

**INTEGRATING SOCIAL FORMATIONS INTO THE WORLD ECONOMY:
THE CASES OF INDONESIA AND NIGERIA**

by François Regoli

**Thesis for the completion of the Master's Degree in
International and Comparative Politics**

Under the direction of Professor P.-N. Dussault

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ABSTRACT

The present study provides a framework which accounts for diverging patterns of development among economies of the "periphery". Economic development is viewed as the conversion of surplus into productive investment. The integration of developing social formations is based on the presence of a world competitive sector that generates surplus through export earnings. The state apparatus is responsible for creating favorable conditions for national economic development by establishing domestic distributive channels that permit surplus to be utilized productively. Differences in patterns of economic development between social formations are related to the extent to which conditions fostering the productive utilization of surplus have been established.

The study compares and contrasts the political and economic experiences of Indonesia and Nigeria. These two cases possess notable similarities in regards to their productive structures and the composition of their societies. Both of their economies, subjected to the effects of a booming petroleum industry in the seventies, undergo profound socio-economic transformations. This analysis concentrates on the period between the two oil shocks, which extends roughly from 1973 to 1982. During this time frame, each state acquires large volumes of surplus that could be used to promote growth in other sectors of the economy. The state's ability to convert this surplus into productive investment is determined by particular conditions. The purpose of this comparative study is precisely to identify and define some of these conditions.

The first chapter expresses the relation between economic development, the productive utilization of surplus, and capital expansion. The designation 'capital expansion' is used to describe the transformation of surplus from the money form to the commodity form. It conceptualizes the process through which surplus is utilized productively. Furthermore, the first chapter outlines the framework for analysis.

The first hypothesis which structures chapter 1 stresses that the productive utilization of a national surplus relies on a favorable integration of a given social formation into the international process of capital accumulation. There are a number of conditions that facilitate this type of integration:

- a) the social formation possesses a world competitive resource providing continuous and increasing rates of financial returns to the state apparatus. In the cases of Indonesia and Nigeria the oil sector has had a role of integrating the economies. State-led economic strategies have focused mainly on increasing state participation in oil production and on creating incentives for investment. A comparison of the oil sectors reveals an Indonesian success to diversify its exportable oil products. Nigeria's diversification failures and continued reliance on oil crude exports cause the economy to be hard hit by the second oil crisis (in the early eighties).
- b) government policies towards traditional sectors like agriculture aim at bringing the necessary adjustments in view of fulfilling specific socio-economic functions. This implies, on one hand, that the food crop sector be successfully geared to satisfy domestic demand for food, thus limiting the weight of food imports on the balance of payments. On the other hand, the cash crop sector continues to show a modest export capacity. At this level the experiences of the two cases contrast sharply. While Indonesia succeeds to become self-sufficient in food and maintains a modest export capacity for its agricultural products, Nigeria fails lamentably to achieve either.
- c) the state fulfils an economic function of aligning the conditions of production and of exchange in the industrial sector to the international productive and commercial norms. In both cases it is observed that the most productive industrial branches are those where foreign capitals concentrate. In the Indonesian case an exporting capacity in manufacturing develops, while the import structure reveals a growing need of capital intensive products to supply the country's industry. In Nigeria, however, no export capacity in manufacturing takes shape and the structure of exchanges suggests the disengagement of foreign capitals.

The fact that exchanges to or from Nigeria have diminished, may imply that this African social formation is becoming "economically isolated".

The second hypothesis organizes chapter 3. It assumes that the state apparatus of developing social formations carries a specific ideological function of regulating domestic socio-political conditions to the dictates of world scale accumulation. In order to carry out its regulatory function, the state has a number of historically-rooted mechanisms such as repression, the system of wealth redistribution, the prevalence of clientelism, which together absorb a portion of the state surplus. The channelling of surplus towards these requisites of domestic regulation involves a non-productive utilization of the surplus. The mechanisms of socio-political regulation in Indonesia have fostered the establishment of a framework favorable to both domestic and international accumulation. In Nigeria, while establishing favorable conditions for international accumulation, the mechanisms have obliged a large proportion of the surplus to be utilized unproductively. In the latter case, conditions favorable for domestic accumulation have not been fostered.

The concluding chapter discusses and questions the relation between the two factors effecting capital expansion in a developing social formation. It provides insights into the prospects of change by emphasizing emerging social forces which may modify the basis of capital accumulation. In the case of Indonesia the coming to power of Muslims in government may bring significant changes in economic policy. In Nigeria, the intensification of regional divisions is observed. Both of these social phenomena are likely to disrupt the state structure which constitutes the framework of domestic and international strategies of development.

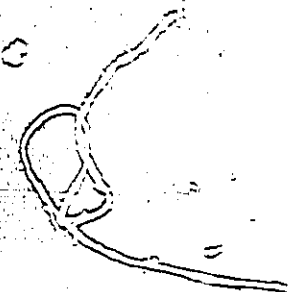
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INTEGRATING SOCIAL FORMATIONS INTO THE WORLD ECONOMY: THE CASES OF INDONESIA AND NIGERIA

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INTRODUCTION

Since the early 70s, many countries of the "periphery" have been integrated into the world economy on the basis of an export oriented sector controlled by the MNC (Multinational Corporation). These sectors of production have replaced traditional exports as world economic integrator and as driving force of the domestic economies. The "third world", once considered a large group of countries with common historical and socio-economic characteristics, i.e the colonial past, modernising political and economic systems, raw-material exporting, have become a very heterogenous lot, particularly in relation to their rates of economic growth. In the 1980s international economic theory has been confronted with the fundamental question: "How can the large differences in the rates of growth between countries of the South be explained?"¹.

The present study provides a framework which attempts to answer this question. The founding assumption is that economic development is viewed as the conversion of surplus into productive investment. The integration of developing social formations is based on the presence of a world competitive sector that generates surplus through export earnings. The state apparatus is responsible for creating favorable conditions for national economic development by establishing domestic distributive channels that permit surplus to be utilized productively. Differences in patterns of economic development between developing social formations are related to the extent to which conditions fostering the productive utilization of surplus have been established.

The present study compares and contrasts the political and economic experiences of Indonesia and Nigeria. Both of their economies, subjected to the effects of a booming petroleum industry in the seventies, undergo profound socio-economic transformations. This analysis concentrates on the period between the two oil shocks, which extends roughly from 1973 to 1982. During this time frame, each State acquires large volumes of surplus that could

be used to promote growth in other sectors of the economy. The State's capacity to convert this surplus into productive investment is determined by particular conditions. The purpose of this comparative study is precisely to identify and define some of these conditions.

The two cases possess notable similarities in regards to their productive structures and the composition of their societies. The comparative method, because it attempts to explain differences in the experimental variables proper to two or more cases, exposes considerations that strengthen the explanatory potential of certain phenomena. Moreover, the applicability or validity of these considerations is likely to be extendable to explain identical phenomena in other cases. For instance, some of the observations made in the Indonesian case may well apply to other South-East Asian countries.

The first chapter expresses the relation between economic development, the productive utilization of surplus, and capital expansion. The designation 'capital expansion' is used to describe the transformation of surplus from the money form to the commodity form. It conceptualizes the process through which surplus is utilized productively. Furthermore, the first chapter outlines the framework for analysis. It explains the factors which mold the expansion of capital in the cases of Indonesia and Nigeria. The present study believes that there are two factors which influence the establishment of productive structures.

First, as stressed in chapter 2, the expansion of capital in a developing social formation is dependent on the formation's economic basis of integration into the world economy. A comparative sectorial analysis exposes the actual conditions of integration which effect the generation and expansion of capital.

Secondly, as elaborated in chapter 3, the expansion of capital is influenced by domestic socio-political conditions and by the way they effect the establishment of structures of production. The infiltration of the MNC in the industrial tissue of a developing social formation, leads to the rise of specific socio-political conditions designed to consolidate a framework favorable for the expansion of international capital. Whether these conditions are in-

line with the requisites of capital expansion at a domestic level is a crucial concern which is addressed in this chapter.

The concluding chapter discusses and questions the relation between the two factors effecting capital expansion in a developing social formation. It provides insights into the prospects of change by emphasizing emerging social forces which may modify the basis of capital accumulation.

CHAPTER I:

The Basis of Integration of Developing Social Formations

The following part presents the various analytical and theoretical components of a comparative study in political economy between Indonesia and Nigeria. The present study accounts for the diverging patterns of economic integration between developing social formations in the context of economic globalization. The arguments of two perspectives, neo-liberal and critical, are utilized to explain the relation between economic growth and the underlying conditions of capital expansion within the productive structures of developing social formations. Differences between the two views are particularly notable in their treatment of the causes that mold this process in developing social formations. The theoretical considerations will then be combined with the economic and social backgrounds of the two cases to formulate propositions, which constitute the analytical and structural foundation of the study.

1.1 Introduction:

The process of economic globalization has integrated the various economies of the world into a New International Division of Labor. In general, the economies can be divided into three major categories: the advanced capitalist economies such as Japan, the U.S., and the European economies...; the Newly Industrialized Countries exporters of manufactured products such as The Four Tigers, Brazil, and Mexico...; the less competitive raw-material exporting economies. Among economies carrying similar characteristics, some, such as the cases of South-East Asian countries, have shown success in becoming integrated on a diversified and competitive economic basis. Others, such as social formations in Sub-Saharan Africa, find themselves isolated and faced with growing uncertainty with regard to future prospects for development.

The present study attempts to account for these divergences by focusing on the issue of conditions of economic integration between developing social formations. To achieve this, the study is based on a comparison between two economic formations from different areas of the "periphery", namely Indonesia and Nigeria.

The first section considers the channelling of a surplus, whether industrial or agricultural, a categoric requisite for the viable economic development of a developing social formation. The second section, emphasizes the necessity to adopt a critical political economic perspective to understand the conditions that mold the expansion of capital in developing social formations. The third section focuses on the patterns of development in the economic structures of both Indonesia and Nigeria. Lastly, a framework for analysis proposes to examine in greater depth what conditions mold the economic integration of developing social formations.

1.2 Economic development as the expansion of capital:

Throughout the literature on economics of developing countries it is emphasized that economic development depends on the adequate and effective channelling of a surplus towards productive ends. Though this hypothesis is generally valid, it implies, necessarily, two processes. Firstly, economic development necessitates the appropriation of money-capital surplus by the state apparatus. This is a condition regardless of differences in the structures of production. Secondly, whether the surplus is channelled productively relies on favorable conditions for productive investment. Jacquemot and Raffinot state that authors in the sixties considered that:

...la croissance rapide ne peut être obtenue dans les pays du Tiers-Monde que par l'utilisation productive de l'ensemble du surplus, que l'appareil d'État doit centraliser de manière à éviter tout gaspillage. ²

If there is a general agreement among economic theories that economic development derives from the productive utilization of a surplus, discord arises regarding the actual conditions

which determine this capacity in developing social formations. What conditions favor the productive utilization of a surplus? To this question the liberal and critical perspectives provide different answers.

The position of the liberal perspective is represented by such international organizations as the World Bank, the IMF (International Monetary Fund), the OECD (Organization of Economic Cooperation and Development) and by the policies which they pressure to implement in Third-World economies. For example, a World Bank report of the 1970s, expressing the importance of agricultural development states that not only agriculture provides 50-80% of employment and the most locally demanded products, but, in addition, "the foreign exchange earnings from agricultural exports" are "frequently of critical importance for development (up to 80% of export earnings)"³. Thus, national economic development depends largely on a dominant sector that is internationally competitive and provides for a great share of revenues to be allocated towards development.

To liberals, problems related to the expansion of money-capital and its productive utilization are influenced mostly by internal political and economic structures. The World Bank admitting to prevalent structural insufficiencies in Africa has declared: "There is a dramatic lack of resources, a critical insufficiency of qualified local personnel, and there are inadequate infrastructures"⁴. A more recent report has emphasized the necessity to disengage from "blood-sucking civil-servants", which characterize many public services in Africa⁵. The organizations ignore the imperfections of the market when they formulate their programs. They do not link internal impediments to outside causes or influences. They consider political and economic structures of social formations as isolated entities possessing only economic linkages to the world level. In their view, developments towards economic prosperity rely on rational opening to the outside for the supply of necessary resources for development.

In the 1970s, import-substitution strategies of industrialization were favored by international organizations. However, these market-economy strategies of development have shifted in recent years. The neo-classical economists have generally revised their optimism

towards 'import-substitution' for two reasons. Firstly, it has been observed that long periods of protection of the industrial sector result in an eventual decline of performance. Secondly, doubts are raised regarding the impact of import-substitution strategies on the export capacity of an economy⁶. More recently, the OECD and the World Bank favor the implementation of more liberal economic policies of deregulation and exchange liberalization. The underlying assumption is that encouragement of economic development through new international trade regulation, would integrate these economies internationally on a more diversified basis. Thus, returns generated from expanded foreign exchange earnings are increased. The OECD, for instance, favors strategies of development to improve production factors by encouraging economies to "open-up" to the international financial and commodity market. To the OECD:

une plus large intégration dans l'économie mondiale, par le biais de régimes d'importation plus rationnels et de mesures de libéralisation des échanges, entraîne à la fois une expansion des exportations et une croissance de l'ensemble de l'économie en induisant:

- i) des gains provenant d'une répartition plus efficace des ressources faite en fonction de l'avantage comparatif;
- ii) l'exploitation des économies d'échelle et une capacité accrue d'utilisation dans la production; et
- iii) des améliorations techniques.⁷

The OECD emphasizes an integration of less-developed social formations, based on trade liberalization through the creation of more "rational" regimes of exchange. In other terms, the policies enhance the relation between imports and exports. Encouraging imports in branches of production raises technological levels, the levels of qualified personnel, and improves infrastructures to develop an exporting capacity. Such a strategy would expand the volume of money-capital while promoting the creation of productive outlets to which surplus may be channeled. However, does the OECD ever question in depth what are the actual conditions that shape the comparative advantage of a social formation? What are the actual implications in terms of costs in bringing technological improvements? As pointed out by Humbert with regard to the SAPs (Structural Adjustment Programs) in Africa: are these programs not "a-technological"⁸ in that these don't resolve in any way the fundamental discrepancies at the

technological level? Would increasing a developing social formation's exporting capacity not imply growing dependence on foreign sources of financial aid and investments? More generally, the liberal perspective does not address the deeper, more profound conditions and implications that define the actual basis of economic integration of developing social formations into the world economy.

Since the end of the 1970s, the international conjuncture and the advent of the crisis of accumulation on a world scale⁹, have revealed the difficulties of a number of developing economies to channel surpluses towards productive ends. The weak absorption capacity of less developed industrializing economies, the presence of a state character of allocation of an external revenue, and the emergence of parasitic central bureaucracies are reasons accounting for failures. Greillet refers to the cases of the petroleum producing countries:

L'expérience des pays de l'OPEP (qui de 1970 à 1990 ont engrangé plus de 200 milliards de dollars) montre à l'évidence les effets fortement pervers - ce que l'on a appelé le "syndrome hollandais" - sur le système productif d'un fort afflux financier pour des pays qui n'étaient pas toujours prêts à les recevoir.¹⁰

He adds that "an exterior revenue", if it allows a certain degree of enrichment for some, does not guarantee in any way economic development. It may even constitute an obstacle to development by discouraging the productive effort¹¹. From this, it is fair to state that the channelling of a surplus towards productive ends necessitates favorable conditions of redistribution which are often lacking in developing social formations. More specifically, what are these conditions? How to account for the failures to develop internal mechanisms that insure the productive utilization of surplus? A clearer understanding of the conditions that determine the patterns of economic growth in developing social formations may be appreciated by considering the critical perspective.

1.3 The Critical perspective

The critical political economic perspective is more adequate to explain what conditions mold internal structures of production that expand capital . The critical perspective emphasizes the interaction between structures of production and social structures in history. Contrary to the liberal perspective, the critical position views factors impeding the proper development of adequate mechanisms of capital expansion as inherent to the functioning of the world economic system.

A more crucial difference is that the critical perspective considers the internationalization of capital as a "social relation"¹², meaning that the process of capital expansion on a world scale for the maximization of the rate of profit breeds the consolidation of an ever-increasing class of wage-laborers. The conditions for capital expansion in developing formations carry social consequences, which may have a significant impact on the existing structures, both social and productive.

Within the critical perspective, there are different ways to conceive capital expansion on a world scale. A first approach, termed by Palloix as "functional"¹³, considers the factors that drive the movement of capital towards developing social formations as something not inextricably linked to capital. Rather these factors are outside of its logic and rationale of expansion. Amin¹⁴ could be considered to have the attributes of a "functionalist". His model suggests that the world economy possesses two forms of accumulation: a self-reliant mode in the center; a "primitive" mode in the periphery. In the center there exists a pure capitalist mode of production, while in the periphery the form of capitalism, termed as "peripheral capitalism", is a combination of a dominating capitalist mode of production with other precapitalistic modes that tend to be reproduced. In his view the international mechanism of accumulation possesses a "dualism" emanating from the fact that the center does not necessitate the extension of the capitalist mode of production to the periphery. Rather, this extension plays a role of growth acceleration in the center. In the meantime, the periphery remains primitive as far as the

development of its capital base is concerned. The link between the formations (center and peripheral) appears to be external to capital and is imposed by the center for no real reason. Primitive accumulation is not considered to be an essential component for accumulation in the center¹⁵.

The expression used by Amin to qualify the existing relation between the center and periphery is "l'échange inégal"¹⁶. The extension of the capitalist mode of production in less-developed formations, is propelled by a search for lower costs, particularly with regard to labor costs. The lower labor costs increase the margin of profit, thus generating a greater extraction of surplus-value. However, only a portion of the social strata of the periphery is integrated. This partial extension of capitalist relations of production to the periphery leads to an unstable revenue distribution. The movement of distribution tends towards the aggravation of inequalities and the backwardness of productive forces, which is an inherent condition for the enlarged reproduction of capital on a world scale.

In summary, the functional approach considers the productive process as one in which two acts M-L /M-Mp (money-capital covering labor costs/money capital covering the means of production) confront each other in order to expand the basis of surplus-value extraction. The movement of capital outside national boundaries is propelled by the search for low wages. Its expansion further necessitates the M-Mp act to perform the productive process¹⁷. The underlying logic that causes the movement of capital to migrate to the periphery, therefore, is outside of the rationale of its own movement.

The second approach, that of Palloix¹⁸, considers the movement of capital as a process which is inevitable and necessary for the expansion of dominant capitals (those originating from the U.S., Europe, or Japan). The principal difference between the structural and functional approaches lies in their conception of the movement of capital. Whereas the functional approach considers the two acts M-L and M-Mp as binding in a confrontational manner within the productive process, the structural approach views the production process as necessitating the fusion of the two acts for the maximum rate of surplus value extraction. Therefore, the

structural approach insists that the movement of capital is "organic" through the fusion of the two acts (M-L, M-Mp) as a unity within the productive process¹⁹. Gerstein articulates the distinction by referring to each author's conception of "imperialism":

La première (S. Amin's approach) considère l'impérialisme comme l'articulation du capitalisme du centre avec les formations de la périphérie. La seconde approche, la sienne (Palloix's), propose une définition de l'impérialisme comme le moyen par lequel les différentes parties du capitalisme mondial sont intégrées.²⁰

Palloix conceives the developing social formations as being endowed with two modes of international accumulation. A former mode of accumulation includes the more traditional productions, such as agriculture, energy and mine. The surplus engendered by these productions is exported for debt-servicing and the domestic needs for such productions as agriculture usually must be imported to fulfil internal demand:

Le service de la dette permet, combiné à d'autres éléments, de tenir politiquement un certain nombre de pays (Tunésie, Maroc, Grèce, Espagne...) et oblige ces pays à "offrir" un surplus agricole de type traditionnel (agrumes) et un surplus minier et énergétique. Paradoxalement, les pays du bassin méditerranéen exportent un surplus agricole traditionnel, lié au vieux mode d'accumulation internationale, et importent des produits agricoles et alimentaires (céréales, poudre de lait...) pour l'entretien des masses urbaines dont la constitution est liée au nouveau mode d'accumulation.²¹

Finance, therefore, holds an important and crucial role of determining the shape of productive and social structures in order to respond and adapt to the exigencies of capitalist accumulation on a world scale.

The social formation already dominated by the conditions of production and exchange in their traditional sectors becomes easily integrated into a new mode of international accumulation. This new mode is characterized by the infiltration of MNCs (Multinational Corporations) in the industrial structure of social formations. The presence of MNCs improves the conditions of expansion of productive capital by reproducing capitalist relations of production through the creation of a wage-earning class. It seems doubtful that MNCs favor an integrated and articulated industrialization. As stated by Palloix, MNC industrialization causes "Extraordinaire

rigidité des appareils productifs" and "l'absence de tout "captage" des filières à haute valorisation de capital: des "cathédrales" dans le désert pour exploiter à fond la force de travail."²²

This conception of the productive structures of a developing social formation carries a number of important implications. First, the constant and necessary fulfillment of the aim of capital, i.e. the maximum extraction of surplus-value, generates a movement of a particular kind. Capital equalizes the conditions of production and exchange amongst developing social formations. Simultaneously, it differentiates production by delocalizing labor-intensive less-specialized industrial branches of production to peripheral social formations. Capital-intensive, more innovative technological productions continue to expand in advanced capitalist social formations. It is the dichotomous nature of the movement of capital embedded within the productive process by the fusion of the two acts that shape the internal productive and social structures: both become mirrored on the exigencies of international capital accumulation.

Capital's world scale movement results in developing areas of the world unequally. The movement fragments and differentiates production into industrial and financial branches²³ and departments²⁴. The fact that some social formations will be more capable of capturing highly valorizing downstream departments of production gives rise to differing levels of development. This is what Palloix calls the law of uneven development²⁵. Thus, economic growth depends, in part, on the way in which a national economy's departments are inserted within the global international network of capitals, which constitute the world economy.

Palloix, as a proponent of the school of critical political economy, provides a useful conceptual framework to examine how developing social formations are integrated. In his approach, the world economy is composed of various capital parts, each having a more or less important role in the expansion of other dominant capitals such as those of the U.S., Japan, or Europe. It is precisely the extent to which the various economies are integrated into this international process of capital expansion that shapes the economic and social structures of developing social formations.

The critical perspective also propounds different conceptions of social relations of production and class struggle. According to Amin, class struggle deepens as a result of declining socio-economic conditions: stagnation of agriculture, rising unemployment rate, and fall of real wages. Deteriorated conditions will eventually lead to the rise of an impoverished overexploited mass, which is prepared to lay the foundations for the creation of an independent state for national development²⁶. Amin, therefore, does not concern himself with the extension of class conflict to the world level.

Palloix, for his part, expresses the extension of class struggle to the world level as follows:

Sur le fond, le problème de la combinaison des modes d'accumulation internationale du capitale - seule manière de ne pas se laisser prendre au "miroir des alouettes" de la firme multinationale - renvoie à la lutte de classes à l'échelle internationale, seule détermination en dernière instance. ²⁷

While the rate of exploitation increases, the dichotomous movement of capital severs cooperative links between workers, causing the "international differentiation of the working class"²⁸. It is the nation-state, as a social structure, that serves the function of obscuring the world scale reality. However, Palloix's framework possesses a number of shortcomings regarding the linkage between the nation-state and relations in production²⁹. Furthermore, with limited emphasis on class struggle extended to the world scale, Palloix does not consider other alternative social forces opposing the effects of the new international modes of accumulation. In order to provide greater analytical depth of the political and social dimensions, the contributions of Cox are presented.

Cox³⁰ applies a method of historical structures, in which three structures are in constant interaction. The first, is called "power relations of production". It designates the social forces engendered by the production process³¹. The second structure relates to the different forms of states, such as the hyperliberal state, the social capitalist state and the third-world state. The last structure is the world order, "which defines the particular configurations of forces which

successively define the problematic of war or peace for the ensemble of states"³². Moreover, each structure considered separately possesses three "particular configurations of material capabilities, ideas and institutions" which are also interacting³³. Each structure, therefore, can be subjected to the changing configuration of the other, thus founding "emerging structures in the contradiction of existing structures"³⁴. This reveals Cox's dialectical view of the historical process.

The emergence of new modes of international accumulation obliges the state apparatus to fulfill particular functions. First, the world structure, being founded on the exigencies of world scale accumulation, not only reproduces specific conditions of production and exchange, as emphasized by Palloix, but also defines the socio-political structure in which the goal of capital is to be achieved. Secondly, while a portion of the social tissue of developing formations is integrated to the international global norms, certain groups remain isolated and become increasingly disaffected and disillusioned at the state's failure to improve their situation. The political allegiance of the disaffected masses turns to a form of mobilization along vertical lines in a religious or communal grouping. The intensification of cleavages along ethnic and religious lines constitute an emerging structure "in the contradiction of existing structures"³⁵ opposing the negative effects brought by the new modes of accumulation. These two points are further elaborated following the presentation of the two cases.

1.4 The two cases: Indonesia and Nigeria

This section aims at presenting the cases of Indonesia and Nigeria by stressing general economic and political similarities, that could constitute the grounds for comparison. Generally the two countries follow similar political economic patterns of development which may be divided into three phases. A first one, in which both countries, following a period of political and economic crisis, reorganize, rehabilitate and stabilize their domestic economies. This period extends from 1965 to 1973 in Indonesia and from 1966 to 1971 in Nigeria. Both governments

are committed to bringing stability and economic growth by encouraging foreign investment and by promoting each countries' exporting capacity in one specific sector, namely the oil industry, to modernize the other sectors of the economy.

Following the first oil shock of 1973, both states proceed to become more implicated in the economy. It is in the course of this phase that policies aiming greater government participation in oil production bring an expansion of state revenues. The newly acquired wealth leads to the formulation of a national development strategy of industrialization during the 1970s.

Table 1.1 compares the economic structures of the two economies by presenting the GDP according to economic activity and their corresponding rates of growth in the early 1970s. The economic activities tend to be concentrated in the primary sectors: 59% in Nigeria and 54% for Indonesia, with agriculture dominating. The propensity to industrialize and modernize the economy is reflected in the elevated rates of growth in the secondary sectors. The most marked difference is revealed with regard to the rates of growth in the agricultural sector. Whereas Indonesia's agriculture continues to prosper, Nigeria's agriculture shows signs of stagnation in the early 1970s.

The advent of the second oil shock reduces the revenues engendered by the petroleum industry and spells the end of the oil prosperity of the 1970s. Several signs reveal Nigeria's failure to make important economic strides. Among these, Nigeria's agriculture reaches a level of stagnation and the country must import food goods to feed its population. Although the Indonesian economy is effected by the falling prices of oil, the consequences of this are much more diffused. On one hand, Indonesia's agriculture sector has maintained a constant rate of growth and continues to have an exporting capacity. On the other hand, attempts to diversify the oil sector have proved successful.

TABLE 1.1:
GDP (Gross domestic product) by economic activity for 1973 (a-%),
and the average growth rates per year (b- %) between 1970-1973.

Economic activity:	Nigeria		Indonesia	
	a)	b)	a)	b)
Agriculture	36	-2,0	33	4,2
Mining	23	....	21	14,1
Manufacture	7	15,0	9	13,8
Construction	6	17,6	5	20,9
Trade	10	3,0	20	11,7
Transport	3	12,4	4	11,8
Others	10	12,4	28	8,5

source: Kurian (1978), pp.666-669 and 1086-1089.

Table 1.2 compares the structure of each economy in the late 1980s. Particularly revealing, is the proportion of the primary sector activities in each economy. Whereas in the early 1970s these activities occupied a similar dominating position in each economy, the place of this sector in Indonesia is significantly reduced. It passes from 54% in the early seventies to 39% in the eighties. The activities of the secondary sector occupy a greater proportion of the GDP and continue to show an upward tendency. In Nigeria, however, the primary sector continues to dominate as it did during the preceding decade. In the dominating sectors of each economy, Indonesia continues to grow, while the negative performances of growth in Nigeria reveal this country's deep state of crisis.

TABLE 1.2:
Gross domestic product by economic activity (a- %),
and rates of growth per year according to economic activity from '80-'88 (b- %):

	Nigeria		Indonesia	
Economic Activity:	a)	b)	a)	b)
Agriculture	37	1,0	26	3,1
Mining	20	-	13	-
Manufacturing	6	-2,9	13	13,1
Construction	3	-	5	-
Public utilities	1	-	1	-
Industry	-	-3,2	-	5,1
Services	-	-0,4	-	6,4
Transportation & communications	3	-	6	-
Trade	19	-	17	-
	-: data not available			

source: Kurian (1990), pp.850 and 1480.

Cultural and religious heterogeneity (Table 1.3) is an important characteristic of both countries. The creation of a post-colonial state has left each government with having to deal with the divisive forces of ethnic, linguistic, and religious diversity.

Each government has adopted specific policies for developing national culture. In Indonesia, Pancasila, the philosophy of culture, outlines the five principles of the national ideology: belief in God, tolerance, humanity, democracy, and social justice. "The constitution including Pancasila, which upholds national ideology, guarantees legal acknowledgment and equality of rights for all groups"³⁶. While this is the case in theory, in reality the Indonesian government has pursued policies aiming specifically the cultural homogenization of the Indonesian archipelago. Policy in education, for instance, is "an instrument of cultural and linguistic integration (from the third grade on, instruction is in the national language, *Bahasa*

Indonesia), political socialization, and economic development"³⁷. Another example relates to the policies of transmigration supported by the World Bank, aiming at the displacement of populations from concentrated areas to less densely populated regions of the Indonesian archipelago.³⁸

TABLE 1.3:
Cultural diversity in Indonesia and Nigeria:

	Indonesia	Nigeria
Religions	Sunni Islam	Islam, Christianity, animism
Languages	Bahasa and 25 others	English (official language), Hausa, Yoruba, and Ibo
Ethnic groups	Javanese, Madurese, Balinese, Balinese, Irianese	Hausa, Fulani, Yoruba, Ibo

source: Kurian (1978), pp.666-669 and 1086-1089.

In Nigeria, the federal system has implemented a cultural policy which attempts to reconcile the preservation of ethnic and linguistic diversity with national unifying values. The states are responsible in formulating their own cultural policies, while the federal government "initiates national programs to promote cultural unity"³⁹. Ricard expresses the character of the Nigerian government's linguistic policy:

Les principes fondamentaux d'une politique linguistique au Nigeria ont été énoncés en 1977. Ils sont au nombre de deux: le principe du respect de la langue maternelle et le principe du multilinguisme; ils ne se conçoivent pas indépendamment l'une de l'autre.⁴⁰

Comparatively, it would seem that the Indonesian government has been more capable in homogenizing its culturally heterogenous society, thus relieving social tensions along vertical cleavages.

More generally, what a superficial comparison of the two cases divulges, is an Indonesian success to expand its base of capital expansion. The industrialization thrust, initiated in the 1970s with the inflow of large sums of revenues acquired from oil-export earnings, has

been in many respects successful in Indonesia. Indonesia, has made a more productive use of the surplus. The central concern raised by the present study is to shed light on the underlying economic and the political conditions that shape the expansion of capital in social formations of the "periphery".

1.5 A Framework for Analysis:

This first part has discussed the relation between economic growth in developing social formations and the capacity of government to channel a surplus towards productive economic activities. In the last two decades, some countries of the periphery, like Indonesia, have demonstrated an integration in the International Division of Labor based on economic diversity. Other countries however, have failed in their efforts to expand domestic capital and now find themselves in a state of deep economic crisis. How can such divergences in patterns of development be explained? Why has Indonesia made better, more productive use of its surplus (surplus engendered by oil exports) than has Nigeria?

The present study attempts to answer these questions by considering economic development as dependent on the establishment of articulate productive structures which expand capital at a domestic level. This process implies that the state, through fostering favorable conditions for accumulation, utilizes an important portion of surplus productively. This surplus generated in a developing social formation, defined as M3, being reinvested into the economy, binds with different capitals, such as capitals from the US, Japan, or Europe, to perform the productive process. Hegemonic capital, represented by the MNC, supplies the means of production and qualified personnel, while the developing social formation provides low-skilled, cheap laborers. The products produced through the subsidiaries are "snatched-up" by hegemonic capital and are transformed into final products at the home-base. As a result, the expansion of hegemonic capital, defined according to the C'-M'-C' circuit, is a process which occurs under its complete control ⁴¹. While the developing social formation realizes surplus from export earnings and the taxation of foreign companies, its intervention in accumulation is

limited and constrained by the dictates of hegemonic capital⁴². The C-M-C circuit being performed internationally and according to regulations established by hegemonic capital, integrates developing social formations in a subordinate position. Differing rates of development and international economic imbalances between social formations are the result of their more or less favorable integration within this circuit of hegemonic capital. The present study propounds that the conditions of capital expansion in a developing social formation are influenced by two factors.

Firstly, the expansion of capital in a developing social formation depends on the extent to which it is utilized for the expansion of international capital gathered by European, American or Japanese firms. The depth of this integration is determined by a number of characteristics proper to the sectors of an economy: a) the presence of an internationally competitive sector provides the state with important volumes of money-capital surplus. This sector should guarantee a continuous increasing flow of money-capital for purposes of redirecting earnings towards national development; b) government policies towards sectors like agriculture, aim at bringing the necessary adjustments in view of fulfilling specific socio-economic functions. The policies have successfully geared food-crop production towards the satisfaction of domestic demand for food. Moreover, the agricultural sector continues to reveal a modest export capacity; c) the state is responsible to align the conditions of production and exchanges on the international productive and commercial norms.

Secondly, Palloix emphasizes that the infiltration of new modes of accumulation into the periphery reproduce specific capitalist relations of production. Notably, a growing wage-earning class is created. However, because the movement of capital causes the "differentiation of the working class"⁴³, any form of cooperation between workers is limited and controlled by the state apparatus. To Palloix, the role of the state limits the extension of class struggle to the world scale.

To further elucidate what role the state holds in determining conditions of capital expansion, the contributions of Cox have been emphasized. The present study extends its role

to include the regulation of socio-political conditions favorable to establish structures for the expansion of international capital. The assumption, therefore, is that the state carries the specific ideological function of regulating socio-political conditions to the exigencies of international accumulation. This assumes that there are a number of political mechanisms which absorb segments of the population to the exigencies of world accumulation. The systems of state revenue allocation, the presence and the patterns of clientele networks (centralizing/decentralizing) are considered as means through which the state achieves this regulatory task. These mechanisms may carry heavy burdens on public finances, and thus, significantly reduce the sums allocated towards economic development. Furthermore, these mechanisms carry imperfections that leave out certain groups in the process of wealth redistribution, and provoke the probable consolidation of a social dialectic that could constitute the root of change in the existing structures⁴⁴. The present study does not believe that the most important social manifestations originate from the consolidation of a working class, i.e. as being expressed along horizontal class lines. Rather, what is termed as the social dialectic is more likely to be expressed through the intensification of ethnic and religious cleavages.

ENDNOTES FOR INTRODUCTION AND CHAPTER I:

- ¹ Author's translation of the question raised by Grellet. Grellet reviews the various contributions which have attempted to explain the differences in the rates of growth between countries of the periphery. G. Greilet, "Pourquoi les pays en voie de développement ont-ils des rythmes de croissance aussi différents?" *Tiers-Monde*, no. 129, janv.-mars 1992, p.32.
- ² P. Jacquemot, M. Raffinot, *Accumulation et développement- Dix études sur les économies du tiers-monde*, L'Harmattan, Paris, 1985, p.76.
- ³ World Bank, *World Bank Operations: Sectorial Programs and Policies*, John Hopkins University Press, Baltimore, London, 1972, , p.IV.
- ⁴ M. Humbert, "Technologie et industrialisation face aux Programmes d'Ajustement Structurels en Afrique", *Tiers-Monde*, no.122, avril-juin 1990, p.247.
- ⁵ *Le Monde Diplomatique*, septembre 1994, p.9.
- ⁶ J. Nash, "Un examen des réformes de politiques commerciales et de leurs implications pour l'Afrique sub-saharienne", in J.M. Fontaine, *Réformes en commerce extérieur et développement*, IEDES, Paf., Paris, 1992, (Ch.2), pp.57-61.
- ⁷ OECD(Organization of Economic Development and Cooperation), *Intégration des pays en voie de développement dans le système commercial international*, Paris, OECD, 1992, p.54.
- ⁸ Humbert, op. cit., p.247.
- ⁹ A. Lipietz, *Mirages et miracles: problèmes d'industrialisation dans le tiers-monde*, Paris, la découverte, 1985, pp. 119-170 and G. Arrighi in S. Amin and al., *La crise, quelle crise?*, Paris, Maspero, 1982, Ch. 2.
- ¹⁰ Grellet, op. cit., p.47.
- ¹¹ Ibid., p.47.
- ¹² as stated by C. Palloix (trans. P. Clawson and R.B. Cohen), "The Self-Expansion of Capital on a World Scale", *Review of Radical Political Economics*, vol.4, no.2, 1977, pp.20-25.
- ¹³ Ibid., pp.21-22.
- ¹⁴ I. Gerstein, "Théories de l'économie mondiale", in Hentsch *Le système international*, Chap. 4, p.174, S. Amin, *L'échange inégal et la loi de la valeur* (nouvelle édition) Anthropos, Paris, 1988, pp.171-192.
- ¹⁵ taken in great part from Gerstein, op.cit., p.174.
- ¹⁶ Amin, op.cit., 1988, pp.171-192.
- ¹⁷ Palloix, op.cit., 1977, p.21.
- ¹⁸ Palloix, op. cit., 1975, 1977.
- ¹⁹ Palloix, op.cit., 1977, p.22.

- 20 Gerstein, op. cit., p.177.
- 21 Palloix, op. cit., 1975, p.106.
- 22 Ibid., p.106.
- 23 Palloix defines branches of production as "characterised by the tendency toward a dominant productive process", Palloix, op. cit., 1977, p.26.
- 24 Defined as "particular groupings of industrial branches at the nation-state level", Ibid., p.27.
- 25 Ibid., pp.22-3.
- 26 Amin, op. cit., 1988, p.171.
- 27 Palloix, op. cit., 1975, p.106.
- 28 Palloix, op. cit., 1977, p.23.
- 29 Gerstein, op. cit., p.181, criticizes Palloix on this point writing: "La lutte des classes ne constitue pas un élément essentiel de son explication (ce qui est conforme à son incertitude quant à la nature des contradictions du mode de production capitaliste et sa conception des rapports de production en termes de marché et de technique). En l'absence d'un cadre d'analyse qui intègre la lutte des classes au sein du système mondial d'une façon satisfaisante, il est impossible d'apporter une solution à la question que pose l'État nation, puisque l'existence de l'État est fonction des impératifs d'une société de classes".
- 30 R.W. Cox, "Social Forces, States, and World Order: Beyond International Relations Theory", chap.8 in R.O. Keohane, *Neorealism and its Critics*, New York, Columbia University Press, 1986, pp.204-254.
R.W. Cox, *Power Production and the World Order: Social Forces in the Making of History*, N.Y., Columbia University Press, 1987.
- R.W. Cox, "Dialectique de l'économie-monde en fin de siècle", *Études Internationales* (décembre 1990) vol. XXI, nr.4, pp.693-704.
- 31 Cox, op. cit., 1986, p.220.
- 32 Ibid., p.220.
- 33 Ibid., p.218.
- 34 Cox, op. cit., 1990, p.693.
- 35 Ibid., p.693.
- 36 H. Soebadio, *Cultural policy in Indonesia*, Unesco, 1985, p.12.
- 37 R.W. Liddle, "Soeharto's Indonesia: Personal Rule and Political Institutions", in *Pacific Affairs* 58(1), Spring 1985, p.78.
- 38 *FEER (Far Eastern Economic Review)*, October 6, 1983, p.40.
- 39 Y.A. Fasuyi, *Cultural Policy in Nigeria*, Unesco, Paris, 1973, p.26.
- 40 A. Ricard, "Les Wazobiens, les Benedélites et les autres", *Politique Africaine* 32, décembre 1988, p.58.
- 41 Palloix, op. cit., 1977, p.23.
- 42 At this juncture, it would be useful to make some specifications on the terminology used in the course of this study. First, certain simplifications have been brought to the actual concepts

as Palloix intends them. The present study does not separate the different forms of capital, namely money, productive, and commodity capital. Rather these forms are considered as inherent to the process of capital expansion. Moreover, the capturing of surplus value by hegemonic capital, and the mechanisms through which this is achieved are not taken into consideration. To demonstrate how hegemonic capital dominates on the productive structures of the economy of a developing social formation, other means have been used, namely the analysis of the domestic economic sectors and the structure of investments according to branch of production.

A second point relates to the various terms used to designate the expansion of capital in a developing social formation. Capital expansion is conceived as the transformation of money-capital (M) to a commodity (C), through the productive process (P) defined as the fusion of the M-Mp/M-L acts. The C'-M'-C' circuit, which includes the generation of surplus-value, is the resulting circuit of expanded hegemonic capital. The integration of developing social formations into the world economy is based on its participation, in a subordinate position, within this circuit. This is shown by the fact that surplus value perceived under C'3 (product produced in developing social formations) is radically less and is "snatched" away by hegemonic capital, which produces the finalized commodities (C'1) at home.

As a consequence of the complexity, and the differences in scope (whether international or domestic) inherent to the phenomenon of capital expansion, different designations are used to describe what is essentially the same process. International accumulation refers to the capital expansion on a world scale; domestic accumulation refers to capital expansion at a national level, which is by no means independent from the more global international process. The peasant, for instance, who benefits from state subsidies to utilize more modern means of production, manages to increase his rice yields and hence to accumulate a little fortune. At a local level, there has been capital expansion, since the peasant has extracted a surplus. In its origin, though, the peasant's success is due to increasing state spending in agriculture. What in turn permits the state to possess financial funds for development is its favorable integration in the world economy. To the extent that surplus has been generated at the local level, implies that the peasant and the agricultural activity that he pursues have been favorably 'integrated' into the global international process of capital accumulation.

⁴³ Palloix, op. cit., 1977, p.23.

⁴⁴ As emphasized in part 1.3, this approach is largely inspired on the work of Cox, op. cit., 1986, 1987, 1990.

CHAPTER TWO:

The Stringent Conditions of Integration

As emphasized in the first chapter, the economic development of a developing social formation depends upon the utilization of its money-capital (surplus) for the acquisition of means of production and labor. The Mp act (capital covering the cost of the means of production) originates from the outside, and penetrates the structures of production of a social formation under the form of foreign direct investment. Because the productive process binds international capital with domestic sources of capital, domestic accumulation depends on the more global process of international accumulation. M3 (capital generated in a developing social formation) intertwines with hegemonic capital in the productive process in view of expanding internationally. The organic movement of capital shapes the productive sectors on the dictates of world accumulation.

This section examines the economic conditions of integration of developing social formations into the world economy and whether its basis is compatible with the requisites of national development. The proposition assumes that the productive utilization of money-capital relies on a favorable integration of a given social formation into the international process of capital accumulation. This integration is based on the extent to which a social formation's money capital is utilized for the expansion of other capitals. There are a number of conditions that facilitate this type of integration. First and foremost, the social formation possesses a world competitive resource providing, through the intertwining with foreign capitals, continuous and increasing rates of financial returns to the state apparatus. These returns are used by the state to promote growth in other sectors. Secondly, government policies towards traditional sectors like agriculture, aim at bringing the necessary adjustments in view of fulfilling specific socio-economic functions. This implies, on one hand, that the food crop sector be successfully geared

to satisfy domestic demand for food, thus limiting the weight of food imports on the balance of payments. On the other hand, the cash crop sector continues to show a modest export capacity. As a third condition, the state fulfils an economic function of aligning the conditions of production and exchange with the international productive and commercial norms. This aspect emphasizes how the exigencies of world scale accumulation modulate the branches of production and the structures of exchanges in the industrial sector.

This chapter is divided in three parts. The first part examines the oil sector of both economies. From the early 1970s onwards, petroleum industry has generated the greatest portion of each state's revenues. These financial resources have been the principal source for funding policies of national development. The second part presents the changing role of agriculture and analyses whether government policies in both cases have been coherent. Lastly, government policies in industry and the nature of industrial growth according to branch of production are examined. To conclude, a general assessment is provided on possible benefits or limits of integration in the world economy. Also, a number of questions are raised in relation to the state's political role.

2.1 The New International Mode of Accumulation for the Acquisition of surplus

According to Palloix¹ a dominating mode of international accumulation designates the sector or sectors of an economy that generate surplus and that establish a social formation's economic basis of integration within the world market. There are two modes of international accumulation: a former mode and a new mode. The former mode refers to the economic activities, known as the traditional export sector. Before the 1970s, the productions related to this sector integrated the developing formations on the basis of raw-material exports and supplied the state with funds for development.

This section is concerned with the new mode of international accumulation. It is represented by the MNC (the multinational corporation) whose very existence is the result of the fusion of capitals united in the productive process. Since the early 1970s, Nigeria and Indonesia have integrated the world economy on the basis of their petroleum industry. To the two economies the oil sector has contributed for the greater portion of the state's revenues and has, therefore, been at the center of national development strategies.

This section emphasizes how government policies have encouraged the intertwining of domestic and foreign capitals to exploit the oil sector. This section also assesses whether diversification policies in oil have succeeded to expand the extractive base of surplus to the state.

2.1.1 The Oil Sector in Indonesia:

The oil sector in Indonesia has been a central element for economic growth since the early 1970s. The sector accounts for the largest proportion of the state's revenue. In 1972/73 direct taxes on oil companies contribute for 33,7% of total state budget. In 1975/76 the proportion of these taxes increased to 62%². Government has exerted control over production activities in oil through the national oil company Pertamina. How state control has evolved through time and the performances of this industry is examined in what follows.

In the immediate aftermath of the 1965 coup when General Soeharto and his military colleagues replace the Sukharno government, Indonesia is faced with a number of problems. A curbing rate of inflation of 600% and an extensive deficit amounting to \$2,4 billion characterize the economy, which then ranks among the poorest in the world. It is faced with such economic hardships that the government chooses to open the economy to foreign investment and western aid, to create a viable system where "private enterprise could obtain foreign exchange for supplementing the domestic supply of goods needed for the stabilization of the economy"³.

In 1967 under the auspices of the IMF Indonesia enacts a new investment law which encourages and attracts investments in mining, manufacturing, and forestry. Such a law returns to foreigners the ownership of companies, estates, or plantations that had been nationalized

during the Guided Democracy era⁴. Some estates and foreign companies are returned on a joint-venture basis.

The state has secured its participation in the oil sector through the state oil company, Pertamina. Government interest in oil began in August of 1951 when it decides, by the promulgation of Law 44, to establish the principle that "oil and natural gas mining is only conducted by the State and the State company is authorized to engage in oil mining on behalf of the State"⁵. At this time, the government signs agreements with foreign oil companies for the exploration and exploitation of crude oil. In October 1957, Dr. Ibru Sutowo is appointed as head of a national oil company to carry out the task of raising production levels for exporting purposes. By 1961, three companies are created of which two merge to form "Pertamina", the state-owned oil company. Pertamina becomes the central rehabilitating force of the Indonesian economy in the early years of the New Order.⁶ Law no. 8, the Pertamina law, establishes the provisions under which the State Oil and Natural Gas, Mining Enterprise is to operate. Pertamina's functions are defined as follows:

- 1) The Enterprise operates in the field of oil and natural gas exploitation which covers exploration, exploitation, refining and processing, transportation, and marketing.
- 2) With the approval of the President expansion of the fields of operation may be undertaken, in so far as they are still related with the oil and natural gas exploitation..., and are based on the budget, annual working program, and investment plan.⁷

The participation of Indonesians as intended by law 44, is assured according to two contracts: work contracts and production-sharing contracts (PSCs). Work contracts are most prevalent before 1965 and mark an initial shift in production control in favor of government. This type of contract obliges foreign firms to sign agreements of short duration, in which each state corporation would join with one of the "Big Three" (Shell, Caltex, or Stanvac). Besides providing foreign companies with 10 year exploration rights and 20 year exploitation rights, these agreements allowed the foreign contractor to maintain management control. The state's control is exerted through relinquishment of areas after five or ten years, bonuses for newly

discovered areas, and a sixty-forty division of production sales profits. With the years of growing political and economic instability and the exodus of foreign interests such as Shell in the oil sector, serious questions are raised in relation to the concession status of the working contracts.

The second type of contract, the production-sharing contracts, seeks to rectify the shortcomings of the work contracts, particularly at the managerial level. The PSCs differ from the working contracts on several points. First, the production-sharing contracts are signed by the oil companies and not by government, avoiding such time consuming bureaucratic procedures as the ratification of the contract in Parliament as is the case with working contracts. Secondly, Pertamina holds such management operations as those stipulated in the contract. The management of operations are fulfilled by an administrative branch of the national oil company called DKKI (Foreign Contractors Coordinator Division) responsible for "supervising, coordinating, and monitoring all the petroleum exploration and production activities..."⁸. Finally, the total production resulting from the various operations is divided between the two parties according to the provisions of the contract. Carlson summarizes the implications of the production-sharing contract as follows:

The production sharing contract, unlike the work contract that required the companies only to pay taxes, does not divide the profit but divides the production of crude oil instead. All expenses are refunded to the contractor and he receives his share of the product if oil is found. The contractor bears the entire loss if no oil is found.⁹

The actual participation of the state and the related oil-production split has evolved towards the benefit of Government. Caltex Pacific Indonesia, which produces a significant portion of oil in the country, faces growing pressure from the part of government to decrease its share of production. In 1971, Caltex agrees on the renewal of PSC replacing the preceding contracts with a 70:30 production split in Pertamina's favor. When this contract expires in mid-1983, the government succeeds to pressure Caltex in the renewal of a PSC for an 18 year

period. The "final terms include a 88:12 split of oil after costs in state-oil company Pertamina's favor, together with a US\$3,06 billion investment by Caltex to be concentrated in the first 10 years of the new 18 year contract"¹⁰.

Furthermore, a number of additional concepts characterize the PSC, consolidating government participation and control over the oil industry. Among these, "price progressivity", securing greater proportion of revenue to the state as oil- prices increase. The Far Eastern Economic Review elaborates :

The companies still take 40% off the top of a market price of \$12,60, but the 65:35 production split applies only on the first \$5,00. The remaining portion of the \$12,60 is split 85:15. Pertamina gets about \$6,42 per barrel, and the oil company grosses about \$6,17.¹¹

Another principle is "relinquishment". After a certain period of time, the contractor is forced to "relinquish" 15 to 20% of the contract area to the state enterprise. The concept aims at speeding exploration and exploitation operations.¹²

From 1967 to 1971, Pertamina signs PSCs with foreign companies. These are mostly offshore contracts. Palmer asserts that "by October of 1971 there were 40 foreign contractors with Pertamina of whom 30 were involved in offshore drilling. Only five had found oil and were in production. The total amount invested in exploration facilities between 1967 and 1971 was \$295 million"¹³. Because a lot of efforts in exploration prove to be deceiving or unsuccessful, exploration is often under consortiums for the division of risks. In 1973, for instance, six Japanese oil companies reach a basic agreement with two U.S. companies (Tasore Petroleum and Wendell) to jointly develop oil in Irian Jaya, the most eastern province of Indonesia.

In addition to being involved in oil, Pertamina has provided an institutional structure possessing internal channels of redistribution for the development of other economic domains. Dr. Sutowo, president-director of the corporation and leading business figure in Indonesia, believes that while it is desirable to increase revenue from the oil sector, it is equally important

"to ensure that the money for the development of oil resources is mostly spent in Indonesia"¹⁴. Through Pertamina, the oil surpluses are channelled towards high-technology sectors. At the same time employment opportunities are created in such fields as Petrochemicals, fleet and air services, the construction of LNG (liquified natural gas) plants, and steel plant projects. Moreover, Pertamina has been involved in rice estates¹⁵.

In the early years production of crude petroleum rises dramatically and contributes increasingly to expand government revenue. The output of Caltex, for instance, in 1971 is around 724,000 barrels/day (or 85% of Indonesian crude); in 1973 this output rises 1,4 million b/d.

The advent of the 1974 world recession, however, reveals the fragility of Indonesia's economic rehabilitation based on oil. On one hand, Indonesia is over-dependent on Japan for her crude exports; on the other hand, Pertamina faces severe financial troubles, due to excessive borrowing. Japanese demand for Indonesian oil is diminishing. This calls for a policy aiming the reduction of dependence on Japan for export earnings, through the diversification of importers of Indonesian crude. As stated in the *Petroleum Economist*:

Indonesia's principal marketing problem has of course been in Japan, which from late 1974 started cutting back on imports of premium-priced low-sulphur oil. Total Japanese crude were probably some 8 per cent off their 1973 peaks, but Indonesian deliveries (on provisional figures) fell nearly 22 per cent to some 526000 b/d, against a peak of 747000 b/d in 1973 (see Table II). Indonesia's share of the Japanese market, despite the pollution-reducing attractions of its sweet oil, was down from over 15 per cent to under 12 per cent...¹⁶

As a result of these changes, the Indonesian planners seek to diversify away from Japanese dependence. In fact, Indonesian crude exports to the U.S. increases by 35,3% and Indonesia's share of U.S. crude imports market rises from 6 to 9 per cent. Part of the same marketing strategy, is the attempt to find outlets for crude export in Europe, Australia and the Far East (Philippines).¹⁷

Pertamina has not been able to respect its repayment engagements. In March of 1975 it is announced that Pertamina owed \$3,1 billion in foreign loans overdue oil-revenue payments to the government, and \$113 million to local contractors. The Bank of Indonesia intervenes to restructure and untangle the financial affairs, while planners proceed to disengage Pertamina in non-oil activities (fleet and air, rice estates...) to concentrate exclusively on the exploration, exploitation, refining, processing, and transport of oil. Whereas before the policies in the oil sector concentrated on tapping oil resources as quickly as possible, the members of the Ministry for Mines and Energy are now planning a more modest policy consisting "in the need to develop other energy sources with a view to conserving internal demand for oil"¹⁸.

As expressed by the *Petroleum Economist*, Dr. Subroto, the Indonesian minister for Mines and Energy, is optimistic for future prospects in this domain:

...Dr. Subroto has good hopes for the internal use of coal and other energies in order to maximize volume of oil for export. By 2000, he anticipates, Indonesia could be producing 4000 MW of electricity from hydropower and 400 MW geothermal, while a 750 MW coal-fired power plant is due to be operational from 1984. Shell has reportedly handed to the government information gathered during its feasibility study for exporting Sumatran coal; the very large deposits may be tapped for internal use.¹⁹

While internal sources of non-oil energy are being increasingly exploited to satisfy domestic demand, the government is interested in pursuing policies in oil that insure large returns. As a result, efforts are made to develop exportable volumes of liquified natural-gas (LNG).

Indonesia possesses vast reserves of natural gas (15 trillion cubic feet). With the increase of international demand for this clean source of energy, Pertamina has set-up two LNG plants. A first one, jointly exploited by Pertamina and the Huffington Group of Houston, in Bantang subdistrict of East Kalimantan is started in early 1975 and begins production in 1977. It has a 450 million cubic feet capacity per day and a twenty year life-span. A second plant is constructed in North-Sumatra, exploited by Pertamina and Mobil Oil; it has a capacity of 1,2

billion cubic feet per day. The production of these two plants is shipped mainly to the U.S. and to Japan.²⁰

Throughout the seventies PSCs continue to be signed for the exploitation of LNG; the rise of oil crude production continues to rise; the state's money supply enlarges. Between 1978 and 1979 Indonesia's proportion of world LNG exporters increases from 20,0% to 25,1% respectively, all imported by Japan.

The second oil shock has the effect of bringing unprecedented rates of growth in the oil sector, thus boosting state revenues and state spending. As stated by the *Petroleum Economist*:

... January-September (of 1979) data show crude oil and product export earnings 17% higher at \$6422 million, LNG up 131% at \$884.6 million, and non-petroleum sales up 55% at \$3892 million. Official predictions attached to the draft budget statement released by President Suharto to Parliament in January point to gross oil and gas earnings rising further \$10.1 billion in the fiscal year ended March 31st (up from \$6.4 billion in 1978-79), out of total overseas sales of \$15,5 billion.²¹

Total revenues generated from oil and gas rose from 48,2% (1979-'80) to represent 60,9% of the government's sources of funding in 1980-'81 and has led to growing spending in different areas of the economy²². Efforts in the sector have continued to be concentrated on encouraging LNG production as well as diminishing reliance on imported crude and other oil products for domestic consumption²³.

The proportion of oil in total Indonesian exports rose from a value of \$912 million in 1972 to \$20659 million in 1982. After 1982, there is a noticeable decline to \$12713 million. Meanwhile, the portion of LNG in total exports enlarges from 9,9% in 1981 to 19,6% in 1985. The growing importance of exportations of natural gas as well as the successful diversification policies pursued in other sectors of the economy, such as manufacturing, have had an impact of diffusing the negative consequences of the world declining prices of oil. The Indonesian government, therefore, has expanded the base of surplus extraction through successful economic diversification strategies in its exportable sectors.

2.1.2 The Oil Sector in Nigeria (from 1970-1984):

The oil sector is the major economic source of revenue to the Nigerian state. The oil industry has seen important rates of growth through-out the 1970s thus replacing agricultural production as the main export sector. In one decade oil production has leaped from 395 686 thousand barrels/day in 1970 to reach a peak of 893 275 barrels/day in 1979²⁴. The proportion of oil in total export, was only 3% in 1960; in 1970-72, it is at 90%, counting for 95% of total national revenue²⁵.

Following the chaotic years of civil war, the political and economic environment becomes favorable for investments. In fact, from this moment, investments increase drastically from N777 million in 1967 to N1,764 million in 1973, of which half originate from Great-Britain²⁶. Particularly revealing is the concentration of investments according to sector, these tend to concentrate towards capital-intensive productive branches, namely in mineral and petroleum exploration (52%), services (17%) and the manufacturing sector (23%). In 1973, the rate of investment increase is particularly notable in the manufacturing and mining sectors, being respectively 313% and 212% between 1970 and 1977²⁷.

With these signs of increasing dependence on the outside, the Nigerian government preoccupies itself mainly in reducing the reliance on foreign resources. Since 1969, through the "Petroleum Decree Act" the leaders hope to improve Nigerian influence in the petroleum industry, by reducing the dominant role of Shell/BP (which until 1969 produced 80% of total production)²⁸ and by elaborating policies such as the "Oil Prospecting Licences (OPL)" that would permit other companies to explore and to dig. In fact, a number of companies (Elf, Mobil, Texaco...), attracted by interesting prospects, have taken long-term exploration and production engagements²⁹. The government, however, is hesitant to apply pressure for further participation in petroleum production. Too great pressure would risk to scare off some important investors.

The most enterprising initiative to increase government participation is the creation of the NNOC (National Nigerian Oil Corporation). The corporation is established "in response to

resolution of OPEC #XVI.90 which obliges the members to acquire 51% of the equity interests of foreign petroleum companies³⁰.

The NNOC... is the vehicle for the state's participation in the oil industry. Although run by a board of directors headed by the permanent secretary of the Ministry of Mines and Power, it operates with a considerable degree of independence. It may enter into partnerships, undertake exploration and production in its own right, and retain earnings.³¹

The NNOC is the principal agent behind the government's growing participation in oil production.

In July of 1971, under the leadership of general Goyon, the Nigerian state is formally admitted among the members of OPEC (Organization of Petroleum Exporting Countries). This initiative marks the beginning of an important engagement for the expansion of the oil sector. OPEC fulfils two tasks with regard to the relations between government and the petroleum MNCs established in the country. First, the organization guarantees active participation in the operation of petroleum production. Secondly, OPEC imposes quotas of production for the maintenance of favorable prices of oil on the world market³². Among the new measures that would increase government participation in exploration and productive processes, we have the production-sharing contract (PSC). NNOC signs its first PSC with Ashland in 1973. Onoh accounts for the details of the agreement:

According to the contractual agreement between Nigeria and the Ashland Oil Company, the company provided funds for the exploration, development, and oil production on behalf of the Nigerian government. In the event of the crude oil discovery, 40 per cent of crude is set aside for the amortisation of the company's investments and for the payment of royalties while 55 per cent is put aside for the purpose of setting Petroleum Profit Tax (PPT). The balance of whatever remained was shared "in specie" between the federal government and the Ashland Company in the ratio of 65:35 respectively for the crude oil production exceeding 50,000 barrels per day. For all production exceeding 50,000 barrels per day the ratio varied to 70:30.³³

The result of growing government participation in oil production has been a boosting of state revenue. These rise from N1,016 million in 1973 to N6,766 millions in 1976, of which 80% of

the total come from petroleum³⁴, thus providing the state with a significant surplus, necessary to fund the National Development Plans.

To assess progresses in the oil sector, the evolution of LNG (liquified natural gas) production, an important source of diversification, must be examined. Ever since 1965, one of the top priorities on the state's economic agenda is to attempt to diversify the production of hydrocarbons. Nigeria possesses extraordinary sources of natural gas usable in electrical generation or for industrial purposes in petrochemical manufacturing. In its desire to fulfill this economic task, the government becomes engaged through the NNOC in a number of important projects. At the beginning of 1978, with the intention of developing exporting capacity, NNOC joins Shell/BP to project the construction of a plant at Bonny. At the same moment, very optimistic projections are made between the government and Agip/Philipps for the construction of a liquification plant³⁵.

However, as is mentioned by the World Bank's Energy Report referring to natural gas development, "few of the developing countries with proven reserves have been able to find the extensive finance required to build up a transportation and distribution infrastructure for the domestic market; and international oil companies have shown little interest in an energy source that is difficult to export"³⁶. In fact, because the international conjuncture of the early 1980s becomes much less favorable for the export of petroleum products, particularly those coming from the OPEC countries, the large projects of LNG plant construction are abandoned. The international demand for LNG remains weak and the lack of foreign financial incentives render the government incapable of developing this resource.

The second oil crisis of the early eighties, brings a general slow-down of the country's economy. Nigerian crude has lost its qualitative advantage of being light and non-sulphured and its importers shift their demands towards Europe, namely the United-Kingdom and Norvegia³⁷. Consequently, total exports decline from the 1980 rate of 1,9 million barrels/day to 1,0 million/day in 1983³⁸; oil production drops from 893 275 thousand barrels in 1979 to 453 030 thousand barrels in 1983³⁹; state revenues reach a peak of N23,41 billion in 1980 and drop to

N10,10 billion in 1983. The unfavorable changes in the international conjuncture of the petroleum market have provoked a decrease in the performance of the dominant sector.

Nigeria's extraordinary petroleum boom has generated large volumes of money-capital surplus, that could have been utilized to set the foundations for capital expansion in other sectors. The second oil shock with its consequent collapse of international prices of crude and gas, however, suggests the fragility of the Nigerian economy by plunging it in an unprecedented financial crisis. To comprehend the perverse effects of oil earnings on the Nigerian economy, the sections that follow shed light on the evolution of the agricultural and industrial sectors.

2.2 The Role of the Agricultural Sector:

As suggested above, in both the Indonesian and Nigerian cases the large financial flows brought by oil export earnings have caused deep transformations on the structures of each economy. The agricultural sector, constituting the main share of traditional export products, no longer fulfils the function of providing the state with the financial resources for development. In economies possessing a booming petroleum industry, the role of traditional productions has changed. This section examines the transformations in agriculture since the early 1970s to determine whether state policies have successfully reoriented this sector towards the fulfillment of indispensable socio-economic functions.

2.2.1 The Agricultural sector in Indonesia:

The growing portion of oil products in the structure of exports and GNP has replaced agriculture as the dominating sector for accumulation. This does not mean that agriculture plays a negligible role. In 1969, the portion of agriculture in the GNP was 52,4% of total GNP; this level has declined gradually to 27,1% in 1983⁴⁰. Labor force engaged in this activity was 73,3% of the active population in 1961, decreasing gradually to a level of 55,5% in 1980⁴¹.

These are indicators that draw the portrait of a modernising economy, where the traditional sectors such as agriculture have come to fulfill specific functions.

While the proportion of agriculture has diminished, production has continued to rise. Rice output has boomed from 13 million tons in 1970 to 23 million tons in 1983. Cash crops have also shown a general tendency to rise. These indicators reveal the Indonesian government's successful efforts to modernize agriculture. What were the government's priorities in this sector and how do these reflect agriculture's changing role?

Under the leadership of Sukharno (Soeharto's predecessor) the traditional exports, mainly tin, copra, coffee, tea, tobacco, palm oil constituted about 70% of state earnings. Until the late 1950s, this sector is performing relatively well, showing slow, but constant growth. However, starting in 1957, the government's strict nationalization policies, which cause the exodus of the Dutch from their estates, and the high inflation rates after 1962, reduce production and exports⁴². The success of the food crops sector, particularly rice, is estimated according to the capacity of these products to respond to the rising domestic demands for food. Food crops are greatly dependent on population increases. In Indonesia, rice production is booming until 1945, after which production rates are less impressive. In 1962, rice output is only 17% above the pre-war level. It is outmatched by population increases, resulting in the necessary importation of rice. The New Order government, therefore, is confronted with the task of rehabilitating a stagnating agricultural sector, in both food crops and cash crops.

The rehabilitation of the cash crop sector, as emphasized by the First Five Year Plan (1969-1974) is dominated by the need for "external markets, export earnings incentives, and improved infrastructures"⁴³. Government intends to shift its attention from A group traditional exports (rubber), to B group crops (tea and timber). Of the total plan expenditure 27,8% is allocated to agriculture, most of which derives from external sources of finance (72,7%)⁴⁴. Palmer elaborates on the type of financial aid allocated towards agriculture:

The World Bank lent \$17 million for the rehabilitation of state-owned rubber and palm oil estates in Sumatra covering 200,000 acres (H. Kami, 29.5.1970), \$19 million for

West Java (S. Harapan 4.12.1970), while the ADB lent \$17,5 million for recovery of sugar estates in East Java (Abadi, 7.10.1973).⁴⁵

These policies have leaped exports above target rates in the early years. Category A exports, particularly coffee, palm oil, and tin, increase from their respective 1965 values of exports of \$31 million, \$15 million, and \$37 million to their 1975 levels of \$100 million, \$152 million, \$140 million. In category B exports (products with traditionally weak markets), timber boosted to constitute 70% of all exports in this category. Palmer attributes the boom of this sector in the first half of the 1970s to favorable world prices for these commodities:

World commodity prices of several of Indonesia's important exports rose very greatly: between 1965 and 1973 the price of rubber rose 46%, tin 30%, coffee 49%, palm oil 38%.⁴⁶

Agricultural output has surpassed estimated targets and by 1974 the returns brought by traditional exports amount to \$725 million. In 1975-76, there is a notable decline of total exports with rubber falling 18%, timber 21% and palm oil 28%, causing total export value to decline from the \$1,896 million to \$1,615 million⁴⁷.

The central concern of the First Five Year Plan is the food crops sector, particularly rice. This Plan aimed mainly the import substitution of rice for the achievement of national self-sufficiency by 1974. This is to be done by the continuation of *BIMAS* (mass guidance programs for rice farmers) and by the extension of technical improvements across the country's rural areas to increase rice yields per paddy. *BIMAS* attempt "to extend extension and input supplies without placing a greater burden on public credit resources"⁴⁸. These programs, initiated at the end of the Sukharno era, are continued with certain alterations, because of complaints of coercion and resistance. The modifications consist in dividing *Bimas* in *Inmas* and *Bimas* and in subdividing these into *Bimas Biasa* (ordinary seeds) and *Baru* (new high-yielding seeds).⁴⁹ Furthermore, to improve the institutional framework for the redistribution of subsidies and for credit access to peasants, a village unit called the BUUD (Badan Usaha Unit Desa, Hamlet Unit Enterprise Body) is designed. Such a unit aims to establish direct, discreet control over rice

production and over the peasantry. The BUUD has been the source of many complaints of coercion and corruption⁵⁰.

Since the First Five Year Plan the government has shown a strong commitment to improve the agricultural output of the country. The top priority of government has been to render the country self-sufficient in food in order to diminish volumes of food imports. Throughout this period food crops have benefited from technical improvements such as fertilizers, pesticides, and institutional improvements to allow credit access to peasants. These haven't modified the basic labor-intensive character of production in this area. Food crops agriculture and its related policies, have succeeded to satisfy domestic demand. However, this success has been possible at the expense of certain social costs. Many specialists on Indonesian agriculture have concluded in their studies, that programs implemented possess important shortcomings at the distributional level. They tend to privilege the rural middle-men and landlords, while impoverishing the lower strata of the rural social structure⁵¹. In parallel the agricultural cash crop sector has evolved relatively well showing modest but constant growth, and providing the state with funds through export earnings. The value of exports has diminished from the 1974 peak of \$1850 million to \$1636 million in 1981. In spite of these falling rates, agricultural goods continue to occupy a respectable portion of the export structure. In 1985, they constitute 7,9% of total Indonesian exports (see Table 2.2, p.49).

The importance of agriculture in the economic setting established since the early 1970s, is twofold. It must first achieve national self-sufficiency in food. Secondly, it should continue to provide a modest export capacity. The fact that government policies in Indonesia have achieved this has limited and diffused the distorting effects of oil earnings on the economic structures of a developing economy.

2.2.2 The Agricultural Sector in Nigeria:

The proportion of agriculture in the GDP has shifted from 64% in 1960 to 21% in 1980. After 1980, agriculture has regained a degree of importance in the structure of GDP at 36% in

1986. By examining the national development plans formulated since 1962, it is noticeable that agriculture does not figure among the priorities. The summary of these plans reveals the government's determination to limit external dependence by forming a qualified indigenous work force. There is also a concern to modernize the economy in order to resolve such destabilizing socio-economic effects as the massive urban-drift and the reduction of the active labor force employed in agriculture. Egg describes the central problem facing the agricultural sector:

La production alimentaire ne parvient pas à suivre la demande stimulée par la hausse des revenus dans les villes, et le Nigéria devient un importateur croissant des produits alimentaires.⁵²

Faced with these problems, the policy makers adopt a "selective and productive approach"⁵³, which coincides with the strategies proposed for agriculture by the World Bank and the FAO (Food and Agriculture Organization). "Le modèle de modernisation de la production... repose sur l'emploi de techniques intensives en capital, concentrée dans les régions les plus riches et sur les agriculteurs jugés les plus aptes à intégrer le progrès technique".⁵⁴ Modernization policy implemented by government focuses on the diffusion "des intrants industriels et agricoles et le développement des infrastructures par la création de grands périmètres irrigués"⁵⁵. Government intervention on the agricultural structures is applied through a number of different programs and projects. Among these projects, the NAFPP (National Accelerated Food Production Project), aims at providing peasants with improved practices such as fertilizers and pesticides in order to decrease dependence on food imports. Also important are expenses towards big irrigation projects, called RBDA (River Basin Development Authorities) aiming import substitution and large scale mechanization. Other projects are named ADPs (Agricultural Development Projects), providing necessary services to peasants, such as centers of seed distribution, centers of formation and access to credit.

The implementation of these projects do not improve, however, agricultural outputs. The lack of coherence between the government policies and the general character of agriculture in Nigeria has been one of the factors that has brought various negative consequences on the

Nigerian economy. As pointed out by Egg, the Nigerian peasantry tends rather towards a private agricultural production that is technically traditional. Government, meanwhile, has concentrated its efforts on the creation of modern productive structures managed by the state⁵⁶.

By the early 1980s agriculture reveals a decrease in productivity levels and obliges the growing importation of agricultural products in order to satisfy domestic demand for food. The main Nigerian agricultural productions have a declining trend, reaching a level of stagnation. Among the productions most affected is cotton, passing from a volume of 0,7 million tons to 0,4 million tons in 1981⁵⁷.

In response to the situation of crisis in agriculture, the government launches such programs as the Feed the Nation Plan designed to compensate for the situation of productivity decline by importing high volumes of food products. Between 1977 and 1979 importation volumes at 1,52 million tons, rise to 5,27 million tons between 1981 and 1985. How can the incoherence of government policies be explained?

A number of authors⁵⁸ have criticized the limited and discriminatory nature of the government policies, characterized by a fervent, uncontrolled drive for the diffusion of modern capital-intensive means of production. In the region of Anabra-Imo, the ADPs (Agricultural Development Projects) are meant to increase rice yields through the use of capital-intensive mechanized techniques. These fail to surpass the yields of producers using traditional techniques in the region. Rice cultivation, being a labor-intensive crop, cannot easily be cultivated or exploited with modern sophisticated techniques⁵⁹. Other more global critiques are those addressing the issue of dependance on foreign sources of capital not only for the import of food, but also for the importation of capital intensive agriculture equipment and parts. Many of the modernization projects pursued, such as large irrigation, fertilizers' and pesticides' diffusion all rely heavily on imported materials⁶⁰.

It is insufficient to explain these failures by only invoking the lack of central administrative funds oriented towards this sector. Egg and other analysts, believe that it is crucial to determine the "effets induits par la diffusion des revenus du pétrole sur les producteurs

et les consommateurs"⁶¹. The effect of drastic inflows of capital and the consequent significant increase of the state's money supply, has resulted in a massive population exodus from rural to urban areas. The people leave their lands to take advantage from such benefits as free education and new job opportunities brought by increasing state spending. The implications of this 'urban drift' phenomenon are two fold. First, the agricultural producers are obliged to raise prices as a result of increased production costs due to labor-shortage. Second, with the rising urban middle-class, there is an increasing demand for food in urban areas. Ultimately, the importation of food-crops such as rice become less costly than local food crop productions. Egg accounts for this resulting phenomenon:

... à partir de 1974, les droits de douane sur la plupart des céréales sont abaissés à 60, puis à 10%. Le blé américain et le riz thaïlandais sont ainsi vendus à Lagos en moyenne à la moitié du prix des produits locaux. Les importations alimentaires (céréales, sucre, produits laitiers, viande, poisson et huiles végétales) croissent rapidement.⁶²

The government policies intervening on the agricultural structures in Nigeria have not been successful. Increasing yields of food crops to promote national food self-sufficiency has not been achieved. Neither was it possible to maintain an export capacity of agricultural products. Rather, Nigeria has fallen into the trap of high, misplanned spending in view of modernising agriculture too quickly. This is a characteristic feature of an economy stricken by the "Dutch Disease Syndrome".

2.3 The Industrial Sector as Patterned on the Exigencies of World Scale Accumulation:

Having outlined or stressed the importance of the agricultural sector for the fulfillment of specific socio-economic roles, the evolution of the industrial sector is now examined. The second chapter is founded on the assumption that accumulation in the productive structures of a developing social formation depends on the extent to which M3 is utilized for the expansion of hegemonic capital. In this context, the third part proposes that the integration relies on the state

apparatus' capacity to implement policies which are patterned on the conditions of production and exchange at the international level. This section recalls the movement of capital as "organic", where the conditions of production are uniformized, while the rates of profits are differentiated. Productive capital is understood as the fusion of the two acts M-Mp and M-L within the productive process. It is divided into upstream productive branches delocalized both in its means of production and in its low-skilled, cheaper labor. High-valorizing, knowledge and capital intensive, down-stream productive branches, usually remain in developed social formations. The low-valorizing, low-skilled, upstream productive branches characterize the industrial tissue of developing social formations. The present section, however, only addresses the character of the industrial sector in general macro-economic terms. It does not provide details of the links between subsidiaries established in the developing social formation and their home bases. Rather, it considers the evolution of industry in terms of production and exchange conditions, and how their structures are influenced by sources of foreign capital. Production conditions relate to the productive branches which form the industrial tissue. Exchange conditions refer to the nature of the structures of imports and exports. The point of this section is to determine how the exigencies of international accumulation modulate the conditions of production and exchange. The differences between the two cases derive, in part, from the dissimilar conditions which define the integration of each economy within the international process of capital accumulation.

2.3.1 The Industrial sector in Indonesia:

Since 1965, manufacturing has been one of the most prosperous sectors of the Indonesian economy. From 1965 to 1980, it has averaged an extraordinary rate of GNP growth of 12,9%. The structure of employment in this industry has passed from 7,8% in 1971 to 8,6% in 1980. Also, the proportion of manufacturing in Indonesian exports has increased from 1,9% in 1972 to 10,4% in 1981. These are all indicators that reveal the growing importance of industry in a modernising economy⁶³. This section examines the character of the industrial

sector since 1965. It attributes particular importance to the role of foreign direct investment (MNCs) as one of the main agents behind the Indonesian industrial success; and it examines how the state has encouraged the establishment of foreign interests through policies and laws.

In the after-math of the political and economic crisis of the mid-1960s, with the establishment of the military technocratic Soeharto government, state policy takes a drastic turn regarding industry . Whereas in the last years of the Sukharno government foreign interests in all sectors were sent away from the country. In the early years of the Soeharto government, industrial rehabilitation is considered a priority and foreign investment crucial to this rehabilitation. As pointed out by Maurer, "les quelques technocrates auxquels le général Suharto et ses collègues de l'armée confient la gestion des affaires économiques adoptent une vigoureuse politique de redressement articulée autour de mesures d'ajustement classiques comme la réforme du système monétaire, la réduction du déficit budgétaire ou la stabilisation des prix"⁶⁴.

The Law No. 1 of 1967 lays down the guiding principles on investment regulation. It emphasizes that Indonesia's economy should be run by Indonesians and that foreign investment is to "accelerate" development in sectors that necessitate capital and expertise. The Capital Investment Law, as it is called, is introduced in 1967, amended in 1970, and reamended several times. Its main provisions are formulated as follows:

1-Exemption from corporation tax for up to six years for projects in priority sectors (including export-oriented projects, those utilizing raw materials and basic consumer goods manufactures such as food and clothing). This concession is phased out as a result of changes introduced in 1974.

2-All foreign investments are entitled to accelerated depreciation, compensation for losses resulting from state expropriation, investment allowances and a limited period of exemption from dividend tax;

3-Repatriation of profits is permitted though capital may not be repatriated during the period in which a project is enjoying tax and other concessions;

4-Joint-ventures with Indonesian partners have been compulsory since 1974. A definite timetable must be laid down for the transfer of at least 51% of the equity to Indonesian ownership and since 1974 there has been considerable tightening of rules requiring maximum employment of Indonesian national in foreign owned projects.⁶⁵

The pragmatic character of the new government sets the grounds for unprecedented economic growth, based on international public aid and the arrival of large flows of foreign investment. The top priority of government is agriculture and a commitment to render the country self-sufficient in food. All developments in other sectors, except for the oil sector, are subordinate in terms of importance. The First Five Year Plan programs to allocate 17,7% of the total budget towards industry, and proposes a shift from the production of consumption products towards products for development, meaning intermediate and equipment goods.

In fact, the evolution seen in industry coincides very much with the intentions expressed by the First Five Year Plan. The productive structures of the economy move away from agriculture and traditional industries aiming at the production of consumer goods (such as Tobacco, textiles...), towards new, more capital intensive branches, such as chemistry, plywood, mechanics, electrical machinery, or electronics⁶⁶. From 1971 to 1981, the manufacturing goods that show the greatest increase are the intermediate goods, constituting 13,1% (1971) reaching 35,5% (1981) of the total manufactured goods production. Equipment goods rises respectively from its 6,1 % level to 16,9% in the same time span⁶⁷. What follows is an analysis of approved foreign investment by sector with relation to the structural modifications brought in manufacturing.

In Indonesia the portion of public and private investments allocated to the industrial sector are significant. The share of approved foreign investment in manufacturing rises from 62,4% in 1967-75 period to 75,6% in the 1976-1981 period⁶⁸. Between 1967 and August of 1974 the approved foreign investments to the industrial sector tend to concentrate in textiles, constituting 22% of all investments, chemicals with 3,4%, and electrical goods and electronics with 1,6%⁶⁹. Of total foreign investment in manufacturing according to branch of production from 1967-'85, 28% goes to basic metals, 19% to textiles and chemistry, 13% to metal goods,

and 12% to the non-metallic minerals⁷⁰. Domestic capital in this sector averages 66% of the developmental budget in the 1967-81 period. In the latter period (1976-1985), both foreign and domestic investments shows a tendency to concentrate in capital-intensive branches with large increases in chemicals, mineral, metal processing and fabricating industries⁷¹.

TABLE: 2.1
Growth and structural change of value added in
Indonesian manufacturing (1970-1980):

Type of Goods	structure of manufacturing industry as % of total production		total annual rate of growth of MVA (1970-1980)
	1971	1980	
Consumer Goods	80,8	47,6	
Food products	33,9	11,1	13,6
Beverages	2,0	1,5	9,2
Tobacco	27,9	19,1	9,6
Textiles	13,2	12,4	10,8
Printing & Publications	2,0	1,5	24,3
Intermediate Goods	13,1	35,5	
Wood Products	1,4	7,0	19,1
Paper and derivatives	2,0	1,5	14,7
Chemical products	0,8	4,3	19,6
Rubber and derivatives	1,3	4,8	22,2
Plastic products	0,5	0,7	33,2
Non-metallic minerals	2,5	5,9	27,8
Iron and steel	0,0	3,1	51,3
Equipment goods	6,1	16,9	
Metallic products	2,3	3,5	18,9
Electrical machines	2,5	5,3	29,2
Other machines	0,4	1,6	19,0
Transport equipment	0,9	6,4	7,3
Scientific equipment	0,0	0,1	12,0
Total manufactured goods	100,0	100,0	11,9

source: Maurer (1989), p.94.

The industrial sector's growth is impressive, extending throughout the seventies and continuing well within the eighties. The average rates of GNP growth in this sector is 8,2% from 1965-71, 13,3% from 1971-77, peaking to 17,2% between 1977-80 and continuing, though at a lower rate, at 4,6% from 1981-83⁷². The structure according to production branch has shifted from a manufacturing sector concentrating on consumption goods towards intermediate and equipment goods. Therefore, there is a marked shift towards an industrial structure that is more intensive in capital. Table 2,1 assesses these structural changes in manufacturing.

The average annual growth rate in manufacturing between 1970-'80, as expressed by the WVA data, is 11,9%. However, the average growth rate in the branches where foreign capital tends to concentrate (Chemicals, Textiles, Basic metals, and metal goods) amounts to 25,7%. The branches of manufacturing production in which foreign investments are concentrated perform significantly better than the other branches of production. Furthermore, these industrial activities produce capital intensive productions, namely intermediary and equipment goods.

Indonesia has benefitted from such an industrial growth, mainly because of its enormous domestic market permitting an autocentered development. Ever since the second oil crisis and the decline in oil profits the government has sought to expand the export capacity of manufacture. As the share of petroleum products in the structure of Indonesian exports has declined from 82,1% to 68,4% between 1981 and 1985, manufacturing products in particular have expanded their share of the export structure from 10,4% to 22,4%⁷³. One of the government's important economic policy dilemmas, revolves around how to reconcile an inherent dualism in Indonesian industry. The government must encourage small and middle-scale low-technology industries in order to create employment and to alleviate poverty, while diversifying the national exports' base to diminish dependence on oil earnings⁷⁴.

The structure of Indonesian imports (Table 2,3) and the apparent growing reliance on capital intensive products from the outside is another concern. The evolution of imports from Japan (the years 1971, 1978, 1984) reveals Indonesia's growing dependence in such key branches as chemicals, iron and steel, and machinery. More globally, this import structure reveals the growing access by Japanese capital to Indonesia's huge market.

TABLE: 2.2
The structure of exports from 1972 to 1985
(as percentage of total value of exports):

	1972	1974	1981	1985
Oil products:	51,3	70,1	82,1	68,4
Crude oil	46,9	63,0	67,4	44,4
Natural gas	...	....	9,9	19,6
Other	4,4	7,1	4,8	4,5
Non-oil products	48,7	29,9	17,9	31,6
Mineral prod.	4,8	2,8	0,8	1,1
Agri. prod.	42,0	24,9	6,5	7,9
Manufacture	1,9	2,2	10,4	22,4
Total Exportations	100,0	100,0	100,0	100,0
(%)				
TOTAL VALUE OF				
Exports	1778,0	7 426,0	25 164,0	18 587,0
	(in current millions of dollars)			

source: Maurer (1989), p.92.

TABLE 2.3:
The Evolution of the Structure (%) (1971, 1978, and 1984)
of Imports from Japan:

	1971	1978	1982	1984
Cereals & products	4,0	1,3	.....	0,5
Petroleum & products	0,7	1,0	0,5	0,4
Chemicals	11,2	11,8	9,1	12,2
Textile, yarn, cloth & manu..	8,7	4,3	2,9	2,7
Iron & Steel	11,7	16,3	22,9	17,6
Metal manufacturing	5,9	0,7	0,9	1,4
Non-electric machinery	.....	16,6	23,3	21,8
Electric machinery & appliances	.....	8,1	8,1	10,9
Rd. vehicles	44,5	24,8	17,5	18,5
Ships & boats		2,5	.....	0,6
Total incl. other items	100	100	100	100
Total value in S'000	36 482	175 421	354,844	255 313
% Share of Indonesia total imports	30	27	31	23 ⁷⁵
Total import value (in current '000\$)	121 606	649 707	1 144 658	1 110 056

source: adapted from *QER (Indonesia)* no.4, 1972 (Index); no.4, 1979 (Index); no.4, 1986 (Index).

2.3.2 The Industrial sector in Nigeria:

In Nigeria, the state policies concentrate on the non-oil industrial sector. This sector occupies a growing proportion of the national structure of production, passing from 7,5% in 1970 to 11,4 % in 1982. To understand the character of Nigerian industrialization and to evaluate the depth of its integration, the various government policies towards this sector are presented. Also given, is an assessment of the general performances.

The pattern of industrial policies followed by Nigerian decision-makers since independence (1960) may be divided into two periods⁷⁶: the liberal period covers the policies from independence until the end of the civil war; the interventionist period extends from the civil war's ending to the petroleum and financial crisis of the early 1980s. Both of these periods have been characterized by government policies that desperately attempt to reconcile the contradictory requisites between economic independence and industrial growth. For the purposes of this analysis, the latter period is examined in greater detail.

Following the civil war, policies in industry, though continuing to possess a liberal orientation, are controlled by an administrative framework established by a military government. The new, more interventionist strategy of industrialization possesses a number of specific objectives and characteristics. Firstly, the new strategy is more "selective and discriminatory"⁷⁷. It tends to privilege the industries of intermediary and equipment goods as well as highly valorizing upstream industries for import substitution⁷⁸. Secondly, industrial policy by the military aims "the nigerianization of capital", through the promotion of mixed enterprises (public and private joint-ventures) in strategic sectors and indigenous enterprises in other sectors. Philippe describes government intervention in this manner:

La sidérurgie et l'acier, la pétrochimie, la production d'engrais et de produits pétroliers dérivés, sont définis comme des industries stratégiques dans lesquelles le gouvernement entend détenir 55% du capital. Pour les industries agro-alimentaires, telles que la transformation du blé et du sucre, les produits en bois ou les matériaux de construction, le gouvernement nigérian- seul ou avec des investisseurs nigériens- veut contrôler 35% du capital.⁷⁹

The interventionist period is, therefore, a period in which industrial policy shifts towards growing interventionism and the reinforcing of state participation in heavy industry⁸⁰. The fourth national development plan continues in the same direction. However, because of the decline in state spending brought by the declining oil prices in the early eighties, government policies shift their priorities towards rehabilitating other sectors such as agriculture.

One of the most crucial concerns in the industrial policy followed by government has been its emphasis on nationalization and controlling the key branches of the industrial sector. The stock of foreign capital invested in Nigeria according to sector between 1964 and 1977 has tended to be concentrated in Chemistry (8,6%), agro-industry (11,2%), mineral and non-metallic products (11,1%), and textiles (17,9%).⁸¹ After 1977, following the implementation of the 1977 indigenization decrees, the structure of foreign investments according to sector does not really change. Philippe⁸² points out that in the mid-1980s English and European capitals occupy an important place in industry. While Great Britain's capital stock has diminished, foreign participation continues to concentrate in final activities.

To understand the nature of the Nigerianization Decrees, it is useful to refer to various authors who have dealt with this issue. The first decree (1972-1977) is a response to the pressures of the local class wanting to limit foreign influence in the transport and communications sector. In 1975, three years after the implementation of the first indigenization decree, certain local firms have become incorporated in some branches of the commercial sector: hobbies (including records and music instruments), the wood industry, and office materials. The technological industries (telecommunications, computers, ...) remain under the control of foreign firms⁸³. In spite of the fact that local capital has had important gains, many contradictions arise. A great deal of dissatisfaction is expressed with regard to the extent of corruption and the inequalities associated to the program. On one hand, this first decree privileges a minority of professionals in Lagos. On the other hand, it favors the Southern regions at the expense of the Northern ones which are left out from the benefits⁸⁴.

With the aim of bringing correctives, the state initiates the second indigenization decree (1977-1981). Many factors, however, tend to suggest that this decree too has limited success. First, MNCs respond to this decree with various strategic alternatives such as reorganization, and the joint association with partners that possess little interest in being implicated in management...⁸⁵. Secondly, in the oil sector, foreign firms still possess a comparative advantage in the exploration process, although operating in a disadvantaged position. Besides,

the NNPC, does not have the necessary qualified personnel that could assure the rigorous implementation of this decree in the petroleum sector⁸⁶. Thirdly, foreign capital is dominating sectorally such fields as services, manufacture, petroleum services, naval transportation and telecommunications⁸⁷. This discussion suggests that the indigenization decrees have "served to inforce the political and social foundations of international accumulation in Nigeria"⁸⁸.

The general performance of industry until 1978 has been one of extraordinary growth. The sectors who have shown the highest rates of growth between 1963 and 1978 are the branches for electrical equipment, textiles, metal products, agro-industry with respective average annual value-added rates of growth of 19,7%, 15,0%, 13,1%, and 13,0%⁸⁹. The industrial branches who are employing the most people in 1978 are in order of importance textiles (86 555), agro-industry (63 609), chemistry (41 878), and metal products (31 314). The Second Four Year Plan (1970-1974) programs to allocate 8,4% of the public sector budget for "the production of intermediate and capital goods which will increase the local contribution to value added"⁹⁰. Federal capital expenditure in industry, from 1970-77/78 have tended to concentrate in Oil (58%), industrial development banks (12,3%), cement (7,4%), and Iron and Steel (7,1%)⁹¹. As mentioned earlier, foreign investments have tended to concentrate in chemistry, agro-industry, mineral and non-metallic products, and textiles. An estimate of the performance of manufacturing may be made by determining the average annual rate of growth of employments and of establishments in each manufacturing branch in the 1963-78 time span. While the total average rate of growth is 10,8%, the average annual rates of growth in the four branches where foreign investment tend to concentrate (chemistry, agro-industry, mineral and non-metallic products and textiles) is estimated at 11,9%⁹². The performance of the branches of industry coincide with the areas where foreign investments tend to concentrate.

TABLE 2.4:
Index of Manufacturing Production:
(at current 1972 prices (100%))

	1977	1983	1985
Vegetable oil	14,8	.....	.....
Sugar	123,2	....	.....
Sugar Confectionery	207,3	55,3	42,5
Soft Drinks	303,5	873,0	785,4
Beer & Stout	185,6	306,1	489,3
Cotton textiles	172,9	144,8	110,0
Synthetic fabric (other textiles)	564,7	1262,0	340,2
Footwear	123,5	53,8	41,8
Paints and allied prod.	241,8	211,1	177,2
Refined petroleum	123,6	255,7	358,8
Cement	117,1	96,6	303,8
Roofing sheets	214,7	106,8	285,1
Vehicle assembly	1008,1	2068,3	1344,1
Radio & TV	128,6	558,6	367,9
Soap & Detergent	323,4	383,8	178,3
Total manufacturing	193,5	319,0	336,6

source: adapted from *QER (Nigeria)*, Annual Supplement 1981 and 1989-90.

The manufacturing sector in Nigeria reveals a shift of production moving away from consumption goods (Sugar confectionery, beer and stout...), towards intermediate and equipment goods (synthetic fabrics, vehicle assembly, radio & TV...). The average production indices of 1983 (319%) and 1985 (334,8%) down from the 1982 level of 432,7% reveal the sectors vulnerability; these are due to the decrease in domestic consumption of these products. Furthermore, the evolution of the Nigerian export structure shows the continuous prevalence of oil as sole important export product.

TABLE 2.5:
The Evolution of the Nigerian Export Structure (1970-1984):

Products	1970	1976	1981	1984
Cocoa beans	15,2	3,7	.....	.....
Groundnuts	5,0	.....	.....	.....
Palm kernels	2,5	0,3	.....	.....
Crude rubber (inc. synthetic)	2,0	0,3	.....	.....
Raw cotton	1,5	.....	.....	.....
Crude Petroleum	58,1	93,2	95,0	92,5
Groundnut oil	2,7	.....	.....	.....
Palm oil	1,1	.....	.....	.....
Tin	3,8	0,3	.....	.....
Total inc. other items	100,0	100,0	100,0	100,0
Total value of exports	438,53	1 464,0	1 997 734	1 176 996
	(in current mn Nairas)		(in current '000 of dollars)	

source: *QER (Nigeria)* various numbers: no.4, 1971 (appendix); no.4, 1977 (appendix); no.4, 1982 (appendix); no.4, 1985 (appendix).

The import structure (Table 2.6) suggests a relative success of import substitution policies. Total imports of manufactured goods have gone down in the share of total imports from 29,6% in 1971 to 16,0% in 1985. Imports of mechanized goods have also dropped slightly from 39,7% to 33,6%. The total values of imports, like those of exports, have significantly decreased from \$919 million in 1977 to £733 million in 1985. The fact that there is a pronounced fall in foreign exchange values, may suggest a disengagement of international capital to expand in the country. This aspect is further elaborated in the concluding section that follows.

TABLE 2.6:
The Structure of total Imports according to sector for 1971, 1977, 1985:

Production Branch	1971	1977	1979	1985
Food, drink & tobacco	8,6	12,3	15,5	12,9
Chemicals	11,3	7,6	2,3	26,9
Man. goods	29,6	22,0	10,5	16,0
of which:				
cotton	2,5	0,1	....	....
synthetic fab.	1,1	0,1	3,3	1,0
cement	1,6	2,4	....	....
iron & Steel	8,1	6,7	5,7	....
Machinery & trans. equip.	39,7	47,8	38,9	33,6
textile & leather machinery	4,3	1,3	....	....
electrical mach.	6,2	9,5	10,4	....
rd. motor vehicles	10,6	18,6	14,3	0,1
Misc. man. art.	6,6	7,2	5,7	3,7
	100	100	100	100
VALUE	539,45	919 200	856 194	733 321
(in current million Naira)		(in current '000 of dollars)		

source: various numbers of *QER (Nigeria)*: no.4, 1974 (appendix); no.4, 1978 (app.); no.4, 1987 (app.).

2.4 A Comparison of the Stringent Conditions of Integration:

The second chapter has attempted to expose some of the factors favoring the integration in the world economy and what are the broader implications that this integration carries. The first section, has emphasized the importance of the oil sector which supplies the state with important volumes of surplus capital, essential for the pursuit of national development strategies.

The exploitation and exploration of the resource is done through the intertwining of domestic capitals and foreign capital within the productive process. Foreign capital, mainly foreign direct investment, provides the means of production as well as the qualified labor, especially in the early years. Domestic financial expenditures derive, initially, from aid sources and then from the expanded surplus revenues generated from oil. The petroleum industry is, therefore, an economic activity extremely vulnerable to exogenous determinants, such as foreign investment and the world international conjuncture for oil. While targeting to maximize their earnings from oil, state policies must also aim to diversify their economies to reduce the dependance that oil production entails.

The two cases reveal different evolutions of the petroleum industry. While Indonesia is capable to diversify its oil sector and to develop an exporting capacity of LNG, Nigeria has failed. The main reason for this shortcoming lies in the lack of foreign incentive to inject flows of investment towards the functioning of LNG plants. Also, the consequences of the second oil shock, with the decline of oil prices, affect each economy in a different way. Indonesia's economy is only faced with the decline of its crude and gas prices. Nigeria, for her part, is confronted not only with the decline of prices of her crude oil, but also with important falls of international demand. In the face of such profound changes in the international conjuncture, the Nigerian economy, not obtaining the diversification successes of her counterpart, plunges into a financial crisis.

A second condition which determines the economic integration of developing social formations concerns the role of traditional sectors, such as agriculture. With the establishment of a new mode of accumulation which founds the basis of economic integration, the activities belonging to the former mode of accumulation have specific roles to fulfil. It is essential that agricultural policies are committed to achieve domestic self-sufficiency in food. This has succeeded in Indonesia. In Nigeria, however, the sudden inflow of large volumes of capital brought by oil prosperity, causes socio-economic disruptions such as the massive urban-drift, and the resulting shortage of labor in agriculture. The most important consequences are the

price hike of local productions and the massive increase of urban demand for food. Government response to such changes has been the implementation of such strategies as the Feed the Nation Plan, which imports large volumes of food to satisfy internal demand.

The agricultural traditional exports sector, should continue to have and to maintain an export capacity. The data presented in this section reveal Indonesia's success in maintaining a modest export capacity in its agricultural exports. Cash crops production have continued to rise at modest rates. In Nigeria, as is the case in the food crop sector, government is unable to implement adequate policies for the fulfillment of this role. To the Nigerian government agriculture is considered a top priority only in the Third National Development Plan. Consequently, state funds aren't significant. Government efforts towards agriculture are limited to quick, costly, and misplanned modernization schemes (irrigation, fertilizers...) which do not respect the agricultural character of the country. In contrast to Indonesia's almost perfectly planned agricultural policies, the various state intervention measures on agriculture pose heavy financial burdens on the state and block local productions.

The third section emphasizes how the state apparatus fulfils a specific economic function of aligning the conditions of production and exchange on the norms and regulations of hegemonic capital. Each state in its own way, supports the establishment of foreign investment in key branches of the manufacturing sector. The relation between the structure of foreign investments according to industrial branch, and the presentation of performances of selected manufacturing branches, reflect the nature of the productive conditions. The presentation of the structure of imports and exports provide useful insights into the conditions of exchange.

The various data lead to several common observations in both of the cases. First, foreign investments tend to concentrate in intermediate and equipment goods, which require a relatively skilled labor force and which are capital intensive activities. The more capital-intensive, high-valorizing branches reveal the greater rates of growth. Therefore, the conditions of production in industry follow the dictates of internationalized capital: the branches of industry in which foreign capital is most entrenched are the ones revealing the most impressive growth

rates. It is precisely in such branches that international capital achieves its ultimate goal: the maximization of the rate of profit extraction.

Secondly, the structures of imports tend to favor capital intensive products in the equipment goods area. The maintenance of the new industrial structure necessitates important inputs of mechanical equipments and repair parts, which must be imported. The conditions of exchange in each social formation can be said to be patterned on the exigencies of internationalized capital.

In spite of the general similarities brought out above, the evolution in the industrial sectors in terms of production and exchanges also possess significant differences. Indonesian production, even in the early eighties, continues to show modest rates of growth. Nigerian industry, however, is stagnant following the decline in the prices of oil. This situation reveals how the self-expansion of capital in industry is very dependent on the flow of oil earnings for the consumption of these products.

Differences in the structure of exports between the two countries are also noticeable: Indonesia manages to develop an export capacity in manufacturing, thus further diversifying its export base and its basis of surplus extraction. Nigeria, meanwhile, does not diversify in any way its export productions. Consequently, the Nigerian structure of exports is hard hit by the recession of the early eighties. While Indonesian exports go down 26% between 1981 and 1985, Nigerian exports decline 41% between 1981 and 1984.

The structure of imports in each case also divulges important differences. Indonesia expresses a growing need for imported equipment goods to supply her industrialization. Nigeria's import structure reveals a decline of equipment goods imports, and a certain success of import substitution in capital intensive branches such as road vehicle assembly and machinery. Food occupies an increasing large share of total imports, while the total value of Nigerian imports shows a decline.

This section has attempted to demonstrate that the integration of a developing social formation into the international process of capital accumulation, relies on the extent to which

this formation's money-capital is internationalized and utilized. Ultimately, the differences between the evolution of Indonesia's and Nigeria's productive structures are due to the modulated conditions of their integration within the global process of capital world scale accumulation. Dominant foreign capitals have entrenched themselves significantly more deeply, more rationally, on a more diversified basis in Indonesia. In the Nigerian case, the general signs of decline in the rates of production (at all levels), the decrease in exchange flows ever since the second oil shock, suggest the disengagement of sources of hegemonic capital from Nigeria. Hegemonic capital, having found other more profitable outlets of investments, possesses only limited use for Nigeria's resources in its movement of expansion.

Does a rational and diversified economic integration into the world economy guarantee the expansion of capital in a developing social formation? Do other factors embedded within the structure of the state influence the conditions of capital expansion? Are there specific mechanisms that co-opt social groups to the interests of the representatives of international capital? Do these linkages favor or cause impediments to capital expansion? The present study believes that the productive utilization of a surplus relies on other factors. Factors involving a specific political function of the state, and consisting in the regulation of the socio-political conditions according to the dictates of world scale accumulation. This aspect is the object of chapter three.

ENDNOTES FOR CHAPTER II:

- ¹ C. Palloix, *Internationalisation du capital (éléments critiques)*, F. Maspero, Paris, 1975, p.106.
- ² I. Palmer, *The Indonesian Economy since 1965. A case study of political economy*, Frank Cars and Company Ltd., London, 1978, p.150.
BIES (Bulletin of Indonesian Economic Studies), vol.9, no.3, November 1973, and vol.12, no.1, March 1976.
- ³ K. Bandyopadhyaya, *Political economy of nonalignment: Indonesia and Malaysia*, New Delhi: South Asian Publishers, 1990, p.114.
- ⁴ The Guided Democracy era refers to the system of government instituted between 1957 and 1965. Its basic characteristic is that it possesses a strong executive with President Sukharno as chief of state acting as mediator between the two growing political rivals the PKI (Communist Party of Indonesia) and the army. This period is described further on in the text.
- ⁵ Carlson, *Indonesia's Oil*, Westview, Boulder Colorado, 1977, p.1.
- ⁶ The 'New Order' is often the designation used to define the post-1965 political order in Indonesia. It designates the military-technocratic establishment which has solidly entrenched itself since 1965. The importance of the military in government will be discussed further on in the third chapter.
- ⁷ Carlson, op. cit., p.14.
- ⁸ Ibid., p.20.
- ⁹ Ibid., p.20.
- ¹⁰ *FEER*, December 15, 1983, p.84.
- ¹¹ *FEER*, December 27, 1974, p.69.
- ¹² This entire section on the two kinds of contracts between state and foreign contractors has based itself mainly on the contributions of Carlson, op. cit., pp.11-24.
- ¹³ Palmer, op. cit., p.140.
- ¹⁴ Carlson, op. cit., p.54.
- ¹⁵ Ibid, pp.53-63.
- ¹⁶ *P.E. (Petroleum Economist)*, April 1976, p.130.
- ¹⁷ Ibid., p.130.
- ¹⁸ *P.E.*, October 1978, p.438.
- ¹⁹ Ibid., p.438.
- ²⁰ Carlson, op. cit., p.59.
- ²¹ *P.E.*, February 1980, p.82.
- ²² Ibid., p.82.
- ²³ *P.E.*, November 1979, pp.461-463.

- 24 A. Iwayemi, "Le Nigeria dans le système pétrolier international", in D.C. Bach and al., *Le Nigéria un pouvoir en puissance*, Ed. Karthala, Paris, 1989, pp.19-38.
- 25 B. Onimode, *Imperialism and Underdevelopment in Nigeria*, London, 1982, p.142.
- 26 J.K.Onoh, *The Nigerian Oil Economy: From Prosperity to Glut*, St. Martins Press, New York, 1983, p.3.
- 27 Onoh, op. cit., p.12.
- 28 A. Iwayemi, "Le Nigeria dans le système pétrolier international", in Bach and al., 1989, p.26.
- 29 Onoh, op. cit., p.21.
- 30 Ibid., p.30.
- 31 *P.E.*, January 1976, p.12.
- 32 Onoh, op. cit., p.23.
- 33 Ibid., p.27.
- 34 W.T. Oshikoya, "Balance-of-Payments Experience of Nigeria: 1960-1986", *The Journal of Developing Areas* 25, octobre 1990, p.79.
- 35 *P.E.*, January 1977, p.21.
- 36 "World Bank's energy report", *P.E.*, October 1980, pp.429-430.
- 37 "Les ventes de pétrole nigérian aux États-Unis ont diminué de 75% entre 1979 et 1983, tombant ainsi à 209 000 barils/jour. La part du Nigéria dans le marché pétrolier américain a chuté durant la même période de 7,7% à 4,3%, tandis que celle du Royaume-Unis augmentait de 1,4% en 1979 à 4,9% en 1983 (5,6% en 1982). Le Royaume-Unis a remplacé le Nigéria en tant que principal fournisseur du marché des États-Unis parce que sa politique de prix ne tenait compte ni de la stabilité du marché, ni de l'OPEP." A. Iwayemi, op. cit., p.33.
- 38 Oshikoya, op. cit., p.75.
- 39 Iwayemi, op. cit., p.28.
- 40 J.-L. Maurer, "L'Indonésie: un nouveau pays industrialisé d'ici l'an 2000?", in *La Nouvelle Asie Industrielle: enjeux, stratégies et perspectives*, (dir.) J.-L. Maurer and P. Resnier, 1989, p.90, from various sources of the *Bulletin of Indonesian Economic Studies*.
- 41 Ibid., p.92.
- 42 This data is taken from Palmer, op. cit., pp.61-3.
- 43 Ibid., p.78.
- 44 "The First Five Year Plan", *BIES*, vol. V, no.2, July 1969, pp.70-79. Note here that the external sources of finance include outside financial aid sources.
- 45 Palmer, op. cit., p.61.
- 46 Ibid., p.66.
- 47 data taken from Ibid., p.65.
- 48 Ibid., p.82.

- 49 Ibid., p.82.
- 50 Ibid., p.89. Among the most common complaints are that officials, who are usually senior village members who exert patronage and authoritarian power, buy paddy privately from farmers, and sell it to the BUUD at higher prices.
- 51 J.-L. Maurer, *Modernisation agricole, développement économique et changement social: le riz, la terre, et l'homme à Java*, Presse Universitaire de France, Paris, 1986, p.245.
- G.P. Hart, *Power, Labour and Livelihood: Processes of Change in Rural Java* (Berkley, Los Angeles), University of California Press, 1986, p.208.
- 52 J. Egg, "La nouvelle insertion de l'agriculture nigérienne dans le marché mondial", in D.C. Bach and al., *Le Nigéria un pouvoir en puissance*, Ed. Karthala, Paris, 1989, p. 172.
- 53 Ibid., 173.
- 54 Ibid., p.173.
- 55 Ibid., p.173.
- 56 Ibid., pp.169-192.
- 57 These numbers are the approximate average of the datas of the Federal Office of Statistics and the FAO, Ibid, p.176.
- 58 T. Forrest, "The Economic Context of OFN", *Savana* (Zaria), vol.VI, no.1, 1985, pp.77-80.
- T. Wallace, "Agricultural Projects and Land in Northern Nigeria", *Review of African Political Economy*, January-April, 1985, pp.59-70, refers to large irrigation projects.
- 59 A.F. Mabawonko, "Economic Evaluation of the Anambra-Imo (ANIMO) Rice Project in Nigeria", in *Agriculture Administration*, no.22, 1985, pp.149-160.
- 60 Beckman, "Neo-Colonialism, Capitalism, and state in Nigeria", in Bernstein and Cambell, *Contradictions of Accumulation in Africa*, 1987, p.89.
- 61 J. Egg, "La nouvelle insertion de l'agriculture nigérienne dans le marché mondial", in Bach and al., op. cit., p.181.
- 62 Ibid., 182.
- 63 Data taken from Maurer, op. cit., 1989, pp.90-2.
- 64 Ibid., p.86.
- 65 *Quarterly Economic Review (Indonesia)*, Annual Supplement, 1975, p.21.
- 66 Maurer, op. cit., 1989, p.93.
- 67 Ibid., p.94.
- 68 This data is calculated based on estimates from: *QER (Indonesia)*, Annual Supplement 1975, p.22; *QER*, An. Sup., 1982, p.31.
- 69 Palmer, op. cit., p.106.
- 70 H. Hill, *Foreign Investment and Industrialisation in Indonesia*, Oxford University Press, New York, 1988, p.83.
- 71 T.M. Roepstorff, "Industrial Development in Indonesia, Performance and Prospects", *BIES*, vol.LXXI, no.1, April 1985, p.33.

⁷² adapted from Maurer, op. cit., 1989, p.90.

⁷³ Ibid., p.92.

⁷⁴ Ibid., p.96.

⁷⁵ Adapted from *QER (Nigeria)*, no.4, 1972 (Index); no.4, 1979 (Index); no.4, 1986.

⁷⁶ J. Philippe, "L'enjeu industriel: nationalisme et indépendance économique", in Bach and al., op. cit., 1989. In his analysis on the Nigerian industrial sector, Philippe divides its evolution in two periods: the liberal period, and the interventionist period.

⁷⁷ Ibid., p.151.

⁷⁸ Ibid., p.152.

⁷⁹ Ibid., p.153.

⁸⁰ Ibid., p.155.

⁸¹ Ibid., p.165. The stock of capital invested in Nigeria according to country between 1964 and 1977 (in millions of nairas):

	Great-Britain	United States	Western Europe	Others
absolute value	956,5	276	719,5	409,4
relative value	40,5%	11,7%	30,5%	17,3%

source: Central Bank of Nigeria, taken from Philippe, op. cit., p.165.

⁸² Ibid., p.165.

⁸³ T.J., Biersteker, *Multinationals, the State, and the Control of the Nigerian Economy*, Princeton University Press, New Jersey, 1987, p.135.

⁸⁴ Ibid., p.137.

⁸⁵ Ibid., p.231.

⁸⁶ Ibid., p.242.

⁸⁷ Ibid., pp.248, 251.

⁸⁸ Beckman, op. cit., p.105.

⁸⁹ Federal Office of Statistics, Lagos, in Philippe, op. cit., p.156.

⁹⁰ *QER (Nigeria)*, no.1, 1971, p.11.

⁹¹ T. Forrest, "Recent Developments in Nigerian Industrialization", in M. Fransmann (ed.), *Industry and Accumulation in Africa*, London, Heinemann, 1982, p.335.

⁹² This data is adapted from Philippe, op. cit., p.156, Federal Office of Statistics, Lagos.

CHAPTER III:

The State's Political Function:

The Regulation of Domestic Socio-Political Conditions

The second chapter examined the conditions of integration between these two cases. It described the economic policies in the industrial and agricultural sectors and analyzed whether these have succeeded in expanding the domestic base for surplus extraction. It has been argued that the enlarged reproduction of capital in the various sectors depends on the extent to which these are useful to the international process of capital accumulation. Newly emerging sectors of production, linked to the new mode of accumulation, dominated by foreign capital, have internationalized the economy. As a consequence, the exogenous determinants of internationalized capital expansion modulate the conditions of domestic capital expansion. In this context, the state's economic role is to render the linkage between the departments of production and the world economy as fluid as possible. This character of fluidity raises questions as to the state's political role. To attract investments and resources for national development the state apparatus seeks to create a stable socio-political climate in the country. This role, in turn, is likely to have an impact on the overall ability of the social formation to make productive use of its surplus, because the existing mechanisms used to fulfil this task of socio-political regulation, require voluminous injections of state funds.

The present chapter assumes that the state apparatus of developing social formations carries a specific ideological function of regulating socio-political conditions to provide a favorable framework for the expansion of internationalized capitals. To be able to carry out its function, the state has a number of historically-rooted mechanisms such as repression, the system of wealth redistribution, the prevalence of clientelism, which together absorb a portion of

the state surplus. The orientation of the surplus towards these requisites of domestic regulation involve a non-productive utilization of the surplus.

This chapter presents each case independently. A first section explores the historical origins of certain mechanisms that foster socio-political stability in the country. The second section examines how these mechanisms have been consolidated.

3.1 Indonesia:

3.1.1 Political Developments in Post-Independence Indonesia:

The political history of Indonesia may be divided in two general periods. The first period, under the Presidential leadership of Sukharno, extends from 1949 (after independence) to 1965. The second period begins in 1965 with the establishment of Soeharto's "New Order" military-technocratic regime; Soeharto continues to preside to this day. For an understanding of the nature of the present regime, it is necessary to refer to the main political events preceding 1965.

The political landscape in the immediate aftermath of independence is characterized by a parliamentary system in which different political forces, secular and non-secular rival between each other. The first years with parliamentary democracy do not establish assertive political leadership. It is hindered by the fact that no single party commands a majority and, moreover, that no party is homogenous enough to give determined leadership. In this atmosphere of political stalemate, Sukharno, who had taken a back seat as a ceremonial President under the 1950 Constitution, becomes the leading political figure. On July 5th 1959, the party system is officially abolished, along with the 1950 Constitution. Indonesia sees a return to the provisions of the 1945 Constitution.

To Sukharno, national unity is of utmost importance. To achieve this end he denies popular participation to parties in the political process. Instead he implements what is termed as "Guided Democracy". "Guided Democracy" is characterized by the lack of formal party

representation in the Cabinet, a weak parliament, and the absence of elections. The centers of power are in the hands of Sukharno and the army. Two years before "Guided Democracy", the system had given great legislative power to local government. However, this new period marks a reversal of this trend towards regional autonomy. Traditional modes of decision-making, based on the principle NASAKOM (a combination of: nationalism, religion and communism) are institutionalized. Governmental bodies, therefore, comprise both political parties and an array of functional groups such as labor groups, women's associations etc.¹.

Masjumi, and another highly active political party PSI (Partai Socialis Indonesia), are banned in 1960². The remaining parties have to register their membership and report on their finances and activities to the government. The PNI (Indonesian National Party) and PKI (Communist Party of Indonesia), among others, actually manage to increase their number of local branches during the period of 1960-1965. They use the support to organize the peasantry and urban workers in a struggle against the landlords and the bureaucratic capitalists³. The bureaucratic capitalists refer to the army-dominated management of previously Dutch-owned enterprises that were nationalized under a late-1957 seizure of large Dutch business interests, hoping that this nationalization would lead to a period of economic prosperity. However, in the 1960s, production decreases while inflation is steadily rising.

In the early 1960s, ideological contradictions grow between Sukharno and the army, the other major source of power within Indonesia at the time. The major point of contention between the two is the PKI, whose expanding influence and base of support become a source of concern for the army. Meanwhile, Sukharno is attempting to court the PKI (and, to a degree the PNI-left), since it is dawning on him that political parties are the most effective organizations for mobilizing mass support.

The PKI itself is riding on the crest of a wave of drastically increased support. Its history has experienced several frustrating and costly setbacks and yet by 1965, it not only has a following of around one-fifth of the population, it is also being sought by the President to legitimize many of his policy decisions. What has particularly antagonized the army is that in

1962, PNI Chairman D.N. Aidit and First Deputy Chairman, M.H. Lukman is granted quasi-Cabinet status as they are included, at Sukharno's behest in the State Leadership Consultative body⁴.

With deteriorating economic conditions the tensions between the army and the PKI finally explode in October of 1965 after a failed coup attempt, in which six army generals loose their lives. The coup is followed by terror and violence on an unimaginable scale, largely directed at known and suspected communists, and also, by racially charged attacks, at the Chinese community which had been the focus of brooding resentment for some time. On March 11th 1968, presidential powers are transferred from the weakened Sukharno to the military leader Soeharto, who is the first to rally armed forces against perpetrators of the coup. Communist purges that result from the paranoia continue mostly throughout eastern and central Java, and in Bali. The army enlists the help of certain Islamic and student groups in carrying out its reign of terror that in four months claims the lives of five times the amount of people that died in Vietnam in twelve years⁵.

From 1966 on, Indonesians live under Suharto's "New Order" regime. The army has complete control over the state and society and has progressively flattened "the landscape of political opposition"⁶. Soeharto himself justifies this centralization of power in the name of modernization and development. The events of the coup, and its immediate aftermath alter immeasurably the course of Indonesian history, and set in place a regime that, having undergone few changes, is still in power today.

The fundamental characteristic of the military regime since 1966 is its institutionalization in all realms of the country's public life, whether political, economic, social or cultural. An Australian academic expresses the particular nature of the latest established regime:

The Indonesian army sees itself as quite different from other armies of the world, because it was never created as an instrument of the state, but was itself involved in the creation of the state.⁷

At the political party level, the army obliges the different parties to dismiss their old executives and to admit only those that are acceptable to the regime. The PNI and especially the PKI are subject to an enormous amount of repression following the 1965 coup attempt and, as a result, the PKI is destroyed as an effective political organization, while the PNI becomes "a mere shadow of its former self"⁸. The Islamic NU manages to retain some vigor and is able to achieve limited political success. Other restrictions on party activity include the fact that parties are banned from expressing criticism towards government. This regulation is enforced under the pretense of the necessity to preserve national unity. Monoloyalty is another concept that is enforced, and refers to the fact that no member of the civil service could belong to a political party. While this is the rule in principle, government employees are frequently used to rally support behind the government-backed and controlled organization, Golkar. Further, the "floating mass" concept is enforced, meaning that no political party is allowed to operate at the village level except during elections. This, however, does not seem to apply to Golkar which continues such activities.

Golkar seats in the People's Consultative Assembly, largely taken by career bureaucrats or other associated with the bureaucracy. These delegates do not have much freedom to express autonomous initiative since they are merely the sponsors of policies arrived at within the government⁹. Following the 1971 elections, the government fuses the nine existing parties into three. Three parties are competing and since Golkar is one of these three, fair competition is practically inexistent. The other two parties are the PDI (the Indonesian Democratic Party), and the PPP (the Islamic Development Unity Party). Liddle describes how the "New Order pyramid" is becoming institutionalized¹⁰. This refers to the fact that in Indonesia under Soeharto, the President is the dominant political figure. The President apparently governs without much consultation from the party hierarchy, and there is strong evidence that Soeharto makes all of the key policy and personnel decisions. Beneath the President in this pyramid are the armed forces, who since 1965 have become extremely active politically. Under the army, the decision-making process is centered in the extensive bureaucracy. State-society relations

have been characterized by the co-optation and repression of political parties. In this way, political parties, even Golkar itself, are not central institutions within the system.

The military being the central political institution, resorts to several doctrinal concepts to justify its political role. One of these concepts is the *dwi fungsi* (dual function) that "provides the moral justification for military intervention in civilian affairs"¹¹. The *dwi fungsi* proclaims the notion of the dual function of the military, namely national defense, and also an essential modernising socio-political role. Another important concept, *kekaryaan*, which supports "the practice of appointing military officers to serve in civilian functions"¹². It has led to the appointment of military men in many of the important bureaucratic and administrative functions of the state. In almost every department military men are serving to, notably as inspector-generals, who have the authority to inquire into aspects of departmental affairs by having access to all document sources. Furthermore, state corporations such as Pertamina (for oil), P.T. Tambang Timah (for timber), or BULOG, the national rice procurement agency, are all controlled by military officials. At the local level, the *kekaryaan* system insures that almost every major provincial and regional position is occupied by military officials. Jenkins of the FEER (Far Eastern Economic Review) summarizes the importance of *kekaryaan*:

At the upper levels of government, the *kekaryaan* system allows military officials to keep abreast of, and help influence political, social, and economic developments. At the middle and lower levels, it provides a framework under which the military can be seen to assisting local communities.¹³

With their favorable political influence, it is generally acknowledged that military men have taken advantage of their position to accumulate fortunes by acting as businessmen in the economic field. The general trend by foreign business, especially in the early years of the New Order, when institutional bodies for the allocation and control of resources are still primitive, is to approach influential officials so they could push to influence economic policy in the direction of foreign interests. Army personnel have always had this interest in adding "outside input" to

their incomes, these being relatively low compared to civilian employment¹⁴. A military attache expresses this trend in these terms:

The conventional wisdom is that you must have a general on your board if you are doing business in Indonesia. ... A foreign company comes in and gives a general a house in return for his services... he can get on the phone and get things through.¹⁵

The New Order military-technocratic regime, established since 1965, manages to institutionalize itself at all levels of Indonesian life. The next part examines specifically the mechanisms which have been consolidated to regulate the socio-political conditions of the country.

3.1.2 The Mechanisms of Socio-Political Regulation in Indonesia:

Having characterized the regime that has institutionalized itself in Indonesia since 1966, it is now easier to comprehend the various mechanisms consolidated by the military to foster specific domestic socio-political conditions. As described above, before 1965 the Parliamentary system and the Guided Democracy era that followed, are tainted by cleavages that form along ethnic, religious, and class lines. With the deterioration of the economic situation, the tensions culminate in the slaughter of the PKI and in the establishment of the military in government. The Generation of '45¹⁶ remembers well the unstable years preceding 1965. For the purpose of orienting the domestic socio-political conditions towards stability, the military has recourse to a number of mechanisms, that by and large succeed in limiting and controlling the action of some potentially destabilizing elements in Indonesian society. These mechanisms act at two levels. First, because Indonesia is an ethnically and religiously diverse country, the mechanisms aim the elimination of vertical cleavages along communal or ethnic lines. Secondly, the success of the PKI in the pre-1965 period suggests a significant capacity to organize elements of the society in politically active groups. Therefore, the mechanisms of socio-political regulation utilized by the military have an influence at both these levels. Important mechanisms in the Indonesian case are repression of opposing political forces, economic prosperity, clientelism, and specific policies which homogenize the society. These mechanism, however, carry imperfections and the

apparent stability is delicately held by miraculous economic recovery and prosperity. This aspect is discussed in the latter portion of this section.

The first mechanism is direct or indirect repression. Within Indonesian society the most repressed social groups have been the left (socialists and communists) and the middle-class, in which are included Muslims and students. As mentioned above, the repression of the left was performed mainly between 1965 and 1967 by ruthless campaigns of execution and imprisonment. Most of the known PKI activists have been assassinated or imprisoned.

The fast pace of industrialization and the resulting increase of the living standard have subjected the society to profound transformations. The increase of the literacy rate¹⁷ and the rise of political awareness results in the emergence of an important middle-class. It gathers a number of different groups among which Muslims, small merchants, and students... Within this class, the most prominent and vociferous element is the Muslim fundamentalist group. This group's political and economic prestige has been consistently sliding downwards with respect to its former position during the days of strong nationalism, when Islam was considered a uniting factor. Throughout the seventies, Muslims are subjected to repressive measures by the military. For example, Muslim preacher and political activist A.M. Fatwa is sentenced to eighteen years of prison for having committed subversive activities. His trial is "a farce"¹⁸: half the defense witnesses are disallowed; prosecution witnesses would give inconsistent factual accounts; judges would reach verdicts without considering the defense sufficiently...¹⁹. Moreover, students are violently repressed on various occasions. In October of 1981 a group of students attend a seminar given by a former political prisoner, Pramudya Ananta Toer, at the University of Indonesia. These students are subsequently arrested "and thrown into a military prison" for having invited Toer to talk about the role of intellectuals in the Third World. Toer had been jailed for fourteen years, following the 1965 coup "for his leading role in a leftist cultural organization"²⁰. Besides illustrating how restricted the middle-class intellectuals are, this example shows how anyone of leftist orientation is considered a political threat to the regime.

Generally, the middle-class has become increasingly aware and concerned of the government's disrespect for what they consider their basic rights²¹. They are concerned with the "rights pertaining to the integrity of the person, including freedom from torture and other degrading treatment such as arbitrary arrest"²². This is not a surprising attitude considering the seriousness and scope of the regime's abuses since 1965. Moreover, the middle-class shows its concern for the extensive and widespread abuses directed towards the minority groups such as the Chinese and Timorese. The reaction of the middle-class is quite simple to explain. Due to the rise of such a politically aware class, it becomes difficult to relate political legitimacy solely on the grounds of economic development and growth. With the rise of consciousness, the middle-class becomes concerned with the respect of civil, political, and social rights. King points out that the human rights issue has "become a central element in the evolving ideology of middle-class groups"²³.

When raising the human rights issue in the Indonesian case, it is difficult to overlook the extent of repression applied by the military against secessionist movements on the fringes of the Indonesian archipelago. A particularly brutal and cruel episode of the post-1965 period is the armed forces invasion and annexation of East-Timor. The East Timorese continue to lead a guerrilla struggle against the military. The number of victims has been estimated at 200,000 or nearly one third of the total population of the former Portuguese colony. The abuses inflicted against the Timorese are limitations of access, detention, resettlement, actions of torture, and extrajudicial executions²⁴. FRETILIN, the national revolutionary front with a Marxist-Leninist orientation, takes power following a short civil war in December of 1974. The military suspects that FRETILIN could be a base for communist infiltration into Indonesia. This fear of communism dates back to the pre-1965 years when the PKI is the main political force competing with the army. In spite of the various efforts of the military to repress the slightest manifestations of the left since 1965, an inherent fragility prevails. The propensity within Indonesian society to mobilize along class and communal lines has not dissipated. The presence of a separatist guerilla movement, such as FRETILIN, could awake buried ethnic and communal

sentiments in the population, particularly in such peripheral regions as East-Timor or Irian Jaya. Horta accounts for this fear as follows:

In the mind of the generals around Suharto, the incorporation of the former Portuguese colony into the Republic was simple common sense: the western half of Timor was already Indonesian so why not Portuguese Timor? Its absorption would complete the archipelago and would preempt future problems. Why allow a small independent country in the midst of the Republic- a potential base for the remnants of the outlawed Communist Party (PKI)- as an inspiration for the separatist sentiments in West Timor, the Moluccas, West New-Guinea and Aceh Sumatra.²⁵

Another people currently pursuing a liberation struggle against ABRI (Indonesian Armed Forces) are the inhabitants of Irian-Jaya, the large territory neighboring Papua New-Guinea at the far-east of the Indonesian archipelago. The Papuans are considered by Indonesians as 'inferior beings' that ought to be converted and assimilated to modern values. In fact, protestant missions, the creation of Indonesian and foreign colonies, and especially brutal repression aim at forcefully integrating these traditional people. The Papuans are reluctant to let Indonesians determine their way of life. Ever since 1965, the scarcely organized OPM (the Organization for an Independent Papuaasia) has survived the several brutal expeditions applied by the Indonesian Army ²⁶. Jakarta, however, is not prepared to renounce this territory, because it provides infinite energy and mineral resources. The American group Freeport has established there what is one of the most productive copper and gold mines in the world.²⁷

From the various episodes mentioned above, the role of repression to create the stable socio-political framework for economic development cannot be neglected. Repression is a key mechanism to eliminate disrupting and divisive social forces within the country.

A second mechanism which contributes to broaden political support for the regime, is the allocation of state revenues to different and varied segments of the population. Government expenditures are used to raise the salaries of civil servants to strengthen their loyalty to Soeharto. Following the rapid rises in crude and product prices during 1979, one of the governments greatest items of expenditure has been the salaries of civil servants. In April 1980 government workers receive an average 50% salary increase²⁸. Moreover, other segments of the population

benefit from increased state spending. In agriculture, through the implementation of such programs as INPRES and BIMAS, the government invests flows to subsidize fertilizers, to import rice, to rehabilitate and construct irrigation systems. These programs widely improve the living conditions of the rural population. The INMAS program fosters labor-intensive development projects at the grass roots level, by rehabilitating existing infrastructures (roads, markets...) and by constructing new education and medical facilities. As termed by *Far-Eastern Economic Review*:

The Inpres projects are designed to contain "an employment-multiplier effect" in addition to their income-distribution effect. Experts say that if the programs are correctly and carefully carried out, the desired multiplier effect should be felt in the formation of capital; a broadening of the field of productive work; an increased income for the lowest income group; and an attack on existing poverty levels.²⁹

Though agriculture production yields and employment levels continue to increase, many specialists point out that the nature of these programs seem to have benefited the wealthier strata of the rural society³⁰.

Another mechanism relates to different kinds of corruption which provide channels between government and social groups at large. The prevalence of clientelism in government has origins in Javanese and colonial heritage³¹. A first category of clientele practices, designated as "simple corruption", refers to "the misappropriation of state funds for private purposes"³². It is particularly prevalent within the low level ranks of the bureaucracy and military. Generally, it has been considered as a legitimate means "used to finance a whole subsection of the administration apparatus".³³ Through these practices the loyalty of lower ranking officers to army leadership is insured. As long as there are no excesses and as long as these practices are not performed behind the backs of senior officials, these are accepted. Moreover, patron-client linkages mark the relation between higher rural land-owners and the lower strata of the rural population. These relations are particularly prevalent in isolated rural areas, where the more powerful elements of the rural group are responsible to insure the proper implementation of such state agricultural programs as *Inpres* and *Bimas*³⁴.

However, corruption becomes a main source of public criticism causing social unrest particularly among students in the early 1970s. The regime responds to these criticisms by setting up boards, such as the "Team to Eliminate Corruption" (TPK), responsible for inquiring into cases of corruption. Generally, these boards do not pursue to investigate illegal practices at high-levels, rather they concentrate on trying minor officials³⁵.

More important than simple corruption are the complicated clientele networks linking government to private enterprise. The *cukong* designates the relation between a Chinese businessman and a powerful official, whereby the businessman is protected by the official in return for favors or profit payments³⁶. President Soeharto is associated to *cukong* with the Liem family, one of the most important business groups in Indonesia. It is believed that the Liem family has control over 40 companies with an estimated turnover of over US\$1 billion a year. The group's largest investments are in manufacturing and in heavy industry: in Bogasari, a flour-milling company, and in Indocement, the country's largest cement producer. The group also possesses interests in financial services, trade and in the distribution of medical facilities, timber, heavy equipment, and motor vehicles³⁷. In short, the relationship between the President and the business sector is assured through the establishment of *cukong*, giving direct control and information on the main business initiatives in the country. *Cukong* is the ground on which many foreign representatives, especially in the early years of the regime, address Generals or influential military personnel to represent their interests. A foreign businessman describes the logic behind this association with the military in the early years:

The idea was that the army would be the logical local partner because the foreign company wanted someone with influence and push. Well, they've sure got the influence and they've sure got the push.³⁸

While such practices are not conceived by the military as down-right corruption, they are the main sources of critique towards the regime³⁹. Crouch summarizes how government distinguishes between low-level petty-corruption and high-level clientele practices with business partners:

For the army leaders, the provision of contracts, credit, and licenses for colleagues, friends and relations or in exchange for "commissions" was normal business practice. To them the term "corruption" covered activities of a quite different sort carried typically by low-level officials behind the backs of their colleagues, such as embezzling funds or misusing government property.⁴⁰

Although corruption constitutes a major source of criticism towards the New Order, it becomes, by and large, a means not only to share the benefits of oil wealth with a broader spectrum of the population, but also a means through which the government achieves support of powerful elements of the private business-class both domestic and foreign. These practices provide a network to channel and control business interests in Indonesia, establishing a direct linkage between state and capital.

To legitimize itself, the Soeharto government has resorted to a number of culturally-rooted principles, such as *kerukunan* and the *dwi fungsi*. These have already been elaborated above⁴¹. Such concepts legitimize military presence at the grass-roots of Indonesian social, religious, and ethnic life. The military, in this way, through the elaboration of policies and because of its underlying organizational structure, becomes a central homogenizing force for eliminating or absorbing important vertical cleavages along ethnic, religious or linguistic lines.

An important policy that reflects the military's role as a homogenizing force are the massive transmigration campaigns aiming the displacement of large populations from dense areas to less populated ones. Through these policies "Jakarta hopes to remove some 5 million people, mainly poor landless Javanese (and some Balinese) farmers"⁴² to such outlying parts of the republic as Irian Jaya. These policies are not welcomed by indigenous people, who view transmigration as attempts at "Javanization" of Indonesians⁴³.

Another point exemplifying the military's homogenizing role, is the presence of corporatist or quasi-corporatist organizations linking the government to particular segments of the population. The Majelis Ulama Indonesia (MUI) is designed to provide channels of contacts between the government and local Muslim organizations by integrating elements of this group.

Through such organizations as the MUL, the military succeeds in controlling, journalists, business, land-owners, union-representatives... 44

To recapitulate, this part has presented different mechanisms aiming the regulation of socio-political conditions, namely repression, economic performance, clientelism, and policies with a character of cultural homogenization. These consolidate and broaden the support for the regime and establish a favorable socio-political framework for capital formation and expansion. In the Indonesian case, the process of socio-political regulation involves a dynamic relationship between the different mechanisms identified in this part. It is this relationship that defines the basis of interaction between the Indonesian state and its society.

Controlled by an authoritarian regime, the locus of political power in the Indonesian state lies in the hands of military officials and of a subordinate bureaucracy constituting a class of "politico-bureaucrats"⁴⁵. As emphasized above, this group expresses a firm commitment to national economic development. Clientelism serves the purpose of fostering the cohesiveness of the state by rewarding civil-servants. To a greater extent, it serves to broaden the influence and control of this class over the economy. Most remarkably, the politico-bureaucrats become linked to the main business corporate groups of the country. Since the dominant capital-owning classes are foreign (the Chinese), they do not possess a "legitimate public role in Indonesian politics"⁴⁶. They depend on the politico-bureaucracy to render their investments profitable. Robison observes this phenomenon:

Increasing numbers of officials and their families secured equity in client corporations, mostly Chinese owned, and established trade monopolies. Because they were able to determine the flow of patronage in a heavily state-controlled economy, they could virtually guarantee huge profits at the corporate level. With the blurring of the boundary between political power and bureaucratic authority, an increasing fusion of politico-bureaucratic power and corporate capital ownership had developed, which constituted one of the driving forces behind the growth of private domestic capital.⁴⁷

The major bureaucrats and state managers, therefore, "appropriated the authority to direct investment, allocate contracts, and grant import monopolies"⁴⁸, and gradually came to have an

interest in the economic affairs of the country. This political class, therefore, has gradually increased its capital-owning character .

The second oil shock has a significant impact and weakens the relationship between the politico-bureaucratic class, capital, and society. The drop in oil prices forces the government to encourage export capacity in other non-oil sectors. Economic policy shifts from an industrial policy based on protection and regulation to one fostering liberalization and privatization. As a result, there are dividing strategies on what course of economic development to take: military and civil bureaucrats, private and state-owned capital in the up-stream sector, and importers of industrial inputs support state-led industrial strategies; other groups, such as planners from the World Bank and domestic downstream producers, argue in favor of diminished state control over the economy⁴⁹. Furthermore, clientelism, which has been the basis of the pact between the political class and the foreign capital-owning classes, is now considered an impediment to the development of an export-oriented manufacturing industry⁵⁰.

Since the second oil shock, the cohesive relationship between state, society, and capital based on the interaction of different mechanisms of socio-political regulation, has been weakened. As we have already mentioned, repression has come under severe criticism by the middle-class; clientelism is no longer considered as an adequate means to establish control over corporate interests and bureaucrats; economic performance, while it hasn't been affected yet, may be influenced by the division in high levels of government on what role the state is to play in the economy. The prospects of change in Indonesia will be discussed in the concluding chapter of the study to determine whether there are cohesive, broad-based forces that can bring about important transformations.

3.2 Nigeria:

3.2.1 Political Developments in Nigeria since Independence:

In Nigerian society the fundamental cleavages which threaten the socio-political framework of the federation run along ethnic and communal lines. As a scholar of African politics points out "the major forms of mass action in the "developing" countries of Africa and Asia are communal, tribal, and religious movements that conform to vertical social divisions between historic "peoples," religious communities, and cultural nationality groups"⁵¹. This feature well characterizes the socio-political developments in recent Nigerian history. The Nigerian federal system attempts to reconcile "unity in diversity", by respecting the distinctiveness of its ethnic and religious diverse heritage, while reinforcing national unifying values. The reconciliation of national unity and cultural diversity is attempted within the context of a federal political system, which, since the oil-boom years, institutionalizes various mechanisms of socio-political regulation. Before elaborating in greater detail these mechanisms, a general evolution of Nigerian politics is presented.

The rising nationalist fever spreading across the Third-World in the immediate aftermath of the second world war, establishes the Nigerian 1954 Federal Constitution. The country is divided into five geographical components: North; East; West; The Federal territory of Lagos; and the Southern Cameroons. The federation achieves independence in October of 1960. A parliamentary system is created instituting a House of Representatives and a Senate in the legislative branch; the executive branch is in the hands of the Council of Ministers over which presides the Prime Minister.

There are a number of contradictions that arise from the fact that a democratic party-system is too modern, too sophisticated to affirm constitutional legislation over ethnic loyalties. Sklar⁵² evidences that the parties are dominated by political leaders who seek to expand their

base of political support along ethnic lines. The dominant parties, therefore, possess a regional basis of support. The NPC (The Northern People's Congress), for instance, represents the Northern populations; the NCNC (The National Council of the Nigerian Congress) and the AG (Action Group) represent the inhabitants of the west. A number of contradictions arise, which bring the First Republic to its demise. First, the constitutional powers are not consistent with the actual distribution of powers. While the North has political superiority in the legislature, it is the South that dominates at the development and economic level. Secondly, the Party-machinery functions at a super-regional level, yet in this case the political machinery of the country is regional. The political system embedded with these functional contradictions politicizes diverging, divisive forces which the Federal structure is incapable of absorbing⁵³. A complex series of events, including a controversial national election, two coups within a year, and the massacre of the Eastern Ibos by Northerners, climax in the outbreak of a civil war (the Biafra War). The Ibo rebels, as inhabitants of the East, lead an armed struggle against the Federal forces to achieve secession.

The Federal forces knowing that the reintegration of the Eastern part is just a question of time, already set-out to make preparations for the post civil-war system. The priority of the new military regime is to promote stability through the "federal character" principle, while avoiding the consolidation of centrifugal regional forces that could plunge the federation into renewed episodes of civil war. The dominating feature of the Gowon regime is a close partnership between the military and the civil service⁵⁴. The military is primarily concerned in assuring the stability and unity of the country, by occupying such high levels of government as military governor, the members of the supreme military council, and the FEC (Federal Executive Council). The new structure, marked by a clear shift towards centralization at the federal level, has the following organization: the head-of-state and commander-in-chief of the armed forces preside over the SMC (Supreme Military Council), locus of the legislative and executive powers and composed of leading military officers and state governors. The FEC, is composed largely of qualified, skilled civilian personnel, who run the business of government on a day-to-day

basis. The regional level is administered by a military governor assisted by a state executive council composed of civilian leaders. The structure of the local government is determined by each regional government independently⁵⁵.

At this juncture, it is important to emphasize the role of the small group of the high civil-service called the "super permanent secretaries". These attend the SMC meetings and often influence policy formulation and implementation. Also, these secretaries are approached by the regional governors "to lobby for their support at the SMC meetings for the proposals of their states"⁵⁶. Under Gowon, the higher civil service (permanent secretaries and administrative staff) have direct participation, within the FEC deliberations. In other terms, it is believed that they are the actual policy-makers. The military, not possessing the managerial skills or qualifications, depends on the civil bureaucrats for expert decision-making⁵⁷. Bienen summarizes the partnership relation that binds the military to the bureaucracy:

Even with its expanded size, the military did not often reach down to the grass roots. It continued to rely on federal and state civil servants, who held their positions from the civilian regime, for both policy formulation and implementation. Officers did not want to become deeply involved in representative politics; nor did they feel competent to exclusively dominate policy discussions on economic issues although they had the final say on decisions brought to them by civil servants. The civil servants' own roles and power expanded.⁵⁸

The Gowon regime and the regimes that follow succeed in bringing about socio-political stability. Evidence reveals that in these years communal conflicts significantly decrease in Nigeria⁵⁹. However, other problems arise, due to the lack of discipline within the civil-service.

In the oil boom years, the state administrative apparatus expands and is overflowed by large volumes of financial resources. Rivalries arise within the civil-service to have access to the large amounts of wealth. There is a discord between the administrative and professional classes of the bureaucracy. The professional class, being experienced and older, have a lower income than the administrative class who is younger on average⁶⁰. Also, there is a general lack of trust of civil servants towards the business sector. "New pushful businessmen lamented the great fortunes they might have made, but for the alleged obstruction of 'powerful civil servants'"⁶¹.

Finally, in this period, the new state wealth leads to rising clientele practices. This aspect is elaborated further on.

The Nigerian military has difficulty to establish the foundations for bureaucratic discipline and unity at the federal level. It has not entrenched itself within the lower levels of the civil-service to survey the conduct of civil-servants. The Nigerian civil-service lacks loyalty and commitment to the causes of national economic development and modernization. Rather, this group has benefited from a great degree of autonomy, which in its very nature always carries the regionalism of the past.

3.2.2 The Mechanisms of Socio-Political Regulation:

As in the Indonesian case, the Nigerian government resorts to a number of socio-political mechanisms of regulation to orient the domestic socio-political conditions towards stability. The rise of an external source of revenue has an impact of greatly expanding the public sector. It generates increasing rivalries between politicians competing to have access to privileged administrative positions. This competition leads to the geo-political fragmentation of the Federation in an increasing amount of states. The system of revenue allocation from center to state, is the key mechanism bringing stability to the Federation. Contemporarily, the present system institutionalizes corruption, through which a greater number of Nigerians can accede to the center's wealth. Corruption and the system of national wealth redistribution are the important mechanisms which fulfil the state's socio-political function.

The evolution of the Nigerian Federal System is characterized by the fragmentation of the "geo-political space", where the number of the states belonging to the federation passes from 3 in 1965 to 21 in 1988⁶². The fragmentation of the Federation in a number of regional states is explained by the fact that these regions all want to have access to the wealth distributed by the center. As emphasized by Bach, "depuis 1970, le mode de redistribution des revenus

fédéraux incite à la division des États, car les composantes issues de ces derniers sont assurées de revenus statutaires proportionnellement supérieur à ceux précédemment perçus par l'État dont ils sont issus"⁶³.

This mode of redistribution is maintained through the "federal character". Ibrahim defines this principle as follows:

Le principe du "caractère fédéral"... concerne l'incorporation de "représentants" de tous les grands groupes ethniques du pays et de chaque État de la Fédération dans chaque régime, principe si cher aux yeux des Nigériens...⁶⁴

The primary objective of this principle aims the minimization of the discords and conflicts that arise when certain religious, ethnic, or social groups consider themselves politically isolated. This concept obliges that the selection of the personnel in public affairs be done according to representation and merit⁶⁵.

From this principle derives the system of revenue allocation of the resources of the center towards the states. The system aims directly the minimization of tensions between groups to foster a stable socio-political climate. It favors stability in two ways: the system encourages "unity in diversity", by diffusing the religious and ethnic centrifugal forces; the atomization of the geo-political space implies growing economic interdependence between the states. These factors tend to consolidate the political unity of the federation by giving a greater role to the center⁶⁶.

However, the functioning of this system is based and supported by the redistribution of wealth organized around the surplus generated through oil exports that the central government must distribute in an equitable. The division of Federal revenue following the revision brought by the Okigbo commission in 1979, has the following distribution:

-Government of the Federation	55%
-Federal States	30%
-local Governments	8%
-Other special funds	7% ⁶⁷

These funds from the center to the states are redistributed according to the following criteria:

Equality between the states	40%
Population in the state	40%
Social Development, in relation:	
-to the number of primary students	15%
-the internal fiscal effort of the state	5% ⁶⁸

The most important consequence of this system of national wealth redistribution is that the wealth is redistributed from the South to the North. The Northern States for the most part, with the exception of Kano and Kaduna, receive 80% of their total revenue from the central government. Such states as Bauchi, Sokoto, Gangola, and Niger perceive respectively only 13,4%, 15,2%, 16,8%, and 17,4% in an autonomous way. The remainder derives from the funds of the Federal center.⁶⁹

TABLE 3.1:
The Distribution of Federal Government and of States' Expenditures
by Main Function:

Year		Administration	Social	Economy	Transfers	Total
1970	Federal Gov.	70,3%	2,2%	8,0%	19,5%	100%
	States	18,9%	41,3%	30,1%	9,7%	100%
1976	Federal Gov.	26,2%	22,2%	34,3%	17,3%	100%
	States	14,3%	47,7%	25,9%	12,1%	100%
1986	Federal Gov.	20,1%	14,8%	19,9%	45,2%	100%
	States	25,5%	32,8%	18,4%	23,4%	100%

source: Author's translation of the table. Taken from Phillippe, J., "Le fédéralisme et la question économique", *Politique Africaine* 32, 1988, p.39.

An examination of the evolution of federal governmental and regional expenses, reveals the prevalent tendencies of this system of allocation. First, an important decrease in federal

administrative expenses is noticed. These go from 70,3% in 1970 to 20,1% in 1986. A reverse tendency is noted with respect to State administrations. The portion of expenses rise from 18,9% to 25,5% between 1970 and 1986. At the state level, while administrative expenses and transfer payments increase by 6,6% and 13,7% respectively, social and economic expenses diminish by 8,5% and 11,7%. The growing weight of transfers (debt payment) constitutes almost half of the federal expenses (45,2%) in 1986, and nearly one quarter of the region's expenses (23,4%)⁷⁰. The two most remarkable tendencies are: the role of the states in the economic and social functions has gradually eroded at the expense of rising administrative expenditures; the federal government's increasing involvement in the economy and the growing centralization of the economy is illustrated by the growing federal expenses allocated towards this function.

This system of revenue allocation to the states, organized around a source of wealth generated from the outside, "confère au gouvernement fédéral un rôle de collecte et de distribution qui favorise le développement du clientélisme au niveau fédéral par des pratiques frauduleuses liées à la politique de développement"⁷¹. In the states, it induces administrative irresponsibility, because the governments dispose of large funds deriving in great part from the center rather than from regional sources⁷². The state-level administrations, therefore, possess a great deal of autonomy in determining how these funds are utilized. The federal system sets up clientele networks which render the national wealth accessible to an increasing number of Nigerians.

To emphasize the prevalence of corruption in Nigeria, an article of the Weekly Star entitled "The Nigerian and Corruption" makes the following analogy on the cover-page: "Preventing a Nigerian from becoming corrupt, is like preventing a goat from eating yam"⁷³. It is particularly during the second Republic (1979-1983) that corruption expands and takes a variety of forms, such as nepotism and the embezzlement of public funds. The public sector sees a number of controversial scandals. For example, in 1979, the Nigerian authorities notice that N2,841 billion are missing from the NNPC (National Nigerian Petroleum Corporation)

accounts at the Midland Bank in London. Following this discovery, judicial measures are taken to investigate on the disappearance of this considerable sum. It seems that Nigerian custom-officers, having accepted payments by foreign companies, allowed important volumes of oil to leave the country.⁷⁴

Another similar example, is presented in the telecommunications sector. In 1983, the Federal Ministry of Communications declares "the federal government is loosing N50 million a month in salaries"⁷⁵ to pay workers that don't exist. In one year this would sum up to a value of N600 million. This amount, as pointed out by Achebe, could cover the costs for the construction of two international airports or a highway from Lagos to Kaduna.⁷⁶ The prevalence of corruption in this country cannot be considered in a dispersed way. Rather, it is an integrated part of a nation wide phenomenon, which the political system legitimizes and reinforces in order to incorporate vertically various segments of the population.

An analysis of clientelism in Nigeria, is designed to show how these practices integrate portions of the population and also how these effect state intervention in accumulation. To understand the nature of clientelism in Nigeria, the role of the perpetrators of such practices at high-levels of government, i.e. the dominant bureaucratic, professional class, is examined. There are two contrasting interpretations on the dominating Nigerian class. It is considered either as a consolidated bourgeoisie, or simply a dominant class that relies entirely on the public sector for the pursuit of its economic interests. Forrest, for example, emphasizes that the nationalization programs of the 70s enhances "the accumulation and concentration of wealth amongst bureaucratic, professional, and intermediate classes"⁷⁷. In this way it consolidates bourgeois political and economic power. However, this conception of the Nigerian elite as a mounting bourgeois class dominating a "bourgeois state" is somewhat inadequate. The bourgeoisie is the social group that possesses the means of production and sets down the economic grounds for accumulation. If the Nigerian bourgeoisie is in fact solidly entrenched, why then is the country so hard hit by the second oil shock? As pointed out by Joseph, if the

Nigerian bourgeoisie entrenches itself with an economic interest in national development, "Nigeria would be far better able politically and economically to withstand the steady drop in state revenues, since the final years of the Obasanjo regime"⁷⁸. Rather, the fact that the country is so hard hit, reveals the bourgeoisie's "deficient"⁷⁹ class action, since it does not establish the foundations for accumulation in other sectors. The ruling elite, therefore, finds little propensity to concentrate on improving the productive structures of the economy (normal function of the bourgeois class), because the economic initiatives of this class are entirely dependent on the public sector. Joseph sums the particular nature of the Nigerian bourgeoisie:

...while one can definitely agree that a Nigerian bourgeoisie exists, it is equally true that this class has an economic orientation and a set of priorities that render it fundamentally incapable of ruling without squeezing dry the arteries of the state itself.⁸⁰

To explain why the bourgeoisie has difficulty to consolidate its economic interests is due in large part to the lack of class-based political mobilization from below⁸¹. Social conflict in Nigeria tends to follow a sectional, rather than a class basis. Here Hyden's⁸² contribution is useful. He conceives the African bourgeoisie as closely associated to their respective communal groups. The linkage is not made on the basis of the bourgeoisie's class-action, but through the formation of social networks exchanging political support for social welfare benefits⁸³. In other terms, what binds the bourgeoisie or the elements of the bureaucratic class with society are communal or ethnic ties which are linked and sustained by patron-client relations. As articulated by Joseph, "the grid of Nigerian society is an intricate and expanding network of patron-client ties, which serve to link communities in a pyramidal manner"⁸⁴. The social system becomes a hierarchical pyramid of many "ethno-clientelistic networks"⁸⁵ each competing to have the greatest share of the "national cake"⁸⁶. The ultimate result is a competition to occupy some key administrative positions in the high-civil service, so that through clientele relations, the benefits offered by this prestigious positions are redistributed from the provincial or state capitals to the village levels. "The higher (in political terms) the office, the larger its budget, the wider its array

of jobs, the greater its control of permits and contracts - these are the factors which determine the fierceness of competition for such an office"⁸⁷.

The political behavior present in Nigeria tending to favor sectional lines of division, has been qualified by Joseph as "prebendal politics"⁸⁸. Prebendal "refers to patterns of political behavior which reflect as their justifying principle that the offices of the existing state may be competed for and then utilized for the personal benefit of office-holders as well as that of their reference or support group"⁸⁹. The result is that statutory purposes of offices and civil-servant responsibility towards their professional function become subordinate to informal communal interests. The primary concerns of these offices are to distribute wealth in view of sharing with close associates, relatives and friends, the privileges linked to high-office. This type of political practice may redistribute funds on a more equal and widespread basis, however, it distorts and impedes adequate state intervention in the economy. Only fragments of the wealth actually become invested productively. Furthermore, 'prebend' necessitates constant and increasing flows of wealth to maintain the whole clientele networks cohesive. The running dry of the well of wealth, may likely breed widespread disenchantment, disaffection, and distrust towards the bureaucracy and the government⁹⁰. Moreover, the decline in state spending could further intensify the struggle and competition for top administrative posts, thus breeding growing tensions between groups and a probable return to the chaos of the past.

Nigerian federalism provides a degree of social stability with its institutionalization of the 'federal character' in the system of wealth redistribution. However, the real cost of this stability is economic efficiency, since national socio-political regulation under this federal system breeds a selfish competition between members of the administrative apparatus. Large volumes of the surplus are spilled wastefully.

3.3 A Comparison between the Mechanisms of Socio-Political Regulation:

This chapter has assumed that specific socio-political conditions are necessary to provide a favorable framework for accumulation. This depends on the state's capacity to orient socio-political conditions towards stability, by a political system, which through different mechanisms, succeeds in regulating, controlling, softening present cleavages. This chapter views socio-political instability as a major obstacle to the establishment of articulate structures (social and economic...) of accumulation in a developing social formation.

The state's function of socio-political regulation necessitates the establishment of different mechanisms. The first section of each part, has emphasized the political developments that give rise to the existing state framework. The presentation of the past political developments provides several observations about the nature of the existing regimes. In Indonesia, political and social organizations follow both vertical (with strong Islamic movements) and horizontal (the PKI and its broad-based support of the Javanese peasantry) cleavages. This obliges the New Order government to establish itself, from the beginning, at the grass roots level, to control the political mobilization of the population. Constant measures are undertaken to prevent the organization of strong opposition groups. In fact, the military succeeds to control almost all areas of Indonesian social, economic, and political life. Nigerian society, in contrast, does not possess a clear development of class-based organizations. Rather, the dominant cleavages follow communal, tribal, ethnic or linguistic lines. The military regimes that are established, do not have the success of the Indonesian counterpart. On one hand, they are not able to impose discipline and commitment on the bureaucracy for the pursuit of development and modernization. On the other hand, the military government only has limited involvement at the grass-roots level of society. Rather, policy formulation and implementation is left to the initiative of the Nigerian civil-service. They possess the qualifications to make sounded decisions. Moreover, during the oil boom years, the grounds of legitimacy in Nigeria are solely political, based on the respect of the 'federal character'. There exists little incentive for the

government to be economically responsive. In Indonesia, in contrast, because there exists such a strong social disposition to mobilize and organize mass-based groups, it is imperative that government be responsive to the economic expectations of the population. Therefore, channels of redistribution that spread the benefits at all levels of society are instituted.

The fundamental characteristics of each regime have greatly influenced the mechanisms of socio-political regulation. In Indonesia four mechanisms, namely repression, economic performance, corruption, and the homogenization of the society through specific policies, interact dynamically. While they serve the purpose of consolidating a favorable socio-political framework for international accumulation, they also provide the state with the necessary autonomy to intervene favorably on the domestic productive structures. In the Nigerian case, one of the most important mechanisms having performed the regulatory function is the system of revenue distribution. The enlargement of the federal public administration causes the impressive rise and spread of clientelism as a means of enrichment to many Nigerians.

As noticed above, clientele practices are an important feature of the socio-political reality of each country. These practices play a key role in distributing state wealth throughout the society, in countries where institutional means for distribution, security, or services are lacking. However, this chapter has emphasized that there are some important differences between the form of clientele networks which have evolved with the expanded state resources. In the Indonesian case, the establishment of the military at all levels of government patterns the clientele networks on the requisites of economic development and modernization. These aim at broadening the regimes support by rewarding low-level civil-servants for their loyalty. Clientele practices performed behind the backs of military officials for the selfish gains of a few, are punished. These practices have also established a direct contact between powerful elements of the military and the business community, thus permitting control over economic initiatives. The clientele networks centralizes political and economic power, and thus enhance the regime's control over these functions by bringing a degree of fluidity to the state apparatus that may even improve the conditions of domestic accumulation. In Nigeria, these practices differ greatly in

their patterns. Though the important volumes of funds and state spending have an effect of bringing socio-political stability, the state itself is not strengthened. The clientele networks engender bureaucratic indiscipline, expressed through a selfish drive to have access to the wealth of the center. The remarkable result of this competition within the expanding public administration is the atomization of the geo-political space.

These differences, added to those of the other mechanisms of socio-political regulation, affect the ability of each State to intervene in accumulation in dissimilar ways. Because in Indonesia "economic prosperity" figures among the mechanisms of socio-political regulation, the state is obligated to improve the conditions of accumulation on a large scale. In this way the benefits brought by oil are redistributed throughout the society. As demonstrated, corruption at higher-levels, seems to even favor this redistributive process by securing channels for productive investment. In the Nigerian case, the surplus generated from oil has been mainly oriented towards regulating internal socio-political conditions, leaving only a fraction to be actually invested productively. Because these mechanisms neglect the requisites of national development, favorable conditions for accumulation (such as the growing cohesiveness of the state, the unity and the discipline of the bureaucracy) do not emerge out of this political system. Rather, the state's intervention in accumulation is extremely rigid.

With the expanded volumes of state financial resources, each developing social formation institutes specific mechanisms to consolidate and establish a favorable socio-political structure to intervene in accumulation. However, as specified in chapter two, the changes in the international conjuncture of oil products leads to a significant reduction in state revenues. What is the impact of declining government spending on the social structures of the developing social formations? Are there any groups (peasantry, workers, middle-class) that no longer benefit from the state's wealth? Is the isolation of such groups from the process of wealth redistribution likely to breed new tensions, leading to new types of social organizations along particular cleavages? Are these cleavages likely to resemble those of the past? Are the present state structures and their mechanisms capable of absorbing or diffusing the action of these

discontented groups? This inquiry into the possible social consequences is the result of two phenomenons. First, the social formation's integration into the world economy is stringent and does not necessarily involve certain segments of the population. Secondly, the state fails to adequately fulfil all its socio-political regulatory tasks. These concerns are addressed in the final concluding chapter of this study.

ENDNOTES FOR CHAPTER III:

- ¹ J.E. Rocamora, "Political Participation and the Party System: the PNI Example", in R.W. Liddle, *Political Participation in Modern Indonesia*, New Haven, Yale University Press, 1973, p.143-4.
- ² Masjumi is banned for its alleged role in the PRRI (Pemerintah Revolusioner Republik Indonesia) rebellion of Islamic fundamentalists in northern Sumatra in 1958-1959, Ibid p.143.
- ³ Ibid, p.144.
- ⁴ B. Goshal, *The Role of the Military in Indonesia*, University of Madras, 1980, p.35.
- ⁵ Ibid, p.39.
- ⁶ R.W. Liddle, "Soeharto's Indonesia: Personal Rule and Political Institutions", in *Pacific Affairs* 58(1), Spring 1985, p.77.
- ⁷ FEER, January 13, 1978, p.23.
- ⁸ Rocamora, op. cit., p.172.
- ⁹ Liddle, op. cit., 1985, p.71.
- ¹⁰ Ibid, p.70.
- ¹¹ FEER, January 13, 1978, p.23.
- ¹² Ibid, p.23.
- ¹³ Ibid, p.24.
- ¹⁴ "The top salary for a two-star general is Rp 133,000 (SUS 320) a month (plus car and driver, and an allowance for rice and servants)", "The military in buisness", FEER, Jan. 13, 1978, p.24.
- ¹⁵ Ibid, p.24.
- ¹⁶ This is the name given to the military in power since 1965, who also played a crucial role during the struggle for independence.
- ¹⁷ Since 1960 the literacy rate has increased from 47% to 74%.
- ¹⁸ D. King, "Human Rights Practices and the Indonesian Middle-Class", in *Bulletin of Concerned Asian Scholars* 19(1), January-March 1987, p.9.
- ¹⁹ Ibid, p.9.
- ²⁰ Ibid, p.4.

²¹ Ibid., p.5.

²² FEER, October 16, 1981, p.30.

²³ King, op. cit., 1987, p.11.

²⁴ For detailed accounts on the type of abuses and the different issues (the UN's action, the response of Western nations, United State's involvement and support for Indonesia...) surrounding Indonesia's alleged annexation of East Timor refer to:

T. Retboll, *East Timor: The Struggle Continues*, I.W.G.I.A Document, Copenhagen, October 1984.

J. Ramos-Horta, *Funu: The Unfinished Saga of East Timor* (Trenton: Red Sea Press 1987).

N. Chomsky and E.S. Herman, *The Washington Connection and Third World Fascism*, Montreal, Black Rose, 1979.

²⁵ J. Ramos-Horta, *Funu: The Unfinished Saga of East-Timor*, Red Sea Press, Trenton, 1987, pp.64-65.

²⁶ "Dieu et Manon règnent sur l'Irian Jaya", *Monde Diplomatique*, juillet 1994, p.14

²⁷ Ibid, p.14

²⁸ *Petroleum Economist*, February 1980, p.82.

²⁹ FEER, December 3, 1976, p.29

³⁰ A. Booth, "Indonesian Agricultural Development in Comparative Perspective", *World Development*, vol.17, no.8, 1989, p.1258 and J.-L. Maurer, *Modernisation agricole, développement économique et changement social: le riz, la terre, et l'homme à Java*, Presse Universitaire de France, Paris, 1986, p.245. Maurer substantiates that while these programs in fact benefit the middle and high-class landowners, these also permit the lower classes to accede to other means to supplement their earnings; notably, by forming persistent patron-client relations with the wealthier strata, and by finding other employment opportunities supplementing the limited earnings gathered through cultivation of a small paddy.

³¹ For works that examine the cultural origins of corruption in Indonesia refer to:

B.R. Anderson, "The Idea of Power in Javanese Culture", in C. Holt ed., *Culture and Politics in Indonesia*, Cornell University Press, Ithaca, 1972, p.33, 49.

³² Liddle, op. cit., 1985, p.78.

³³ Ibid, p.78.

³⁴ Maurer, op. cit., 1986, p.246, see endnote 30 for further details.

³⁵ H.A. Crouch, *The Army and Politics in Indonesia*, Ithaca, N.Y., Cornell University Press, 1978, pp.296-297.

³⁶ Liddle, op. cit., 1985, p.78.

37 *FEER*, April 7, 1983, pp.44-56.

38 *FEER*, January 13, 1978, p.24.

39 Crouch, op. cit., p.330 states that "... growing public dissatisfaction with corruption, foreign domination of the economy, and the failure of economic development to improve the lot of the mass of the people-as expressed in rioting in Bandung in 1973 and Jakarta in 1974-tended to persuade some military officers of the need to give the technocrats more scope and authority to pursue policies designed to alleviate mass resentment."

40 Ibid, p.294.

41 refer to pp.68-9.

42 *FEER*, October 6, 1983, p.40.

43 Ibid, pp.40-42.

44 This point on the presence of corporatist organizations, which coopt various segments of the Indonesian population, is mainly based on the contributions of D. King's, "Indonesia's New Order as a Bureaucratic Polity, a Neopatrimonial Regime or a Bureaucratic Authoritarian Regime: What Difference Does it Make?", in B. Anderson and A. Kahin, *Interpreting Indonesian Politics: Thirteen Contributions to the Debate*, Cornell Modern Indonesia Project, South-East Asia Program, Cornell University, Ithaca, New York, 1982, p.115.

45 R. Robison, "Authoritarian States, Capital Owning Classes and the Politics of Newly-Industrialising Countries: The case of Indonesia", *World Politics* 41(1) October 1988, p.60.

46 Ibid., p.65.

47 Ibid, p.65.

48 Ibid., p.64.

49 Ibid., p.68.

50 Ibid, p.70.

51 R.L. Sklar and C.S. Whitaker, *African Politics and Problems in Development*, Lynne Reiner Publisher, 1991, p.195.

52 Ibid, pp.190-201.

53 Ibid, p.71.

54 Oyeleye Oyediran, *Nigerian government and Politics under Military Rule, 1966-1979*, MacMillan, London, 1979, p.62.

55 L. Adamolekun and S. Bamidele Ayo, "The Evolution of the Nigerian Federal Administrative System", *Publius: The Journal of Federalism* 19 (Winter 1989), p.161.

56 Ibid, p.163.

57 T.O. Odetola, *Military Politics in Nigeria: economic development and political stability*, New Brunswick, N.J., 1978, p.66.

58 H. Bienen, *Political Conflict and Economic Change in Nigeria*, London; Totowa, N.J.: F. Cass, 1985, p.12.

59 Odetola, op. cit., p.72.

- 60 L. Asiodu, "The Nigerian Civil-Service", in Oyeleye Oyediran, op. cit., p.78.
- 61 Ibid., p.89.
- 62 D.C. Bach, "Les effets pervers du fédéralisme nigérien", *Politique Africaine* 32, décembre 1988, p.22.
- 63 Ibid, p.26.
- 64 J. Ibrahim, "La société contre le bipartisme", *Politique Africaine* 32, décembre 1988, p.8.
- 65 U.B. Inamete, "Federalism in Nigeria: The Crucial Dynamics", *The Round Table* 318, 1991, p.196.
- 66 Ibid, pp.195-198.
- 67 Author's translation of a table from J. Philippe, "Le fédéralisme et la question économique", *Politique Africaine* 32, décembre 1988, p.37.
- 68 Bach, op. cit., p.26.
- 69 Phillippe, op. cit., pp.38-9.
- 70 All these values have been calculated according to table 3.3, Philippe, op. cit., p.39 and all express the rate of variation according to function between 1970 and 1986.
- 71 Ibid, p.38.
- 72 Ibid., p.38.
- 73 C. Achebe, *The Trouble with Nigeria*, Heinemann, London, 1984, p.38.
- 74 J.K. Onoh, *The Nigerian Oil Economy: From Prosperity to Glut*, St. Martins Press, New York, 1983, p.69.
- 75 Achebe, op. cit., p.69.
- 76 Ibid, p.40.
- 77 T. Forrest, "Recent Developments in Nigerian Industrialisation", in M. Fransmann (ed.), *Industry and Accumulation in Africa*, London, Heinemann, 1982, p.337.
- 78 K.A. Joseph, "Class, Struggle and Prebendal Politics in Nigeria", *The Journal of Commonwealth and Comparative Politics*, XXI, 3, 1983, p.25.
- 79 The problems related to class formation in Nigeria, further accentuated by declining state spending "has produced a bourgeoisie which is profoundly deficient", Ibid., p.26, discussed more at length by S. Osoba, "The Deepening Crisis of the Nigerian Bourgeoisie", *Review of African Political Economy*, 13, 1979, pp.63-77.
- 80 Joseph, op. cit., p.26.
- 81 Bienen, op. cit., p.5.
- 82 G. Hyden, "Problems and Prospects of State Coherence" in D. Rothchild and V.A. Oloransola (eds.), *State versus ethnic claims: African Policy Dilemmas*, Boulder, Colorado 1983, pp.67-84.
- 83 On this point, Joseph, op. cit., p.27, paraphrases Hyden, op. cit., pp.67-84.

84 Joseph, op. cit., p.28.

85 This term designates clientalism containing a vertical ethnic dimension, Ibid, p.29.

86 The "national cake" obviously refers to the incredible wealth acquired by the state during the oil boom years.

87 Ibid, p.32.

88 Ibid, p.30.

89 Ibid, p.30, takes this concept from Weber to qualify the present political behavior in Nigeria with its embedded widespread clientelist practices.

90 The impact of declining state spending in the early 1980s has provoked widespread disaffection engendered by the excessive corruption and the failure to meet the basic needs of the masses of people. Also, several parallels are made between the outcome of Nigerian politics in 1979 and those in the fifties and sixties. These aspects are elaborated by L. Diamond, "Cleavage, Conflict, and Anxiety in the Second Nigerian Republic", *Journal of Modern African Studies*, 20, p.629-68.

CONCLUSION:

Social Forces and Prospects of Change in Existing Structures

The general and vast character of this analysis treats the issue of accumulation in global comparative terms. This analysis may be criticized for its lack of thoroughness. This shortcoming, however, is compensated by questions that broaden the scope of inquiry. Indonesia more effectively establishes the conditions for accumulation. While both social formations are integrated on the basis of an internationally competitive sector, only Indonesia is able to lay the foundations for adequate domestic structures of redistribution to expand and develop the economy as a whole. Two reasons account for the diverging patterns of economic development. First, as propounded in the second chapter, the integration of each economy is based on the extent to which M 3 (money-capital surplus) and such resources as labor are utilized by hegemonic capital for its expansion. This condition influences capital accumulation in developing social formations. It implies that productive structures are determined and dependent on such exogenous determinants as foreign capital investment and the world conjuncture. Indonesia's success in diversifying its export base to include manufacturing, other oil products, and agricultural products, is the macro-economic evidence supporting the assumption that a portion of the surplus (M3) has been utilized productively. Nigeria's complete reliance on oil crude exports, in contrast, reveal difficulties in forming adequate redistributive structures for productive investment. The rigidity of the Nigerian economy to adapt to the structural distortions brought by the expansion of the oil industry is also revealed in its failures in agriculture. Chapter two concludes that differences between the economic development of the two cases emanate from the fact that the international process of world scale accumulation modulates specific conditions of integration. Hegemonic capital possesses greater utility for Indonesia's resources, than it possesses for resources in Nigeria. Moreover, the declining flows

of exchanges, may reveal a growing disengagement of dominant capitals to utilize productive outlets for their expansion in Nigeria.

The second, more important difference, lies in the nature of the state's ability to consolidate mechanisms of socio-political regulation. These mechanisms serve the primary purpose of establishing a framework that fosters the conditions of international accumulation. They may also enhance domestic conditions of accumulation by attributing a greater degree of autonomy to the State. In Nigeria, the Federal system, while establishing socio-political conditions favorable for the expansion of internationalized capital, undermines at the same time, the conditions for the establishment of articulate domestic productive structures. Domestic accumulation, therefore, while necessitating favorable conditions of integration into the world economy, depends to a greater extent, on socio-political conditions that set up redistributive channels to foster production. The failures to regulate socio-political conditions in this manner undermine the basis of integration, which in the first place generate surplus to the state. This last point is illustrated by the tendency of international capital to disengage itself from Nigeria¹.

The analysis in chapter two is based on a comparison of macro-economic indicators according to sector. It raises several questions regarding the modulated conditions of economic integration. What factors render Indonesia more attractive as a productive outlet of investment for dominant capitals? A very likely response is that there are more favorable factors of production, such as lower labor and production costs, and a harder working and more docile population, which permit greater rates of surplus-value extraction. It would be interesting to compare how the international organizations fostering regional economic cooperation such as ASEAN (Association of South-East Asian Nations) in South-East Asia and ECOWAS (Economic Community of West-African States) in West-Africa contribute to establish the conditions of integration of each country within the world economy.

The present study has come across evidence that suggests the disengagement of foreign capital from Nigeria. Could this observation be extended on a continental scale to other developing formations of Africa²? This disengagement suggests international capital's

discriminating tendency to raise international developmental imbalances. To resolve this trend towards growing international imbalances what strategies are being undertaken? Are the strategies elaborated by the OECD, the World Bank, the IMF in line with the realities of economic integration in these terms? Are these international organizations merely mediums through which the international hegemonic class can secure and promote its interests?

The state's role of socio-political regulation and how it influences the establishment of conditions for accumulation raises a wide range of issues. First, regarding the ethnic and religious diversity of each country, there are significant differences in the ethnic character. The majority of Indonesia's population is Javanese. Policies aiming the Indonesianization of the archipelago are qualified as attempts to Javanize³ indigenous populations. Regarding Nigeria, no ethnic group possesses a dominant, hegemonic role. The four main groups are the Yorouba, the Ibo, the Hausa, and the Fulani. How have these ethnic groups influenced the establishment of the present structures? Another concern relates to discipline, obedience, and the sense of responsibility towards civil-administrative office and respect for authority. Are there any deep-rooted cultural features that can explain such differences between the two cases? Could such considerations be extended to characterize other public administrations in Africa or South-East Asia?

Regarding possible exogenous determinants, which influence the socio-political conditions of developing social formations: how have such determinants as military and economic aid flows contributed to establish the present regimes⁴? Do they tend to be proportionately greater in Indonesia than they have been in Nigeria? When such aid flows are compared, do they also reveal a greater tendency to aid South-East Asia rather than West-Africa? Moreover, how can exogenous determinants contribute to increase regionalism in Nigeria? It is interesting to note that a number of MNCs established in Nigeria appoint communal chiefs as the head executives of their enterprises⁵. Since traditional communal chiefs are particularly wealthy, their appointments have the purpose of securing resources of capital investment. If such practices tend to favor specific regions or social groups, these may

breed social tensions. It can be said, then, that the instruments of international capital (such as the MNC) influence not only the productive conditions, but also the socio-political conditions of capital accumulation in developing social formations. In a context where both socio-political and productive conditions are patterned directly or indirectly on the exigencies of world scale accumulation, the developing State is merely a structure over which these conditions are imposed.

The growingly competitive international conjuncture of the 1980s places increasing strains on the financial budgets of developing states, hence the governments become less responsive to the social and welfare needs of their societies. In developing social formations such as Indonesia and Nigeria, different social forces consolidate in reaction to their state's redistributive failures. Their group action may modify the grounds of capital accumulation in these developing social formations.

In Indonesia, one of the most influential and outspoken political movement is gathered under the banner of Islam. Before 1965, Muslims are a part of the elite on which lies the responsibility of filling the void in management and trade, left by the Dutch. However, because the Muslim-nationalist elite does not possess the resource-base to launch effective economic policy, it loses its power to foreigners, namely the Chinese and the Dutch. Furthermore, the Muslim-oriented elite is replaced politically by the broad-based PKI (Indonesian Communist Party) and the military. A large number of the military officers emanate from this religious group. This explains the close cooperation between the two to oppose the PKI from 1965-1967. Once the military takes over, this group is left out at the expense of foreign corporate business groups who possess the resources to launch the economy.

Frustrated from this political and economic alienation, Muslims become particularly vocal in the early 70s. The result of these developments confers an Islamic character to the Indonesian state. The appointed government of 1993 is constituted practically only of Muslims. As pointed out by "*Le Monde Diplomatique*":

Le gouvernement nommé en 1993,, ne compte pratiquement plus que des Musulmans. Outre le départ du jadis puissant responsable de la défense, M. B. Mardani, les autres ministres chrétiens, M.M. Sumartini, A. Siregar et R. Prawiro, respectivement en charge des finances, du commerce et de la coordination économique, ont été remerciés, décision de nature à modifier fondamentalement la politique économique.⁵

The more Islamic government is pushing for the development of "innovative technological" industries that could serve as driving force to the rest of the economy. The key figure in this shift of economic policy is M. Bacharuddin Habibie, the powerful minister of research and technology, who also happens to preside over the ICMI (Ikatan Cendekiawan Muslim Indonesia), the influential association of Muslim intellectuals. Whether the changing character of the state and the economic policies will scare off foreign investors such as the Chinese, whose control over the economic activities of the country is estimated at 80%, remains to be seen. The extent and direction of change depends largely on the regime's continuing success on founding political legitimacy on economic prosperity as it has done since the early 1970s⁶. The basis of this legitimacy diffuses some of the very present regional and social disparities in the country.

Since 1965, the condition of the lower strata of Indonesian society has by and large improved. The rural poverty rate which is at 24% in 1970 goes down to 18%. However, there are prevalent disparities between East and West. In the Eastern parts, rural poverty levels estimated at 24% in 1987, are three times higher than in the Western parts. In one Eastern province, Nusa Tenggara Timur, poverty, according to some estimates, peaks to a level of 40%⁷. In urban areas, poverty has reduced from 23,1% in 1984 to 20,1% in 1987. However, according to the estimates of the Ministry of Manpower, urban poverty increases and reaches a level of 50% (excluding Jakarta)- double World Bank estimates. The same disparities exist between Eastern and Western urban centers. The estimates of poverty in Eastern cities in 1987 are at 28,4%, more than two times the poverty in the West⁸. Also, with regard to the issue of regional disparities, per capita income between 1981-1987 averages a 5,33% increase for the city of Jakarta. While in Central and West Java it barely rises above 3%. Riau in Sumatra

"comes near the bottom with a 0,85% per capita growth"¹⁰. Moreover, eastern provinces such as Irian Jaya and Central Kalimantan show a negative growth in per capita.

The delicate socio-economic situation is greatly influenced by the outcome of the coming elections in 1998 when Soeharto will end his seventh mandate and resign. The two major groups contending to fill the political void are the army and the Muslims. If the competition plunges the country into a political crisis what would then happen to economic policies? It is certain that the present regime's legitimacy holds on the fragility of economic prosperity. If it disrupts, it may unleash powerful forces of political change from below, that embrace an integrationist Islam or ethnic loyalties. The East Timorese and the Irianese in their persistent struggles of national liberation, already shake the fragile fringes of the archipelago. For some time now, Jakarta is unsuccessful in suppressing these sources of unrest.

In Nigeria, the sequence of events of the last decade strongly resemble the political events preceding the civil war of the 1950s and 1960s. A number of sources make this parallel¹¹. Towards the end of the second republic interregnum of civilian rule (1979-83), the population expresses its growing widespread disaffection for government's general failures. The government has been unable to distribute wealth to the grass roots, especially towards the rural masses. To resolve the situation of crisis in the country, there exists a trend that disengages the center in various policies and government functions. In the region of Kano, for instance, several alternative forms of social, economic, and political organizations emerge, which act on a regional-local scale. Since the early 1980s, what are called "associations" have come "to play a key role in the developmental strategies of the elite"¹². Such associations as the KSF (Kano State Foundation), KACCIMA (Kano Chamber of Commerce, Industry, Mines, and Agriculture), and KTMCs (Trader's Multi-Purpose Co-operative Society) are created to respond to the business, social, and economic needs of the community. These are designed to bring several improvements at various levels. The KSF, for instance, is a foundation of the community which funds education, improves social services, and provides relief aid in case of droughts or fires. KACCIMA aims to promote industrial entrepreneurship at a regional level.

Because the new initiatives carry an elitist orientation, there is no doubt that the formation of associations is the first indication of more fundamental political changes¹². Nigeria may suffer the same fate as such countries as Somalia and Rwanda, since the signs of the intensification of regional divisions are evident.

The prospects of change in each of the two cases reflect powerful social forces within the global world structure. These oppose the alienating effects of the new international modes of accumulation on the social tissue of developing social formations. As in the case of Indonesia, the resurgence of Islamic fundamentalism is also noticed in Algeria, Soudan, Egypt and the Middle-East. Meanwhile, the dismantlement of the state structure with the outbreak of murderous interethnic conflicts is observed in several African cases. Rwanda and Somalia, are undergoing ruthless, barbaric struggles based on the reemergence of communal identities. These profoundly disrupt the state structure which constituted the framework of domestic and international strategies of national development. As the state order is crumbling under the weight of resurgent ethnic and communal identities, these social manifestations also cast severe doubts on a certain hegemonic conception of 'development'.

ENDNOTES FOR CONCLUSION:

¹ On this point, it is relevant to refer to Raffinot's recent contribution entitled, *Dette extérieure et ajustement structurel*, Edicef/Aupelf, Vanves, 1991, pp.160-1. Citing data from the IMF's World Economic Outlook, he evidences how the countries of Africa have known the most significant decline in GDP/investment ratio. In fact, Nigeria possesses the greatest decline in this ratio, being 15% from the 1976-1981 to 1982-1988 level.

² *FEER*, October 6, 1983, p.40.

³ N. Chomsky, E.S. Herman, *The Washington Connection and Third-World Fascism*, Montreal, Black Rose, 1979, pp.101-186. This work presents some evidence suggesting CIA (Central Intelligence Agency) involvement in bringing about the events of the 1965 coup and the establishment of the Soeharto government. His analysis also evidences direct U.S.

intervention on the side of ABRI (Indonesian armed forces) in the brutal air raid campaigns performed in East Timor. While the actual basis of these facts has been questioned, there is no doubt that the U.S. has been Indonesia's main military supplier since 1965.

⁴ Vaughn cites a number of examples: "...l'émir de Fika, directeur de la *Hoechst-Nigeria Ltd.*; L'etsu Nupe, directeur de *Henkels Chemicals*... L'ooni d'Ifé, indépendamment de son empire financier privé, se trouve à être le directeur actuel de la filiale de la multinationale française *Dégremont*,..." O. Vaughn, "Les chefs traditionnels face au pouvoir politique", *Politique Africaine* 32, décembre 1988, pp.50-1.

⁵ *Le Monde Diplomatique*, septembre 1994, p.27.

⁶ This section on recent developments in Indonesia is based on *Ibid.*, p.26-7.

⁷ *FEER*, June 14, 1990, p.17.

⁸ *Ibid.*, p.17.

⁹ *Ibid.*, p.17.

¹⁰ *African Confidential*, vol.35, no.18, 9 September, 1994 states: "It is by no means inevitable that the current political crisis will lead to armed confrontation and a break-up of the federation, despite the dire warnings of war currently printed in some Nigerian newspapers". The article then points to the striking parallels between political developments in 1962-'66 and those of 1992-'94.

¹¹ J. Lucas, "The State, Civil Society and Regional Elites: a study of three associations in Kano", *African Affairs*, vol.93, no.370, 1994, pp.21-38.

¹² *Ibid.*, pp.21-38

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