9.99 | 6.81 |
| Maluku | 40.1 | 10.45 | 29.65 |
| North Sulawesi | 41.3 | 10.80 | 30.50 |
| East Java | 35.9 | 11.58 | 24.32 |
| Central Kalimantan | 8.0 | 11.58 | -3.58 |
| West Kalimantan | 15.2 | 12.25 | 2.95 |
| Central Sulawesi | 36.9 | 13.50 | 23.40 |
| West Java | 15.0 | 14.08 | 0.92 |
| Central Java | 24.6 | 15.33 | 9.27 |
| North Sumatera | 10.9 | 16.54 | -5.36 |
| Riau | 14.6 | 17.31 | -2.71 |
| South Sulawesi | 26.2 | 17.78 | 8.52 |
| Bali | 14.0 | 18.31 | -4.31 |
| Lampung | 41.4 | 25.89 | 15.49 |
| Southeast Sulawesi | 41.9 | 31.66 | 10.24 |
| Irian Jaya | ---- | 31.98 | ---- |
| West Nusa Tenggara | 28.1 | 45.25 | -17.15 |
| East Nusa Tenggara | 44.3 | 49.91 | -5.61 |
| Indonesia (average) | 24.1 | 13.33 | |

Note: East Timor was excluded from both years. There no data available for Jakarta in 1987 and for Irian Jaya in 1976.
Sources: for 1976 based on provincial-level data, **SUSENAS**, 1976 as extracted by Islam and Khan, **Spatial Patterns**,... ***Op. Cit.***, p. 91 (TABLE 8); For 1987, BPS as cited in Mubyarto, ***Strategy Pembangunan Ekonomi Indonesia***, public lecture at the University of Mataramn November 28th, 1990.

The table 3.16 also demonstrates that despite the remarkable success in reducing poverty by some provinces in the Eastern half of the archipelago, namely North Sulawesi,

Maluku, and Central Sulawesi, it continues to be associated with chronic poverty. In 1976 7 provinces of eastern Indonesia (excluding Irian jaya and East Timor) were far below the average poverty line of the country as compared to 4 provinces from Western Indonesia (Lampung, Central Java, East Java, and Yogyakarta) shared the same experience.

By 1987 the spatial pattern of poverty changed slightly in that only 6 out of 9 Eastern provinces remained below the average national poverty line. For Western Indonesia, the number of provinces above the average national poverty line increased by one. It is also interesting to note that the oil and natural gas province of Riau and the industrial-base province of North Sumatera were replaced the natural resource poor provinces of Yogyakarta and East Java in the above average income category. Bali also fell below the national average poverty level.

Despite an increasing number of provinces below the average national poverty line in the Western region, exreme poverty has not occurred there. The fact that the four poorest provinces of the country were those of Southeast Sulawesi, Irian Jaya, East and West Nusa Tenggara suggests that the Eastern half was still associated with chronic poverty.

The high level of poverty in the Eastern provinces implies that real per capita income of the average person was far below the national average per capita income in aggregate terms. This means that a chronic class income disparity has

occurred in the region in question. A study by Islam and Khan for the year of 1976 is useful to illustrate this point (table 3.17). Unfortunately, there is no current available information on class income disparity within regions in Indonesia.

Table 3.17 Provinces Grouped by Inequality Levels, 1976

| Poverty | Regional Class Inequality | | |
|---|---|---|---|
| | Low | Medium | High |
| Low | Bali<br>E. Kalimantan<br>S. Kalimantan<br>W. Sumatera<br>C. Kalimantan<br>N. Sumatera<br>Jambi<br>Aceh | | |
| Medium | | W. Nusa Tenggara<br>S. Sumatera<br>Bengkulu<br>W. Java<br>C. Java | S.E. Sulawesi<br>W. Kalimantan<br>Lampung |
| High | | | Jakarta<br>Maluku<br>S. Sulawesi<br>N. Sulawesi<br>C. Sulawesi<br>E. Nusa Tenggara |

Note: Irian Jaya and East Timor were excluded from Khan and Islam's Study.
Source: Islam and Khan, *Op. Cit.*, p. 85 (table 6).

Table 3.17 demonstrates that, (with the exceptions of West Nusa Tenggara which occupied a medium level in both inequality and poverty, and Southeast Sulawesi, occupies a

combination of medium level in poverty and high level in class inequality) all provinces of Eastern Indonesia experienced a combination of high poverty and high class inequality. The tendency for poverty to increase in both provinces of Nusa Tenggara, together with their position as the lowest per capita RGDP provinces in Indonesia permit one to infer that the distributional aspect in these two provinces has become worse.

The high level of poverty of the Eastern provinces becomes even more critical if one takes into account that Indonesia, according to *World Development Report* of 1990, is the most successful country in terms of reducing poverty.[13] The country reduced its headcount index of poverty from 58% in 1970 to 28% in 1984 and reduced it further by 11% to 17% in 1987. In real terms, the number of poverty was being reduced from 67.9 millions in 1970 to 45.4 million in 1984 to 30.0 millions 1987 (see table 3.18), and from 45.4 million in 1984 to 30.0 in 1987.[14]

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[13]. **World Development Report 1990,** ***Op. Cit.***, pp. 40-43.

[14]. ***Ibid.***, p.43 (table 3.3, line 8).

Table 3.18 Changes in Selected Indicators of World Poverty

| Country and period | Length of period (years) | Headcount index Index | | Number of poor (Millions) | |
|---|---|---|---|---|---|
| | | 1st year | Last year | 1st year | last year |
| Brazil (1960-80) | 20 | 50 | 21 | 36.1 | 25.4 |
| Colombia (1971-88) | 17 | 41 | 25 | 8.9 | 7.5 |
| Costa Rica (1971-86) | 15 | 45 | 24 | 0.8 | 0 6 |
| India (1972-83) | 11 | 54 | 43 | 311.4 | 315.0 |
| INDONESIA (1970-87) | 17 | 58 | 17 | 67.9 | 30.0 |
| Malaysia (1973-87) | 14 | 37 | 15 | 4.1 | 2.2 |
| Morocco (1970-84) | 14 | 43 | 34 | 6.6 | 7.4 |
| Pakistan (1962-84) | 22 | 54 | 23 | 26.5 | 21.3 |
| Singapore (1972-82) | 10 | 31 | 10 | 0.7 | 0.2 |
| Sri Lanka (1963-82) | 19 | 37 | 27 | 3.9 | 4.1 |
| Thailand (1962-06) | 14 | 59 | 26 | 16.7 | 13.6 |

Source: ***World Development Report 1990***, p. 41 (table 3.2).

## IV. SPATIAL DISTRIBUTION OF POST-SECONDARY EDUCATION

Post secondary institutions (universities as well as research centers) are also concentrated in the Western part of Indonesia, especially in Java. More than half (380) of 572 them are in Java, 74 in Sumatra, 42 in Kalimantan and Bali. While only 74 are located in Eastern Indonesia. However, most of them (43) are concentrated in South Sulawesi.[15] More crucial than this spatial pattern of distribution of academics and universities is that all the best universities are in Java (see table 3.19).

[15]. BPS, **Statistic Pocketbook....**, ***Op. Cit.***, p. 109.

Table 3.19 The Top Ten University in Indonesia and their Place

| University | Place |
|---|---|
| Gadjah Mada University (UGM) | Yogyakarta |
| The University of Indonesia (UI) | Jakarta |
| Bandung Institute of Technology (ITB) | Bandung (West Java) |
| Bogor Institute of Agriculture (IPB) | Bogor (West Java) |
| The University of Airlangga (UNAIR) | Surabaya (East Java) |
| Surabaya Institute of Technology (ITS) | Surabaya (East Java) |
| The University of Pajajaran (UNPAD) | Bandung (West Java) |
| The University of Diponegoro (UNDIP) | Semarang (Central Java) |
| The University of Brawidjaja (UNBRAW) | Malang (East Java) |
| The University of North Sumatera (USU) | Medan (North Sumatera) |

There are quantity of second level university but even these are mostly in the West: the University of Sriwijaya in Palembang, South Sumatera, the University of Syiah Kuala in Aceh, and the University of Andalas in Padang, West Sumatera. The only notable university in the Eastern half of the archipelago is the University of Hassanudin in South Sulawesi.

The first five universities of the table 3.19 are the core universities in Indonesia, also known as the "Patron Universities". They are in charge of assisting the development of other universities. This pattern of concentration of the best universities has a very serious implications in regards to the process of brain-drain from the outer islands. This was aggravated by the fact that since the mid of 1970s, the educational policy in Indonesia has implemented what is called "program penelusuran bakat". This is a special program by which all the best senior high school students from all over the archipelago have been given a special right to enrol in

the first five universities of the table 3.19 without having an entrance test which is required of other students. Clearly this implies a continued brain-drain from the outer islands.

The process of brain-drain can be seen in the pattern of inter-regional migration among the more educated in Indonesia. Based on the ten years preceeding the 1970 National Census, Sundarum[16] found that migrants to Jakarta and other provinces of Java had a higher education level than native-born residents in these provinces. The reverse was the case for the outer Islands, especially for Sumatera (see table 3.20). Unfortunately, both the Census 1980 and Inter-Census of 1985,[17] did not provide enough information to make a comparison of these statics possible. The quite significantly higher educational level of migrants to Jakarta and other provinces in Java, according to Sundarum, reflected the concentration of higher education facilities on Java.

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[16]. R. M. Sundarum, **Inter-Provincial ...** ***Op. Cit.***

[17]. BPS, **Migrasi....,** ***Op. Cit.***

Table 3.20 Average years of Schooling of Native-born Residents and Lifetime Migrants

| | Native-born | Migrants From | | |
|---|---|---|---|---|
| | Residents | Sumatera | Java | Other Islands |
| Jakarta | 3.71 | 8.14 | 4.60 | 6.75 |
| Java (excl.Jakarta) | | | | |
| Urban | 4.16 | | 6.54 | 6.41 |
| Rural | 1.96 | 4.84 | 3.30 | 5.10 |
| Sumatera | | | | |
| Urban | 4.67 | 5.76 | 3.36 | 3.01 |
| Rural | 2.78 | 3.99 | 1.77 | 1.91 |

Note: The categories of education given involves years of schooling as follows:

| | |
|---|---|
| 1. No schooling | 0 years |
| 2. Less than Primary | 2 years |
| 3. Primary | 6 years |
| 4. Junior High School | 9 years |
| 5. Senior High School | 12 years |
| 6. Academy | 13 years |
| 7. University | 15 years |

Source: R. M. Sundarum, **Inter-Provincial**, ***Op. Cit.***

## V. Conclusion

From the data and explanation, it is clear that regional underdevelopment and disparities have existed in Indonesia. Moreover, they tend to worsen over time. These are particularly true in the four criteria used in this study.

Comparative data among regions on the income per capita level demonstrate that the Western part of the archipelago has a better performance than the Eastern part. Data on spatial distribution of industries points out the excessive

concentration of industries and industrial activities on Java. Similarly, the spatial allocation of capital investment remains concentrated in Western part of Indonesia, especially in Java, leading to the capital shortage in the Eastern part of the country. Western Indonesia, especially Java, has also monopoly over the post-secondary education as is clear from the concentration of the institutions for post-secondary education. On the other extreme, the Eastern part, except for South Sulawesi, has no such institutions.

While the evidence presented clearly demonstrate the backwardness of Eastern Indonesia and the existence and persistence of regional disparities, the underlying causes of the problems remain in the air. The following chapter will deal with the question of the causes of regional backwardness and disparities at the theoretical level.

# CHAPTER IV

## THEORETICAL FRAMEWORKS

Since the early 1970s, the evidence of growing inequalities has come to light producing varied reactions among politicians, policy-makers, development economists, international agencies, and even, among ordinary people. Since the early 1970s, in response to spatial inequalities, the *United Nations* has become increasingly active in utilizing regional development analysis and planning for national development[1].

The nature of regional inequalities itself, as stated by Cole,[2] is not a new theme. It has existed since the ancient period of time as reflected in Greek and Roman literature. However, it has come to the centre of debate only after social researchers found that despite the increase of the average per capita income of the Third World countries by about 50% during 1950 to 1980,[3] it has been extremely unequally distributed

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[1]. For details, see, The United Nations, ***International Social Review***, No. 4, New York, 1972, containing important articles on regional socio-economic development.

[2]. J. P. Cole, ***The Development Gap, A Spatial Analysis of World Poverty and Inequality***, John Willey & Sons, New York, 1981, p.p. 21-26.

[3]. Hollis Chenery, **Introduction**, in Hollis Chenery, et. al., ***Redistribution With Growth***, Oxford University Press, London, 1976, p. xiii.

among countries,[4] regions within countries,[5] and socio-economic groups.[6]

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[4]. The gap between developing and developed countries measured by the average per capita income has tended to increase during the period of 1950 to 1980. In 1950, the average per capita income of developing countries (in 1980 U.S. dollar) was $164 compared to $3,841 of developed countries. By 1980, the average income of the former had risen to an average of $245, while corresponding figure for the latter was $9,648. See, Micthell A. Seligson, **The Dual Gap: An Overview of Theory and Research**, in Mitchell A. Seligson, (ed.), ***The Gap Between Rich and Poor***, Westview Press, London, 1984, p. 3.

[5]. Even a developed country such as Canada has faced this problem. Regional disparities, especially between the Atlantic Canada and the rest of the country was one of the central political issues and debates in the early 1970s, see, Hugh Innis, (ed.), ***Regional Disparities, Issues of the Seventies***, MacGrew-Hill Reyerson Limited, Toronto, 1973. It has also been the central of theoretical debate in a number of publication, see, for example, Robert J. Brym and R. James Sacouman, (ed.), ***Underdevelopment and Social Movement in Atlantic Canada***, New Hogtown Press, Toronto, 1979. This is a collection on the structural analysis of the causes and impacts of regional disparities in Canada. Countries like Spain, Italy and Belgium also share this same problem with Canada. A good summary of their experiences is provided by Stohr and Todling. For detail, see Walter Stohr and Franz Todling, **Spatial Equity: Some Anti-theses to Current Regional Development Doctrine**, in Hendrik Folmer and Jan Oosterhaven, (ed.), ***Spatial Inequalities and Regional Development***, Martinus Nijhoff, the Hague, 1979, p.p. 147-153.

[6]. Since the early 1970s, there was a growing attention to the problem of inequalities among socio-economic groups, especially between the urban and rural people. This led to the emergence of a number of theories and policy recommendations, such as the "Urban-Bias" Theory of Lipton; Lipton, Michael, **Why the Poor People Stay Poor**, in Harriss, John, (ed.), ***Rural Development, Theories of Peasant Economy and Agrarian Change***, Hutchinson University Press, London, 1982, pp. 66-81; **Urban-Bias Revisited**, in Harriss, John and Moore, Mick, (ed.), ***Development and Rural Urban Divide***, Frank Cass, London, 1984, pp. 139-166; the theory of "Redistribution with Growth". For further discussion, see, Chenery, Hollis, et. all., (ed.), **Redistribution ...** ***Op. Cit.***; Jolly, Richard, **Redistribution With Growth**, in Cairncross, Alec and Pure, Mohinder, (ed.), ***Employment, Distribution and Development Strategy : Problems of The Developing Countries***, Holmes & Meier Publishers, Inc., New York, 1976, pp. 43-55. Another theory goes even further by proposing the theory of "Redistribution Before Growth" as a necessary condition for the development of underdeveloped countries, see, Adelman, Irma, ***Redistribution Before Growth, A Strategy For Developing Countries***, Martinus Nijhoff, The Hague, 1978. Also by Adelman is **Poverty-Focused Approach to Development Policy**, in Lewis, John P. and Kallab, Veleriana, (ed.), ***Development Strategies Reconsidered***, Transaction

The question is why regional disparities have appeared, and why they tend to increase over time ? How do we explain this phenomena?

There are many theories in explaining the problem of regional backwardness and disparities. For the purposes of this study, they will be categorized into four main groups of theories or schools of thought: Regional Equilibrium or Self-Balance, Regional Disequilibrium or Regional Imbalance or Spatial Polarization, Structural Dependency or Spatial Inequality, and State Policies school of thought. Despite the last school of thought is not yet recognized in the field of regional studies, I think, this school of thought provides a reasonable explanation for understanding the regional problem, especially in the Indonesian context. The following sections will elaborate these different schools of thought.

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Books, Oxford, 1986, pp. 49-65. Another approach that was also widely known is the "Basic Human Needs" approach, proposed for the first time by Streeten, then adopted by the ILO and the World Bank. See, Streeten, Paul and Burki Shahid Javed, **Basic Needs : Some Issues**, ***World Development***, Vol. 6, 1978, pp. 411-421; Singh, Ajit, **The 'Basic Needs' Approach to Development vs The New International Economic Order : The Significance of Third World Industrialization**, ***World Development***, Vol. 7, 1979, pp. 585-606.

## I. REGIONAL SELF-BALANCE SCHOOL OF THOUGHT

The theories under the umbrella of the Regional Self-Balance school of thought base their analysis on the assumption of economic and regional equilibrium and strongly believe in the wisdom of the invisible hand of the market in efficiently allocating resources and generating prosperity. These theories share two common values. The first is that in the early stage of development, regional backwardness and disparities tend to increase, and decline as the economy enter into a phase of maturity. Thus, for these theories, the problems of regional backwardness and disparities are seen as a temporary price of development that has to be paid. Fields, for instance, argues that in the early stages of development efforts regional disparities tend to increase since regions within countries have typically unequal capacity for growth. Hence, the argument goes, when development begins in some of these regions or islands, regional barriers may be too great to communicate the growth stimulus to other less fortunate regions or islands.[1]

Secondly, as a consequence of the above assumption, the future of regional backwardness and disparities is seen through an optimistic lens in that regional equilibrium will

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[1]. See, for example, J. G. Williamson, **Regional Inequality and The Process of National Development : A Description of Pattern**, in L. Needleman, (ed.), ***Regional Analysis***, Pinguin Books, 1968. See also, Gary S. Field, ***Poverty, Inequality, and Development***, Cambridge University Press, London, 1980, p.p. 66-67.

be restored. The mechanism in bringing back regional equilibrium is believed to be embedded in market forces so long they are properly operating. This also means that the principle reason behind the persistence of regional backwardness and disparities is rooted in the failure to let the market forces to properly work.

The aforementioned beliefs are based on the assumptions that first, there is a tendency for both labor and capital to migrate to the regions in which they earn the highest attainable profit or wage. So, while labor is believe to move to the advanced regions due to the higher wages, capital in contrast will flow into labor-intensive regions of the periphery to maximize profit. As a consequence, labor becomes scarcer in the peripheral regions, causing the wage to increase. The second assumption is that with growing output in the advanced regions and manufacturing sectors in the peripheral regions, the demand for food and raw materials from the latter will also increase. This tendency will uplift the per capita income of the peripheral regions. The result is opposite flows of labor and capital and an increased demand in both agriculture and raw materials results in spatial equilibrium[8]. Thus for the Regional Self-balance school

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[8]. See, Dudley Seers, **Theoretical Aspects of Unequal Development at Different Spatial Levels** in Seers and Constantine Vaitos, (ed.), ***Integration and Unequal Development. The Experience of the EEC***, The Macmillan Press Ltd., London and Basingstoke, 1980, pp. 10-11. See also, Stuart Holland, ***Capital Versus The Regions***, The Macmillan Press Ltd., London and Basingstoke, 1976, p. 1.

of thought the problem of regional backwardness and disparities is a natural and transitional proces that every economy will pass through. Upon reaching a level of maturity in its development stages all regional disparities will disappear.

During the process of transition, the ratio of natural resources to population and the level of productivity, determined by level of technology,[9] and labor quality,[10] and supply and access to markets[11] become critical factors in determining the evolution of an economy. These factors are argued to be the keys in determining the development of a region. Conversely, uneven distribution of natural resources, low level of productivity, the lack of enterpreneurship, and the failure to exploit and develop a region's given natural resources are argued to be the causes of regional backwardness and disparities. In the short-terms, regional disparities may exist, and even become larger. In the long-terms, however, market forces will find their own way to bring the condition of equilibrium.[12]

Apart from the aforementioned factors, the level of entrepreneurship in a region has been argued to be the key in

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9. J. P. Cole, Development Gap ..., *Op. Cit.*, p.p. 58-59.

10. Economic Council of Canada, ***Living Together***, Toronto, 1977.

11. ***Ibid.***

12. H.W. Richardson, ***Regional Growth Theory***, MacMillan, London, 1973, p.24.

determining the development of a region. In this sense, the failure of entrepreneurship or lack of achievement orientation[13] is one of the prime causes of the backwardness of a region, and by extension, determining regional inequalities. The underlying assumption is that levers of economic growth are innovation and technical change. The lack of achievement orientation in a region is argued will result in a lack of innovation and technical change, retarding the level of productivity of the region. As a consequence, the region cannot compete in the market, causing them to be in state of backwardness. So it is clear that the emergence of sufficient entrepreneurial talent and achievement orientation, for this theory, are the necessary conditions to bring about development. As a consequence, if a region is trapped into undevelopment, it is simply due to the lack of achievement orientation of the population in the region in question.

Geographic factors, such as the size and the nature of a country and the distribution of national resources and population are also believed to have a contribution to regional disparities. As applied in MacAndrew[14] and Asmara[15]

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13. Ray George, as cited by Henry Veltmeyer, **The Capitalist Underdevelopment of Atlantic Canada**, in Robert J. Brym and R. James Sacouman, Underdevelopment ... ***Op. Cit.***, p. 17.

14. Colin MacAndrew, et. al., **Regional Development Planning and Implementation in Indonesia, Evolution of National Policy**, in R. P. Misra, (ed.), ***Regional Development, Essays Honour of Masahiko Honjo***, Maruzen Asia, 1982, p.p. 43-47.

15. Asmara, **Regional** ...***Op. Cit.***

in the Indonesian context, the vast area of Indonesia -- the 13th largest country in the world in terms of its land size -- coupled with its nature of being an archipelago are among other barriers to the development of the outer islands.

The aforementioned assumptions and arguments are reflected in Neo-classical Economic theory. This theory bases its analysis on the different comparative advantages regions have in providing goods and services. The underlying argument is that it is impossible for a region to be superior over others in the production of all commodities. A region cannot produce all commodities at lower cost.[16] As a result, the argument goes, with economic development and the integration of market factor regional disparities are reduced, and a condition of regional self-balance is achieved.[17]

A variant of the Neo-classical theory, the "Staple Theory", was developed first by Harold Innis in the Canadian context, then elaborated by Mel Watkins in explaining the economic growth of the early Canada. This theory assumes that development, in the form of multiple-effects, is related through backward linkages, to the production and export of staples based on regional natural resource endowments. It implies that regional income is essentially a function of regional export performance. Watkins argues that early

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[16] Ohlin as extracted in Holland, ***Op. Cit.***, 12-3.

[17]. D. K. Forbes, ***The Geography of Underdevelopment, A Critical Survey***, Croom Helm, London, 1984, p. 114.

Canadian economic growth has to be understood in terms of a fast-growing export sector based on local natural resources. This, according to him, induces an accelerated rate of investment and an inflow of labor and capital resources into the staple sector and provides opportunities and inducements for industries in other sectors to meet the growth in demand for consumption goods arising from the higher personal incomes generated in the staple sectors.[18]

It is important to understand the Staple theory in the context of Canada's colonial history. The ability to develop and exploit local natural resources[19] for trade with the Britain, then the USA, coupled with the introduction of capitalism and railroads were the principle reasons for the earlier Canadian (the migrants from Europe) to sustain, even improve their standard of living and to adjust to the new environment. These also explain why this colony (Canada) was still in the center of western civilization and was not trapped into the state backwardness. I hope it is clear by now that for the Staple theory, the ability of a region to develop and exploit its natural resources for trade is seen as the equalizing power toward regional equilibrium. The backwardness of a region, therefore, is simply due to a lack of development

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[18]. M.H. Watkins, A Staple Theory of growth, *Canadian Journal of Economics and Political Science*, Vol. 29, 1963; M.H. Watkins, The Staple Theory Revisited, .... H. Innis, The Importance of Staple Products....

[19] The first industry developed was the fishery, then fur, lumber, pulp and paper industry, gold, wheat and etc.

and of exploitation of regional resources within limits established by geographic and technological factors.[20]

The Regional Self-Balance school of thought, however, especially the Neo-Classical theory, is criticized in a number of ways. First, it assumes the absence of market distorting monopolistic exploitation of backward regions' customers and the absence of structural barriers that prevent peripheral regions' exports and labor to move freely. The second is that transport cost, including fares are negligible. Third, it is assumed that there are structural impedements to the movement of labor, such as land tenure system, labor legislation and poor educational facilities. Fourth, it requires full employment in the core regions. Fifth, labor is assumed to be homogeneous. Sixth, information is universally accessible; and finally, economic rationality prevails.[21] All of these requirements are impossible to be met. However, the impossibility to fulfil the aforementioned requirements is not the only reason for those who challenge the Regional Self-Balanced theory. Fleming, for example, focuses his criticism of ignoring the supply side and the overemphasis of the demand side as the problem by this school of thought.[22] Others see that Regional-Self Balanced theory as implying a closed economy in which a large public sector is required and

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[20]. Veltmeyer, *Op. Cit.*

[21] Seers in Seers and Vaitos, *Op. Cit.*, p. 11.

[22] Fleming in Sundaram, *Op. Cit.*, p. 32.

requiring resources which an underdeveloped country cannot posseses.[23] The dissatisfaction with the regional Self-Balanced theory led to the emergence of the Spatial Polarization School of thought which became the dominant theme in the late 1950s.

## II. THE REGIONAL IMBALANCE SCHOOL OF THOUGHT

In contrast to the Regional Self-Balance theory, the theories grouped under the Regional Imbalance umbrella argue that unequal development is inherent in the working of market forces. They approach the problem of regional disparities from the perspective which assume regional imbalance, factor disequilibrium, and market realism. Unequal development among regions is argued to be chronic and "(e)ach reinforcement of a concentration of income creates in turn external economies leading to further concentration".[24] The operation of the market forces attract capital, labor as well as the profits to migrate into the core regions, leaving the less-developed regions on the sidelines.

Arthur Lewis concieved the "dual economy" model of development as transferring surplus labor from the traditional

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[23] Sundaram, *Ibid.*

[24] Seers in Seers and Vaitos, *Op. Cit.*, p. 11.

agricultural sector to the modern industrial sector[25]. During this process he states that "development must be inegalitarian because it does not start in every part of an economy at the same time."[26] The underlying argument is that growth takes places in industrial enclaves, surrounded by traditional activities. In this situation, the traditional sectors benefits from the development of them in various ways.[27] For Lewis regional disparities derive from the failure of horizontal spread from the enclaves to the traditional sectors due to the inability of the latter to respond to economic opportunities[28].

The problem of regional backwardness and disparities, therefore, is believed to be due to structural problems inherent in the capitalist system. The working of market mechanism at the international, national and sub national levels, is the key to understanding and explaining the causes of regional backwardness and inequalities. Unlike the Regional

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[25]. Arthur W. Lewis, **The Dual Economy Revisited**, in ***The Manchester School of Economic and Social Studies***, No. 3, September, 1979, p.p. 111-229.

[26]. W. Arthur Lewis, **Development and Distribution**, in Alec Cairncross and M. Puri, (ed.), Employment, ... ***Op. Cit.***, p. 26.

[27]. ***Ibid.***, p.p. 26-29. He listed seven ways by which the development of enclaves enrich the traditional sectors, such as in providing jobs opportunities, selling the cheap commodities and services to the traditional sectors, etc. He also listed six possibilities by which the development of enclaves may be harmful for the traditional sectors, such as the product of enclaves may compete and destroy traditional traders, geographic polarization, etc.; lewis, ***Ibid.***

[28]. ***Ibid.*** p.p. 28 and 31.

Self-balance theory, the Regional Unbalanced theory see regional backwardness and disparities as the permanent features that only can be correct through government intervention. The persistence of regional backwardness and disparities above are caused by the centripetal tendency of capital, labor as well as profits to gravitate to the core regions. This centripetal tendency can only be reduced through providing economic opportunities outside the core regions in the form of artificially created counter-poles, believed to have a centrifugal tendency. It is argued that once these artificial counter-poles are established, they are sufficient enough to attract capital and labor to enter into these areas.

The notion of the Regional Unbalanced school of thought exists in a number of theories. One of them focuses its analysis on global industrialization based on forces of spatial concentration and diffusion.[29] The underlying assumption is that there is a tendency toward spatial inequality in the operation of the capitalist market. Stilwell, for instance, states that,

> "(o)nce regional inequalities develop, the workings of the market and the migration of capital and labor in particular tend not to result in the reduction of inequalities. Contrary to the general prediction of neo-classical economics, any tendency

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[29]. For further discussion see, Michael Storper, **Industrialization and the Regional Question in the Third World: Lessons of Postimperialism; prospect of Pc t-Fordism,** ***International Journal of Urban and Regional Research,*** 14, 3, 1990, pp. 423-44; Michael Ray, **Canadian Urban Trends,** as cited by Veltmeyer, ***Loc. Cit.***

toward regional balance is offset by powerful counter-tendencies toward imbalance".[30]

Parallel to Stilwell's ideas, Holland argues that regional disparities in the flow of labor and capital are generated through the free operation of the market mechanism in capitalist society,[31] and that these flows tend to cumulate disparities.[32] Holland focuses his analysis on the dominant position of monopolistic firms in capitalist economies today, marked by three different types of firms: the multinational and national firms of the more developed regions, and the traditional firms of the less developed regions. He argues that the firms of less developed regions suffer from low regional incomes, savings, investment, and are victimized by the continuing unfair market tactics of the multinational and national firms. As a result, regional dualism becomes solidified and aggravated where the traditional firms of less developed regions lag behind.[33]

Myrdal, one of the leading figures on the Regional Unbalanced theories, developed the idea of "Cumulative Imbalance", concentrating in concepts of backwash and spread effects to explain the problem of interregional disparities in

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[30]. Stilwell, as cited by Forbes, ***Op. Cit.***, pp. 114-15.

[31]. Holland, ***Op Cit.***, 1976, p.p. 54, 145, 169.

[32]. ***Ibid.***, pp. 74, 84, 91, 96, 129, 140-42, 144, 146, 150-51.

[33]. ***Ibid.***, pp. 141-146.

developing countries.[34] For Myrdal, the operation of free market mechanism in the developing countries is the key to understand the imbalance in the use of regional resources. The backwash effects operate through population migration, trade and capital movements. The spread effects work mainly through trade via interregional complementarities. According to Myrdal, the backwash effects are stronger in which labor, trade and capital, as well as profits, gravitate to the industrially developed areas. Therefore he concludes that the more developed regions experience cumulative growth, the less developed areas experience a negative effect.

A similar theory to Myrdal's, especially in respect to the way the economic development influences regions in a country has also been developed by Hirschman. Hirschman believes that economic growth is neccesarily an unbalanced process and takes place through a chain of disequilibria. He argues that the expansion of one industry creates external economies for others. Economic growth is believed to be communicated from the leading sectors of the economy to others. Hirschman emphasizes inter-industry forward and backward linkages with leading industrial sectors pulling the other sectors along. In Hirschman's analysis, the trickle-down effects benefit the process of development of the backward regions through product and factor input demand pulls from the

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[34]. Gunnar Myrdal, ***Economic Theory and Under-Developed Regions***, Methuen, London, 1964, pp. 26-36.

developed region. This is considered as an evolutionary phenomenon. However, in the long-run, the polarization of backward and developed regions reflected in capital and labor movement, including brain drain will cause public investment to move into backward regions, largely because of considerations of equity and national unity. Therefore, regional disparities will tend to disappear due to government intervention.

Unlike Myrdal who sees the long-run effects of unequal development will be harmful for backward regions, Hirchman sees the long-run effect through more optimistic ways. According to him, uniform development over a whole country will take place, inevitably but gradually, and will be brought about through trickling-down effects. It also presumed that state will intervene to influence the growth of imbalances whenever the normal market's mechanism proves inadequate.

Another exponent of Spatial Polarization theory is Perroux who concentrates his analysis on economic growth and interaction among industrial sectors. He argues that the spatial distribution of economic activities tends to promote the concentration of growth in some areas at the expense of others.[35] Perroux's underlying argument is that growth does not take place everywhere at the same time. Rather, it manifests in points or growth poles and it spreads through

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[35] Perroux as summarized in Holland, *Op. Cit.*, p. 49.

different channels through the economy as a whole.[36] The implications are number of poles based on different resource endowments, may simultaneously occur. He stresses the importance in the development process of entrepreneurial innovations to establish dynamic poles with government support to ensure the centrifugal tendency of capital, labor and profits do not occur. He believes that in due course a growth-poles strategy can eliminate polarization sources in favor of less-developed regions.[37]

## III. THE STRUCTURAL DEPENDENCY SCHOOL OF THOUGHT

The third group of theories relates to the Structural Dependency school of thought. This school of thought, while they share the same assessment of market forces as the Regional Imbalance theories, they do not share the optimistic outcome of government intervention. This school of thought views the problem of regional underdevelopment and disparities as the necessary conditions for the development of the capitalist centers. These regional problems are the terminal process of globally working of market forces. Regional underdevelopment and disparities are the ultimate prices paid

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[36]. F. Perroux, **Economic Space: Theory and Application** in J. Friedman and W. Alonso, ***Regional Development and Planning: A Reader***, Cambridge, Mass., 1964.

[37]. Perroux as summarized in Holland, ***Op. Cit.***, pp. 49-50.

by peripheral regions for the sake of development in capitalist centers. There is no way to bring back regional equilibrium without withdrawal from the capitalist system and pursue an alternative development.

One of the theories under this school of thought focuses its analysis on historical conditions of institutional and social factors.[38] This can be inferred from the premise that development investment in a semi-feudal society is monopolized by the upper class or wealthy region. The poor people or regions, only get the investment as residuals through a series of middlemen. The desire to over consume combined with vulgar display of wealth by the upper class within the core regions, are assumed to be the characteristics of this type of society which are responsible for the emergence of the problems of disparities and poverty.[39] Furthermore, this theory argues that the problem of development is not merely the question of how much is produced, rather it is what and how it is produced since it is believed that "institutions which create growth are not neutral as per distribution."[40]

A quite different theory emerged from the *United Nations Economic Commission for Latin America* (*ECLA*), known as the Centre-Periphery theory. The leading figures in forwarding

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[38]. See, for example, R. P. Misra, ***Development Issues of Our Time***, Concept Publishing Company, New Delhi, 1985.

[39]. ***Ibid.*** p. 142.

[40]. Kuitenbrouwer, **On Concept and Process of Marginalization**, as cited by Misra, ***Ibid.***, p. 143.

this theory are Raul Prebisch and Hans Singer (even he never worked with the *ECLA*). Both of them have been referred to as "pioneers" in the field of international development economics by the *World Bank*[41].

The theory grounds its analysis on the concept of world system in which the developing countries are locked in a system of exploitative international economic relation which is Prebisch called the "centre-periphery" system.[42] Although this theory of centre-periphery system does not directly deal with the domestic regional problems, it is a useful tool to look at the external causes of underdevelopment of a country or group of countries. The theory views domestic regional differences as part of a larger global process. Also, Prebisch's analysis of the causes and the persistence of inequalities among classes within the periphery is a useful one since most of the upper class who benefit from development efforts live in the urban centres of the peripheral countries. This means, the periphery of the peripheral countries are excluded from the "fruits of development".

In his early writings, Prebisch formulated two main theories. The first related to an increase in the long-term disequilibrium in the world economy due to what Harris called

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41. G. M. Meier and D. Seers, (ed.), ***Pioneers in Development***, Oxford University Press, London, 1984.

42. Raul Prebisch, **Five Stages in My Thinking On Development**, in ***Ibid.***, p. 176; **Dependency, Interdependency and Development**, ***CEPAL Review***, No. 34, April, 1988, pp. 197-9; **Towards A Theory of Change**, ***CEPAL Review***, No. 10, April, 1980, pp. 188-9.

"inner-directed development"[43] in the capitalist centers, especially in the USA. After establishing hegemonic powers over the economic system the US could pursue its own domestic interest at the expense of other regions with minimal repercussions[44]. The second theory proposed by Prebisch and also Singer[45] is the theory of what Levitt called "adverse term of trade for primary exporters,"[46] i.e. declining terms of trade. According to this theory, the exporters of manufactured goods, in the centres, had a monopoly of the supply of such goods and could therefore control the prices. In contrast, peripheral countries are generally the exporters of agricultural and raw materials and function in competitive markets. The tendency of the price of their exports is to decrease.[47] Therefore to import industrial goods from the center means that countries have to produce continually more exports with the paradoxical consequence of reducing the price of the commodity due to the inelasticity of demand for

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[43]. Nigel Harris, ***The End of The Third World, Newly Industrializing Countries and The Decline of An Ideology***, Pinguin Books, London, 1986, p. 15.

[44]. ***Ibid.***

[45]. H. W. Singer, **The Term of Trade Controversy and The Evolution of Soft Financing : Early Years in The U.N.**, in Meier and Seers, **Pioneers.....**, ***Op. Cit.***, 273-288.

[46]. Kari Levitt, **Debt, Structural Adjustment and Development, Looking to the 1990s**, ***Economic and Political Weekly***, July 21th, 1990, p. 1586.

[47]. This was expressed in various ways by Prebisch, **Pioneers...**, ***Op. Cit.***

agricultural good and raw materials[48]. Added to this inequality is the role of transnational corporations in sucking economic surplus from the periphery[49] and protectionist tendencies in the centres.[50] Furthermore the application of capital intensive technology in the process of industrialization created fewer jobs in countries with surplus labor supplies. The result of these global interactions kept the periphery on the sidelines of the development process[51].

What can be drawn from Prebisch argument is that the underlying factor determining underdevelopment of a nation is a part of a global process embedded in the international economic structure.

Internally, the process of capital accumulation at the periphery is unlikely due to claims upon the surplus by both the labor force and the state including for military spending.[52] The social aspects of peripheral are also negatively affected by the wealthy classes "premature imitiation consumption" patterns of the centre. Instead of reinvesting the profits into productive capital, the elite

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48. Prebisch, **Dependency, Interdependency...**, ***Op. Cit.***, p. 198.

49. Prebisch, **Dependence, Interdependence,...*Op. Cit.* p. 198; Toward A Theory....**, ***Op. Cit.***, p. 192. See also, Jagdish N. Bhagwati, **Comment** in **Pioneer....**, ***Op. Cit.***, **p. 203.**

50. Prebisch, **Pioneers...**, ***Op. Cit.***

51. Prebisch, **Dependence,....*Op. Cit.***, 198-9.

52. Prebisch, **Toward ...**, ***Op. Cit.***, 156. See also, Albert Fishlow, **Comment**, in **Pioneers....**, ***Op. Cit.***, p. 195.

class buy consumptive capital products from developed countries or are involved in speculative money markets. It is quite clear that premature imitation consumption patterns aggravates the process of capital accumulation in peripheral countries, leading to the capital shortage. Since the availability of capital is one of the main factors for development, a capital shortage limits the possibilities of the peripheral countries to develop.

Although Prebisch's main focus is on unequal distribution among classes, the fact that the upper class is usually, if not always, concentrated in the centre of economic and political activities implies that regional disparities will emerge. Like a magnet, the concentration of economic, political, and social activities at the center provides favorable conditions for the migration of the better-off people from the peripheral regions to the centres. In the end, while the center develops, the peripheral regions experience the reverse tendency. Underdevelopment of the peripheral regions become the logical consequence, so does the persistence of regional disparities.

The more radical analysis emerges from the left wing. Dependency theory[53] treats the problem of underdevelopment as the product of a single historical process of the development

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[53]. See, Andre Gunder Frank, **The Development of Underdevelopment**, in Charles K. Wilber, (ed.), ***The political Economy of Development and Underdevelopment***, pp. 109-120; David F. Ruccio and Lawrence H. Simon, **Radical Theories of Development: Frank, The Modes of Production School, and Amin**, in ***Ibid.*** p.p. 121-179; Veltmeyer, ***Op. Cit.***, p.p. 18-19.

of capitalism.[54] Dependency theory came into existence in the mid-1960s. Its most popular writing has been associated with Frank's search for a Theory of Underdevelopment.

Unlike the Marxist or the Neo-classical perspectives that view the economy of the third world as a "dual economy,"[55] Dependency theory believes that all economies in the world are linked to the capitalist system through what Frank called the metropolis-satellite relations.[56] In other words, there is only a single economic system that truly operates on the global scale, that is capitalism:

> "I am confident that future historical research will confirm, that the expansion of the capitalist system over the past centuries effectively and entirely penetrated even the apparently most isolated sectors of the underdeveloped world".[57]

Metropolis-satellite relations are asymmetrical relations of power so that the metropolis takes control, essentially through its monopoly role in economic activities, over its

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[54]. Andre Gunder Frank, *Ibid.*, pp. 111, 114.

[55]. David F. Ruccio and Lawrence H. Simon, **Radical Theories of Development : Frank, The Modes of Production School, and Amin**, in Charles K. Wilber, (ed.), ***The political economy of Development and Underdevelopment***, Random House Business Division, New York, 1988, pp. 124-5.

[56]. *Ibid.*, 111-113.

[57]. Andre Gunder Frank, **The Development of Underdevelopment**, in *Ibid.*, p. 110.

satellites, creating a situation of dependency.[58] Not only do the asymmetrical relations condition and structure the economic, political and social life at the global level but the metropolis-satellite relations penetrate the underdeveloped countries are replicated at regional and local levels. Thus, for this theory, as Frank formulated it, the provincial capitals are the satellites of the national metropolis. Through the national metropolis the provincial satellite is also subordinated to the world metropolis.[59]

Each of these satellites is an instrument to appropriate and transfer the economic surplus out its satellites and to channel part of this surplus to the world metropolis.[60] Moreover, each national and local metropole imposes and maintains this exploitative relationship as long as it serves their interest in promoting their own development and the enrichment.[61] It is clear from the experience of the development of industry in Sao Paulo which has not brought great riches to the other regions of Brazil. Instead, it converted them into internal colonial satellites, decapitalized them further, and consolidated or even deepened their underdevelopment.[62]

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58. D. F. Ruccio and L. H. Simon, *Op. Cit.* pp. 126-27.

59. Frank, *Op.Cit.* p. 111.

60. *Ibid.*, p. 111-113.

61. Frank, **Development ....**, *Op. Cit.*, p. 111.

62. *Ibid.*, p. 113.

Frank rejects the argument that underdevelopment is due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated. Rather, he states that,

> "within this world-embracing metropolis-satellites structure the metropoles tend to develop and the satellites to underdevelop. ... that the satellites experiences their greatest economic development and especially their most classically capitalist industrial development if and when their ties to their metropolis are weakest. ... that the regions which are the most underdeveloped and feudal-seeming today are the ones which had the closest ties to the metropolis in the past".[63]

From Frank's argument it is clear that the problem of underdevelopment of not only a nation but also a region within nation due to the working of the capitalist system in the periphery. The operation of capitalism is based on the exploitation of labor, a massive capital drain that blocks the production of surplus value, distortion in the structure of production, limitations on the internal market, and in the end, generates the chronic unemployment and marginality of a surplus population.[64]

Based on this argument Frank concludes that capitalist development simultaneously generates development and underdevelopment, not as a separate process but as related

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[63]. *Ibid.*, pp. 114, 117.

[64]. Veltmeyer, **The Capitalist Underdevelopment of Atlantic Canada**, in Brym and Sacouman, *Op. Cit.*, p. 18.

facets of one single process, or as Veltmeyer states, "... development and underdevelopment are reciprocal conditions of the same process of capital accumulation".[65]

Another approach of Dependency Theory goes even further than Frank. The so-called theory of 'dependent capitalist development'[66] argues that capitalism on the periphery accelerates the production of relative surplus value, and expands the forces of production and their corresponding relation. It generates unemployment and poverty under economic recession and it absorbs labor power during economic booms producing an effect similar to capitalism in the centre where unemployment and absorption, poverty and wealth, coexist.[67]

This is clear from Amin's work on the "core-periphery" relations that, according to him, promote development in the core while at the same time block the same path of development in the periphery.[68] More over, he tackles economic development from an international division of labor and an international class structure as products of a contemporary imperialist system. Underdevelopment, therefore, is a product of superexploitation of labor on the periphery. By superexploitation he means the transfer of surplus which is generated by a poor remunerated labor force in the periphery

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65. *Ibid.* p. 18.

66. *Ibid.*

67. *Ibid.*

68. Ruccio and Simon, *Op. Cit.*, p. 157.

in both nominal terms and in their relative productivity to labor in the centre. Up to this point, Amin shares the idea of "unequal exchange" of Emmanuel which will be discussed later. However, for Amin, the essential condition for unequal exchange is not merely wage differentials, rather real wages differences that are larger than productivity differentials.[69] More than Frank, Amin examines the internal structure of the countries of the periphery.

Another theory under the structural dependency school of thought is Neo-Marxism. It bases its analysis on class relations in the production process. It assumes that the exploitative relation of wage labor is reproduced in the regional structure of production and exchange. Veltmeyer, for example, by utilizing the Marx's concept of capitalist development, argues that the causes of underdevelopment are due to the capitalist attempting to counteract inherent tendency of declining profits within the system. The expanded reproduction of capital at the centre requires and also creates a mass of "free" labor held in reserve in the periphery, but available for purchase. This labor reserve functions as a lever of capital accumulation.[70]

Brenner also proposes a similar argument to Veltmeyer. In his critique of Frank's argument, Brenner says that Frank has failed to explain the origin of underdevelopment that is the

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[69]. *Ibid.*, p. 160.

[70]. Veltmeyer, *Ibid.*, 19.

central role of class structure in determining underdevelopment. He states that,

> "the development of underdevelopment was rooted in the class structure of production based on the extension of absolute surplus labor, which determined a sharp **disconjuncture** between the requirements for the development of the productive forces (productivity of labor) and the structure of profitability of the economy as a whole".[71]

Brenner's view of capitalism is that it is a system of production involving, in particular, the extraction of relative surplus value.[72]

Another exponent of Neo-Marxism is Emannuel. His basic argument is that "unequal exchange" is "the foundation of the massive inequalities that exist in the world economy."[73] His theory of "unequal exchange" proposes that there is a tendency for the terms of trade to increasingly favour the countries with the more advanced productive forces. Exchange between place will result in a transfer of value from the low to the high wage areas.

Unlike Prebisch and Singer, the basis for unequal exchange is in the differences of wages between the advanced and backward areas. In this sense, he assumes that capital and products are internationally mobile, and that a single rate of

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[71]. Brenner as cited by Ruccio and Simon, ***Op. Cit.***, p. 139.

[72]. ***Ibid.***, p. 138.

[73]. A. Brewer, ***Marxist Theories of Imperialism***, London, 1980, pp. 208, 219.

profit is formed at the international level. However, labor is not mobile between countries so that the workers in different countries are not directly in competition with each other and different national levels of wages may be set. If two or more countries with different levels of wages trade, the result is the low-wages countries pay more for its imports than it would if wages were the same in both countries, without getting higher prices for its own exports:[74] "the products of the high-wage country are dearer and the products of low-wage country cheaper than they would have been if wages were the same in the two countries."[75] He also argues that since capital is attracted to demand, high incomes generated by unequal exchange attract further investment and start a cumulative process of development. High wages will also lead to the use of capital intensive methods of production which raise productivity and promote development.[76]

Emannuel's analysis concentrates on unequal exchange between two or more countries. However, it also can be narrowed down to the regions within a country. In this sense, the difference between wages among regions within a country leads to unequal exchange. The region with a high-wage generates a high income level which makes it possible for this region to attract further investment and begin to accumulate

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74. *Ibid.*, pp. 209-212.

75. *Ibid.*, p. 210.

76. *Ibid.*, p. 219.

process of development. On the other side, the low-wage region suffers from low income level, capital shortage and, in the end, remains excluded from the development process.

Also, within the framework of Neo-Marxist theory, exponent of Articulation of Modes of Production, rooted on the work of Marx and Engels on pre-capitalist and the capitalist modes of production, bases its analysis on the relations among and between them existing within peripheral countries to explain underdevelopment of regions. This theory also examines underdevelopment -- and by extension regional disparities - in relation to the colonial experiences and peripheral status of the developing countries and in the relation to the internationalization of capitalist mode of production, assuming its dominance within the international economy. The last point implies that the fundamental structure of the world economy is that of the capitalist mode of production. As a result, the logic of world development reflects the laws governing that mode of production.[11]

Taylor, for example, introduces a concept of a transitional social formation, instead of underdevelopment, which is dominated by an articulation of two modes of production, a capitalist and a non-capitalist mode, in which the former is, or is becoming, increasingly dominant over the latter. The result is that peripheral social formations are characterized by a series of dislocation between at different

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[11]. Ruccio and Simon...., *Op. Cit.*, pp. 143-56.

levels.[78]

The penetration of capitalism and its articulation with pre-capitalist modes of production occurred in three main periods. The first was during the period of dominance of merchant capital where its expansion was restricted by feudal constraints but allowed for the accumulation of capital, and hence, provided a basis for later capitalist expansion. The second period was when the capitalist mode of production became dominant in Europe. A declining rate of profit created a need for new markets through the exchange of unequal partners, there came about a transfer of resources from the periphery to the capitalist countries. The third phase came about by the conjunction of industrial and banking capital to create financial capital.[79] This phase was the beginning of imperialism where capitalist relations were created. However, the pattern of uneven development occurred because imperialism is selective in its interest.[80]

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[78]. D. K. Forbes, *Op. Cit.*, pp. 94-5.

[79]. *Ibid.*

[80]. *Ibid.*

## IV. The State Policies School of Thought

The state policies school of thought focuses its analysis on the role of the state. For these theories, the principle reason behind the regional problems and their persistence are policies undertaken by a nation state. If a government undertakes a biased policy, or even precise, a discriminatory policy against a region or sector while favoring others, spatial differences will occur. Inappropriate policies could be in the form of policies favouring urban-based industrial strategy, ignoring the rural areas, and of policies which heavily emphasize on large-scale industrialization and/or economic growth, neglecting the distributional aspect of its development. Theoretically, the right policy will bring about uniform development among regions or sectors.

The state policies theories, in many ways, have been applied, for example, by Richard Robison[81] and Arief Budiman[82] for Indonesia. The argument is that the state has a dominant role in transforming the social relations and fostering the development of an indigenous capitalist class. The policies to encourage the development of an indigenous capitalist undertaken by a national state, brings about the

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[81]. Richard Robison, ***Indonesia, The Rise of Capital***, Asian Studies Association of Australia, Canberra, 1988.

[82]. **The Emergence of Bureaucratic State in Indonesia** in Lim Teck Ghee, ***Reflection On Development in Southeast Asia***, Asean Economic Research Unit, Institute of Southeast Asian Studies, Singapore, 1988, p.p. 110-129.

emergence of what Robison called the politico-bureaucrats. This specific socio-economic group, however, constitutes those who used the power of the state to accumulate personal and family wealth. As a result it monopolizes economic field as well as government institutions. This, in turn, leads to the concentration of national income in the hands of a very few people, leading to the emergence of regional inequalities.

The notion of the State Policies school of thought is clear, for example, from the 'Urban Bias' theory introduced by Lipton in which he response to the persistence of poverty in rural areas of the Third World countries. The focus of this theory is not on regional inequalities, rather on inequalities between rural and urban areas where the latter benefit more from the development efforts undertaken by the government. However, the terms 'rural' and 'urban' are used in a very flexible and wide manner. They relate to:

> ".... ecology or landscape, size and density of human population, pattern of economic activity, especially where rural is equated with agriculture and urban with non-agriculture; an economic function in a geographer's sense (central places and all that); and characteristic patterns of human interaction of the kind mentioned above in the discussions of sociological theory."[83]

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[83]. Mick Moore, **Political Economy and the Rural-Urban Divide, 1767-1981**, in John Harriss and Mick Moore, (ed.), ***Development and The Rural-Urban Divide***, Frank Cass, London, 1984, p. 6.

The basic argument is that the whole problems of poverty, underdevelopment, etc., trapping the underdeveloping countries, especially their rural people, stems from a single source: urban bias. Lipton argues tnat the monopoly over the institutions, such as government, political parties, law, civil services, trade unions, education, business organization, etc., by the urban elites allows monopoly power over policy-making and has resulted in a shift of income-per person from rural to urban areas.[84]

According to Lipton, urban bias is a state of mind, a disposition to take decisions about allocating resources[85] in a way which cannot be justified either on the grounds of efficiency or on the ground of equity. This kind of bias occurs in many ways. It is expressed in the belief in economic theories of growth which favour industry and urban areas; the greater political pressure which urban interest groups can exert on policy makers; and the simple fact that policy makers are themselves urban dwellers that benefit directly from policy.

He strongly believes that urban biased policies discriminate against all rural people, not only the peasantry, and favour all towns, not only the capital cities.

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[84]. Michael Lipton, **Why Poor People Stay Poor**, in John Harriss, (ed.), ***Rural Development, Theories of Peasant Economy and Agrarian Change***, Hutchinson University Library, London, 1982, p. 66-68.

[85]. Michael Lipton, **Urban Bias Revisited**, in John Harriss and Mick Moore, (ed.), ***Development and The Rural-Urban Divide***, Frank Cass, London, 1984, p. 149.

Furthermore, he argues that urban biased policy polarizes Third World countries into two distinct and opposed interest groups, which he terms "classes" -- rural and urban classes. However, the terms "class", is not the same as that used by Marxists or Dependency theorists. He states that the most important class conflict in the poor countries of the world today is not between labor and capital, as Marxists believe, nor between foreign and national interests, as dependency theory argue, but between rural and urban classes.[86]

By using an economic as well as moral argument, he points out the inefficiency and inequality resulting from the concentration of capital and intensive industrialization in a situation of capital shortage and labor abundance. He says that "resource allocations, within the city and the village as well as between them, reflect urban priorities rather than equity or efficiency."[87] He also criticizes the strategy of protection and subsidy of import substitution industrialization that in his opinion distort and wasted peoductive resources.

Government policies of providing cheap food for urban consumers, mean that the official prices of most agricultural output in underdeveloping countries are below what they would be in a free market situation. Most subsidies on agricultural

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[86]. Lipton, ***Why poor stay poor. Urban Bias In World Development***, Temple, Smith, London, 1977, p. 13.

[87]. ***Ibid.***

inputs benefits a minority of commercial farmers rather than the mass of poor peasants. Also, input subsidies to industry in most cases are greater than to agriculture. All of these policies reflect urban bias and result in poor people staying poor.

Parallel to Lipton's ideas, Mamalakis introduces the theory of 'Sectoral Clashes.' Working in the context of Latin America he points out that "the biggest obstacle to Latin American development has been the continuity of its defective allocation process, which persistently directed resource surpluses to the support of cities, services and consumption."[88] However, Mamalakis, in his analysis, goes beyond Lipton's argument in that he bases his analysis not in a simple rural agricultural-urban industrial duality. Mamalakis uses industrial sector as the basis unit of his analysis. Arguing that the main vehicle of politics and the pattern of government resource allocation accentuates rural-urban conflict, Mamalakis foresees a clash of industrial sectors.[89]

What can be drawn from Urban Biased theory is that the causes of underdevelopment of rural areas are the urban bias policies undertaken by the government. This, in turn, results in the widening gap between rural and urban people. Since the terms of 'rural' and 'urban' are very flexible, it is possible to extend the term of 'rural' to be a 'region' so as it can be

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[88]. M. J. Mamalakis as cited by Moore, *Op. Cit.*, p. 23.

[89]. *Ibid.*

used as the basis to explain the problem of why the poor regions stay poor, and by extension, responsible for regional disparities.

This policy stems from the belief in economic theories of growth which favour large industry and a few industrial areas; the greater political pressure which industrial region's interest groups can exert on policy makers; and the simple fact that policy makers are themselves industrial region dwellers that benefit directly from biased policy.

It is quite easy to show that the urban-based industrialization policy undertaken by governments of the Developing Countries leads to the concentration of capital, labor force, economic, social and political activities in a few cities. In an archipelago country like Indonesia, this strategy has a very significant impact in perpetuating the backwardness of the regions without an industrial base.

It is also easy to show that the monopoly power over institutions, such as government, political parties, law, civil services, trade unions, education, business organization, etc., by the elites of industrial regions paves the way for bias in policy-making. This has resulted in a shift of economic surplus from non-industrial regions to industrial regions. In the end, the less developed regions not only remain excluded of development process but also experience a decline in their level of economic activities.

## V. Conclusion

From theories presented, it is clear that despite the differences in routes undertaken in their efforts to understand regional problems, many of them share the same basic assumptions. The theories under the umbrella of Regional Equilibrium school of thought share the same value of the self-regulating power of the market in restoring regional equilibrium. Therefore, for this school of thought, the principle reason behind the persistence of regional backwardness and disparities are rooted in the failure to allow market forces to properly work. Factors such as uneven distribution of natural resources to population, low level of productivity, the lack of entrepreneurship, and the failure to exploit and develop a region's natural resources are argued to be distortions of the market. Thus, they are considered to be the underlying causes of the backwardness of a region and responsible for the persistence of regional disparities.

Theories under the Regional Disequilibrium school of thought far from seeing market forces as the saviour argued that unequal development is inherent in the working of the market. The operation of the market forces have forced capital, labor as well as the profit to migrate to the advanced regions, leaving the less-developed regions on the sideline of development. The strong centripetal tendency of developed regions can only be reduced through a creation of a

counter-pole or poles. In this respect, the role of the state becomes critical in creating regional equilibrium.

The third school of thought, the Structural Dependency, shares the same argument with the Regional Disequilibrium school of thought about market forces being the principle agent behind the regional problems. Regional underdevelopment and disparities are seen as the necessary conditions for development of capitalism, and that these regional problems are the terminal conditions of the working of globally operating market forces. Withrawing from the capitalist system or pursuing an alternative path of development is argued to the only way to escape from regional underdevelopment and disparities.

The last school of thought, the State Policies, focuses its analysis on role of the State as an agent in transforming social relations and fostering the development of indigenous capitalist and undertaking and executing policies for national development. The principle cause of regional disparities in the view of this school of thought is laid in inappropriate or even, descriminatory policies of a government.

Policies favoring urban-based industries, large-scale industrialization and economic growth, in one way or another has resulted in the persistence of regional backwardness and disparities.

In respects to the regional problems in Indonesia, none of these schools of thought provides an adequate explanation.

The following chapter discusses in detail the partial usefulness and limitations of each school of thought in respect to regional backwardness and disparities of Indonesia.

As argued before, chapter V also discuses the cultural factors, especially in relation to political thought and practices, which are not included in any of the above four schools of thought but are the crucial factors in explaining the regional backwardness and disparities in the Indonesian context.

# CHAPTER V

# AN ANALYSIS OF THE PROBLEM OF REGIONAL UNDERDEVELOPMENT AND DISPARITIES IN INDONESIA

The evidence in both economic and social terms shown in chapter III clearly demonstrate not only the existence of regional backwardness and disparities, but also the tendency for them to increase over time. However, what is (are) the cause(s) of the problems remain vague.

As stated in previous chapters, there is no single theory which can be adequately used to explain the whole question of regional backwardness and disparities in Indonesia. Rather, a number of factors across the four schools of thought discussed in chapter IV can partially explain the regional problems of the country. This will be the subject of chapter V. This chapter will identify factors outlined by the above four schools of thought which significantly determine the regional problems in Indonesia. The limitations of each school of thought will also be highlighted. It also incorporates the political culture, determining both political structures and practices in the country, as one of the main explanations. I will argue that the inherent tendency of the working of the market forces toward spatial inequalities, together with the geographic nature of Indonesia, the colonial legacy and

discriminatory policies against the outer islands have been reinforced by the very strong centripetal tendency of power in Indonesian political life. So that in my opinion, the political factor has played, and will continue to play, critical roles in shaping regional backwardness and disparities of the archipelago.

## I. Regional Self-Balance Explanations and Their Limits

As discussed before, the main explanation of regional problems in Indonesia is focused on the maldistribution of natural resource endowments and population, under-utilization of regions' given natural resources, and the geographical barriers, and general undermining the working of the market forces. This line of explanation is the heart of Regional Self-Balance school of thought. The study of Asmara mentioned before, for instance, demonstrates this notion clearly. The official understanding of the problems also seems to fall into this line. This is quite clear from one of the major policies undertaken by the Indonesian government, especially since REPELITA II (the Second Five Year Development Plan, 1974 to 1979) to cope with regional problems. The policy of population redistribution and settlement through government led-

transmigration schemes,[1] aiming to utilize the potential of agriculture of less populous regions outside the islands of Java and Bali reflects clearly the assumption that regional problems in the country are mainly due to the uneven distribution of population together with the under-utilization of resources of the outer islands.

The Regional Self-Balance explanations in regards to geographic barriers, in my opinion, are quite right, especially if one takes into account the nature of the country as an archipelago. Under this circumstance, distance both in geographically and established commercial transport services terms are the catalysts in determining price and quality of transport infrastructure. As Hill argues, the high prices in much of Eastern Indonesia are owed to the geog.aphical barriers, leading to the high transport cost.[2]

While geographic barriers are useful in explaining one aspect of regional backwardness and disparities in Indonesia, the remaining explanations are in doubt. The principle assumption of the theory is that the wealth of a region is a function of its natural resources. Therefore, the level of development is determined by its ability to develop and

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1. K. V. Sundaram, ***Geography of Underdevelopment. The Spatial Dynamics of Underdevelopment***, Concept Publishing Company, New Delhi, 1983, pp. 146-7.

2. Hal Hill and Anna Weidemann, **Regional Development in Indonesia: Patterns and Issues** in Hill, (ed.), ***Unity and Diversity. Regional Economic Development in Indonesia Since 1970***, Oxford University Press, Oxford and New York, 1989, p. 32.

exploit natural resources. With the exception for East Kalimantan during 1980 to 1987 (see Table 3.8), all natural resource rich regions experienced economic decline, especially for the rural people. Moreover, the population of the two regions most outstanding in terms of their natural resource endowments, namely East Kalimantan and Riau, joined the increasing percentage of people below the poverty line from 1976 to 1987 (table 3.16) despite the remarkable success of reducing poverty level in Indonesia as a whole during 1970 to 1987 (table 3.18). These two facts are contrary to the basic notion of the Regional Self-Balance school of thought.

The case of economic deterioration of richest natural resources provinces in Indonesia provides another look into the problem of regional backwardness and disparities of the country. In the first place, it becomes clearer that the backwardness of a region is not merely a question of natural resources and the failure or ability to exploit them.

One, of course, can also use the evidence from the two poorest provinces of Nusa Tenggara (East and West Nusa Tenggara) to justify the validity of the Regional Self-Balance theory. These two provinces seem to confirm that their backwardness has to be understood in terms of poor natural resources. Corner,[3] for example, recently argues that the low level of development in both provinces of Nusa Tenggara

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[3]. Lorraine Corner, **East and West Nusa Tenggara: Isolation and Poverty** in Hal Hill, (ed.), ***Ibid.***, pp. 179-206.

reflects a basic poverty of natural resources and the isolation of many communities of these two provinces. While the latter is quite true for the recent development in both provinces, I think, it is mistaken to simply argue in this line if one looks at the problem from a long-term historical perspective.

While the current development in the East and West Nusa Tenggara, especially in the Island of Timor and the province of Maluku seems to support the notion of the Regional Self-Balanced theory that is the backwardness of a region is mainly due to the poor natural resources and factor markets immobility, historical evidence from Timor and maluku provide a counter conclusion. Part of the problems of the islands of Timor and Maluku is colonial legacy. It is quite clear that Timor and Maluku which once had very substantial natural resource endowments and that the mobility of factor markets induced their exploitation. However, due to the colonial legacy and development of the islands' natural resources for sale in European markets provided no tangible benefits and infact generated underdevelopment for the regions. Thus, unlike the general prediction of the Regional Self-Balanced theory, arguing that the removal of market barriers together with the ability to exploit a region's natural resources would generate economic development, the experience of Timor and Maluku shows the reverse tendency.

The lesser importance of natural resource endowments in

generating development is also clear from the experience of the province of Yogyakarta in Central Java. This area of poor natural resource, due to supportive government policies and the abundance human resources increase its development. The data shown in table 3.8 proves that this province has been successful escaping its status as one of the poorest provinces in Indonesia and has risen to be one of the wealthiest. This is especially thrue of its rural people. The province of Yogyakarta demonstrates its superiority over those of rich natural resources provinces, not only in terms of per capita expenditure but also in social terms; that is one of the most successful province in lowering its poverty level (table 3.16). After decline, this province, as noted by Anne Both and Konta Damanik,[4] has also attained the lowest level of infant mortality rates in Indonesia, and corresponding increases in life expectation at birth. What can be drawn from the Yogyakarta's experience is that the lack of natural resources by no means generates backwardness.

The experience of the islands Timor and Maluku also seems to contradict the assumption of the transitional nature of regional backwardness and disparities as the Regional Self-Balance theories argue. Rather, the terminal process of the working of capitalist system in these regions result in the cases as the Structural Dependency theory would argue.

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[4]. Anne Booth and Konta Damanik, **Central Java and Yogyakarta: Malthus Overcome?** in Hill, (ed.), ***Ibid.***, p. 302.

The Regional Self-balance school of thought also assumes that with the free-working of the market forces labor will move to the advanced regions due to higher wages there, while capital in contrast moves to the backward regions. This is believed to be the equalizing power in bringing about regional equilibrium. The Indonesian experience, however, demonstrates other tendencies.

From the data on inter-regional migration (table 3.20), only those who have a high education move into advanced regions in Java, especially into Jakarta, leading to a process of brain drain from the outer islands. Furthermore, the vast majority of the people remain in their regions in which reflects the high cost of transportation which is simply neglected in the Regional Self-Balance school of thought, especially Neo-Classical Economic theory. Besides that, the very strong ties of the people to their own regions due to the fact almost every region belongs to a specific ethnic group with its identities such as language, culture, belief, etc. contributes to the low level of people mobility in Indonesia.

Another tendency is that capital flows remain extremely concentrated in Java (table 3.14). The failure of the Regional Self-Balance theory's optimistic scenario regarding the centrifugal tendency of the capital is clear from the increasing concentration of almost all industries in Java (see table 3.9 and 3.10). This feature, in my opinion, demonstrates the impossibility of the implicit requirement of the Regional

Self-Balance theories that full employment (as evidenced by rising wages) in the core region will be achieved. The island of Java remains an attractive area for capital since it seems to have, to use Lewis' words, an unlimited supply of labors. The excessive concentration of Indonesian population in Java (table 2.1) makes the outer islands undesirable for the capitalist. As a consequence, the tendency for capital to move into backward regions fails to be realised. The advanced region (Java) remains to generate a massive capital inflow while the backward regions (the outer islands, especially the Eastern provinces (table 3.15)) suffer from it, keeping them in the state of backwardness.

## II. Regional Imbalance Explanations and Their Limits

The tendency of capital to continue concentrating in Java (tables 3.9, 3.10 and 3.14) supports the general prediction of the Regional Imbalance school of thought stating that the working of market forces has generated regional backwardness and disparities in the form of capital flow to the core regions. The present case of both the East and West Nusa Tenggara, not to mention other provinces in the Eastern Indonesia, provides an outstanding example for Myrdal's theory of the Cumulative Imbalance. The logic of this theory that is that poverty has become the cause in itself to lack of

development is confirmed in the continued stagnation and even deterioration of the economies, and the growing percentage of people below the poverty line (tables 3.7; 3.8; and 3.16;) in these two provinces.

It is clear that the present backwardness of them can be better understood from Myrdal's view. The backwash effects, as Myrdal called them, of the operation of market forces in this backward region seem to be stronger than those of spread effects. There is no comprehensive data available on the out-migration of capital, human resources and profits to confirm the validity of Myrdal's argument. However, a national seminar on economic development of the people of Kalimantan held in Pontianak, West Kalimantan, 3 to 7 August, 1991 indicated the existence of these backwash effects. This seminar came to the conclusion that the region's (the four provinces of Kalimantan) natural resources have been over-exploited without bringing any significant prosperity to the people. Most of the gains (70%) of this exploitation simply went out to the core regions[5].

While the Regional Imbalance theories in some ways explain the regional problem in the Indonesian context, they suffer in regards to a number of factors. The first is that their argument about the centripetal tendency of labor to move

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[5]. **Seminar Nasional Pengembangan Perekonomian Rakyat Kalimantan (National Seminar On Economic Development of the People of kalimantan)** as reported in ***Merdeka***, under the title "Pulau Kalimantan Belum Memberikan Kemakmuran Bagi Rakyatnya" (The island of Kalimantan has not yet given any prosperity to its own people), August 9th, 1991.

into core regions, fails to fit with the Indonesian experience. Data of inter-provincial migration in Indonesia demonstrated the relatively low level of movement within the country. According to the 1971 national census, for instance, only around 6.2% of total population had migrated from province of birth or changed their province of residence more than once. The corresponding figure for Thailand according to its 1960 national census was 11%, Malaysia (the 1970 census) was 10.9%, and the United States according to the census of 1960 was 26%.[6] By linking the above comparative data on transmigration with the over-all data on regional backwardness and disparities (see chapter III), it is clear that regional backwardness and disparities have existed and continue to be, despite the out-migration from the backward regions remained at the low level. This is even more true for Eastern Indonesia. Out-migration from this most depressed area, especially from the provinces of East and West Nusa Tenggara, East Timor, Central Sulawesi and Irian jaya according to the national census of 1971, 1980 and 1985 remained at very low levels (table 3.13). While data on economic and social indicators point out the persistence of the backwardness of this area in comparison with the Western part. Thus, it is clear that basic argument of the Regional imbalance theory in regards to the centripetal tendency of labor does not take place in the Indonesian context.

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[6]. Sundrum, **Inter-Provincial Migration,** ***Op. Cit.***, pp. 89-90.

It is also important to note that one can argue that the lower level of inter-regional migration in Indonesia in comparison with Thailand, Malaysia and the United States is due to less regional inequalities in the former. However, this is not the case. While there is no data available for Thailand and Malaysia in regards to regional disparities, the comparative figure provided in table 3.2 demonstrates that the coefficient of regional income inequality of the United States during 1950-60 was about three times lower (0.182) than that of Indonesia for 1972 (0.522). These figures mean that the regional income disparities in Indonesia was worse than those in the United States.

The second concern putting the Regional Imbalance theories into question is related to the effectiveness of their policy recommendations. These theories argue that for equity and national unity considerations, it is necessary to establish counter-poles outside the centers to correct the unbalanced development resulting from the working of market forces. However, the Indonesian experience demonstrates the limitations of this prescription. This is clear from the experience of the industrial center called *KIMA* in South Sulawesi, designed as an enclave area for the whole of Eastern Indonesia. After more than 5 years of operation, only 16 firms have been established there and virtually no benefits have flowed to other areas. The reason is simply because this center is too far from the major markets and decision-making

centers and lack sufficient infrastructure to be attractive for the capital.[7]

The experience of *KIMA*, in my opinion, represents the failure of the counter-poles strategy to deal with the regional problems in Indonesia. The results of the creation of artificial counter-poles in the country, in most cases, have been disappointing. These counter-poles have failed in both accelerating the pace of development of their corresponding regions and in spreading the development and its fruits into the other regions. These counter-poles fail to induce backward and forward linkage effects as Hirchman argued. As a result, the trickle-down effects fore-seen taking place in the long-run have not been realized. In direct contrast, there is a tendency of trickle-up effects if one sees that the core regions in Java as being able to accelerate the pace of their economic development, while most peripheral regions experience economic stagnation. In the end, uniform development over the whole country has not been occurred and regional backwardness and disparities remain the features of the archipelago.

What can be drawn from the experienced of *KIMA* is that the creation of a counter-pole center by no means leads to the redirection of capital. The tendency toward spatial inequalities generated by the working of market forces seems too strong to be tackled only through a creation of artificial poles.

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[7]. See report in ***Tempo***, July 7, 1990, pp. 24-5; July 14, 1990, pp. 89.

centers and lack sufficient infrastructure to be attractive for the capital.[1]

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[1]. See report in *Tempo*, July 7, 1990, pp. 24-5; July 14, 1990, pp. 89.

The failure of the Regional Imbalance school of thought, in my opinion, is first because the policy recommendations assume an advanced infrastructure system. In Indonesia, especially on the outer islands, serious transport and communication bottlenecks exist.[8] The economic development of Java, especially of Jakarta is partly due to its superiority in transportation and communication systems vis-a-vis the rest of the country.[9] The second, is that the idea of creating counter-poles was drawn from the experience of mainland Europe. The geographical nature of the area in which the growth pole theory was concieved takes geographical barriers to be minimal only a peripheral consideration in this concept. This is very different from Indonesia. The nature of the archipelago presents substantial geographic barriers explaining the lack of adequate to communication and transformation systems.

Since the Regional Imbalance theories' prescriptions are based on the experienced of the European continent as discussed above, it is believed that once the counter-poles are established, labor as well as capital will also move into these poles. This analysis suffers from the assumptions that nullify transfer cost structural barriers that prevent people

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[8]. Hal Hill and Anna Weidemann, **Regional Development in Indonesia: Patterns and Issues** in Hill, (ed.), **Unity and Diversity**, ***Op. Cit.***,pp.35, 37.

[9]. Lance Castle, **Jakarta: The Growing Centre** in Hall Hill, (ed.), Unity and Diversity, ...., ***Ibid.***, pp. 243-4.

from moving into the artificial poles. The low level of inter-provincial migration as discussed before implies that high transfer costs and structural barriers exist. The concentration of capital and continual flow of capital to industrial activities in Java point out the failure of new artificial counter-poles as incentives for both the capital and labor to decentralize. Thus, to overcome the regional problem in a country such Indonesia, it cannot be done only through providing the economic opportunities at the development poles. Other factors, such as political factor, culture, etc., have to take into account.

The third factor contributing to the failure of the Regional Imbalance theories' policy recommendations is related to the ignorance of an equal distribution and access to information as the critical factor in development. The Regional Imbalance theories, as in the case of the Regional Self-balance theories, seem to believe that information is equally distributed throughout the country and that every person regardless of where he or she lives has an equal access to such information. However, this is not the case. For instance, it is widely known that the distribution of information about job opportunities is very skewed in the country.

## III. Structural Dependency Explanations and Their Limits

In many ways, the theories grouped under the umbrella of Structural Dependency school of thought have better explanations to the problem of regional backwardness and disparities in Indonesia.

Their basic arguments that underdevelopment of a nation or region is a terminal process of the working of the market forces and that the underdevelopment of the periphery is a necessary condition for the advancement of developed countries matchs the Indonesian experience. The comparative data (both economic and social) between the Eastern and Western parts of Indonesia provided in chapter III confirms that underdevelopment of the former is the terminal condition for the latter.

Also, the argument that the cause of regional underdevelopment and disparities is embedded in the international economic structure has solid grounding. At the very least, the economic deterioration of most regions with abundance natural resources discussed before serves as an example of the validity of this argument. The economic deterioration of Aceh, Riau, South Sumatera, and the like -- the main natural resources regions in Indonesia -- in my opinion can be understood better from the perspective of Structural Dependency points of view.

If one looks into the period of 1980 to 1987 during which

the provinces of rich natural resource endowments experienced economic deterioration, he or she will come to realise that this period was the period of economic recession in the global market. The global economic recession severely affected the economy of the country in two ways. The first is the weakening of the demand for oil in 1982, which led to the price and quota reductions of March 1983. The reducing Indonesia's gross oil and LNG export earnings fell from nearly US$19 billion in 1981/82 to US$14.7 billion in 1982/83.[10] It declined further to US$12.4 billion in 1986 due to the second decline of oil prices in 1986.[11] The World Bank estimated that over the past five years real oil prices have fallen by more than 50%. Most of these declines have occurred since early 1986. Anne Booth argued that the fall in oil revenue was so rapid so that she estimated that government savings fell to less than 20% of total development expenditure.[12] Secondly, the demand for and the prices of the traditional non-oil exports of Indonesia,

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[10]. The World Bank Report, ***Indonesia, Policies For Growth and Employment***, 1985; Richard Robison, **After The Gold Rush: The Politics of Economic Restructuring in Indonesia in the 1980s** in Richard Robison, Kevin Hewison and Richard Higgott, (ed.), ***Southeast Asia in the 1980: The Politics of Economic Crisis***, Allen Unwin, Sydney, London, Boston, 1987, p. 28.

[11]. The World Bank Report, ***Indonesia, Adjusting to Lower Oil Revenue***, 1986. Crude oil prices fell from US$28/barrel in January 1986 to below US$10/barrel in August 1986. As a result, net oil/LNG earning fell by US$2 billion between 1986 and 1987, see the World Bank Report, ***Indonesia, Adjustment, Growth and Sustainable Development***, 1988.

[12]. Anne Booth, **Repelita V and Indonesia's Medium Term Economic Strategy**, ***Bulletin of Indonesian Economic Studies***, Vol. 25, No. 2, August 1986, p. 13.

essentially agricultural commodities, declined, leading to a fall in non-oil export receipts from over US$6 billion in 1979/80 to less than US$4 billion in 1982/83.[13] By 1985, the World Bank's index of 33 commodity prices was 20% below their level in 1979-1981 and had reached their lowest level in the 27 years since the index has been compiled.[14] Overall, the external terms of trade of Indonesia deteriorated by nearly 15% between 1981 and 1985.

The sharp reduction in total export earnings created substantial pressure on the balance of payments, resulting in an account deficit of US$7.1 billion (equivalent to 8.5% of GNP) in 1982/83 compared to a surplus of US$2.2 billion two years earlier.[15]

Since all of the rich natural resources region based their development on exploitation of their given natural resources, especially oil and natural gas to be sold in the international market, the vulnerability of raw-material products in the face of international market as argued by Prebisch and many other Structural Dependency proponents became the law for these rich natural resources provinces. The decreases of oil and LNG, and other agricultural commodities prices on the international market as demonstrated above not only supported the notion of the theory of Adverse Terms of

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[13]. The World Bank Report 1985, *Loc. Cit.*

[14]. The World Bank Report 1986, *Loc. Cit.*

[15]. *Ibid.*

Trade for Primary Exporters of both Prebisch and Singer, but also affected the level of development of all the rich natural resources regions. If one looks the regional backwardness and disparities in Indonesia from this perspective, it becomes clear that the underlying factor determining the economic deterioration of the rich natural resources provinces in Indonesia is in process embedded in the international economic structure.

While the experience of the islands Timor and Maluku discussed before also demonstrate that the backwardness of this island is the logical consequence of (see Tailor's periodisation of the penetration of capitalism and its articulation with pre-capitalist mode of production in chapter III, section C) the second period of capitalism penetration into the region. The declining rate of profit in Europe forced the capitalist to search new blood to revitalize its expansion. As a consequence, a transfer of resources and profit from peripheries (Timor and Maluku) to the capitalist country (the Netherlands and the Portugal) took place. The fact that the import duties levied on sandalwood were sufficient to cover the cost of the local government of Macao (the Portuguese trading-post in China) during the eighteen century can be used as an ilustration. The long-term historical perspective of Timor's and Maluku's experience suggests that underdevelopment of these islands is simply another side of the same coin of the development of the

colonial (capitalist) power at the centers. The backwardness of Timor and Maluku islands which once had a very substantial natural resource endowment is neither due to the immobility of the factors market, nor it can be understood in terms of the failure to exploit their given natural resources. By contrast, it is a product of the working of market forces in these islands functioning to extract the surplus value from these regions. This also means that, unlike the general prediction of the Regional Self-Balance theory, arguing that the removal of market barriers together with the ability to exploit a region's natural resources will generate economic development, the Timor and Maluku's experienced shows the reverse tendency. What I am trying to demonstrate here is that if one looks the problem of the backwardness of a region in historical context it follows the basic argument of Dependency theory, especially of Frank. The case of the islands of Timor and Maluku seems to support the general conclusion of Frank in which he argues that the most underdeveloped regions today are the regions which had a very close ties to the centers of capitalism in the past. However, this does not suggest that this conclusion can be taken for granted as a general pattern. The inconsistency of historical evidence from other regions of the country brings about difficulties in drawing such a general conclusion. Therefore, it is important to treat the case of the islands Timor and Maluku only as a part of the explanations to the regional problems of Indonesia.

Another argument proposed by the Structural Dependency theories related to the function of the center of the peripheral countries as a medium to appropriate economic surplus from the peripheral regions also seems to valid in the Indonesian context. Once again, Timor's and Maluku's experience serves as an illustration. While the recent development on the four provinces of Kalimantan discussed before provides another ground for the aforementioned argument.

The explanations so far demonstrate that the Structural Dependency theories have better explanations to the regional problem in the Indonesian context. However, the Indonesian experience also spells out the limitations of the Structural Dependency theory, especially of Neo-Marxism. It was argued that regional backwardness and disparities are necessary conditions for expanded reproduction of capital at the center. This was based on the belief that capital expansion requires and also creates a massive labor force held in the reserve in the peripheral regions. However, this argument fails to take into account that the core regions themselves may have an unlimited supply of labor which can be purchased any time for the reproduction of capital. This is the case of Java. Since Java has an unlimited supply of labor to meet capital accumulation requirements, even without transmigration, I think, there is a complete ambiguity towards backward regions on the part of capitalists.

From the Indonesian experienced it is clear that the validity of Neo-Marxism's argument can only be sustained if the labor scarcity exists at the center. In this respect, the criticism which has already been made of the Regional Self-Balance theories regarding their implicit assumption of the existence of full employment at the center is also applicable for Neo-Marxism. And the fact that Indonesia's economic growth rate as a whole has been relatively high (not to mentioned NICs, etc.) suggests that the Neo-Marxist proponents have significantly underestimated the dynamism of at least part of the periphery.

## IV. State Policies Theories' explanations and their limits

Recently there is a growing literature focusing on the role of the state in explaining and understanding the whole question of regional backwardness and disparities in Indonesia.[16]

On the first place it was argued that the role of the **New Order** State of Indonesia in transforming social relations and fostering the development of a supportive indigenous capitalist class has resulted in the emergence of what Robison

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[16]. See for example Hill, (ed.), **Unity and Diversity**, ***Op. Cit.***

called the *polico-bureaucrats*. According to Arief Budiman,[17] fearing the emergence of a strong independent indigenous class who may become a political competitor the **New Order** State of Indonesia during the last two decades, instead of supporting the development of a strong indigenous class, has turned to support the development of Chinese business class. However, problems of legitimation forced the state to develop the indigenous business class. Accordingly, the state first helped to elevate the indigenous people in small and medium-sized businesses by giving them state financial credit which was denied to the Chinese. Secondly, in the large-scale business, the state has helped its most trusted indigenous supporters. They are the relatives of high-ranking state bureaucrats[18] who have been cultivated into the national bourgeoisie. The result is the emergence of the *polico-bureaucrats* as Robison called them or the *client bourgeoisie* to use Arief Budiman's terminology. They are private business people who own their businesses but are dependent on state bureaucrats patronage for their survival. It was reported that the most important indigenous business people in the country are the relatives of the top officials of the **New Order** state.[19]

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[17]. Arief Budiman, **The Emergence of the Bureaucratic Capitalist State in Indonesia** in Lim Teck Ghee, (ed.), ***Reflection On Development in Southeast Asia***, Asean Economic Research Unit, Institute of Southeast Asian Studies, Singapore, 1988, pp. 120-2.

[18]. See Richard Robison, ***Indonesia. The Rise of Capital***, Asian Studies Association of Australia, Canberra, 1986, pp. 329-367.

[19]. ***Asian Wall Street Journal***, 24, 25, 26 November 1986.

The rise of its indigenous bourgeoisie class is crucial in determining regional backwardness and disparities. At the very least this policy of favoritism has blocked the possibility of the others who are not the relatives of the high-ranking government officers to enter into the business stage. Since the vast majority of the high-ranking bureaucrats and their relatives are in Java, the policy, in one hand, favoures Java, and on the other discriminates against the outer islands. Together with the historical fact that most of the Indonesian bourgeoisie prior to the New Order government were concentrated on Java, the way is paved for this Java-based entrepreneur class to form the oligarchy who control the state and monopolize the economic field. Only a few included in this group were on Sumatera and Sulawesi.[20] In the past, as Arief Budiman argues,[21] the monopoly over economic activities by this Java-based entrepreneur class led to a serious internal dispute among factions of this class. In 1957, the regional rebellions that took place were the reflections of this internal dispute. The non-Javanese bourgeoisie who lived in Sumatera and Sulawesi reacted and, supported by local military, rebelled against the Javanese bourgeousie and the Central State.

The second issue raised by State Policies theories is related to development strategy undertaken since the New Order

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[20]. Arief Budiman, *Op. Cit.*, p. 116.

[21]. *Ibid.*

government of Indonesia came to power in 1965.

As in the case of many developing countries, Indonesia had a long period of import substitution industrialization. This strategy required the government to pursue policies of protectionism in order to safeguard the infant local industries from the products of more advanced industries of developed countries. According to the State Policies theories, especially Lipton's theory of urban bias, the strategy of protection and subsidy of import substitution industrialization distorted and wasted the productive resources. The Indonesian case seems to fit with this argument. The high average rates of effective protection have supported a stronger exchange rate. This, as argued by Hill and Waismann, and Azis,[22] has resulted in the distortion of the structure of regional economic development. The extremely high concentration of industries, especially of consumer goods industries on the island of Java (table 3.9 and 3.10) makes this area benefit most from the policies of protectionism at the expenses of the outer islands. Java, therefore, is the recipient of subsidies by outer island consumers of their products and by raw material producers who receive a low price for their goods:

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[22]. Iwan Jaya Azis, **Key Issues in Regional Development** in Hall Hill, (ed.), **Unity and Diversity**, ***Op. Cit.***, p. 56.

> "Just as protection taxes exporters, the Indonesian trade regime has conferred very large subsidies on manufacturers, located mainly on Java, and penalized both the Outer Islands consumers, who must pay a premium over international prices for these products, and exporters, who receive a lower rupiah (the Indonesian currency) return from their sale."[23]

Hill and Weismann, and Azis are quite right, especially if one considers that 12 out of 13 most heavily protected industries are primarily located on Java.[24] Even the recent government policies (the structural adjustment programs) pushed upon the Indonesian government by the IMF and the World Bank to liberalise the economy and promote non-oil exports through the policy packages of May 6, 1986, October 25, 1985 and January 15, 1987 still favoured manufacturing industries located mainly on Java. Azis found that in the last two packages, the four industries with the greatest percentage of items shifted to the General Importer category are non-batik textiles (31%), electrical equipment (13%), chemicals (9%), and leather (9)%. These are mainly located on Java. Import restrictions were also removed from industries with highest percentage of *CCCN* (trade classification) items (paints, tires and tubes, hides and leather, paper and printing, and glass products). By contrast, the agricultural sectors, especially the important export-oriented estates sector located mainly on

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[23]. Hal Hill and Anna Weidemann, **Regional Development in Indonesia: Patterns and Issues** in Hill, (ed.), ***Ibid.***, pp.48-9.

[24]. ***Ibid.***

the outer islands, was entirely excluded from the reform package.[25]

The third issue addressed by the proponents of the State Policies theories in the Indonesian context is related to industrial regulation and licensing systems. Hill and Weismann, for instances, argue that the system of industrial regulation and licensing has had an even more powerful "Java centric" effe t. They found that every major industrial policy-making decision is undertaken in Jakarta, and licences for every significant new industrial investment must be obtained from government offices in Jakarta too.[26] Furthermore, they argue that superimposed on these formal bureaucratic requirements is a web of informal connections which have additional centralizing effects. This web of informal connections, as will be discussed later, is a product of the political culture of the country.

The fourth issue addressed is focused on the centralizing effects of a range of specific regulatory measures. Many specific regulatory measures undertaken by the government are argued to adversely affect the poorer regions outside Java, especially in Eastern Indonesia. For example, a promising livestock export trade produced by the provinces of East and West Nusa Tenggara was prohibited in 1978 in order to ensure stable domestic meat supplies, mainly for consumers in Java.

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[25]. Azis, *Op. Cit.*, pp. 58-9.

[26]. Hal Hill and Anna Weidemann, *Ibid.*

Similarly, trade with Darwin in Northern Australia is inhibited by regulations requiring exports from both provinces of Nusa Tenggara to be shipped through Surabaya. While land regulations have discouraged the growth of potentially important sandalwood industry in East Nusa Tenggara.[27] In the distance province of North Sulawesi Hill and Wesmann found that government restrictions discriminate against local coconut and clove producers. Another example concerns the recently (1987) introduced prohibition on rattan exports. Despite the fact that most rattan is grown outside java, especially in Kalimantan, the government regulation specified design processing centers in Surabaya, Jakarta and Medan to control production[28]. While the economic rationale for such policies is far from persuasive, the effect of such policies is quite clear: most of the value added from domestic processing will be captured by producers in Java. As a consequence, Java generates economic development, while the rest of the country, especially the Eastern part of the archipelago lags behind.

From th explanations and instances presented above it is clear that part of the problem of regional backwardness and disparities in Indonesia is the product of the Java-biased policies undertaken by the Indonesian government. These discriminatory policies are both the causes and mechanisms of

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[27]. *Ibid.*, p. 50.

[28]. Iwan J. Azis, *Op. Cit.*, pp. 56-7.

the persistence of regional backwardness and disparities. The government execute policies that benefits the *politico-bureaucratic* class in Java, particularly in Jakarta. In this context, the Urban Bias theory's propositions proposed by Lipton and the basic argument of Mamalakis' theory of the Sectoral Clashes find their grounding.

At a regional level, the case of economic deterioration of the rich natural resource regions discussed before also supports the notion of the State Policies school of thought. This case reflects the regional policy bias undertaken by the Indonesian governments that have focused on the extraction of natural resources based on a large-scale industrialization, ignoring the rural areas of these regions. As argued by Mubyarto, the failure of the rich natural resources regions to sustain their economic development is due to the exclusion of the development of rural areas of those regions. This will be equally true if one looks into the increasing economic welfare of the people, especially the rural people, of most poor natural resources regions during the same period of economic deterioration of the rich natural regions (table 3.8). In contrast to Riau and Aceh, the governments of Yogyakarta, West Sumatera, and many others have more space to execute policies in favor of rural people due to the lack of possibilities to extract wealth and source of political legitimation.

Despite the State Policies theories's contributions to explain and understand the regional problems in Indonesia,

they do not explain fully the Indonesian context. The main problem with their explanation is that they seem to implicitly argue that the state, as the Regional Self-Balance theories would argue, has been the principle obstacle for the appropriate working of the market forces, and that, the removal of this barrier will lead to the restoration of spatial equilibrium. However, at least in Indonesia, this is not the case. The limitations of the Regional Self-balance theories' explanations discussed before demonstrate this critcism. Moreover, as has been demonstrated before, the working of the market is one of the principle mechanisms in bringing about regional backwardness and disparities in the archipelago.

Another concern is related to the lack of a long-term historical dimension in their analysis. They seem to argue that regional backwardness and disparities are only recent phenomena. This, I think, is only half-true. The case of the islands of Timor and Maluku discussed before demonstrates that part of the backwardness of these islands is the heritage of the Dutch and Portuguese colonialism.

## V. An Alternative Explanation: Political Factors

The main problem with all of the above four theoretical schools of thought is that all of them overemphasize economic factors, ignoring the cultural and political aspects. These schools of thought assume human being as an absolute *homo economicus*, whose primary motive to undertake an action is determined by economic rationality. So, for example, when the State Policies school of thought speak of bias or discriminatory policy, it is seen as a reflection of the economic interest of a particular group. The idea of the creation of the artificial growth poles proposed by the Regional Imbalance theories basically assumes that these will provide economic opportunities, and that the people as rational economic actors will respons to these opportunities by entering into these growth poles. The Regional Self-Balance school of thought also sees economic motivation as the principle reason for human behaviour. For example, the centripetal tendency of labor to move into core regions and the centrifugal tendency of capital to ebb away from them are both based on the assumption of profit maximization, especially in relation to discrepancies in wage rates that guide the behavior of both capital and labor. Both Structural Dependency and Regional Imbalance theories also share the same important feature.

While the economic aspect is crucial in understanding

human behaviour, I think it is not sufficient to understand the whole of human behaviour. This is the main handicap of the aforementioned schools of thought. They fail to understand human behaviour from angles other than the economic one. In the context of Third World countries where local culture remains predominant in determining social behaviour of their people, Western concepts of economic rationality will not prevail. In my opinion, one critical factor contributing to the failure of the four schools of thought in fully explaining the regional problems in the Indonesian context is due to the ignorance of the political culture of the country, especially in regards to the interpretation of power. As a consequence, this becomes the missing link in their analysis.

To fully understand all regional questions in Indonesia, the Javanese political culture toward power has to be incorporated into every analysis of regional backwardness and disparities. Other than that it will be incomplete. This will be elaborated further in the next section.

One focus of this study is on the Javanese political culture. The reason is that it is widely accepted that despite a building of a sense of nationhood calls for the use of Western concepts of power, the actual practices in Indonesian politics remains based on traditional values rooted in the Javanese culture.[29] Thus for Lucian W. Pye, "political

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[29]. See, for example, Lucian W. Pye, ***Asian Power and Politics. The Cultural Dimensions of Authority***, The Balker Press of Harvard University Press, Cambridge, Mass. and London, 1985. Benedict R. O'G. Anderson,

parties, national bureaucracies, and the military services were modelled on Western forms, but their practices followed the traditional rules of power relationships".[30]

## A. The Idea of Power in Javanese Culture

Benedict Anderson,[31] in his effort to understand the interrelationship between the traditional cultural, social and political actions in Indonesia found that the idea of power in the Javanese culture has been the main vehicle driving and shaping the social and political practices of the country. He also found that the concept of power in the Javanese culture differs from, even apposite to that in Western political thought in four important areas. The first is that while power in Western political thinking is viewed as abstract so it does not exist, the Javanese understand power as concrete thing, existing somewhere in the universe. The existence of power, according to the Javanese culture, is independent of its possible users. The second is that in Western political thinking the sources power are argued to heterogeneous, while in Javanese culture they are understood as homogeneous. Power

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***Language and Power. Exploring Political Cultures in Indonesia***, Cornell University Press, Ithaca and London, 1990, chapter 1.

[30]. Lucian W. Pye, ***Op. Cit.***, p. 112.

[31]. Benedict Anderson, **Language, ...** ***Op. Cit.***, chapter 1.

in this sense is of the same type and has the same sources. The third is that in Western's view the accumulation of power has no inherent limit, while in Javanese culture the quantum of power in the universe is constant. The cosmos is believed to be neither expanding nor contracting. The total amount of power within the cosmos also remain fixed, although the distribution of power may vary. For political theory, as argued by Anderson, this conception has the important implication in respects to the assumption that concentration of power in one place or person requires a proportional diminution elsewhere. This, as will be discussed later, has a very substantial impact in relation to the power relation between the Javanese and the rest of the country. The fourth is that in Western political thinking power is seen as morally ambiguous, by contrast, the Javanese view the concept as something that does not raise the question of legitimacy. Since all power derives from a single source, power itself antecedes the question of good and evil. In this sense, the question of legitimacy or right to rule would be meaningless in Javanese culture. So in short, power in Javanese culture is seen as something concrete, homogeneous, constant in total quantity, and without inherent moral implication[32].

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[32]. *Ibid.*, pp. 19-23.

## B. The Impacts of Javanese Political Culture on Regional Backwardness and Disparities

In the modern Indonesia the aforementioned concept of power remains and still predominates. As Colin MacAndrews et.al. point out, the political power in Indonesia is highly centralized, and this , according to them, is a reflection of the dominance of Java and Javanese culture in the Indonesian political system.[33] Furthermore, Colin MacAndrews, et.al., argue that the nature of the political system of Indonesia has power is in the hands of a civil-military bureaucracy with political parties playing a very limited role in determining the regional development in the country. With political power centralized in Java and particularly in Jakarta, policy-making is essentially a top-down process in which the central government plays a predominant role.[34]

This type of political system in Western terminology is called bureaucratic polity.[35] According to Karl D. Jackson, bureaucratic polity is a political system in which power and participation in national decisions are limited almost

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[33]. Colin MacAndrews, et.al., ***Op. Cit.***, p. 47.

[34]. ***Ibid.***

[35]. See, Karl D. Jackson, **Bureaucratic Polity: A Theoretical Framework for the Analysis of Power and Communications in Indonesia** in Karld D. Jackson and Lucian W. Pye, (ed.), ***Political Power and Communications in Indonesia***, University of California Press, Berkeley, L.A., 1987; Karld D. Jackson, **The Political Implication of Structure and Culture in Indonesia** in ***Ibid***; Donald K. Emmerson, **The Bureaucracy in Political Context: Weakness in Strength** in ***Ibid***.

entirely to the state employees, particularly the officer corps and the highest levels of bureaucracy, including especially the high trained-specialists known as technocrats. This political system is marked by the absence of regular participation or mobilization of the people.[36] In Indonesia context, as argued by Lucian W. Pye, "bureaucratic polity means that all the dormant power in society is concentrated in government hands: those who control events have official positions, and government employment provides the highest security in return for the least effort".[37]

At the heart of this bureaucratic polity, according to Lucian W. Pye, is the idea of reciprocity between patron and clients[38] or *bapak* and *anak*. This parallels Benedict Anderson's view who argues that the traditional concept of power in Java provides a coherent perspective within which to view the structure and operations of the patrimonial state.[39] This type of state is characterized by a highly personalistic character. The corps of officials in this patrimonial system are regarded as an extension of the person of the ruler. Thus, as Lucian W. Pye[40] clearly points out:

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[36]. For details, see Karl D. Jackson, **Bureaucratic Polity**, ***Loc. Cit.***

[37]. Pye, ***Op. Cit.***, p. 116.

[38]. ***Ibid.***, p. 117.

[39]. Anderson, ***Op. Cit.***, p. 46-7.

[40]. Lucian W. Pye, ***Op. Cit.*** p. 305.

> "the apparently neat structure of power in Indonesia is not based on legalistic specifications of responsibilities or precise definitions of each post or office. Instead, the Indonesian pyramid of power seems orderly because it is composed of tiers of personally related groups that tend to array themselves as hierarchical offices because Indonesian invariably define their personal relationship in hierarchical terms".

This implies that the key to power in the patrimonial state is determined by the proximity to the ruler, rather than formal rank.

The operation of this patron-client relationship, according to Pye, tends to produce unexpected patterns of decision-making.[41] Both the highly personal in character of the patrimonial state and the unexpected decision-making produced by the operation of patron-client relationship have a very important impact in determining regional underdevelopment and disparities in Indonesia. As one would expect, at the very least the allocation of resources to the regions will depend greatly on the proximity to the ruler in Jakarta, rather than by a rational calculation. And, as argued before, only a very few provinces, mostly in Java, have a close relationship to jakarta. This means, only few regions have a access through personal relationships, allowing them to get more resources for their development efforts, while others who are outside of the circle of patron-client relationship suffer, and pushed further to the sidelines of the development

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[41]. *Ibid.*, p. 303.

process.

The nature of power relationship in Javanese which requires the existence of a strong center as discussed above has a very significant impact in determining the backwardness of the outer islands. This is so because, as discussed above, in Javanese culture power relation is seen through a zero-sum-game perspective in which the concentration of power in one place or person requires a proportional diminution elsewhere. In order to be a strong center, it is necessary in Javanese political culture to keep the peripheries in their state of powerless.

What I am trying to demonstrate here is that the backwardness of the outer islands is a basic requirement for the concentration of power in Java. This is very important for the Javanese since they also see history as a cosmological oscillation between periods of concentration and diffusion of power. In every period of concentration new power centers are constituted and unity is recreated, while in each period of diffusion, power begins to ebb away from the center, causing the reigning dynasty to lose its claim to power, and disorder appears. In order words, the Javanese believe that unity is power, while multiplicity is diffusion and weakness.[42]

In order to provide a clearer picture of the actual practices of the aforementioned arguments, I think, the Indonesian experience with decentralization can serve as an

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[42]. Anderson, *Op. Cit.*

illustration. Article 18 of the 1945 constitution calls for decentralization as one of the principle mechanisms in running this very diverse country. Accordingly, the first act (*Undang-Undang*) of the country was about decentralization. From then on, there were at least four changes in the acts (Act No. 22 of 1948; No. 1 of 1957, No. 18 of 1965 and No. 5 of 1974 respectively). All of them were to provide the grounds for the realization of decentralization. However, in most cases the results were disappointing. Even more, in the last Act (Act number 4 of 1974), the autonomy of the both provinces (*DATI I*) and districts (*DATI II*) was reduced substantially, despite the arguments of many experts that one of the best ways to overcome the regional problems in country was to give local governments more power and autonomy. The very idea of power dispersion through decentralization, not only far from being realized, but also every pledge for decentralization has seen in a very suspicious manner by the central government in Jakarta.[43]

I hope it is clear by now that both the causes of regional backwardness and disparities and the mecha[illegible] of their persistence in the Indonesian context are far beyond the

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[43]. For details about the fate of decentralization in Indonesia see, for example, my articles, **15 Tahun UU Nomor 5 Tahun 1974: Pasang Surut Otonomi Daerah di Indonesia (15 years of the Act Number 5 of 1974: The Up and Down of Regional Autonomy in Indonesia)**, ***KOMPAS***, July 19th, 1989; **Wajah Otonomi Daerah Tingkat II (The face of District Autonomy)**, ***Suara Pembaruan***, September 8th, 1989; and **Keseimbangan Antara Pengawasan dan Otonomi Daerah (The Balance between Controlling and Regional Autonomy)**, ***Suara Pembaruan***, November 14th, 1988.

economic determinism as shared by the above four schools of thought. These regional problems arose and persisted in part due to the requirements stemming from the interpretation of power in the Javanese culture. So that while economic interest of the core region may involve to some degree determining the regional problems in the country as the four schools of thought would argue, the political reasons cannot be underestimated. The concentration of economic, political, military as well as cultural power on Java reflects the Javanese interpretaion of the nature of power and power relation. The first, reflects a basic understanding of power as a concrete thing so that the accumulation and concentration of it are more important than exercising it. The second, reflects the basic idea of the inherent limit of accumulation of power so that power relation is seen through a zero-sum-game lens. Finally, reflects the idea that the Javanese king and kingdom have to stand above all so that they are incomparable to other regions. All of these, while still have the economic dimension, are more political.

## VI. Conclusion

The discussion clearly demonstrates the complexity of the problems of regional backwardness and disparities in Indonesia. It is understandable if none of the existing

theoretical frameworks provides an adequate explanation of the causes of the problems and mechanisms for their persistence, and the ways to bring about spatially equal development for the whole archipelago.

The explanation throughout this chapter also shows clearly both the partial usefulness and the limitations of each school of thought outlined in Chapter four. The geographic barriers as the source of regional backwardness and disparities in Indonesia argued by the Regional Self-Balanced theories is useful in understanding part of the problems, especially if one takes into account the nature of this country of islands. However, the remaining arguments of the Regional Self-Balanced school of thought do not fit with the Indonesian context. Market forces in many ways are the sources of regional backwardness and disparities. However, the proponents of both Regional Unbalanced and Structural Dependency theories arguments in regards to the centrifugal tendency of labor is not the case. Also, their policy recommendations, in practice, failed to overcome regional unbalanced development. A number of assumptions taken for granted by these theories are not relevant to Indonesia.

The Structural Dependency theories contribute much in explaining the problem in Indonesia; the role of the market, the colonial legacy, the peripheral position of a region or a country are among the main factors contributing to the problem of regional backwardness and disparities. However, the

Structural Dependency's argument of the centrifugal tendency of labor force is not evident in Indonesia.

The State Policies theories also contribute much to the general level of understanding. Their basic argument about the discriminative policies as sources of regional backwardness and disparities are clear in the Indonesian case. Also, their proposition about the role of the state in fostering the development of an indigenous capitalist class as a cause of regional problems has grounding. However, their analysis firstly falls into market forces as a solution so fails to understand the real causes of the problem. Secondly, it suffers from a lack of long-term historical perspective.

The discussion also points out the limitations of economic determinism as it is shared by the four schools of thought in explaining and understanding the problems in the Indonesian context. As we have seen, the cultural dimension, especially the political culture has in fact played a very critical role in shaping all the problems of regional backwardness and disparities in the archipelago. Indeed, the way the Javanese conceptualize power, then practice it in real political life is the catalyst determining the problem of regional backwardness and disparities of the archipelago.

# CHAPTER VI

# CONCLUSION

## I. SUMMARY

The aim of this study has been to explore the tendency of regional underdevelopment and disparities and the underlying causes of their persistence in Indonesia. Four criteria have been used to determine the existence and persistence of regional backwardness and disparities: regional per capita income, spatial distribution of industries and of capital, spatial pattern of poverty, and the spatial distribution of post-secondary education.

Data on the aforementioned criteria provided in Chapter 3 clearly demonstrate, not only the existence of regional backwardness and disparities, but also the tendency for them to increase over time. The data reveal that the eastern provinces are those which are suffered most in regards to low level per capita income, lack of industries and industrial activities, lack of capital investment, chronic poverty, and lack of adequate institutions for human development.

Despite marked degree of unevenness in development among different regions in Indonesia, the underlying causes of both its initial causes and mechanisms of its persistence remain unexplain. Accordingly, chapter 4 outlines some of the

theoretical explanations to provide a broader picture of the problems and a basis for analysis.

The Regional Self-Balance school of thought base their analysis on the assumption of the invisible hand of the market in efficiently allocating resources and generating prosperity in all regions. The theories within this school share the idea that in the early stage of development regional backwardness and disparities tend to increase but will decline as the economy enter into a phase of maturity. Thus for these theories, the problems of regional backwardness and disparities are seen both inevitable and temporary prices of development.

During the process of development, factor such as, the ratio of natural resources to population, geographic nature of a country or region, and the level of productivity, determined by level of technology and entrepreneurship, and labor quality; and supply and access to markets become the critical factors in creating wealth in regions. Conversely, uneven distribution of natural resources, geographic barriers, low level of productivity, the lack of entrepreneurship, and the failure to exploit and develop a region's given natural resources are argued to discourage investment and create inequalities among regions.

Despite these differences Regional Self-balance theories see the future of regional backwardness and disparities through optimistic lenses: regional equilibrium will be

restored over the long-run. The mechanism in bringing back regional equilibrium is believed to be embedded in the market forces.

The theories grouped under the Spatial Polarization or Regional Imbalance umbrella see market forces as the perpetrator of unequal development. They approach the problem of regional disparities from the perspective which assume regional imbalance, factor disequilibrium, and market realism. The operation of the market forces naturally concentrate capital, labor as well as the profits into the core regions, leaving the less-developed regions on the sidelines of development. Unlike the Regional Self-balance theory, the Regional Unbalanced theory see regional backwardness and disparities as the permanent features that only can be corrected through government intervention.

The Structural Dependency school of thought also see market forces as the reason for regional disparities. However, regional underdevelopment and disparities are ultimately the result of inequalities in the capitalism at the global level. So, regions that have wealth to be extracted are, and other are not. For these theories, there is no way to bring back regional equilibrium other than delink from the capitalist system and pursue an alternative development path.

The fourth school of thought is State Policies. These theories focus their analysis on the role that policies have in creating and maintaining regional imbalance. Inappropriate,

more precisely, discriminatory policies could be in the form of policies favoring urban-based industrial strategy, ignoring the rural areas, and of policies which heavily emphasize on large-scale industrialization and/or economic growth, neglecting the distributional aspect of the fruits of development will create and perpetuate regional imbalances. If a government undertakes policy that is bias toward or discriminatory against any particular region or sector regional imbalances will be created and persist.

In respect to the regional problems in Indonesia, as demonstrated in Chapter 5, none of these schools of thought provide an adequate explanation. Rather, a number of factors across the four aforementioned schools of thought can partially explain the problems.

The geographic barriers argued by the Regional Self-Balance are significant barriers for regional development in Indonesia. However, the remaining explanations fail to address the real problems. The basic assumption that the concentration of natural resources in a region together with the ability to exploit them for the market will ensure a steady development for the region is not the case. Also, the transitional nature of regional backwardness and disparities do not fit. The optimistic scenario about the mechanisms of bringing about regional equilibrium through the centrifugal tendency of labor forces and centripetal tendency of capital have not been realized.

The tendency of capital to continue concentrating and flow into Java supports the general prediction of Regional Unbalanced school of thought. The working of market forces has generated regional backwardness and disparities in form of capital flow to the core regions. The present case of both the East and West Nusa Tenggara, not to mention other provinces in the Eastern Indonesia, provides an outstanding example for Myrdal's theory of the Cumulative Imbalance.

In the Indonesian context they suffer in regards to number of factors. The first is that their argument about the centrifugal tendency of labor to move into core regions does not take place. Secondly, their policy recommendation of creating counter poles is far from effective. This is due to the inaccurate assumptions of the negligibility of transfer cost, the absence of structural barriers for people to move into the new poles, and an equal distribution and access to information.

The theories grouped under the umbrella of Structural Dependency school of thought have better explanations to the problem of regional backwardness and disparities in Indonesia. To some degree, the problems are embedded in the international economic structure. The argument that the center of the peripheral countries is a medium of the metropolis to expropriate economic surplus from the peripheral regions is more or less true. The experience of both Timor and Maluku clearly demonstrates this. However, the lack of historical

evidence from other regions makes the theory not applicable as a general pattern.

The Neo-Marxists assumption that regional backwardness is a necessary condition for expanded reproduction of capital at the center fails to take into account the possibility that the core regions themselves may have an unlimited supply of labor. The validity of this assumption can only be sustained if the labor scarcity exists at the center. This is contrary to the Indonesian context.

The last school of thought, the State Policy, in many ways contributes much in explaining the regional problems in Indonesia. The role of the **New Order** state of Indonesia to cultivate an indigenous bourgeoisie class has blocked the possibility of the others who are not the relatives of the high-ranking government officers to enter into the business stage.

It is also quite right when it argues that regional problems in the country are stemmed from inappropriate development strategy undertaken. The policy of subsidies and protectionism undertaken as a part of import substitution industrialization favors Java at the expense of the outer islands. The industrial regulation and licensing systems, and a range of specific regulatory measures have a more powerful "Java centric" effect against the outer islands. In summing up, part of the problems of regional backwardness and disparities in Indonesia lies in the Java-biased policies

undertaken by the Indonesian government.

The State Policies theories, however, do not provide reasonable explanation and solution. The first is that their analysis is lacking a long-term historical dimension. The second is that the implicit argument of the market forces as the solution shares the same irrelevance as the Regional Self-Balanced theories.

The main problem with the above four theoretical schools of thought is that all of them overemphasize economic factors, ignoring the cultural and political aspects. They assume human being as an absolute *homo economicus*, whose actions are mostly determined by economic rationality. In Indonesia, part of the regional problems has been, and will continue to be, the product of Javanese culture toward politics and power. This is the missing part explaining the failure of the four schools of thought. The very notion of the Javanese political culture marked by their believe in power as something concrete, homogeneous, constant in total quantity, and without inherent moral implication, has resulted in first, the necessity to establish a very strong center with weak peripheries. The second is the absence of either division of power or competing power.

The emergence of what is called bureaucratic polity means the decision-making process is limited to top-ranking officials in Jakarta in a highly personalistic and patrimonial manners. The result is the emergence of an unexpected pattern

of decision-making which defies economic rationality.

The discussion clearly demonstrates the complexity of the problems of regional backwardness and disparities in Indonesia. Thus, it is understandable if none of the existing theoretical frameworks provide a full explanation. A combination of some of the factors proposed by each school of thought will be very useful to understand the whole regional backwardness and disparities questions. The Indonesian case clearly demonstrates that the inherent tendency of market forces toward spatial inequalities, together with the geographic nature of Indonesia and the discriminatory policies against the outer islands have been reinforced by the very strong centrifugal tendency of power in Indonesian political life. So, in my opinion, in order to get a clear picture of the regional problems in Indonesia, one has to go beyond the economic determinism. Political factors have played, and will continue to play, critical roles in shaping regional backwardness and disparities of the archipelago.

## II. AGENDA FOR THE FUTURE

The discussion suggest that the regional problems in the archipelago are more political than economic. The consequence is that the future solutions of the problems are greatly dependent on the political will of the central government.

However there are four critical points that make resolution of the regional backwardness and inequalities are unavoidable. First is related to the changes in the sources of political conflicts in the recent decade in the global context. The recent political development in many countries, especially in Eastern Europe suggests that ethnic conflicts due to economic and political dissatisfactions are becoming and will continue to be the center of political conflict in the near future. This replaces the conventional conflict based on class conflict. This provides an important lesson for the archipelago to give more political attention to its national slogan *Bhineka Tunggal Ika* (unity in diversity). This slogan requires the recognition of the differences among regions, including their problems, and the willingness to accept them as sources of national strength. This recognition and willingness has to be based on the principle of equality among regions. No region has the right to stand above the others. Accordingly, a new political arrangement is necessary. The old political arrangement based on a zero-sum-game gives no room for the emergence of competing powers outside of Jakarta is

out of date. This means, a change in the political culture among the policy-makers toward power is a prerequisite for the emergence of balanced development among regions in the future.

The second is related to the collapsing of central planning development model all over the world. For a very diverse country like Indonesia in which the central planning mechanism prevails, the event of the last years is a warning of the inherent limit of the model to cope with the regional problems. This suggests that the central planning mechanism cannot be counted on for a sustainable development. Decentralization, especially political decentralization is required for regional development. Due to recent developments in Indonesia, decentralization becomes even more important. The mechanism of central government grant-in-aid which creates regional dependence and allows the central government to keep the loyalties of regions outside the island of Java is being eroded by the global economic recession.

The third, bearing in mind that the working of the market forces has been one of the principle reasons behind the persistence of regional problems, the globalization and internationalization of economies will aggravate further the existing regional problems. Thus, a new measurement is calling for. A conscious policy which discriminates in favor of the backward regions has to be undertaken in order to reduce the centralizing effects of market forces. The experience of some regions in Indonesia points out that a rural-oriented policy

combined with a human development-oriented policy are more likely to benefit people than policies of urban-based and natural extraction-base industrialization. The future policy agenda of the country has to be directed toward the development of rural and of human capital.

Lastly is related to the necessity to re-think the measures of development performance. The strength of an economy has to be measured first of all from the performance of its most depressed areas, and not other way around. This means that the alleviation of poverty, the fulfillment of basic necessities both in social and economic terms, and the empowerment of the vulnerable regions and communities across the country have to be the prime goals of development. Re-directing capital resources toward these specific problems is called for. This, once again, requires re-thinking on the conception of power. The accumulation and concentration of power understood as symbols of the greatness of the center have to be reinterpreted and treated as the weakness of the whole in the present context of this very diverse country.

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