



**The Development of Relative Surplus
Population in the Peripheral Accumulation
Political Economy of Agricultural Development and
Industrialization in Indonesia**

A Research Paper presented by:

Muchtar Habibi

Indonesia

in partial fulfillment of the requirements for obtaining the degree of
MASTER OF ARTS IN DEVELOPMENT STUDIES

Major:

Agrarian and Environmental Studies

AES

Members of the Examining Committee:

Saturnino M. Borras, Jr

Cristobal Kay

The Hague, The Netherlands

December 2014

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Inquiries:

Postal address:

Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

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List of Acronyms

BPN	<i>Badan Pertanahan Nasional</i> (National Land Agency)
BPS	<i>Biro Pusat Statistik</i> (The Central Bureau of Statistic of Indonesia)
BTI	<i>Barisan Tani Indonesia</i> (Indonesian Peasant's Front)
DSP	Development Studies Project
EOI	Export-Orientated Industrialization
FBSI	<i>Federasi Buruh Seluruh Indonesia</i> (All Indonesian Labour Federation)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HKTI	<i>Himpunan Kerukunan Tani Indonesia</i> (Indonesian Farmers Association)
ILO	International Labour Organization
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
MP3EI	<i>Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia</i> (Master Plan for the Acceleration and Expansion of Economic Development of Indonesia)
PKI	<i>Partai Komunis Indonesia</i> (Indonesian Communist Party)
RAPP	Riau Andalan Pulp and Paper
RSP	Relative Surplus Population
SPSI	<i>Serikat Pekerja Seluruh Indonesia</i> (All Indonesian Workers Association)
TGHK	<i>Tata Guna Hutan Kesepakatan</i> (Consensus Forest Land Use Plan)
US	United State
WTO	World Trade Organization

Abstract

Recently, informal workers have seized a majority of total workforce in the developing world. Casual workers, unpaid family workers and own-account workers are part of this informal army workforce. In the era of global economic liberalization since 1980s, the number of these workers has risen continuously. Apparently, for the neoclassical economists, it seems nothing to be worried about this trend. For these economists, informal workers are likely to be micro-entrepreneurs, developing small business to enhance their social vertical mobility. It is believed that if the market is allowed to function properly, micro-entrepreneurs would be able to transform their business into formal arrangement and thus eliminate informal economy. The state intervention has to stay away from this business activity. The only task expected from the state is to establish and maintain a proper institutional setting for sound business climate.

This paper problematizes this claim by analysing the impact of neoliberal adjustment to the expansion of the concept called relative surplus population. Focusing on Indonesia's development trajectory, the paper shows that, firstly, instead of being micro-entrepreneurs, a majority of informal workers are likely to be vulnerable workers, marked by lacking of fundamental rights of workers in term of remuneration, representation and social protection. Along with unemployed, vulnerable workers are best captured as relative surplus population due to it is created in the context of 'disconnected capital accumulation' in a peripheral country. Relative surplus population works outside the core of capitalist productivity and in precarious condition. Secondly, market-led orientation, contrary to the claim to erase informal employment and ultimately relative surplus population, it is likely to perpetuate it. Global market orientation brought about by neoliberal adjustment has contributed to the increasing number of relative surplus population.

This paper indicates how neoliberal adjustment (economic liberalization) in Indonesia has transformed class relation and subsequently established neoliberal state which is heavily loaded by international capital interest. Neoliberal state, to serve international capital, has shifted the inward-looking economy towards outward-looking orientation. This global market orientation has led to the disconnection of the domestic economy, between agriculture and industry. A large number of agricultural workers who have been separated from their means of subsistence cannot find productive and decent employment in the industry since export-oriented strategy has only created limited job opportunities. This paper proposes that any attempt to take care of relative surplus population entails structural shift both in the class relation and the nature of the state. A relatively equal balance of power between capital and labour is required to transform the neoliberal state into developmental state, promoting domestic oriented economy. Eventually, domestic oriented economy is expected to develop productive and decent jobs to take care of the huge number of relative surplus population.

Keywords: Relative surplus population, neoliberal adjustment, Indonesia, agriculture development, industrialization

Relevance to Development Studies

This paper deals with one of the most urgent development issues today: large numbers of people on earth work in unproductive and precarious condition. Relative surplus population as a concept that is applied in this paper offers a comprehensive understanding by looking at the character of capitalist accumulation in the peripheral world and its impact to the wage labour creation. It directs its lens to analyse both accumulation in the agriculture and industry and therefore, giving attention to the peasant dispossession on the one hand, and the disarticulated accumulation in the industry on the other hand. It provides a thorough picture by analysing on both the current global land grabbing and de-industrialization along with flexibilization and informalization of formal jobs elsewhere. If any theme is required to stimulate development studies today, it should be the debate on relative surplus population.

Chapter 1 Introduction

The Asian economic crisis in 1997-1998 delivered most severe impact to Indonesia, a largest country in Southeast Asia, exacerbating the number of unemployed workers. Apparently, many unemployed workers moved into rural and urban informal work sector instead of open unemployment (Sarkar, 2002: 73). Jan Breman describes: “[...] petty traders from North Subang were back on the streets of Jakarta and the surrounding satellite towns, selling their *gorengan* (fried cassava and plantains)...complained, however, that they could peddle their wares at prices only slightly higher than those of the cost of the ingredients” (Breman, 2001: 258). These petty traders, working in casual arrangements with low return earning, were probably the only few workers who represented around 63 per cent of the Indonesian total workforce in 2012. It constituted of about 70 million people who joined in the informal economy perceived by ILO as ‘vulnerable employment’ (ILO, 2013: 12).

The abundance of vulnerable workers in the fourth most populous country in the planet after economic crisis does not only reveal the myth of ‘Asian Tiger’ country that was proudly echoed by the World Bank in 1990s (World Bank, 1993), but it also highlights the very feature of agrarian transformation in the so-called Global South. While in the Global North the transition from subsistence production to wage labour, from farm to factory, and from rural to city was evident, these not have been the case for the Global South. The de-peasantization process, where the number of people who involve in the agriculture with direct access to the land diminishes (Araghi, 1995; 2009) has been occurring not necessarily accompanied by industrialization (Davis, 2006). Eventually and more generally, peasants who have been dispossessed from their direct access to the land cannot be absorbed elsewhere (Li, 2013) in the productive economy both in rural and urban areas. They have to work in the casual labour arrangement in the informal economy marked by vulnerable working condition.

ILO estimates the vulnerable workers worldwide at between 1.48 and 1.59 billion, around half of the total global workforce where most of them are located in the developing world (ILO, 2010: 18). These ‘precarious workers’ have to work in the: “Poor-quality, unproductive and un-remunerative jobs that are not recognized or protected by law, the absence of rights at work, inadequate social protection, and the lack of representation and voice are most pronounced in the informal economy, especially at the bottom end among women and young workers” (ILO, 2002: 4). It is not surprising if they constitute what Mike Davis calls as ‘Planet of Slums’ where a billion of people across megacities in ‘developing world’ such as Mexico City, Sao Paulo, Mumbai, Jakarta, Buenos Aires, Manila, Lagos, Istanbul and many other cities have to live in informal houses, inadequate access to water and sanitation and also insecurity of tenure (Davis, 2006: 178).

ILO (2002) believes that in the long term, formalization of jobs is indispensable to create decent job for everyone. However, this vision faces a great challenge in the context of neoliberal globalization where the role of the state has been eroded. Since 1980s onwards, ‘neoliberal state’ on the one hand has withdrawn their role for providing social-welfare and yet on the other hand it

has actively facilitated capital accumulation through privatization and liberalization as the cutting edge of the neoliberal agenda (Harvey, 2003; 2005). Reorganization of capital in the centre of accumulation destroyed the post-war international regime that relatively pro-workers and state-led development in the peripheral areas (Silver & Arrighi, 2000: 56). Specifically, neoliberal globalization has contributed to the de-industrialization process in developing countries (Kiely, 2009: 176).

More recently, neoliberal globalization in its form of the so-called 'global land rush' since 2008 have accelerated global land enclosures specifically in the Global South (White et.al, 2012) which have expelled many people from their land. Land grabbing has massively been occurring in Africa, Asia, Eastern Europe and Latin America (Matondi et.al, 2011; Borras & Franco, 2011; Visser & Spoor, 2011; Borras, et.al 2012), involving a large amount of land acquisition where a huge number of people have to leave their land. Neoliberal globalization has accelerated the 'global de-peasantization' (Araghi, 2009), even though this process had actually been started right after the post-war.

Given this situation, Tania Li (2009) raises a very important question related to who is going to take care of these people who engage in the precarious working condition. Even though this question is crucial, this challenge might be best tackled by having first a full understanding about the mechanisms and processes that led to the creation of precarious workers in the informal sector.

For neoclassical economists in the 1960s like Rostow and Todaro, informal sector was only a transitional phase of development. Its existence is mainly due to the segmentation of labour market in the dual economy country (Gunther & Launov, 2012: 88). It will be automatically disappeared along with the economic development. Whilst in the 1980s, de Soto (1989) argued that informality was a popular economic response to the weak government and state. People's spontaneous and creative response to the incapability of state to provide basic needs, was seen as 'entrepreneurial dynamism' (de Soto, 1989). A micro-entrepreneur and the informal economy are proclaimed to create wealth and induce upward social mobility (Maloney, 2004). De Soto, therefore, suggests that the informal economy should be developed through market mechanism since the state is likely to be impediment rather than accelerator of the informal economy (de Soto, 2001: 14).

However, market power is not a natural development of the history and it is not necessary deliver equal impact to individuals. A specific capitalist market emerged characterized by the transformation of property relations, commodification of labour power and class exploitation (Wood, 2002: 7). The problem with neo-classical approach is that it is mainly deduced from the theoretical assumption and it specifically does not explain the creation and development of the informal sector in the specific historical trajectories. It fails to acknowledge that individuals are situated within specific framework of capitalist social relation (Rowthorn, 1973: 4). As Portes & Castells (1989) urge that the informal economy is not an individual condition. It is a process of income generation which has a close relationship with the formal economy in the particular space and time. To understand the informal sector requires thorough understanding of its role in the capitalist economy as a whole. It has to be dealt with the logic of capital accumulation and its impact to the creation of formal and informal workers, looking into the processes of what Marx (1976) calls as proletarianization and semi-proletarianization.

Within Marxist tradition, there have been competing explanations about the ‘precarious workers’. Marx (1976) himself calls RSP or ‘industrial reserve army’ to describe those who cannot be absorbed by capital accumulation. Even when the proletarianization process (separation from the means of production) is completed, not all of the workers are able to be an active proletariat involved in the capital accumulation. The rest of them are destined to be an industrial reserve army or RSP. Marx then distinguishes RSP into four categories namely, ‘floating’, ‘latent’, ‘stagnant’ and ‘pauperism’ population which will be explained further in the analytical framework chapter. All of them are living under miserable condition.

In the later development of capital accumulation, the complete proletarianization in Europe where Marx based his observation is not found in others parts of the world and points in history. In Latin America for instance, Kay (1994) points out that semi-proletarianization is pronounced when peasants are trapped as ‘semi-proletariat’ class. They are not completely proletarianized because they still have access to the small plot of land and yet they have to live in the precariousness since they face the double squeezes both in land and employment (Kay, 1994: 17). Some scholars (Portes & Hoffman, 2003; Davis, 2006) propose the term ‘informal proletariat’ to explain precarious workers in the informal economy both in rural and urban areas. Many workers in the informal economy are engaged in the own-account workers as petty-traders, petty home-manufactured producers and petty service providers who are encapsulated in the precariousness as well. Yet, not all of the informal workers own any small plot of means of subsistence, however meagre. Thus, Lane (2010) suggests the notion of ‘non-industrial proletariat’ to describe the informal workers who do not have any means of subsistence left, except their labour power such as daily labourers and unpaid family workers.

Despite the differences among the three concepts of semi-proletariat, informal proletariat, and non-industrial proletariat, all of them actually share some commonalities. Their productivity is lower to that of proletarians who are involved in the formal sector as the core of capitalist accumulation. Moreover, all of three types of workers also have to live in the more precarious condition. In this respect, the three concepts are closed to the Marx’s description of RSP. It might be sufficient to understand “[...] the relative surplus population, defined generally by its insecure and precarious forms of working activity outside of the core sectors of capitalist productivity” (Neilson and Stubbs, 2011: 442). This way understanding of RSP may give a thorough picture of the dynamics of precarious workers including the semi-proletariat, informal proletariat, and non-industrial proletariat either in rural or urban areas.

In explaining RSP, Marx himself emphasizes the importance of capital accumulation process. Marx basically argues that RSP is an effect and at the same time as a condition of capital accumulation. On the one hand, capital accumulation engenders surplus population. On the other hand, RSP is a necessary condition of capital accumulation. Nevertheless, as McIntyre (2011) argues that even the condition described by Marx may evidence at any given time, yet “[...] there is no theoretical reason to believe that it must hold true as a general law” (2011: 1491). We may not simply deduce this framework to understand surplus population in the ‘developing countries’. As pointed out by Sainz (1978: 8), “[...] in order to avoid falling into formalistic exercise” [...], we require to grasp particular characteristic of accumulation process in peripheral

capitalist system. As it will be elaborated in the analytical framework chapter, we need to look at the relation between core and peripheral countries and its impact to the domestic economy, especially its tendency to absorb and expel labour.

There have been researches conducted to explain the creation of RSP in the peripheral accumulation. Arn (1995) explores the formation processes of RSP in urban areas of Manila in the Philippines. It also focuses on the impact of the RSP to the emergence of urban-based political movement. Disarticulated peripheral capitalist development fails to provide a dynamic economic growth and labour absorption that induces the expansion of urban non-capitalist form of production and sub-proletariat class. One year later, Arn (1996) made a similar study to explain the emergence of the RSP in Ghana especially in the city of Accra. It argues that the incorporation of Ghananian countryside to the growing of cash crops for export to the dominant metropolitan centre of Britain significantly contributed to the creation of RSP in Accra. Differentiation of the peasantry and the rise of agrarian capitalism in the countryside pushed migration of rural workers to the city.

Both studies pay much attention to the RSP in urban areas. Nevertheless, solely focusing on the urban areas may not provide adequate analysis to understand the dynamics of RSP and the relation between rural-urban and agriculture-industry. It has been since late 1980s, the debate on semi-proletarianization (Kay, 1989; 1994) involved the discussion on large numbers of petty peasant and petty traders persist to live in the countryside. More recently, Breman (1996) shows greater mobility of 'Footloose Labour' whose career circulates between rural-urban areas where mainly are involved in the informal economy. They become 'classes of labour' (Bernstein, 2010) who pursue their livelihood across conventional social boundaries of jobs. In this respect, to analyse merely on urban setting may only provide an incomplete picture of the dynamics of RSP. It tends to miss the importance of always reflecting that RSP is not only created in rural areas and then move altogether to the city, but many of them are persisted to stay in the countryside. The failure to always include this specific angle in one's analysis may inadvertently lead to less effective, if not outrightly problematic, intervention in taking care of the RSP.

Indonesia shows a unique pattern of neoliberal expansion. Even though de-industrialization might have generally been occurring in the peripheral areas, the degree to which its level and its impact on labour absorption is certainly varied in a specific context. Indonesia case shows a quite fast pace of industrialization since the middle of 1980s (Hill, 1996) when neoliberal policies had been adopted before the financial crisis destroyed the economy in 1998. Whilst the global land rush manifested in the expansion of large scale plantation in some parts of Indonesia does not always contribute to the expulsion of the peasantry. Incorporation of the peasantry into corporation value chain is pronounced and keeps the peasantry to cultivate their land (Li, 2011). How do we explain the specific case of neoliberal wave in Indonesia? How do we explain the specific trajectory of RSP in Indonesia?

1.1 Research Question

How does neoliberal adjustment in Indonesia shape the development of RSP?

Sub questions:

How does neoliberal project situate the role of the state? How does neoliberal adjustment shape the character and trajectory of accumulation in Indonesia's agriculture and industry? What is the impact on the accumulation to the development of RSP either in rural or urban areas?

1.2 Scope and Limitations

The focus of this research is a macro analysis of the development of RSP. Particular case study is not the scope of the research but instead a broad lens of theoretical analysis and widespread specific examples of RSP in different locations. It also focuses on the role of the state in undertaking the accumulation both in agriculture and industry. A wide range of national political economy dynamics that shapes the state's policies is the focus of the research, rather than a particular local political economy dynamics. The development of the service sectors, even though this is one of the pillars in a domestic economy, will not be explicitly analysed here. Two production pillars namely agriculture and industry are likely to shape the development of the service sectors.

1.3 Methodology

My main method is analysis of secondary data. As pointed out by Glaser (1963: 11), secondary analysis data relates to "[...] the study of specific problems through analysis of existing data which were originally collected for another purpose". In this respect, the researcher raises new research questions or a new angle to analyse existing data to create new knowledge and thus intellectual advancement (Miller and Brewer, 2003: 286). The research takes on a macro-level analysis with the development of relative surplus population as its unit and delineates on relevant examples from the micro and meso-levels. The macro-level of the analysis required a bulk of secondary data sources such as existing academic literature, case studies, government reports and international agency reports.

As it will be argued further in the next chapter, the dataset for RSP is indicated by summing up 'vulnerable worker' and unemployment. The data on unemployment is available and indeed, it is much less complicated than the data on vulnerable worker. ILO's definition on vulnerable worker limits itself to the own-account workers and unpaid family workers. However, BPS expands the definition of vulnerable worker by adding casual workers as part of vulnerable workers. As ILO (2012: 12) said, "This is because of the nature of casual employment in Indonesia, which is often informal and lacking in decent working conditions, and characterized by inadequate earnings, low productivity and working conditions that undermine workers' fundamental rights".

Hence, for BPS, vulnerable worker comprises own-account workers, unpaid family workers and casual workers. Own-account workers consists of both employers without assistance from temporary worker/unpaid worker and employers assisted by temporary worker/unpaid worker. It could be small farmers assisted by temporary worker/unpaid family workers or small producers outside agriculture (manufacture and service) who are assisted by temporary worker/unpaid family workers. Whilst unpaid family workers in BPS's category include those who assist market-oriented work but do not get paid both in agriculture and outside agriculture. Lastly, BPS distinguishes casual workers into two categories namely seasonal agricultural workers (day labourers in agriculture) and non-agricultural seasonal workers (day labourers in construction, service, manufacture sectors etc.).

Because 'vulnerable worker' is a relatively new term developed in 1999 by ILO, it is more complicated to estimate Indonesia's vulnerable worker in 1980s and 1990s when the first and second neoliberal adjustment took place respectively. However, BPS's labour force survey in 1980s included element of self-employed and unpaid workers both in agriculture and non-agriculture, which can be considered as a majority part of vulnerable worker. While it discounts the casual worker, at the same time it also overestimates the numbers of vulnerable workers engaging in the self-employment activities because the survey did not separate the self-employed assisted by temporary-unpaid workers from the self-employed assisted by permanent-paid workers who are likely to be entrepreneur or capitalist. The separation was made in 1990s even though BPS remained did not include the casual worker in its survey. In this sense, despite its limitation, BPS's survey may provide acceptable basis to approximate the numbers of vulnerable worker in 1980s and 1990s.

In contrast to the RSP, the analysis should also put attention to the active army of labour who plays active role in the core productivity of capital accumulation. However, the data of active army of labour is even more challenging for the period of 1980s and 1990s. As it will be discussed in the next chapter, active army of labour refers to the 'employee' by excluding vulnerable workers. This data is available only for the period 2000s. BPS's survey in 1980s and 1990s did not specify the type of employee, whether it is casual employee or not and thus make difficult to estimate the non-vulnerable employee. It implies that in 1980s and 1990s, the active army of labour is more likely to be smaller than the official figure indicated and the size of RSP could be relatively higher. As this paper does not claim to approximate the precise number of RSP, the limitations from available dataset are likely to be tolerable to highlight the development of RSP in Indonesia.

Data is collected through both direct access to the physical materials (books, articles) in the library and internet access for digital materials. To avoid the primary data that may not be well collected and documented rigorously, data collection is confined to the reliable data and previous research that are published by well-known reputable institutions. To minimize undertaking on flawed research, a careful attention to the assumptions and interpretations underlying the existing primary data is conducted.

1.4 Organization of the Paper

To answer the main research question, the paper will be organized into three main parts. Chapter 3 will provide explanation on how neoliberal adjustment transforms the state nature. It will argue that neoliberal adjustment increases international capital class power that subsequently installs neoliberal state. Chapter 4 will delineate on how neoliberal adjustment affects the accumulation. I will argue that the neoliberal state shifts inward-oriented model of accumulation towards outward-oriented, creating disconnected domestic economy. In chapter 5, I analyse the impact of the incoherent domestic economy to the development of RSP either in the countryside or city. It will argue that the disconnection between domestic agriculture development and industrialization has created large numbers of relative surplus population.

Chapter 2 Analytical Framework

2.1 Neoliberal Practice and the State

In the first instance, neoliberal can be distinguished into two dimensions. In the theoretical sphere, neoliberalism believes that “[...] human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey, 2005: 2). These features have to be developed all around the world to deliver the promise of individual freedoms. Privatization, the way to create clear private property rights is indispensable to the economic development. Economic activities which heavily regulated by the state should be deregulated and handed over to the private sphere. Competition between individuals, firms and nations is perceived as natural and primary virtue. Privatization, deregulation and competition are claimed to be able to enhance efficiency and productivity while at the same time improve commodities quality and reduce costs (Harvey, 2005: 65).

The role of the state is mainly to establish and maintain an appropriate institutional framework to such goals. In a concrete level, the state has to create a ‘good business or investment climate’ for capital accumulation (Harvey, 2005: 70). This function represents the bias of the state against other values namely social (labour) and the environment which are merely perceived as commodities. Harvey (2005: 7) calls a ‘neoliberal state’ where the fundamental mission of state apparatus is to “[...] facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital”. In the global level, state sovereignty must be surrendered to the global market dynamics. In the neoliberal era, ‘developmental state’, even though pay considerable concern on social and physical infrastructures, is consistent with neoliberal feature because “[...] they facilitate competition between firms, corporations, and territorial entities and accept the rules of free trade and rely on open export markets (Harvey, 2005: 72).

These neoliberal principles have been spread by international institutions such as The World Bank, IMF and WTO. Nonetheless, neoliberalism in theory does not always find its ground in practice. Just to mention some classic examples: Europeans heavily protect their agriculture while demanding on free trade for other countries and President Bush urges free trade and free market yet enacted steel tariffs to boost his electoral votes. Neoliberal supporters can be pragmatic and flexible to their own jargon but they have an uncompromised desire: capital accumulation. Hence, in practice, neoliberalization may be seen as a “[...] *political* project to re-establish the conditions for capital accumulation and to restore the power of economic elites. (Harvey, 2005: 19).

As a political project, neoliberalization throughout the world in 1980s can be perceived as a response of upper class (economic elite) to the accumulation crisis in 1970s. Even though upper class has a transnational character and in some extent is benefited from neoliberal adjustment, but it does not mean that, “[...] this class do not attach themselves to specific state apparatuses for both the advantages and the protections that this affords them” (Harvey, 2005: 35). In other words, specific nation capitalist interest remains exist as in the case of

Salim Group in Indonesia and Carlos Slim in Mexico, that might have different or even opposite interest to other nation capitalist interest. Neoliberal adjustment promoted by advanced countries thus might trigger resistance from capitalist interest in the developing countries, especially in the countries where domestic capitalists are nurtured by the state through heavy subsidies and protections from abroad as Yoshihara (1988) calls it as 'Ersatz Capitalism'. In the developing countries, therefore, the contestation between national and foreign capital adds the classic struggle between capital and labour. This complex class relation will eventually shape the trajectory of neoliberal adjustment in a particular country.

2.2 Peripheral Accumulation in the Neoliberal Age: The Shift towards International Division of Labour

Since the main purpose of neoliberal project is to re-establish necessary conditions for capital accumulation, neoliberal adjustment leads to the changing pattern of accumulation model in the designated country. Neoliberal reorganization shifts the 'national developmentalism' based on national division of labour towards 'post-colonial neoliberal globalism' underpinned by international division of labour (Araghi, 2009: 133). In the national-development model, the state actively seeks inward looking policies to build and expand national market. It represents the 'nationalist-market' model of development a la Japan, South Korea and Taiwan (Araghi, 1995: 345). As Kay (2002; 2009) explains, the success of economic development in the two latter countries is determined by the capability of the state to establish a strong and coherent national economy based on a healthy relationship between two pillars of production: agriculture and industry.

The main idea here is that both sectors are needed. On the one hand, industrial development "[...] has a greater potential to generate technological innovations, capture dynamic economies of scale and generate external economies [...]" (Kay, 2009: 129). It can also give contribution to the agriculture by producing machinery, equipment and modern input. On the other hand, agriculture development is also entailed. Agriculture has potential capacity to create surplus apart from its own reproduction requirement. This surplus can be allocated to the industrial development. In this classic model of developmental state, national division of labour is shared between the two sectors. Hence, for Kay (2009: 104) the problem is how "[...] the State is able to exploit creatively the synergies between both sectors by developing their complementarities and enhancing their dynamic linkages".

According to Kay (2009), three indispensable principles are needed to create such dynamic linkages. First, how to ensure extraction surplus from agriculture does not lead to the agriculture stagnation. Second, how to promote sufficient incentive and thus farmers commit to create sufficient surplus. Third, how to ensure the surpluses are only be used to finance efficient industry. To execute these principles, however, require a relatively equal power of class balance in a country. The absence of class balance may lead to the failure of executing the principles, creating disconnection between agricultural and industrial

development and thus rising number of surplus labours cannot be absorbed into productive economy.

It is precisely in this context, neoliberal adjustment in the peripheral countries has disconnected domestic economy by reorganizing it towards international division of labour. Rather than connecting agriculture and industry in a national level division of labour, neoliberal adjustment subjugating both sectors into international division of labour to serve global commodity production. In the industrial sectors, neoliberal adjustment reorients ISI to EOI. ISI basically has more autonomous accumulation feature, characterized by the development of domestic manufacture sectors, mainly in the Department II which produces mass consumption products. Commodities start to be locally produced and no longer depend on import (Sainz, 1978: 12). As a result, capitalist relation of production (capital-wage labour relation) is relatively developed. The absorption of labour power therefore is also higher.

However, neoliberal reorganization forces peripheral accumulation to shift towards the expansion of Department III namely luxury goods production. This development related to the capital devalorization in the central accumulation which needs large numbers of cheap labour power. But, the development of labour struggle does not allow this technique to be adopted in the central accumulation. Capital begins to relocate its production process to the peripheral areas. Sainz (1978: 14) identifies two variants mechanism within this accumulation. First, “[...] capital does not enter into the production process and thus recreates a simple commodity form of production (sub-contracting system)”. This situation produces what Marx calls as ‘domiciliary work’ as a part of surplus population. In the second way, capital does directly enter productive production by expanding the capitalist social relation. From this process, wage labour creation is increased.

Despite its stronger tendency to absorb labour, EOI strategy has its own limitation. Since EOI implies connection to the world market, its development is depended on the competition among countries at the global scale. Competitive struggle becomes the rule of the game. As pointed out by Mandel, “This struggle will take the form of increasing rationalization and automation and will thus cancel out the temporary difference in wage levels that now gives an advantage to the underdeveloped countries” (1975: 374). In other words, in the long run, due to severe global competition among nations, EOI may lose its power to create and expand wage labour in the domestic economy.

While neoliberal adjustment in the industrial sectors has a contradictory function both to absorb and expel labour, its reorganization in the agriculture sectors dominantly tends to expel agriculture workers through peasant dispossession. Outward-oriented strategy has led to the two main features in agriculture namely drastic cuts of subsidies and promotion of cash crops while at the same time intensifying new technology. These two elements have induced what Araghi calls (1995: 338) as ‘de-peasantization’ where the numbers of the peasantry with direct access to the land has been declined. Peasant is separated from its mean of subsistence through accumulation by dispossession (Harvey, 2003) and class differentiation (Bernstein, 2010). In the former form of proletarianization, peasants are directly dispossessed from their land due to the enclosure. Whilst in the latter, daily accumulation among the peasantry leads to the differentiation where some peasants are less efficient than other and thus must give up their land to their neighbours. When surplus labour from agricul-

ture cannot be absorbed into productive sectors (industrial and formal) and has to live in the precarious condition, they become what would we call in the following section as relative surplus population.

2.3 Defining Relative Surplus Population: Problems and Limitations

Marx defines relative surplus population as “[...] a population which is superfluous to capital's average requirements for its own valorization, and is therefore a surplus population” (Marx, 1976: 782). In a more concrete nuance, Marx states that: “The relative surplus population exists in all kinds of forms. Every worker belongs to it during the time when he is only partially employed or wholly unemployed” (Marx, 1976: 794). Marx then distinguishes RSP into four categories namely ‘floating’, ‘latent’, ‘stagnant’ and ‘pauperism’ population.

Floating RSP includes those who work in the centre of modern industry and yet sometime are expelled and hired again in accordance with capital accumulation process. Latent RSP comprises workers in the agriculture sector in the countryside. They would become actual industrial reserve army when capital ‘sets them free’ through dispossession process which eliminates their direct access to the land. Stagnant RSP: “This forms a part of the active labour army, but with extremely irregular employment” (Marx, 1976: 796). Workers in the domestic industry or ‘domiciliary work’ are the biggest part of this type of RSP. Pauperism RSP encompasses “[...] the demoralized, the ragged, and those unable to work, chiefly people who succumb to their incapacity for adaptation, an incapacity which results from the division of labour; people who have lived beyond the worker's average life-span [...]” (Marx, 1976: 797).

Apparently, the description on pauperism RSP is closely related to the discussion on unemployed and non-employed. Pauperism RSP may refer to the non-employed, covering those who are unable to work because too young or old and due to the incarcerated and the physically and mentally disabled. This will not be discussed in this paper. Rather, it will focus on the unemployed worker, including those who are able to and need to engage in paid work but are unable to find it. In the popular account, those who belong to the work-force age but cannot find job are classified as unemployed. Indeed, some people might do not work due to their own choice. However, it is practically impossible to distinguish the voluntary and forced unemployed from the popular statistic. Nonetheless, unemployed measure with its limitation still can provide reasonable account of this ‘passive RSP’ (Neilson and Stubbs, 2011: 441).

The other discussion on strata of RSP intertwines with the existing body of study on ‘marginality’, ‘informal sector’ or ‘informal proletariat’. The study emphasizes the temporary and precarious jobs of small-scale and clandestine work characterized by the absence of state regulation (Kay, 1989; Portes et al, 1989; ILO, 2002; Portes and Hoffman, 2003; Davis, 2006). In this sense, as it has been indicated in the introduction, RSP is generally defined as those who work in the precarious condition and in the outside core of capitalist productivity (Neilson & Stubbs, 2011). It mainly refers to the informal jobs which generally only produce lower productivity and low return. Indeed, it is unlikely feasible to assume that all forms of employment in the informal sector are pre-

carious jobs. ILO (2008) distinguishes employment in the informal sector into four categories: informal-wage labour or casual worker, unpaid family worker, own-account worker and micro-entrepreneur. In developing countries, it is ranging from petty traders selling fried cassava in the street to the big land-owner peasants running their family-farming business.

Given this context, it is less feasible to directly equate RSP to the informal worker. Nonetheless, ILO develops a useful concept of 'vulnerable employment' to highlight the precariousness of jobs in contrast to the ideal account of decent jobs. It classifies own-account worker and unpaid family worker as the vulnerable employment. Micro-entrepreneur or capitalist is excluded from the vulnerable employment because it makes use of paid employees. Nevertheless, the exclusion of casual worker from vulnerable employment is merely due to incomplete data collected in this category.

Practically, rather than to see the RSP from the greater number of informal workers, it is likely to approximate the RSP from the vulnerable employment measure. As Neilson and Stubbs say: "It is an appropriate compromise because the majority of those encompassed within the vulnerable employed measure live in poverty and operate informally in precarious forms of employment" (Neilson & Stubbs, 2011: 443). For Indonesia case, as it is already explained in the methodology section, the accommodation of casual workers in the BPS's labour force survey to describe vulnerable workers even promises more reliable estimation of RSP.

Even though providing a useful proxy to estimate RSP, the vulnerable employment measure does not comprise all strata of RSP identified above. It specifically excludes the 'industrial reserve army' or floating RSP who joints formal jobs and yet falling into precariousness for their extreme insecurity, irregularity and low pay. This paper, indeed, is not intended to claim the exact numbers of RSP. However, the vulnerable employment measure both from ILO and BPS, even though discounting some elements of RSP, it is likely to provide empirically adequate measurement of RSP. In sum, the RSP is defined by summing up vulnerable worker and unemployment.

In contrast to the RSP, the active army of labour plays productive role in the core productivity of capital accumulation. They consist of both waged-workers and active managers. Managers or professionals are belonged to the active army because even though they perform the function of capital, but contradictorily they also play as coordinators of the labour process (Neilson and Stubbs, 2011: 440). For the statistic proxy, the active army will be indicated through 'employee' who is not falling into category of vulnerable employment. It means that some employments in the informal sector such as managerial or professional position in the informal enterprises will be considered as part of active army. Informalization of manufacturing employment has been widespread since 1980s to avoid the regulations and thus cut the production cost (Portes and Castells, 1989; ILO, 2002: 2) and therefore, some informal enterprises' productivity is similar to the formal sector. The application of this feature and its limitation on the data availability in Indonesia case is already discussed in the methodology section.

2.4 Relative Surplus Population in the Peripheral Accumulation

To recapitulate this chapter, it is necessary to highlight the specific development pattern of the RSP in the peripheral accumulation. Neoliberal project has contributed to the detriment of domestic economy in the peripheral nations (Kiely, 2009). EOI strategy provides a fragile and contradictory function to absorb and expel labour. In the short term, EOI might expand productive employment in the industrial sectors. It might be able to absorb the agriculture surplus labour resulted from liberalization of agriculture and thus tend to decrease the relative size of RSP. And yet as Mandel (1975) says, in the long run, EOI might lose its power to absorb productive wage labour due to increasingly intense of global competition. This tendency, accompanied by continuing proletarianization and semi-proletarianization of independent producers in agriculture, creates only less labour can be absorbed into productive jobs and increases the relative size of RSP. Given this context, outward-oriented strategy both in agriculture and industry in the neoliberal framework is hardly able to be expected to what Tania Li (2009) insist on ‘take care of RSP’ by providing sufficient decent jobs for the large number of population.

Chapter 3 The State and Capital Accumulation in Indonesia

This chapter will argue that neoliberal adjustment has changed the class dynamics and eventually transformed the nature of the state. Neoliberal adjustment installed in 1980s brought about by The World Bank and IMF represented the interest of international capital. Their main interest was to open up domestic economy to serve the necessity of global capital to accumulate in the country. This adjustment, indeed, was a threat for the domestic conglomerates which had been enjoyed benefits from the state. Since the conglomerates had a very close and intertwined connection with the politico-state apparatus, these two groups were likely to share common interest to against the adjustment. The resistance from this alliance resulted half-hearted liberalization, meaning that some areas such as agriculture and industry were liberalized, yet a huge sector namely forestry remained heavily protected as main source revenues for domestic establishment class. Even though liberalization was not completed, it succeeded to install ‘neoliberal state’, interventionist state to facilitate capital accumulation that heavily accommodating international capital interest while in varying degree also benefiting domestic establishment class. This has continued since the second neoliberal adjustment in the late 1990s. In both periods, class tension mainly involves foreign and domestic capital class. Working class is completely absent in the first adjustment due to the annihilation of communist power in the mid-1960s and the tight control over labour during Suharto period. Even though there has been a sign of working class awakening since 1998, its power remains limited to challenge the contestation dominated by foreign and domestic capitalist class.

3.1 ‘Authoritarian-Developmental State’ in the early Suharto Regime

After had taken the power in 1967, Suharto announced totally a ‘New Order’ to achieve his own developmental agenda. Economic growth became the most important objective since it was the only way to re-build the economy and paved the way for his legitimacy and differed himself from the former regime. In this early period, the state invited foreign aid and international capital to rebuild the economy. However, oil boom in 1973 and 1979 provided huge revenues for the state (Resosudarmo & Irhamni, 2008: 429). Suharto began to reorganize the state and society. Inward-looking development was re-installed in the economy. The state implemented ISI and gave privilege to the state-owned enterprises and domestic firms to build domestic industries (Ishida, 2003: 13). Robison observes: “Political patronage and state protection afforded privileged access to state bank credit... trade and manufacturing monopolies...” (1988: 62). In agriculture, the state kept to provide subsidies along with the Green Revolution which heavily promoted by international agencies.

To secure his policies, Suharto embraced a ‘defensive modernization’ strategy where the ruler tries to govern and control everything for the sake of economic growth (King, 1979). Suharto started to simplify political landscape in the name of political stability and to prevent radical-mass movement associated with the communist, re-entered political landscape (Hadiz, 1997).

The state also continued to control entire national land to be the main source of revenues. The state claimed exclusive authority over all aspects of human activity within any territories classified as ‘forest area’ (*Kawasan Hutan*) through Basic Forestry Provisions (Act No.5/1967). In 1980, the state classified 143.8 million ha (approximately 75 per cent of the nation's land area) as ‘forest land’ (McCarthy, 2000: 94), covering areas inhabited or used by some 60 million people (McCarthy, 2000:99). By this absolute control, the state managed to distribute logging concessions for agricultural plantations to the private companies. Timber and palm oil plantation were among the most common concessions. For Suharto, concessions created large revenue “[...] to benefit loyal military officers, appease potential opponents and bolster the military budget” (Dauvergne, 1997: 7).

In this authoritarian-developmental state, inward-looking development financed by oil boom was mainly dedicated to benefit domestic conglomerates and politico-state apparatus for the sake of their power survival. This establishment class, indeed, had no meaningful opponent since domestic working class was too weak for some reasons that will be discussed later, while the international capital power was weakened in the oil boom period.

3.2 The First Neoliberal Adjustment in 1980s and the ‘Authoritarian-Neoliberal State’

Suharto faced the first neoliberal wave in the economic liberalization process in 1983-1988. High dependence on oil revenue and poor performance of non-oil export during 1970s led to the economic crisis when oil price dropped significantly in 1982, increasing deficit on the balance of payment (Soesastro, 1989: 854). The state was assisted by IMF and The World bank embarked limited liberalization to boost non-oil government revenues. Liberalization focused on four fields namely banking reform, capital market reform, trade and investment reform and intellectual property law reform. The reform in trade and investment is the most important one since agricultural and industrial policies at the time were heavily influenced by this new-neoliberal agenda. As it will be discussed in chapter 4, agricultural liberalization took place and the state began to redirect industrial development into more export orientation.

Of course the liberalization did not necessarily represent the total retreat of the state from the economy, but it was reorganization of its role. It continued to involve in two major activities: ‘deregulation’ and ‘regulatory reform’ (Rosser, 2002: 14). For deregulation, the state reduced its total investment share and diminished the role of state own companies in economy. As for regulatory reform, the state actively created more ‘market-friendly’ regulation in the economy. In both roles, the state remained active in the entire process of liberalization even though in more indirect ways. And to do so, the state

should maintain political control over both rural and urban areas, disciplining the peasantry and factory workers in the authoritarian regime.

Apparently, the first neoliberal wave appears to be a partial liberalization of the state. As noted by Rosser, it was partial because “[...] whilst the Indonesian government was forced to promote economic liberalization, it did so only in those areas where the politico-bureaucrats and the conglomerates did not have major interest at stake or where they would actually benefit from liberalization” (Rosser, 2002: 13). The alliance between domestic conglomerates and politico-state apparatus increased their bargaining position *vis a vis* international capital.

Indeed, the state eventually did not liberalize the forestry sector that has provided large revenues for the New Order regime to maintain their political dominance. When agricultural and crops plantations were expanded in the late 1980s, the concessionaries were largely “[...] Chinese owned conglomerates as well as business groups owned by powerful political families, some linked to the Suharto family, (which) consolidated their interests in the heavily protected forestry sector” (McCarthy, 2000: 205).

In this neoliberal-authoritarian state, the state began to share the domestic economic fruits with international capital. Outward-looking orientation was imposed where foreign investors were welcomed to pursue large scale plantation expansion in agriculture and to deepen industrial sectors through EOI. However, the state kept some areas remained heavily protected from abroad and maintained the authoritarian rule to preserve the power of conglomerates-politico state apparatus after its power deterioration against international capital.

3.3 The Absence of Working Class

In the first neoliberal adjustment, the class contestation is completely seized between foreign and domestic capital. Working class is absolutely absent from the contestation. As a result, working class cannot even influence the structural adjustment that affects their daily lives. There are two reasons for this absenteeism: mass murdered of communist power in the mid-1960s and tight labour control during Suharto period.

The mass killing of communist party members and sympathizers is dated back to the revolutionary situation under Sukarno period. In order to completely break from colonial control and to build a strong national economy, Sukarno initiated socialism *a la* Indonesia. Sukarno nationalized industries in 1958 and in 1964, the government decided to concentrate on fulfilling home demands, emphasizing ISI as the main target of all productive activities (Tan, 1967: 40). To accomplish the development of socialism *a la* Indonesia, Sukarno implemented agrarian reform in 1960, emphasizing the redistribution of land to deal with surging inequality of land ownership mainly in rural Java which has been existed since colonial era (Lyon, 1971; Husken & White 1989: 237). In this reform, class struggle between landless and poor peasant led by PKI against landlords supported by conservative political parties was accompanied by violence (Utrecht, 1965; Mortimer, 1975).

In 30 September 1965, there was an alleged left-wing *coup* attempt. Domestic anti-communist and anti-Sukarno forces campaigned, demanding PKI to be responsible for cruelly murdered six military generals. “[...] US support for the army’s violent campaign against the PKI” (Robinson, 1996: 128) successfully sparked outrage the mass to annihilated communist from the country. As a result, Robert Cribb, a leading historian on Indonesian massacres describes:

“During the six-month period from October 1965 to March 1966, approximately half a million people were killed in a series of massacres in Indonesia. The victims were largely members of the Indonesian Communist Party which until that time had been the largest Communist Party in the non-Communist world” (2004: 233).

Even though mass killing had significantly destroyed the working class power, Suharto sought to control anything potential power that may engender his policies. To implement the Green Revolution, Suharto required political control over rural areas. In the context of ‘unreformed agrarian structure’ (Husken & White, 1989), it was risky to overlook persisting high inequality without taming any potential unrest in the countryside. Hence, the state depoliticized rural areas by replacing peasant and agricultural-worker affiliates of all former political parties, including PKI and its BTI association, by the state-sponsored HKTI (Husken & White, 1989: 256). Secondly, the state sought rural elites alliance and incorporated them into the framework of authoritarian regime (Robison, 1982: 58).

To facilitate the pace of industrialization, the state banned all the labour unions existed in Sukarno’s era. In 1973, the New Order established state-sponsored labour union FBSI under a broader ideological industrial relation called HPP, emphasizing the harmonious nature relations between employer and employee (Hadiz, 1997: 65). In 1985, the state reorganized the worker control through the establishment of SPSI, tightening the state’s control over labour through more hierarchical order in each field of industries, connected with the territorial military command in each sub-district level. This reorganization was, indeed, applied to make “[...] export-led industrialization, based on the maintenance of a cheap and politically docile labour force, a viable policy option for East Asian state planners (Hadiz, 1997: 85).

3.4 The Second Adjustment and the ‘Non-Authoritarian Neoliberal State’ After 1998

A chronic Asian economic crisis in 1997-1998 contributed to the dramatic shift of political regime in Indonesia. Besieged by economic problems and international pressure, Suharto could no longer manage his order. The fragmentation within his inner circle elites provided the opportunity for the social movements to overthrow Suharto (Robison & Hadiz, 2004). In May 1998, Suharto resigned and one year later, the first democratic election was held, mark-

ing the beginning of democratization (*Reformasi*) after more than three decades of authoritarian rules. Democratization is accompanied by economic liberalization since The World Bank and IMF which represent the interest of international capital utilize the crisis to enhance their bargaining power against domestic establishment class.

There remains no significant opposition to this development. After *Reformasi*, classes of labour have just begun to learn how to organize themselves and thus they are not solid enough to pursue their interest (Hadiz, 2002). Indeed, in this time, economic liberalization was much more extensive than that of in 1980s and yet economic liberalization “[...] has not been total because, although the politico-bureaucrats and the conglomerates have been severely weakened by rupiah crisis, they have not been destroyed” (Rosser, 2002: 13). Apparently, these old oligarchs managed to rebuild their power. Robison and Hadiz (2004:188) observe: “In a remarkable metamorphosis, the oligarchy of authoritarian rule now became the diffuse and confused oligarchy of money politics, as patronage networks and mechanisms for the allocation of public power and wealth were reassembled within the new arena of parties and parliament”.

In this non-authoritarian neoliberal state, the class relation has not been transformed drastically even though the rule of the game has changed to the procedural democratic regime. International capital strengthens its power *vis a vis* domestic establishment class. Working class, even though has begun to enhance its power and yet it remains insignificant power to contest with either domestic or international capital. As a result, the state has continued to deepen the process of privatization, deregulation and competition in every sphere of life, channelling up Indonesia towards global market dynamics to serve international capital interest.

This configuration allows international capital and the old plus new oligarchs manage to pursue their policy preferences. In agriculture sectors, revitalization of agriculture through land titling and global market integration is the option instead of agrarian reform which has been echoed by social movements since 1998 (Bachriadi, 2007; Fauzi, 2009). Land titling is one of the most important because it designed “[...] to improve tenure security, increase investment incentives, and facilitate a transition toward individual titles” (Deininger et al, 2012: 8). In 2004, the World Bank sponsored the Land Management and Policy Development Project (May 2004–December 2009), in collaboration with BPN to issue land titles through systematic registration (USAID, 2010: 40).

Another crucial point of agriculture revitalization relates to the channelling small farmers into global markets. It can be achieved by giving access of knowledge, assets, credit and risk management that can be best provided by larger-scale agricultural enterprises (World Bank, 2012a). In Indonesia, the expansion of large-scale agriculture is manifested specifically in the biofuel plantations.

Along with the expansion of crops plantations, the state also develops industry based on these extractive activities. The so-called agro-processing industry is one of the main priorities, along with telematics and transport (Thebault-Wieser, 2008: 9). The state creates several clusters of agro-processing industries

in several main islands through MP3EI, a road map of economic development to invite foreign investment.

Chapter 4 The Trajectory of Agricultural and Industrial Accumulation in Indonesia

This chapter will argue that the rising power of international capital and the instalment of neoliberal state brought about by neoliberal adjustment have redirected inward-oriented accumulation toward outward-looking orientation. To serve international capital interest, domestic economy was channelled to the global market dynamics. Trade and investment liberalization, along with the removal of import barriers both in agriculture and industry were indispensable elements to serve global market demand. In the first neoliberal adjustment, industrial sectors were reoriented from ISI to EOI. At the same time, agriculture sectors were liberalized by cutting of subsidies and expanding large-scale plantations. The processes have been deepened since the second adjustment in 1998. Cash crops plantations have been expanded while export industry-oriented has continued to provide commodities at global level. The shift from national division of labour towards international division of labour has created disconnection in the domestic economy between agriculture and industry. Cuts of subsidies lessen the incentive for the peasantry and the penetration of new technology brought about by large-scale plantations have relocated peasant from agriculture. As a result, agriculture sectors cannot generate adequate surpluses to build other sectors mainly industry. Industrial development, therefore, has been relied upon foreign investments. Since both sectors are depended on international capital, it is designed to serve global accumulation rather than domestic economy. Detriment of domestic economy eventually leads to the creation of large number of unproductive and vulnerable employment.

4.1 Accumulation before Neoliberal Adjustment: Green Revolution and Import Substitution Industrialization

In 1950s, Sukarno seemed to be aware that as a post-colonial country, Indonesia required to build its own domestic economy to stand equally with other nations. Sukarno initiated Agrarian Reform and Nationalized Industries to establish a strong national economy. As it is discussed in chapter 3, however, the mass killing in 1965 halted this national model of economic development. In early 1970s, Suharto which was largely supported by the US and World Bank initiated the Green Revolution to increase agriculture productivity (Hansen, 1972), ignoring Agrarian Reform program in Sukarno era. From the foreign debt, Suharto allocated 30 per cent national government budget to build irrigation and infrastructure needed to develop agriculture sector (Booth, 1998).

Intensification of production through Green Revolution has successfully increased agriculture productivity. Before the Green Revolution, the yield of per hectare rice was only 1-2 tons. The yield went up to 2-4 tons per hectare

after government had introduced modern input of agriculture (Subejo, 2009). In 1984, for the first time of the national history, Indonesia achieved self-sufficiency on rice production. Agriculture growth average in the period 1970-1981 reached 4.2 per cent, increased from 1966-1970 level of 2.4 per cent (Tambunan, 2006: 10). However, Indonesia's agriculture productivity was arguably lower than in Malaysia, Thailand, and the Philippines (Tambunan, 1998: 48-49). The Green Revolution also exacerbated high inequality among the peasantry, as it will be elaborated in chapter 5. High land inequality created less opportunity for many people to make a living on agriculture.

The necessity to absorb surplus labour from agriculture had rendered the Suharto administration to develop industry. Suharto and his economic team believed that the state had to lead industrialization (Robison, 1988: 63). However, moderate agriculture surpluses from the Green Revolution made not possible for the state to extract the surplus to finance industrialization. As a result, from 1966 to 1973 period, Suharto was totally depended on foreign investors to build the industry. Suharto invited foreign capital to exploit abundant natural resources such as oil, gas and mining by announced Act No.1/1967 on Foreign Capital Investment.

Thanks to oil boom in 1973 and 1979, a huge foreign exchange from oil export increased government revenue very dramatically.¹ Armed with abundant money, Suharto confidently implemented Five-Year Plan to build basic industry. Suharto gave privileges to the state enterprises and domestic private companies to expand production capacity of existing factories in some areas such as oil refining, fertilizers, cement, basic iron/basic iron/steel and aluminium (Ishida, 2003: 13).

Oil boom succeeded to accelerate industrialization in 1970s and early 1980s. Industrial growth reached 8.1 per cent per annum between 1970 and 1984. In the same period, industrial contribution to GDP was increasing from 17 to 34 per cent (Hill and Narjoko, 2010: 51). ISI also succeeded to reduce import dependence in intermediate input. As points out by Ishida (2003: 22), 20 out of 23 industrial sectors lowered its import dependence after ISI had been conducted. Ten sectors of them dropped its dependence to two digit points.

Basically, the stage of ISI led by oil boom was focus on capital and resource intensive industries. It might be understandable to build the basic industries which implied the priority given on capital and resource intensive in the initial stage of ISI. Nevertheless, Suharto did not maximize the available money to deepen the structure of industry. There was no meaningful expansion of capital goods industry as the prerequisite to enhance domestic manufacturing capability and base for "[...] further industrial diversification and the deepening of production" (Dhanani, 2000: 32). In 1980s, capital goods contributed to almost half of the total manufactured imports. No wonder if the share of industrial workers to total workforce was meagre. In 1986, only 8.2 per cent of

¹ In 1970, total export earnings from crude oil and petroleum products only reached 32.8 per cent from total exports. This share surged in 1981 when total revenue from oil export contributed to a quarter of total GDP and 70 per cent of total government revenue (Resosudarmo & Irhamni, 2008: 429).

total workforce was employed in the industrial plantation compared to 7.8 per cent in 1961 (Manning, 2004: 24; Hart, 1986: 62).

At the same time, the surplus from oil boom-led industrialization was not allocated to expand further agriculture development. There was no significant agriculture processed output or agro-industry had been built to link agriculture and industry. Eventually, when rice self-sufficiency was achieved in 1984, the total earning of peasants did not rise substantially (Tambunan, 1998: 57). For the rich farmers, they preferred to allocate their surpluses into non-productive agriculture activities (Husken, 1989: 326) rather than to expand their agricultural businesses. Meanwhile, persisting high inequality of land tenure meant the narrower opportunities for a majority of peasants to cultivate the available land.

4.2 Export-Oriented Industrialization and Agriculture Liberalization in 1980s

Oil boom-led industrialization encountered its limit when oil price fell-down significantly in 1982. The price dropped from around US\$ 37 per barrel in 1981 to only US\$ 13 per barrel in 1982. Government revenue from oil exports decreased from US\$ 10.6 billion in 1981/1982 to US\$ 7.2 billion in a year later (Resosudarmo & Irhamni, 2008: 430). As it is elaborated in chapter 3, the end of oil boom led to the crisis followed by economic liberalization. Besieged by undesirable circumstances, government cancelled the expansion of some giant industrial projects. This was the only option since agriculture sector development through Green Revolution was not able to produce sufficient surplus to be invested in industry. Eventually, Suharto backed to the late 1960s industrial strategy by relied on foreign investment.

To attract foreign investment, the government began to liberalize the economy and shifted the economy orientation from domestic to more external market-oriented. From 1986 onwards, the government introduced series of 'pro exports' and removed import barrier policies (Resosudarmo and Kuncoro, 2006: 347; Dhanani, 2000: 28). As a result, foreign investment served as the backbone of industrialization in the mid of 1980s and 1990s. From 1988 to 1996, industrial GDP growth reached 11.3 per cent per annum. Industrial employment growth per annum was 7.6 per cent in the same period (Aswicahyono, Hill and Narjoko, 2011: 24). In 1995, industrial workers contributed to 12 per cent of the total workforce where agricultural employment still dominant figure, accounted for 45 per cent, followed by service sector reached 37 per cent (World Bank, 2012c: 1).

However, the contribution of foreign investment to industry mainly from FDI scheme has hardly been positive to domestic economy and employment. As Dhanani (2000: 10-11) explains, FDI failed to contribute significantly due to several reasons: low transfer of technology from foreign capital to domestic companies, moderate tax revenues in the 1990s, negative impact on balance of payment, and deficit in manufacturing goods since foreign companies continued to depend on the import for their largely input of production. FDI also only generated limited employment. Foreign companies were double in their

capital intensive industries as domestic establishment, making they contributed half as many employment generated by domestic firms (Dhanani, 2000: 60).

Foreign investment-led industrialization is unlikely successful to grasp the advantages of EOI. Rather than helped, from 1985 to 1996 period, it deepened the structural weaknesses of existing industrial development. Capital goods industry was still very limited. Import dependence on manufactured goods had been exacerbated due to activities of Multi-National Corporation. Technological deepening was merely an illusion since the share of low technology industries expanded yet the contribution of medium-technology declined (Dhanani, 2000: 6). The trend of de-industrialization has been pronounced.

Unfortunately, the tendency of industrial stagnation is also evident in the agriculture development. In 1987, the subsidy of agriculture input: seeds and fertilizers was removed drastically. In the following years, Indonesia began to import the rice from Vietnam (Fane & Warr, 2008:140). Simultaneously, the state initiated the expansion of large-scale plantations that induced the displacement of peasantry from their land as it will be elaborated further in the next chapter. This challenge, combined with unresolved previous problems led many peasants to exit from agriculture.

4.3 Expansion of Plantations and the Symptom of De-Industrialization After 1998

Severe Asian economic crisis hit Indonesia in 1997-1998 which was marked by spike prices of all basic commodities, hyper-inflation, super low economic growth and large numbers of unemployment. It urged the government to seek large revenue to recover economy. Apparently, “following the neoliberal policies promoted by the IMF, Indonesia has to some extent developed its national economy based on exports, and on promoting mining, logging, and export cash crops” (Feintrenie, et.all, 2010: 2). Food crops production mainly rice has been received minor attention. In contrast, cash crops booming in 2003 and 2008 have largely induced the state to support the expansion of palm oil, rubber and cocoa to gain huge revenues, demanding more forested land to be converted into plantations (Deininger & Byerlee, 2011: 7; Burke & Resosudarmo, 2012: 317).

The major concern on cash crops development has been accompanied by relatively neglected industrial sectors. After severe economic crisis in 1998, industrial growth “[...] is no longer the leading growth engine it was prior to the crisis” (Aswichayono, Hill & Narjoko, 2011: 16). From 1990 to 1996, manufacturing sector growth reached 12 per cent per year and whilst for the years of 2001 to 2010, its growth only accounted for 4.8 per cent (World Bank, 2012d: 2). Predominantly, this is because: “[...] the domestic manufacturing sector has been greatly weakened by corporate indebtedness and inward foreign direct investment flows have virtually dried up, due in part to serious competition from equally reform-oriented countries, Indonesia now faces the real threat of de-industrialization (Dhanani, 2000: v). The dependency on foreign investment has made domestic industrialization fragile to the global capitalist volatile.

The symptom of de-industrialization characterized by low growth of industrial sector has impeded industrial employment development. In the period of 1990-1996, the employment growth in industry reached 7.6 per cent. For the years of 2000 to 2008, the employment growth in industry accounted for only 3.4 per cent (Aswichayono, Hill & Narjoko, 2011: 23). The industrial labour development remains stagnant where in 1996, two years prior the crisis, it reached 12.6 per cent and only slightly increased to 13 per cent of the total workforce in 2011, equal to 14 million workers (World Bank, 2012a: 1). The limitation of industrial jobs along with continue decline of agricultural employment lead a majority of workforce to seek jobs in the service sectors.

4.4 Accumulation and Labour in Indonesia

More than five decades of accumulation has greatly induced structural shift in the Indonesian economy. As the table 1 shows, the contribution of agriculture to GDP has declined subsequently from 1960 to 2011 and yet the share of industry has gradually risen. The shift of sectorial share to GDP has been accompanied by changing composition of employment's structure. In the last five decades, the employment in agriculture has steadily decreased whilst there has been slowly increased in manufacturing sectors. However, this climbing trend is much lower than the declining trend in agriculture employment. It is not surprising if a majority of workforce in 2011 was working in the service sectors.

Table 1. Sectorial Shares of Indonesian GDP and Employment, 1960 – 2011 (in per cent)

<i>Share of GDP %</i>					
	1960	1971	1986	1996	2011
Agriculture	53.9	44.8	24.6	16.5	15
Industry	14.1	20.4	35.5	43.0	47
<i>Manufacturing</i>	8.4	8.9	17.9	25.0	24.3
Services	32	34.3	40.0	40.6	38
<i>Share of Employment %</i>					
	1961	1971	1986	1996	2011
Agriculture	73.6	65.9	55.1	44.0	39
Industry					
<i>Manufacturing</i>	7.8	7.8	8.2	12.6	13
Services	18.6	16.3	36.7	43.4	48

Source: Hart, (1986: 58-62); Manning, (2004: 24); World Bank Indicator, various years

This development, for many observers may be perceived as a 'normal trajectory', following the industrialized countries where a majority of the workforce eventually will be employed in the service sectors. If we look at closer, however, this seems to give another picture. Different from the advanced countries where a majority of their workforce is absorbed in the formal em-

ployment, Indonesian accumulation has been marked by very large numbers of informal workers in all sectors. In 2012, ILO showed that around 63 per cent of the total workforce or 70 million people joined in the informal economy which is perceived as a 'vulnerable employment' (ILO, 2013: 12). These workers mostly involve in the unproductive jobs with precarious condition as it will be explained in the next chapter as relative surplus population.

Chapter 5 The Development of Relative Surplus Population

This chapter will argue that the outward-oriented model of accumulation both in agriculture and industry elaborated in the previous chapter, dominantly facilitated by the state has contributed to the creation of large numbers of RSP either in the countryside or city. The Green Revolution in the context of ‘unreformed’ agrarian structure in 1970s and the first neoliberal adjustment of agriculture in the mid-1980s have greatly induced proletarianization and semi-proletarianization, transforming the peasantry into both petty peasants and landless workers. Indeed, the first neoliberal adjustment through EOI since 1980s has relatively developed formal workforce. It contributed to the declining relative size of RSP from the level in 1980s compare to the 1990s. However, the second neoliberal adjustment since 1998 has accelerated expansion of large scale plantations and land titling, again in the ‘unreformed’ agrarian structure has created many more petty peasants and landless labours. On the other side, capital flight from domestic economy since economic crisis in 1998 has induced de-industrialization which has no way to provide sufficient formal employment. As a result, the relative size of RSP tends to increase in 2000s. Petty peasants and landless labours from rural areas end up involve in the circular migration, back and forth between country and city to seek any incomes generation opportunities for the sake of survival. Seeing meagre domestic opportunities, many of them seek overseas employments. Unfortunately, many of these migrant labours have also experienced a dreadful living condition because the unskilled and casual nature of their jobs.

5.1 The General Pattern of RSP’s Development

As it is already emphasized both in the methodology section and analytical framework chapter, due to the complexity of RSP’s concept and the limitation of available dataset, this chapter is not an attempt to provide precise figure of RSP. However, it indicates a reasonable account of the development of RSP since 1980s to the recent time. As table 2 shows, the RSP (unemployment and vulnerable worker) in 1985 when neoliberal adjustment was begun accounted for around 45 million (70.58 per cent of the total workforce), more than double of the active army of labour which accounted only for 18.77 million (29.41 per cent), from total 63.81 million workforce. Own-account workers and unpaid workers in agriculture contributed to the biggest vulnerable workers, accounting for 17.02 million and 12.01 million respectively. They mostly are both petty peasants who own less than a half hectare of land (*petani gurem*) and landless peasants (*buruh tani*) who assist their family-farming without getting paid. Nonetheless, own-account workers in non-agriculture also contributed significant numbers of RSP, constituting around 11 million workers. They struggle to survive as petty traders (food, clothes etc.), petty artisan producers as potters,

wood craftsmen, etc., and small-service providers such as motor-cycle driver, parking attendant etc.

Indeed, not all of the own-account jobs are vulnerable workers. Again, the problem with available dataset is already addressed in the methodology section and chapter 2. The peasants who own more than one hectare of land could be more productive and may expand their farming rather than small-peasant with less than a half-hectare of land. However, the over-accounting on vulnerable workers is counterbalanced by the fact that the dataset over-estimates the number of non-vulnerable workers in the employee status. It undermines the fact that not all of agriculture employees are non-vulnerable workers because many of them may be engaged in the casual arrangement as the case for seasonal agriculture workers, the category which has only been developed by BPS since early 2000s.

Table 2. The Composition and Size of Relative Surplus Population in Indonesia, 1985

Relative Surplus Population		Active Army of Labour		Capitalist	Total Workforce
1985					
Unemployment	Vulnerable Workers	Non-Vulnerable Workers	Employee	Employer assisted by permanent paid worker	
	Own-Account workers in Agriculture (17.02 million)		Agriculture Workers (5.11 million)		
	Own-Account workers in Non-Agriculture (11.85 million)		Non-Agriculture Workers (13.66 million)		
	Unpaid Workers in Agriculture (12.01 million)				
	Unpaid Workers in non-Agriculture (2.80 million)				
Total 1985					
1.36 million (2.14%)	43.68 million (68.45%)	n.a	18.77 million (29.41%)	n.a	63.81 million (100%)
Total RSP: 45.04 million (70.59%)		Total Active Army of Labour: 18.77 million (29.41%)			

Source: BPS 1985 in DSP II (1987: 37)

The figure of RSP decreased in 1997, one year prior to the economic crisis. Indeed, in absolute number, the RSP rose from 45 million in 1985 to 57 million in 1997, as table 3 indicated. Nevertheless, the relative size of RSP in proportion to the total workforce went down from 70.58 per cent in 1985 to 64.56 per cent in 1997. The narrowing relative size of RSP was partly resulted from the nature of available dataset as it is already showed in the methodology section. It excluded employers assisted by permanent paid worker from the

own-account workers and thus reducing the total number of vulnerable workers. However, the main contributor to the declining relative size of RSP was, indeed, the expansion of waged-employee mainly in the industrial sectors since the adoption of EOI in 1980s as it is argued in chapter 4. The active army of labour increased from 29.41 per cent in 1985 to 33.80 per cent in 1997. The expansion of industrial employee counterbalanced the enlargement of petty peasants and landless workers resulted from neo-liberalization of agriculture through the reduction of agriculture subsidies and the expansion of large scale agriculture plantations.

Table 3. The Composition and Size of Relative Surplus Population in Indonesia, 1997

Relative Surplus Population		Active Army of Labour		Capitalist	Total Workforce
1997					
Unemployment	Vulnerable Workers	Non-Vulnerable Workers	Employee	Employer assisted by permanent worker	paid worker
	<p>Own-Account Workers</p> <p>*Own-account workers without assisted by temporary-unpaid worker (19.86 million)</p> <p>*Own-account workers assisted by temporary-unpaid worker/Mostly agriculture worker (17.98 million)</p> <p>Unpaid Workers (15.81 million)</p>				
Total 1997					
4.20 million (4.68%)	53.65 million (59.88%)	n.a	30.28 million (33.80%)	1.47 million (1.64%)	89.60 million (100%)
Total RSP: 57.85 million (64.56%)		Total Active Army of Labour: 30.28 million (33.80%)			

Source: BPS 1998, in Heriawan (2004)

After economic crisis in 1998, the spread of petty peasants and landless workers has not been able to be checked by industrial development. Second neoliberal adjustment has accelerated the expansion of large scale plantations. And yet, capital flight has kept much lower growth of industrial sectors and created less industrial jobs, marking the feature of de-industrialization, as it is explained in chapter 4. This keeps the large numbers of vulnerable workers both in agriculture and non-agriculture. It is no striking if the relative size of RSP remains stagnant or even tends to increase. In 2009, the RSP accounted for around 74 million (65.10 per cent of total workforce compare to 64.56 per

cent in 1997) where active army of labour reached 36 million (32.29 per cent) as table 4 shows. The stagnation of relative size of RSP is less likely contributed by the changing available dataset. Indeed, the data in 2000s provides more detail account on vulnerable workers, distinguishing between employee in the precarious arrangement (seasonal workers) and non-precarious condition, removing some employees from non-vulnerable account to the vulnerable measure. Nevertheless, at the same time, it also excludes professionals and employers assisted by permanent paid worker from the own-account workers and thus reducing the total number of vulnerable workers.

Both in 1985 and 2009, the biggest number of RSP was contributed by vulnerable agriculture workers. Own-account workers, unpaid family workers and seasonal workers in agriculture accounted for 14.75 million, 13.76 million and 6.35 million respectively. Petty peasants, landless peasants and day agriculture labourers mostly seized these three types of vulnerable agriculture workers, constituting 34.86 million in total. Non-agriculture vulnerable workers, however, kept contributing large numbers of vulnerable workers as well. It accounted for 29.93 million consist of own-account, unpaid family and seasonal non-agriculture workers. Relatively, the proportion of vulnerable agriculture workers declined from 66.46 per cent in 1985 to 53.80 per cent of total vulnerable workers in 2009. The narrowing opportunity in the agriculture sectors due to high level of land tenure inequality and yet the limitation of industrial jobs creation since 1998, as it is explained in chapter 4, has induced large numbers of small-peasants, landless peasants, and day labourers in agriculture to joint circular migration, working as small-artisan producers, petty-traders, small-service providers either in the country or city. This will be the subject discussion of the following section.

Table 4. The Composition and Size of Relative Surplus Population in Indonesia, 2009

Relative Surplus Population		Active Army of Labour		Capitalist	Total Workforce
2009					
Unemployment	Vulnerable Workers	Non-Vulnerable Workers	Employee	Employer assisted by permanent paid worker	
	Own-Account Workers				
	*Own-account workers without assisted by temporary-unpaid worker (19.98 million)	*Professional own-account workers (0.83 million)			
	*Own-account workers assisted by temporary-unpaid worker/Mostly agriculture worker (14.75 million)	*Professional and managerial workers (6.87 million)			
	Unpaid Family Workers				

*Unpaid Family Workers in agriculture (13.76 million)					
*Unpaid Family Workers in non-agriculture (4.91 million)					
Casual Workers					
*Seasonal Agriculture Workers (6.35 million)					
*Seasonal Workers in non-agriculture (5.04 million)			*Seasonal Professional and managerial non-Agriculture Workers (0.11 million)		
Total 2009					
9.26 million (8.14%)	64.79 million (56.96%)	7.81 million (6.87%)	28.91 million (25.42%)	2.97 million (2.61%)	113.74 million (100%)
Total RSP: 74.05 million (65.10%)		Total Active Army of Labour: 36.72 million (32.29%)			

Source: BPS (2010: 4); Nazara (2010: 23)

5.2 The Origin of RSP: Proletarianization

The abundance of landless peasant and day labourers both in agriculture and non-agriculture was resulted by massive proletarianization since the introduction of the Green Revolution in 1970s and the expansion of large scale agriculture plantation in the neoliberal adjustment in the late 1980s. Proletarianization through accumulation by dispossession has been pronounced since the expansion of plantations took place under Suharto regime. The monopoly of land by the state has made it easier the attempt to expand large scale plantations where many people have to be displaced from their land as it is explained in chapter 3. However, it is not feasible to estimate the number of displacement of the peasantry from their land since the official data available namely Agricultural Census “[...] provide no information on land ownership or landlessness, and thus are of limited value in addressing questions of agrarian structure” (Pincus, 1996: 9). In this respect, village surveys and case studies provide more detail process of land dispossession which is undetected at the macro-level.

White (1999) in his study shows that in the Javanese state-sponsored plantation, the previous tillers were enclosed to access the land and were transformed into wage workers. In Jambi, Sumatra, thirty private logging concessions controlled and operated 2.662.000 ha of forest land in 1990 which “[...] enclosed land previously available for opening swiddens, and land shortages ensued, a problem exacerbated by population growth and in-migration” (McCarthy, 2000: 110). The similar story was repeated in 1994 where rubber plantation in Riau Sumatra had displaced villagers after the government gave concession 14.000 ha, 40 per cent of village land, to PT. RAAP. “When RAPP

took over the lease in 1994, they began clearing without compensation, destroying rubber and fruit gardens and converting the land into a pulp plantation of *Acacia mangium* (Potter & Badcock, 2004: 347). In many cases of plantation development, large numbers of families have to leave the village and to seek another means of survival.

Accumulation by dispossession has been accelerated since the second neoliberal adjustment program in 1998 through massive integration of the smallholders into global market by expansion of large scale plantation. In many places, mostly in the outer island of Java, land grabbing for food, fuel and conservation have induced dispossession of peasantry where oppression through extra-economic force is often used by the state apparatus (GRAIN, 2013; 2014; Fortin, 2011; McCarthy, 2010). For instance in October 2012, peasants in Buol district Sulawesi organized a road blockade and occupied the mayor's office to urge PT Hardaya returning 4900 ha of their village land that has been used to grow oil palm since 1998 (GRAIN, 2014: 4).

Proletarianization is also taken place through class differentiation. It is widespread in the Javanese countryside as this is the most densely populated agricultural areas on earth (Husken & White, 1989: 236). Inequality of land ownership has been increased since the massive implementation of the Green Revolution project in early 1970s. In the Northern Central Javanese village, "[...] less than 10 per cent of village households controlled nearly 60 per cent of the land and...At the other extreme, about 45 per cent of the households were either landless or near-landless (Hart, 1986: 14). In Western Javanese village, "[...] large amounts of land in Subang village are controlled by a small number of households, while between one-third and two-thirds of the population are landless" (Pincus, 1996: 74). For the whole Java in 1983, 42 per cent of the households engaged in agriculture were landless (White, 1991: 22).

The similar pattern has marked agrarian change in the outer islands. In South Sulawesi village, Forbes (1981: 145) reports how "Approximately one-third of the peasantry do not own any land, and make do as agricultural labourers and tenant farmers, whilst around 50% of landholders have tiny holdings of less than 0.5 hectares, and are barely capable of supporting a small family". In the rubber plantation project in Riau, Sumatra initiated in 1984, "[...] while 15 per cent of households owned no rubber land at all...the wealthiest 10 per cent possessed the four hectares or more of tappable rubber necessary to meet all household needs (Potter & Badcock, 2004: 346). The transmigration project which has massively been expanded by Suharto regime in early 1970s not only failed to address high land inequality in rural Java, but it has exacerbated the pressure on virgin land in outer islands.

In Karo, North Sumatra, after two decades of the Green Revolution, land tenure was highly uneven where 40 per cent of the village population was landless. Apparently, "[...] landlessness was not the result of proletarianization of the existing community, but of in-migration in a situation where waste land was not available" (Ruiter, 1999: 300). Indeed, the majority of the landless were Javanese trans-migrants who settled in the village. This was also evident in Lampung, one of the main destination transmigration projects in Sumatra. It showed how 26 per cent of farm household in the settlement areas was landless (Hayami & Kawagoe, 1993: 79).

Class differentiation and the rise of inequality in the countryside are perhaps understandable in the context of Green Revolution. As it has been explained in the previous chapter, increasing productivity was the main goal of the project while at the same time overlooking the existing inequality among the peasantry. This led to the class differentiation because the allocation of modern input was based on patron-client networks between national elites and rural elites. National elites provided agricultural subsidies and in turn, rural elites served as the agent of national rulers to distribute benefits to loyal followers and maintain the rural stability in the authoritarian rule (Welker, 2012: 392). As a result, the Green Revolution unevenly benefited the richer rural dwellers and forced the poorer neighbours into marginal land or absolute landless which led to class differentiation (Stoler, 1977: 695).

This trend has continued after economic crisis in 1998 and the expansion of large scale plantations and high-value crops commodities. Incorporation of small peasants by the company does not necessarily avoid class differentiation among the peasantry. Oil palm plantation in Kalimantan, for instance, has induced “rural differentiation through the *inti-plasma* mechanism has allowed some smallholders to successfully accumulate capital and expand their production and holdings, while others have experienced dispossession without compensation and continue to press for their *plasma* allotment” (Fortin, 2011: 18). In the cocoa booming period in upland Sulawesi, even though without plantation scheme but popular initiatives to engage in the market, “[...] indigenous smallholders who have switched to commercial crops have not only displaced food production, they have initiated a process through which they have themselves been displaced as their land is taken over by local elites or migrants” (Li, 2002: 432). Class differentiation has significantly transformed the petty peasants into landless labours.

5.3 The Salient of Semi-Proletarian Class

Even though landless workers have massively been widespread across the country, yet the process of proletarianization has never been completed. Millions of petty peasants have continued to engage in the agriculture production. Agricultural Census in 1993 showed the petty peasant who own less than 0.5 ha reached 48.5 per cent from the total peasant households, equal to 10.88 million from total 20.8 million households (Wiradi, 2009: 12-13). The average land tenure was only 0.17 ha per household. Most of them were hardly able to reproduce their daily live without off-farm income. A condition of ‘semi-proletarianization’ (Lenin, 1964: 172) has been pronounced. As White shows in Java where “[...] at least half of rural incomes and in many cases great deal more, is derived from non-agricultural activities” (1991: 1). For a lot of small peasants in West Java, wage labour is indispensable to close “[...] the gap between earnings from own production and consumption needs, thus forming an essential part of strategies to resist the pressures of proletarianization” (Pincus, 1996: 55). This is also true for small peasants involve in the plantation contract scheme. In West Java state-sponsored plantation, “[...] contracting can provide only part of household incomes, and farming is supplemented with external employment of at least one family member, normally adult males” (White, 1999: 250). Unfortunately, the majority non-farm income available to petty

peasants earn lower incomes than farm labour. In this respect, non-farm jobs are merely “[...] as strategy of sheer survival” (White, 1991: 27).

Semi-proletarianization is likely to rise after the second liberalization marked by a massive inflow investment of mono-crops plantations. Indeed, many large scale agriculture companies prefer to incorporate peasantry (Li, 2011). This is partly to accommodate ‘pro peasant’ rhetoric and of course another reason is to avoid economic risk (Cotula, 2012). Apparently, incorporation does not necessarily provide peasants better opportunities. In Sumatra, rather than give benefits to the smallholders as the World Bank claimed, “[...] individuals who find themselves incorporated into oil palm under unfavorable conditions will not only remain poor but may even face deeper poverty” (McCarthy, 2010: 827). This ‘adverse incorporation’ is also evident in the oil palm plantation in Kalimantan and Sulawesi (Fortin, 2011; Li, 2011). The petty peasants have been risen steadily compare to that of two decades before. According to Agricultural Census in 2013, petty peasant accounted for 55.3 per cent of total peasant households, equal to 14.25 million from total 26.14 million households (BPS, 2013). Of the total petty peasants, 10.8 million were in Java.

5.4 Circular Migration of the RSP

To survive, either petty peasants or landless labours in rural areas seek to find non-agricultural income. For both two groups, agricultural wage labour contributes significantly to family income. But because many of them are unable to find adequate wage labour days within the village, they participate in migrant pre-harvest and harvest labour outside their village. Alas, “several migrants reported that after subsistence costs and transportation have been deducted, they could barely break even despite several weeks of full-time employment” (Pincus, 1996: 62). Subsequently, a majority of them is looking for non-agricultural wage in elsewhere: countryside, city and overseas. Unfortunately, non-agricultural wage in countryside has been limited. Manufacture expansion has been very meagre in the countryside (White, 1991: 30). Whilst the formal wage jobs in the local bureaucracy and private enterprise sectors are only belonged to those higher educated and skill-full labours.

Since wage labour has been limited in the countryside, rural poor labourers involve in the self-employment activities such as fishing, gathering edible plants (Hart, 1986: 122), engaging in a small-scale trade or handicraft occupation to sustain their daily reproduction. For the large farmers who also involve in the two latter activities as an alternative or diversification of capital accumulation, they tend to manage to earn higher income than of the small farmers and landless labours (White & Wiradi, 1989: 299; Pincus, 1996: 72). But for the latter groups, “Lacking access to credit and pressed to meet immediate consumption needs, these traders and artisan work long hours for extremely low returns (Pincus, 1996: 81). They are unlikely to be able to bear the risk of day-to-day fluctuation in income associated with these activities which “[...] tend to be characterized by low capital requirement, some degree of flexibility in terms of timing, and generally low returns to labour” (Hart, 1986: 123).

Unable to find sufficient non-agricultural wage in rural areas, labourers migrate either temporary or permanently to the urban areas. Many of them have been involved in the temporary migration, joining informal sectors. In West Java, “Men ‘commuted’ to construction jobs in Bekasi and Karawang districts to the west of Subang, where industrial and housing projects are springing up along the recently-opened Jakarta-Cikampek toll road” (Pincus, 1996: 68). In Southern Central Javanese village, around three-quarters of all households have at least one member joint to the ‘circular migration’ (Hetler, 1989). In 1980s, many households in the village were landless or near-landless who were hardly able to meet their daily needs from the agriculture incomes. Thus, as Hetler showed, “To earn income, villagers increasingly sought short-term work in the urban informal sector, primarily by selling *bakso* (noodle soup) (men and a few women) or *jamu* (herbal drinks) (women) (Hetler, 1989: 54).

In other Central Javanese villages, the migrants have many other cities of destination. As Firman observes:

“Many able-bodied males and females have left their communities in search of urban jobs in Sragen, Solo, Yogyakarta, Surabaya, Bandung, and Jakarta. Whereas women generally work as domestic servants (*pembantu rumah tangga*), men are employed as pedicab drivers (*tukangbecak*), construction workers (*buruh bangunan*), food sellers (*pedagang makanan*), and in other forms of casual work. Most migrants return to Desa Slendro at least once a year, particularly during the Muslim festival of *Lebaran*” (Firman, 1994: 86)

In Java as a whole, where only less than half the rural population owns or has direct access to sufficient agricultural land to obtain subsistence, “[...] circular migration or commuting provides a means for families to maximize their incomes by encouraging some members of the household to work in the village at times of peak labour demand and to seek work in the city or elsewhere at slower times while other members of the household remain to cope with limited village-based labour demands” (Hugo, 1982: 40). In this respect, “[...] circular migration is essentially a response to the absence in the rural economy itself of sufficient non-farm incomes opportunities” (White, 1991:30).

Apparently, this is not an exclusive Javanese phenomenon. Circular migration has been widespread across the country for decades. Leinbach & Suwarno (1985: 42), show that in Medan, the capital of North Sumatra province, “[...] just over 70 per cent of the employment associated with commuting behavior may be characterized as informal while the corresponding figure for the circulator group is over 95 per cent”. Petty traders are the most significant type of jobs for the circulars. In South Sumatra, “[...] families adopt circulation and remittance behavior as an ongoing means of maintaining basic survival” (Leinbach & Watkins, 1998: 50). These dwellers of the transmigration settlement have to find other source of incomes in a nearby town since their on-farm activity alone is insufficient for household survival. It is evident that some families are able to earn cash income to meet their daily needs. Nevertheless, many of them are “[...] often a desperate last resort” (1998: 55). They eventually give up their transmigration land and comeback to Java, which has been most densely populated island in the country.

The pressure to migrate for the sake of survival can also be found in South Sulawesi. Circular migration is widespread, involving Ujung Pandang (now Makassar) city as the centre of attraction for labourers from the poorest part of the province. All migrants are agricultural workers where “[...] the land was insufficient to provide a surplus large enough to sell for cash, whereas if the seasons were poor hunger would certainly follow” (Forbes, 1981: 145). Labourers migrant find themselves work as sellers of fish, fruits and vegetables, food and trishaw riders. In planting and harvesting times, they return to the village and back again to the city afterward. Yet, even with combination between agricultural and informal urban activities’ incomes, they “[...] still lives on the margins of poverty” (1981: 146).

The marginality of income earning from this informal employment might not utterly striking. In Central Sulawesi, when people involve in the labour migration, “[...] the returns are poor and their mobility restricted by their lack of education” (Li, 2002: 423). In Medan, North Sumatra, apparently of the 67 circulators, 48 per cent admitted that no money was sent home (Leinbach & Suwarno, 1985: 42). In many cases, for those who are able to send the money home, their recipient families “[...] have used this money primarily for basic necessities, notably foodstuffs” (Firman, 1994: 98). Another observer also emphasizes that “[...] the bulk of these remittances are used to purchase the mundane necessities of life (food, clothing, etc.); and while there is some investment in housing and land, amounts directed toward employment-generating enterprises are relatively small” (Hugo, 1982: 75).

Circular migrants of the RSP have faced more dreadful situation since the impact of 1997-1998 economic crisis. Thousands of companies fired their workers, adding unemployment and informal workers (Sarkar, 2002: 73). As Silvey shows, in Makassar Industrial Region (South Sulawesi), “[...] large numbers of factory working women have lost their jobs, and many migrants have returned to their rural origins” (2001: 34). Large of numbers of labours have decided to stay in rural areas since it offers lower cost to live (Hugo, 2000: 126). No wonder that informal workers as the dominant component of RSP have been located in rural areas. In 2009, around sixty per cent of informal workers were located in rural areas (Nazara, 2010: 22). They mostly engaged in the agriculture and trade activities for the sake of survival.

Nevertheless, these workers are hardly able to find any decent economic opportunities in their origin villages. The persistence of high land tenure inequality, the very limited labour absorption on the expansion of large scale plantations in outer islands Java (Li, 2013: 1) and where the village economy is become more dependent on the remittances from city (Hugo, 2000: 126) have narrowed the rural economic opportunities. They eventually become ‘redundant labour’ (Breman, 1996) because the absence of regular and decent employment elsewhere both in country and city. Breman & Wiradi (2002) provide compelling case studies in Java to show how these workers “[...] have no alternative but to go back ‘home’, because staying on in the city without earnings is next to impossible. But returning to their place of origin is not a straightforward option, given the lack of space in the rural economy” (Breman, 2009: 34). High level of seasonal workers either in agriculture or non-agriculture indicated in the table 3 confirms this observation.

In a capitalist model of development, indeed, the RSP from the countryside who likely to be redundant labours are required to provide the abundance

of cheap labour in city. Upper classes in the destination areas of circular migrants manage to receive double benefits from the migrant labours. As Hugo points out:

“The fact that places like Jakarta can now draw labour from a much wider area than has ever been possible, without having to provide all of the workers and their families with permanent housing, schooling, health facilities, utilities, and so on... First, the supply of labour is so plentiful that wages and conditions can be maintained at low levels; and... these classes do not have to contribute (via taxation, etc.) to the provision of overheads (permanent housing, etc.) for the families of the circular migrants who remain at home” (Hugo, 1982: 76).

It is not surprising that slums areas have been widespread in many cities in Indonesia, with Jakarta as the champion. These cities are the place for labours without anything left in the countryside but they have to stay relative permanently in the city. Urbanization level has increased dramatically where in 2010, 49.8 per cent of total population live in urban areas, increased from 17.2 per cent in 1971 (World Bank, 2012c: 9). Jakarta as the biggest city contributes to 12 million population, followed by other big cities Surabaya, Medan, Bandung and Makassar. Most of employment available in these cities is informal jobs because industrial sectors has only created limited jobs especially since 1998, as it is elaborated in chapter 4. Labourers end up in the vulnerable employment such as street vendors, washerwomen, day labourers, parking attendants etc. Since the income from these jobs is meagre, they have to live in slums areas. In Jakarta, UN-Habitat estimates 5 millions of population are slums dwellers (Indrakesuma, 2011). A prominent observer of urban poverty in Jakarta, Jellinek, describes the homes of slum dwellers: “[...] are built of flimsy materials: bamboo, cardboard, chicken wire, newspaper, tin cans, boards and other scavenged materials” (Jellinek, 2002: 10).

5.5 Overseas Workers and the Question of RSP

The unpromising earning of domestic informal jobs has induced a lot of workers to seek overseas opportunities. Since early 1980s, the government initiated labour outmigration policies “[...] to mitigate the unemployment problem, to increase skills and working experience abroad and to improve the foreign exchange position (Cremer, 1988: 78). Since the oil boom which had provided primarily state revenue in 1970s was ceased in 1982, labour outmigration policies became one of main concern of government to increase non-oil exports revenue. This also represented a response of a wider global neoliberal wave in 1980s when other Asian countries namely the Philippines, India, Bangladesh and Pakistan were integrating overseas employment into their national development strategies (Chin, 1997: 360).

The most two favourite destinations for Indonesian migrants have been Saudi Arabia and Malaysia. During 1983 to 1987 period, there were 223.579 migrants to Saudi Arabia, and it increased to 384.822 between 1989 and 1994

(Amjad, 1996: 345). After severe economic crisis in 1998, the migrants were surging to 780.033 for the years 2001–2005 (Silvey, 2003: 223). Eighty per cent of total migrants were female where almost all of them were working as a housemaid. Whilst for the man, driver was the main occupation. Apparently, for many of these workers, their beautiful dreams have not been come true. They face dreadful working condition as “[...] very long working hours, sometimes from dawn to after midnight, payments below the amount stated in the contract, delays in payment, berating and beating, and in the worst cases, sexual abuse and rape” (Cremer, 1988: 81-82).

The similar story is also apparent for Indonesian migrants in Malaysia. Higher salary is enough reason for RSP in Indonesia to ‘occupy’ Malaysia (Guinness, 1990: 124). Indonesian migrants mostly work in the unskilled jobs namely housemaid, plantation workers, construction, small holder agriculture, tailors, waitresses, and labourers in welding shops and used timber yards. In 1980s, it was estimated that there were 200.000 to 700.000 either legal or illegal Indonesian workers in Malaysia (Mei, 2006: 4). Malaysian Trades Union Congress (MTUC) stated that the numbers rose to one million by mid-1987 (Guinness, 1990: 117-118). Indonesian workers migration to Malaysia has shown steady growth in the last decade. In 2012, according to Indonesian Embassy in Malaysia, Indonesian illegal migrants in Malaysia reached 1.5 million, outnumbering legal migrants which were accounted for 1 million (*Tribunnews*, 2012).

It is deplorable to imagine how one million of illegal workers survive in Malaysia. Indeed, illegal workers have worked and lived under miserable condition. “A report on Indonesian plantation workers in Sabah described their conditions as “bonded labour...a modern kind of slavery” (Li, 2009: 77). The gloomy picture is unfortunately not only exclusive for illegal workers. Many Indonesian legal workers also experience misery in their daily live. Thousands of female housemaids “[...] are abused by their Malaysian employers...having to sleep on kitchen floors, along corridors, or in storage rooms with no ventilation; working eighteen-hour days with few rest periods or even rest days; and not having adequate meals (Chin, 1997: 354).

It is striking that all of these miseries are experienced by the migrant workers who have contributed huge remittances to Indonesia. In 2012, around 6.5 million migrant workers where a half of it was employed in the informal sectors contributed to US\$7.2 billion remittance. Indeed, its share was only equal to 1 per cent GDP, much lower compare to the Philippines which accounted to 13.5 per cent of its total GDP (World Bank, 2012c). Yet, Indonesian remittances were accounted for 10 per cent of Annual State Budget. It ranks second biggest contribution of Annual State Revenue only after oil and gases sectors. Moreover, the figure might underestimate the real amount of remittances since not everybody sends money through banks. The Indonesian Migrant Worker Placement and Protection Agency (BNP2TKI) claimed the actual remittances might reach Rp 120 trillion (US\$12.36 billion) in 2012 (*The Jakarta Post*, 2013). If it is considered that informal migrant workers (half of total overseas workers) working in the casual arrangement are part of RSP, the contribution of overseas RSP to the domestic economy is quite significant.

Local economy is pumped up by the inflow money from abroad. In many cases, remittances contribution exceeds annual local government revenue. However, “Very rarely do former Indonesian labour migrants manage to set up productive long-term businesses upon their return, and thus many migrants

find themselves migrating again once the money has run out” (IOM, 2010: 22). For instance in Yogyakarta and Palu in eastern Indonesia, “[...] the wages of overseas workers were used for house improvements, (and) to finance ritual prestations, brideprice [...]” (Guinness, 1990: 125). For other households, they “[...] use remittances to repay debts accumulated over several years, including one household which had mortgaged its rice fields during the previous year, and another which had recently sold one hectare of *sawah*” (Pincus, 1996: 71). For many workers, remittance is used to meet daily needs rather than long-term productive economic activities.

Chapter 6 Conclusion

How does neoliberal adjustment in Indonesia shape the development of relative surplus population? Neoliberal adjustment shapes the development of RSP in three related ways. First, neoliberal adjustment changes the class relation and transforms the state orientation. Second, reconfiguration of class dynamics and the state redirects the model of accumulation. Third, the model of accumulation eventually affects the relative size of RSP.

In the first instance, neoliberal adjustment enhanced the bargaining power of international capital class *vis a vis* domestic capital. Domestic establishment class comprising of conglomerates and politico-state apparatus were forced to give up their privileges from the state. Sectors such as banking, capital market and trade and investment which were formerly intervened and protected by the state were deregulated, privatized and subjected to global competition. However, domestic establishment class resisted to the adjustment since their very existence was relied upon the state intervention. They managed to secure forestry sectors from deregulation to provide main revenues for the alliance, resulting incomplete neoliberalization. This indicates that specific national capitalist interest in the context of transnational nature of capitalist class remains possible as Harvey points out.

Despite incomplete liberalization, the adjustment successfully steered the state to serve more international capital interest. The state was no longer a monopoly of the domestic establishment class. Indeed, the annihilation of communist supporters in the early Suharto regime and tight control over labour in the authoritarian rule had destroyed the working class power. It allowed domestic establishment class supported by oil boom revenues as a single dominant class in the country. Neoliberal adjustment forced the domestic establishment class to share the access to the state with international capital, whilst the working class remained excluded from the state power. Eventually, both in the authoritarian and democratic rule, interventionist state to create sound business climate are installed, marking the feature of 'neoliberal state'. It does not mean that international capital and domestic capital always share equal benefits from this accumulation. Nonetheless, the two capital classes certainly receive a greater fruits of accumulation than the working class who is objected to the domination and subsumption under capital accumulation. It demonstrates that the rhetoric of good business climate and economic growth frequently echoed by neoliberal state is not 'class neutral'. As Harvey emphasizes, neoliberal state is indeed, a political project of upper classes.

Neoliberal state subsequently redirected the model of accumulation from inward-looking towards outward-looking orientation. It liberalized agriculture sectors through the removal of heavy subsidies to eliminate mobility barriers over global commodities and the expansion of large-scale plantations to provide agriculture commodities for global market. Neoliberal state also reoriented ISI to EOI, producing global manufactured commodities. Both agriculture and industry were no longer carries out national division of labour. It began to serve the task of international division of labour. As a result, domestic agriculture has been unable to create sufficient surpluses to finance the development of other sectors in the domestic economy, especially industries. On the other

hand, industrial sectors which have heavily been loaded by external oriented duties, cannot significantly contribute to the domestic agriculture development. Neoliberal state, hence, heavily bias upper classes, has no intention to build a strong domestic economy through what Kay suggests to exploit the synergies and to create 'dynamic linkages' between agriculture and industry.

The disconnection of domestic economy brought about by neoliberal state has kept large number of RSP both in the city and countryside. The first neoliberal adjustment induced proletarianization and semi-proletarianization in agriculture sectors while at the same time developed formal wage employment in industry. Landless peasant and petty peasant, working in the vulnerable condition as unpaid family workers and own-account workers were partly able to be absorbed into core productivity of domestic economy. The relative size of RSP slightly declined from seven in ten workers in the mid-1980 to the over six in ten workers in the late 1990s. Even though in the short term EOI strategy succeeded to expand industrial-formal employment and contribute to the depreciation size of RSP, Indonesia's experience reminds to the Mandel's warning that increasingly global competition induces deterioration of domestic industry. De-industrialization after 1998 economic crisis has been caused by capital flight that has not been recovered to the level prior to the crisis due to severe competition to attract global investments. As a result, the component of RSP as unpaid family jobs, casual works and own-account occupations both in agriculture and non-agriculture resulted from continuing proletarianization and semi-proletarianization in agriculture has been unable to find sufficient number of decent employment. In the late 2000s, the relative size of RSP increased from the level in a decade before.

Many of RSP have eventually joined to the circular migration, moving back and forth between rural and urban to seek any jobs available which only provide income sheer for survival. Petty traders from North Subang selling fried cassava and plantains (*gorengan*) in Jakarta illustrated in the introduction are just plain exemplar of the mobility of RSP in the context of narrow economic opportunities either in the countryside or city. This challenges The World Bank's assumption in the *Development Report 2008* that workers can easily moving back and forth between country and city to find higher income as if there were adequate jobs in the city and enough land and thriving agriculture were ready to re-absorb this RSP in countryside. A lot of them eventually seek overseas employments which unfortunately are also characterized by precarious condition and their remittances are mostly used to meet daily needs rather than productive economic activities.

This paper represents an attempt to understand the development of RSP in the peripheral accumulation countries within neoliberal adjustment's context. Neoliberal adjustment has strengthened international capital power *vis a vis* domestic capital and working class, transforming developmental state into neoliberal state. To serve the interest of international capital, neoliberal state reorients inward-looking economy towards outward-looking orientation. The task assigned to neoliberal state to perform global division of labour has led to the detriment of domestic economy characterized by disconnection between agriculture and industry. Surplus labours from agriculture are unable to find productive employment in the industry. Relative surplus population is widespread either in the country or city, engaging in the unproductive and precarious jobs.

It significantly challenges the mainstream notion of informal workers sponsored by the neoclassical economists in two folds. First, a majority informal workers, rather than to be micro-entrepreneurs, are seemed to be vulnerable workers which can be best captured as relative surplus population since it is resulted from 'disconnected capital accumulation' in a peripheral country. Second, informal workers who appear to be the RSP is not simply a result of the dual labor market in a dual economy country and it will be automatically disappeared along with the market-led economic development. Instead of eradicating the informal jobs and thus the RSP, global market orientation brought about by neoliberal state has continuously perpetuated it.

Any intention to take care of RSP thus requires structural power shift both in the class contestation and the nature of the state. A relatively equal balance of class power between capital and labour is entailed to transform the neoliberal state into classic developmental state, promoting domestic oriented economic development based on a healthy and creative linkage relationship between agriculture and industry. By developing coherent domestic economy, productive and decent employment can be developed to take care of relative surplus population.

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