

**Chapter 6**  
**Oil, IGGI and US hegemony:**  
**the global pre-conditions for**  
**Indonesian rentier-militarization**

The concept of oil perfectly expresses the eternal human dream of wealth achieved through a kiss of fortune, and not by sweat, anguish, hard work. In this sense, oil is a fairy tale, and like every fairy tale, a bit of a lie.

Ryszard Kapuscinski, *Shah of Shahs*

This chapter presents an analysis of the roots of contemporary Indonesian militarization in that country's economic and political relationship to the dominant world order. In particular I want to discuss the nature of Indonesia's rentier economy in the New Order period, stressing that it is impossible to analyze the well-known domestic rentier phenomena without at the same time looking at their external base - both economic and political.

Considering Indonesia from the viewpoint of relations between state and civil society is, as many will all too willingly point out, an enterprise fraught with difficulties. The history of the concept of civil society is intimately tied to western European modern political and economic development over more than three centuries.<sup>1</sup> Moreover, the concept refers to the social and economic underpinnings of capitalist economies which are presumed to be logically, if not historically, prior to the state system that has flourished alongside or above civil society. These are profound problems for any analysis of contemporary Indonesian society, even granted the explosive growth of immediately capitalist social relations (as opposed to diverse non-capitalist forms of production for the world market over three centuries) throughout most of the archipelago during the past quarter century.

In an effort to illuminate the general question of the relations between state and society in contemporary Indonesia, especially as conditioned by capitalist economic activity, I want to focus on one particular problem in what is intentionally a rather one-sided manner. The concept of civil society is generally employed within the framework of nation-state analysis. Yet the national systems within which questions of "state-civil society relations" are posed have never been simple monads, and today are enmeshed in an extremely complex set of global social relations in which both state and economic activities blend the national and the international, the transnational and the sub-national.

Explaining the political-economy of Indonesia in the last years of the twentieth century requires a more serious consideration of the international, or rather the global, context than has been usual in the analysis of Indonesian politics. In recent years, such external emphases in the explanation of Third World politics have become unfashionable. The economic differentiation of peripheral capitalist countries since the mid-1960s has exploded the "Third World" into a more complex set of categories, differentiated by level

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1. On state and civil society see, for example, Boris Frankel, *Beyond the State? Dominant Theories and Socialist Challenges*, (London: Macmillan, 1983); John Keane, *Democracy and Civil Society*, (London: Verso, 1988) and Keane (ed.), *Civil Society and Democracy: New European Perspectives*, (London: Verso, 1988).

of national income and distinctive economic structures<sup>2</sup>. In the process, the emergence of middle income peripheral industrial capitalist countries discredited the simpler versions of dependency theory according to which structural relations of subordination between the centre and periphery of the global political economy constituted an insurmountable obstacle to peripheral industrial growth. Unfortunately, the demise of these crude forms of dependency theory often led to a premature foreclosure of interest in the external pre-conditions for the emergence and reproduction of the diverse types of regimes of capitalist accumulation and state forms that actually emerged over the past twenty years. Moreover, the accompanying revival of interest in the economic role of the state has, by and large, been confined both theoretically and empirically to the national level and below. And yet now more than ever, questions of state-society relations, and the conditions for the emergence and reproduction of national social formations can only be effectively understood in a context which is both national and global.

This chapter is a contribution towards understanding the contemporary Indonesian rentier-militarist state which stresses the external pre-conditions for its emergence and reproduction - and, in time, its possible transformation in a more democratic and demilitarized direction. Let it be clear at the outset that this chapter takes as given a great deal of the mainstream nationally- and regionally-oriented analysis of Indonesian society and politics - although there is room for a great deal of argument about the particulars. But what is needed is an analysis which is both global and national, rather than either/or.

The argument commences with a review of the nature of rentier states in general, and the application of the concept to New Order Indonesia. The emerging paradigm of Indonesia as a rentier state in its internal political economy is then extended in two ways. First, by stressing the militarist qualities of the rentier state; and second, by arguing that these internal rentier characteristics are dependent on the prior condition of an essentially rentier external orientation to the world economy. Hydrocarbon revenues and foreign aid have provided the underpinnings of both the Indonesian state and the broader economy for the quarter century of the New Order. Moreover, it has been the supply of external sources of legitimation, combined with the relief from the requirement of serious domestic taxation, that has enabled the Soeharto government to rule with only a modicum of substantial legitimacy. The significance of the external pre-conditions for Indonesia's rentier militarism can be seen by briefly reviewing the parallel emergence of South Korean mercantilist militarism over the same period. While it is true that internal differences were significant, the most important single difference between the two versions of peripheral capitalist development is their location in the global strategic pattern. South Korea's mercantilist emphasis on national control of export-oriented industrialization was made possible by South Korea's importance - indeed indispensability - to the U.S. strategic outlook in the crucial period. Finally, I wish to argue that the constitutive power of the external relations of the Indonesian economy and state has not been lessened with the passing of time, and that the choices facing those who would shape Indonesian society are themselves being shaped by an increasingly complex relationship between a partial Indonesian social formation and a partly national-based,

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2. For discussion of this more differentiated "Third World" see Helen O'Neill, "HICs, MICs, NICs and LICs: some elements in the political economy of graduation and differentiation", *World Development*, 12,7 (1984) and Ulrich Menzel, "The differentiation process in the Third World and its consequences for the North-South conflict and development theory", *Law and State* (Tubingen), 30 (1984).

partly transnationalized global political and economic structure.

Questions of method.

Three issues of method are worth exploring very briefly: the unit of analysis within global social relations, the character of explanations of those relations, and the nature of comparative method within such a framework.

The first problem is just what it is that we are looking at? What is the object of our analysis? Area studies work presupposes that there is a more or less discrete unit of analysis, or rather, one which is more discrete rather than less - in this case the Indonesian nation-state. In the world of nation-states this is convenient inasmuch as the fictions of sovereignty of the national political system reinforce our common-sense preference for confining our analysis to that national level or below. Inquiries beyond the national level are usually seen as a residual - the study of external factors. Or, in the complementary but equally misleading approach, they are dispatched to the quite distinct discourse of international relations where the reverse problem applies - there, the domestic is the residual and unexamined.

Looking at virtually any aspect of Indonesian history in the past four hundred years, it is difficult to avoid the issue of the international context - whether we are talking about the political ecology of Java or the development of Minangkabau class formation, the ultimate success of the struggle for national independence or, as I will argue a little later, the flourishing of the contemporary rentier-militarist state. Whatever we are looking at, we are on safe ground if we work from the presumption that the "external" influences are not residual, the subject of a passing note, but fundamental and constitutive. Here it is worth remembering Georg Lukacs' injunction that Marxism's chief methodological imperative was the examination of the totality, and its complex internal relations.

In our case, it means considering Indonesian domestic political and social formations as, in one of their aspects, a product of the total pattern of global social relations. What we need is a method of analysis which takes the global and the national and the sub-national or regional as three potentially equally powerful levels of analysis. The key word here is "potentially" - the blindness that resolutely allows us to ignore the global dimension will not be cured by the reverse move: what has been rightly called "the tyranny of globalism" that emerges from some versions of world systems analysis.<sup>3</sup>

The primacy of the totality is one of method, not explanation. The actual relations between wholes and parts - say, the power of the world market to shape peripheral class structures versus the effectiveness of local resistance and class struggles - are entirely a matter of historical inquiry, not one of a priori presumption. The only requirement is that the regional and the local are understood to be embedded in a larger context that is both national and global. The starting point is the study of global social relations. The task is to learn to move easily from the global to the national to the local, and back again.

The second issue I want to raise concerns that deceptively simple phrase, "global social relations". I prefer that as the starting point over the presently fashionable "world capitalist system" or plain "world system", or even the venerable but still worthy "imperialism" or "American (or Japanese or whatever) imperialist domination". Here too my preference is for a framework which is open rather than closed, and expansive rather

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3. James Petras and Howard Brill, "The tyranny of globalism", *Journal of Contemporary Asia*, 15,4 (1985).

than restrictive as to what element of the whole is to be labelled as determining. The study of global social relations, and the implication of any one particular part of the globe within them, is potentially a matter of looking at five major domains of influence - economic, political, military, cultural and ecological. What the pattern of influence will be, we don't know beforehand. Nor do we know how strong the influence will be - "mere influence" in the soft sense, or clear determination in the strong sense? Most importantly, we cannot presume to know a priori in any given situation whether the finally dominant influence will be economic, political, military, cultural or ecological.

This is not, I should add, an argument for atheoretical empiricism - on the contrary. Nor is it in itself a rejection of the claims of primacy for an historically-oriented materialist explanation. Rather, as I will argue by a comparison between the recent economic and political histories of Indonesia and South Korea, the present character of global social relations does not allow a clear assertion of the primacy of economic factors over strategic military factors. Nor is it possible to assert, for example, that the relations between humankind and the rest of the natural realm are reducible to the dynamics of the capitalist mode of production alone: leaving aside the mystical elements of the Gaia hypothesis, no-one can really doubt that in that very lonely hour of the last instance, Gaia will outrun both the law of value and the strategic nuclear planners. Let us hope we never find out for sure. What is needed is an expanded theoretical horizon, one which abandons the constraining consequences of identifying the material basis of human existence with the economic, and which is based on historical inquiry into each of the five elements I have identified.

All of the debates within Marxian theory today about the character of the relations between the state and civil society at a national level are replicable at the global level. Take the familiar debate about the parameters of relations between state and capital within advanced capitalist societies. At the global level, we must ask whether we are dealing with a world capitalist system in which the logic of capital and class relations is the principal source of explanation. Or are we dealing with at least two analytically distinct systems - one certainly powered by the logic of capital and the law of value, but with relations between states, especially in the militarily qualitatively distinct nuclear age, capable of a quite separate, though obviously inter-related, trajectory?

Without pursuing the issue much further here, we can note the framework Robert Cox has mapped out, which applies the historical method to three levels or spheres of activity:

- (1) the organization of production, more particularly the social forces engendered by the production process;
- (2) forms of state as derived from a study of state/society complexes;
- and (c) world orders, i.e. the particular configurations of forces which successively define the problematic of war and peace or the ensemble of states. Each of these can be studied as a succession of dominant and emergent rival structures.<sup>4</sup>

This may appear distant from the ordinary explanatory concerns of Indonesianists; but

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4. Robert W. Cox, "Social forces, states and world orders: beyond international relations theory", *Millenium: Journal of International Studies*, 10,2 (1981), pp.137-8. See also his "Gramsci, hegemony and international relations: an essay on method", *Millenium: Journal of International Studies*, 12,2 (1984), and *Production, Power and World Order: Social forces in the Making of History*, (New York: Columbia University Press, 1987).

that is the problem. It is only with such a framework and the distinctions I have suggested that the differences between the South Korean and Indonesian economies can be explained. A great deal of the difference in the economic development of the two countries in the past can only be explained by contrasting, on the one hand, their respective locations in the global strategic order, and on the other, the differences in the character of their insertion into the global division of labour.

The question of comparison brings up the final point of method I want to make. Comparative analysis is fruitful usually because of the illumination that comes from mixing elements of like and elements of difference. But what is required is comparison within a global setting, which seeks to compare not two or more separate or independent entities, but two parts of a larger whole.

The national is not a space juxtaposed to the international space; it is an organic part.<sup>5</sup>

The differences and similarities that are discovered may well be due to internal factors, unrelated to dealings with the outside, or at the other extreme, due virtually entirely to the location of the two part-societies in the wider whole - be it the international division of labour, the political ecology of the globe, or the location of each in planning for the next global war. Or some point in between. The same phenomenon - say, militarized capitalist growth - may in one case (Indonesia) be due to the subordinate integration of that economy into the dominant global system; whereas in another case (South Korea) it is due to a carefully managed neo-mercantilist distance from that pattern of domination. Comparison is always comparison within the wider pattern of global social relations, and set within an historical framework such as Cox's hierarchy of social forces, forms of state, and world orders.

#### External conditions of the Indonesian rentier-militarist state

The main problem on which I want to focus is the place of global social relations in the explanation of the remarkable survival and stability of the New Order state for almost a quarter of a century. Not only has the New Order state endured for more than half of the total period of Indonesian independence, but Soeharto, in a quite personal sense, has held power for a far longer time than Soekarno, whose only extended period of executive primacy was Guided Democracy, and whose power even then was substantially limited by comparison with his successor.

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5. Ominami's epigram is even more pointed in its context of an assertion of the need for a theory of crises (plural) in the Third World, rather than a single crisis theory.: "Une theorie des crises doit donc partir de la reconnaissance du conflit permanent entre l'internationalization et les facteurs d'autonomization relative des processus nationaux d'accumulation. Les crises dans le tiers monde ne sont pas le simple resultat de la diffusion internationale de la crise des PD [Pays Développées]. En liaison avec *les effets mecaniques de la propagation internationale de la crise du centre*, c'est la dimension endogène ne des crises qui doit etre prise en compte. Mais celle-ci ne peut pas être considérée d'une manière isolée par rapport aux tendances fortes de l'internationalization. Le national n'est pas un espace juxtaposé a l'espace international; il est au contraire un partie organique. Les crises dans les PED [Pays En Développement] illustrent très clairement ce point de vue. Ce que nous appellerons les *effets en retour de l'internationalization* se trouvent justement à l'intersection des effets purement mécaniques de la diffusion internationale de la crise des économies dominantes et des *facteurs de crise proprement endogènes* aux PED." Carlos Ominami, *Le Tiers Monde dans La Crise: Essai sur les transformations récentes des rapports Nord-Sud*, (Paris: Editions La Découverte, 1986), p.153.

Liddle's explanation of the resilience of the Soeharto regime over more than two decades provides a powerful model of the predominantly domestic orientation of recent work on Indonesian politics, concluding

The complex pattern of repression, performance legitimation, and symbolic legitimation has created and now sustains within and outside the political system, a solid basis of support that is likely to outlive Soeharto.<sup>6</sup>

Liddle's analysis is compatible with the emerging paradigm of the Indonesian political economy which sees Soeharto's Indonesia as a rentier economy, usually meaning one where the dominant factor in capital accumulation comes not from productive investment (manufactures, increased agricultural productivity, value-added processing of minerals and other natural resources, etc.), but from unproductive appropriation of a portion of the economic surplus by a group of rentiers. Army officers use military resources for private benefit; state officials "rent" the prerogatives of office to private partners; privileged individuals derive income from monopoly control over the imports of particular goods or services; and so on. All this has been well analyzed for us by Olle Tornquist, Richard Robison, Steven Jones and Raphael Pura of the Asian Wall St. Journal, and most recently in an ASEAN-wide context by Yoshihara Kunio under the heading of ersatz capitalism.<sup>7</sup>

There are, however, two substantial modifications to be made in the Indonesian rentier paradigm. The first, and less important here, is to stress that the Indonesian state is both rentier and militarist, and that the two qualities are in this case tied together. As Tornquist especially has argued it is the role of extra-economic force that characterises the primary relations of production in New Order Indonesia. Without the unprecedented mobilization of state violence available to the Soeharto government, the domestic rentier economy would not be sustainable.<sup>8</sup> The domestic rentier militarist elements have, to date, been symbiotic and inseparable.

The other modification to this emerging paradigm is to extend the rentier analysis from the domestic sphere to that of Indonesia's external economic relations with the world economy. Indonesia should be considered as a rentier-state in two senses, one derived from its characteristic internal political economy, and the other from its location and strategy in the international division of labour. Crucially it is the external economic regime which renders the domestic rentier class structure possible: the florescence in the 1970s and early 1980s of a wide variety of unproductive forms of domestic accumulation

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6. R. William Liddle, "Soeharto's Indonesia: personal rule and political institutions", *Pacific Affairs*, 58,1 (1985), p. 87.

7. See Richard Robison, *Capitalism and the Bureaucratic State in Indonesia*, unpublished Ph.d thesis, University of Sydney, (1977), and his *Indonesia: the Rise of Capital*, (Sydney: Allen and Unwin/ASAA, 1986); Stephen Jones and Raphael Pura, "Suharto-linked companies hobble economy", *Asian Wall Street Journal*, November 24, 25, 26, 1986; Olle Tornquist, "Struggle for Democracy: A New Option for Indonesia?" *Akut* 33, (1984) and his "Rent capitalism, state and democracy: a theoretical proposition", in Arief Budiman (ed.) *State and Civil Society in Contemporary Indonesia*, (Clayton, Victoria: Centre of Southeast Asian Studies, Monash University), forthcoming; and Yoshihara Kunio, *The Rise of Ersatz Capitalism in South-East Asia*, (Singapore: Oxford University Press, 1988). Two critical assessments of Robison's account in are Jeffrey Winters, Review of Richard Robison, *Indonesia: the Rise of Capitalism*, *Indonesia*, (1988), and Richard Tanter, Review of Richard Robison, *Indonesia: the Rise of Capital*, *ASAA Review*, (1988).

8. See Tanter, *Review...*, op.cit., and "Militarization: trends in Asia", *Alternatives: A Journal of World Policy*, X,1 (1984).

was conditional on the maintenance of the external elements of the rentier-state.

Analysts of oil-producing countries have approached the question of rentier states somewhat differently from the primarily domestic orientation of the Indonesian debate. There the focus has been on the character of the exchange between the domestic and foreign economies - the flows inwards and outwards and the activities within the domestic economy related to those flows. For there, as in Indonesia, the problem is to explain the consequences of what is essentially, unearned national income. Thinking about income derived from geographical opportunity such as the Suez Canal, or from the gift of oil, Mahdavy writes:

Rentier states are defined here as those countries that receive on a regular basis substantial amounts of external rents. External rents are in turn defined as rentals paid by foreign individuals, concerns or governments to individuals, concerns or governments of a given country.

What is perhaps more important is to recognize that however one looks at them, the oil revenues received by the governments of the oil exporting countries have very little to do with the production processes of their domestic economies. The inputs from the local economies - other than the raw materials - are insignificant...so insignificant that for all practical purposes one can consider the oil revenues almost as a free gift from nature or as a grant from foreign sources.<sup>9</sup>

Mahdavy suggests that in addition to rents derivable from mineral exports or a monopoly of certain geographical features, foreign assistance can effectively be considered as a "rent". In their economic characteristics, external rents and foreign grants are very similar (although there is rather less security and continuity attached to grants) - leading him to treat Israel and Jordan as rentier states dependent to a considerable extent on foreign aid.<sup>10</sup> The rent-like character of foreign aid becomes clearer still when considering the capacity of highly valued foreign aid recipients to bargain for more aid - for example, by persuading the donor that there are more threats to be defended against.<sup>11</sup> Marx's remark on the pre-condition of ground-rent is applicable to the political service that is sold through foreign aid:

The price of things which in themselves have no value, i.e. are not the product of labour, such as land, or which cannot be reproduced by labour such as antiques and works of art by certain old masters, etc. may be determined by many fortuitous combinations. In order to sell a thing, nothing more is required than its capacity to be monopolized and alienated.<sup>12</sup>

Foreign aid is, for the most part, a rental payment for a political service to the recipient

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9. H. Mahdavy, "The patterns and problems of economic development in rentier states", in M.A.Cooke (ed.) *Studies in the Economic History of the Middle East*, (London: Oxford University Press, 1970), pp.428-9; my emphasis.

10. *Ibid.*, p.430.

11. Mahdavy is the only writer I know of to consider foreign aid as equivalent to rent. There is a great deal to be thought about here about the place of foreign aid in this particular world order. See the discussion of Tilly below.

12. Cited by Chibuzo Ntate Nwoke, "World mining rent: an extension of Marx's theories", *Review*, VIII,1 (1984). p.32. See also Robin Murray, "Value and the Theory of Rent: Parts One and Two", *Capital and Class*, 3 and 4 (1978). Nwoke and Murray use Ricardian and Marxian approaches to ground rent to discuss the more general issue of global mineral rents.

country based on its political or geo-strategic value to the donor country.<sup>13</sup>

New Order Indonesia is appropriately considered a rentier state in this externally-oriented sense, since the great bulk of both national income and state revenue in the New Order period has been derived from oil revenues and foreign aid - in the form of grants or loans.<sup>14</sup> (See Tables 6.1 - 6.4 and Figures 6.1 - 6.3.) The essential pattern has been that either oil or aid or both have been the national economic base for a quarter of a century, with only the relative mix varying. Corporate tax on oil rose from 55% of central government domestic revenues in 1974 to a high of 71% in 1981 before falling to 40% between 1986 and 1988. Foreign aid was vital in the first years of the New Order, then fell away somewhat as large oil revenues came on stream, but rose slowly in the late seventies and early eighties; and has returned with a vengeance as oil revenues have collapsed and debt repayments have escalated.

There is, of course, a political history of the intertwining of oil and aid which has been recounted by Robison and in greater detail by Wayne Robinson. At its simplest, when oil revenues have been strong, the need for foreign aid has been lessened, and the hand of economic nationalists, or those who claim that mantle, has been the greater.<sup>15</sup>

Mahdavy's model illuminates Indonesia well in other ways. Not only have oil and aid been the dominant sources of state revenue for the past quarter century, but oil has, in the usual way, had very little to do with the rest of the national economy. Sritua Arief has shown that while

oil rents are enormously important to Indonesia, remarkably few local inputs other than the raw materials are utilized. Oil exports, he remarks,

slip out of the country without leaving much of a trace in the rest of the economy in terms of linkage with domestic sectors.<sup>16</sup>

Both oil and aid, as the basis of state revenues are, like all good rents, a matter of having the good fortune to command access to a natural resource that someone else wants. But that "someone else" has a particular place within a determinate structure - in Cox's terms, in the

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13. The determination of that value to the donor country may proceed in diverse ways, as can be seen from the pattern of US aid to Middle Eastern countries. Most recipients, such as Egypt, have received aid because of judgements by state-managers as to US strategic interests. Israel, on the other hand, has been a massive recipient in spite of conflicts amongst state elites about the strategic wisdom of aid in such quantities, because it is one of the few areas where U.S. voters, albeit a minority, have any influence on the foreign policy process.

14. There is of course the huge and messy question of undeclared state revenues - or more precisely, undeclared revenues accruing to parts of the state, such as the military, or transferred from one part of the state to another - most importantly, from Pertamina to the military. However, this does not affect the argument, since we are still in the domain of unproductive profits, one way or the other.

15. Robinson has a much more complex tale on the Japanese side, but that is not to the point at the moment. See Wayne Robinson, *The Politics of Japanese-Indonesian Energy Cooperation*, unpublished Ph.D thesis, Monash University, (1980); and his "Imperialism, dependency and peripheral industrialization: the case of Japan in Indonesia" in Richard Higgot and Richard Robison (eds.) *Southeast Asia: Essays in the Political Economy of Structural Change*, (London: Routledge and Kegan Paul, 1985).

16. Sritua Arief, *The Petroleum Industry and the Indonesian Economy: an impact study*, (East Balmain: Rosecons, 1982), p.86.



Table 6.1  
Indonesia  
Oil exports  
1964 - 1985

Year	Total exports US\$ (millions)	Crude petroleum and petroleum product exports	
		US\$ (millions)	As % of total exports
1964	724	267	37%
1965	708	272	38%
1966	679	203	30%
1967	665	240	36%
1968	731	298	41%
1969	854	383	45%
1970	1,108	446	40%
1971	1,234	565	46%
1972	1,777	913	51%
1973	3,211	1,609	50%
1974	7,426	5,211	70%
1975	7,102	5,311	75%
1976	8,547	6,004	70%
1977	10,853	7,298	67%
1978	11,643	7,439	64%
1979	15,591	8,871	57%
1980	21,909	12,850	59%
1981	22,260	14,390	65%
1982	22,293	14,861	67%
1983	21,152	13,743	65%
1984	21,902	12,097	55%
1985	18,590	7,670	41%

Source: Derived from International Monetary Fund,  
*International Financial Statistics 1987*,  
(Washington: IMF, 1987), pp.398-399.

Table 6.2  
Indonesia, Balance of Payments  
FY1974 - FY1987  
US\$ (millions)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 <sup>c</sup>
1. Net oil imports <sup>a</sup>	2,638	3,138	3,710	4,352	3,785	6,308	9,345	8,739	5,788	6,016	5,845	4,004	1,426	2,215
2. Net LNG exports <sup>a</sup>	0	0	0	93	225	667	1,256	1,382	1,378	1,355	1,971	2,119	1,158	1,290
3. Non-oil exports (net)	(2,776)	(3,972)	(4,512)	(5,135)	(5,165)	(4,777)	(8,470)	(12,551)	(14,205)	(11,522)	(9,784)	(7,955)	(6,635)	(5,190)
Exports, fob	2,033	1,873	2,863	3,507	3,979	6,171	5,587	4,170	3,928	5,367	5,907	6,175	6,731	9,054
Imports, cif	(434)	(5,090)	(6,167)	(7,241)	(7,543)	(9,028)	(11,837)	(14,561)	(15,824)	(14,346)	(12,921)	(11,186)	(10,385)	(11,267)
Services (non-freight)	(468)	(755)	(1,208)	(1,401)	(1,601)	(1,920)	(2,220)	(2,160)	(2,309)	(2,543)	(2,770)	(2,944)	(2,981)	(2,977)
4. Current account [1+2+3]	(138)	(834)	(*802)	(690)	(1,155)	2,198	2,131	(2,790)	(7,039)	(4,151)	(1,968)	(1,832)	(4,051)	(1,685)
5. SDRs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Official capital disbursements	660	1995	1823	2106	2101	2690	2684	3521	5011	5793	3519	3432	5472	4060
IGGI	513	945	1596	1694	1567	2237	2406	2415	2905	4255	3189	2751	3475	3368
Non-IGGI	147	1	227	412	534	453	278	1106	2106	1538	330	681	1997	692
Cash loan	0	1049	0	0	0	0	0	0	0	0	0	0	0	0
7. Amortization	(89)	(77)	(166)	(751)	(632)	(692)	(615)	(809)	(926)	(1010)	(1292)	(1644)	(2129)	(2692)
8. Other capital (net)	(131)	(1075)	38	176	542	(1312)	(361)	1140	1795	1191	499	572	1232	1179
Direct investment	538	454	287	285	271	217	140	142	311	193	245	299	252	327
Oil sector	13	14	(32)	(50)	75	(1237)	(685)	791	1322	NA	NA	NA	NA	NA
Others	(682)	(1543)	(217)	(59)	196	(292)	184	207	162	998	254	273	980	852
9. Total [4 through 8]	302	9	893	831	856	2884	3839	1062	1159	1823	758	528	524	862
10. Errors and omissions	(311)	(353)	108	(180)	1621	(1256)	(1165)	(2050)	(2121)	247	(91)	(498)	(1262)	499
11. Monetary movements <sup>b</sup>	9	344	(1001)	(651)	(794)	(1028)	(2674)	(988)	(3280)	(2070)	(667)	(30)	738	(1361)

Source: World Bank, Indonesia: Adjustment, Growth and Sustainable Development, (World Bank, Asia Regional Office, Report No. 7222-IND, May 2, 1988), p.162, citing Bank Indonesia data.

Notes: a. Gross exports less imports of goods and services in the oil and LNG sectors respectively.

b. A negative amount refers to an accumulation of assets.

c. Preliminary figures.

Table 6.3  
Indonesia, Central Government Budget Summary  
FY1974 - FY1988  
Rupiahs (billions)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987/c	1988/c
1. Domestic expenditures	1,753	2,241	2,906	3,544	4,266	6,697	10,227	12,213	12,418	14,433	15,906	19,253	16,141	17,236	21,803
2. Routine expenditures/a/1,016	1,333	1,630	1,630	2,149	2,744	4,062	5,800	6,978	6,996	8,412	9,429	11,952	13,559	15,027	20,066
3. Government saving [1-2]	738	909	1,276	1,386	1,522	2,635	4,427	5,235	5,422	6,021	6,477	7,301	2,581	2,210	1,737
4. Dev't. expenditures	962	1,398	2,055	2,157	2,556	4,014	5,916	6,940	7,360	9,899	9,952	10,873	8,332	7,757	8,898
5. Balance [3 - 4]	-224	-488	-778	-771	-1,033	-1,379	-1,489	-1,705	-1,938	-3,878	-3,475	-3,572	-5,751	-5,547	-7,161
Financed by:															
6. Counterpart funds/b	36	20	10	36	48	65	64	45	15	15	69	69	1,958	121	1,163
7. Project aid	196	471	774	7,374	987	1,316	1,430	1,664	1,925	3,868	3,409	3,503	3,795	5,426	5,998
8. Changes in balance [- = increase]	-8	-3	-6	-2	-2	-2	-5	-4	-2	-4	-3	-1	-2	0	0

Source: World Bank, Indonesia: Adjustment, Growth and Sustainable Development, (World Bank, Asia Regional Office, Report No. 7222-IND, May 2, 1988).

- Notes: a. Includes debt service payments.  
b. Programme aid.  
c. Budgeted figure.

Table 6.4  
Indonesia, Central Government Budget Receipts  
FY1974 - FY1988  
Rupiahs (billions)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987/d	1988/d
1. Taxes on income	1,229	1,592	2,047	2,511	2,996	5,129	8,320	10,100	10,010	11,605	12,847	13,625	8,798	10,529	12,940
Corporate tax on oil/a	973	1,249	1,619	1,949	2,309	4,260	7,020	8,628	8,170	9,520	10,430	11,144	6,338	6,939	8,856
Income tax	43	62	84	105	122	148	164	207	289	399	451	675	2,271	3,316	3,762
Corporate tax/b	91	128	127	170	227	297	448	559	675	758	1,670	1,638	-	-	-
Withholding tax/c	83	97	148	202	233	291	434	513	642	628	-	-	-	-	-
IPEDA/Property tax	28	35	42	53	63	71	87	95	105	132	157	168	190	274	322
Other	10	21	25	34	43	62	78	99	129	168	138	-	-	-	-
2. Taxes on domestic consumption	159	231	320	398	491	537	733	888	1,137	1,392	1,510	3,479	5,156	4,926	6,391
3. Taxes on international trade	300	308	421	482	587	843	943	888	835	916	862	658	1,039	733	1,213
4. Non-tax receipts	67	110	119	144	191	187	316	336	436	520	687	1,492	1,147	1,049	1,259
5. Domestic revenue [1+2+3+4]	1,754	2,242	2,906	3,534	4,266	6,697	10,227	12,213	12,418	14,433	15,906	19,253	16,141	17,236	21,803
6. Oil tax as percentage of domestic revenue	55%	56%	56%	55%	54%	64%	69%	71%	66%	66%	66%	58%	39%	40%	41%
7. Development funds	232	492	784	773	1,036	1,381	1,494	1,709	1,940	3,882	3,478	3,573	5,752	5,547	7,161
8. Total revenues [5+6]	1,986	2,734	3,690	4,308	5,302	8,078	11,721	13,922	14,358	18,315	19,384	22,825	21,893	22,783	28,964
9. Oil tax and development funds as percentage of total revenues	61%	64%	65%	63%	63%	70%	73%	74%	70%	73%	72%	64%	55%	55%	55%

Source: Lines 1 - 5, 7 - 8 from World Bank, Indonesia: Adjustment, Growth and Sustainable Development, (World Bank, Asia Regional Office, Report No. 7222-IND, May 2 1988), p.173. Lines 6 and 9 author's calculations.

Notes: a. For 1974-75 excludes underpayment of revenues, estimated at about Rp.340bn., due to government from Pertamina.

b. Since 1986-87 included in income tax.

c. Since 1984-85, withholding tax eliminated as separate category and combined with income tax. Alos, budget estimate only.

d. Budget estimate only.

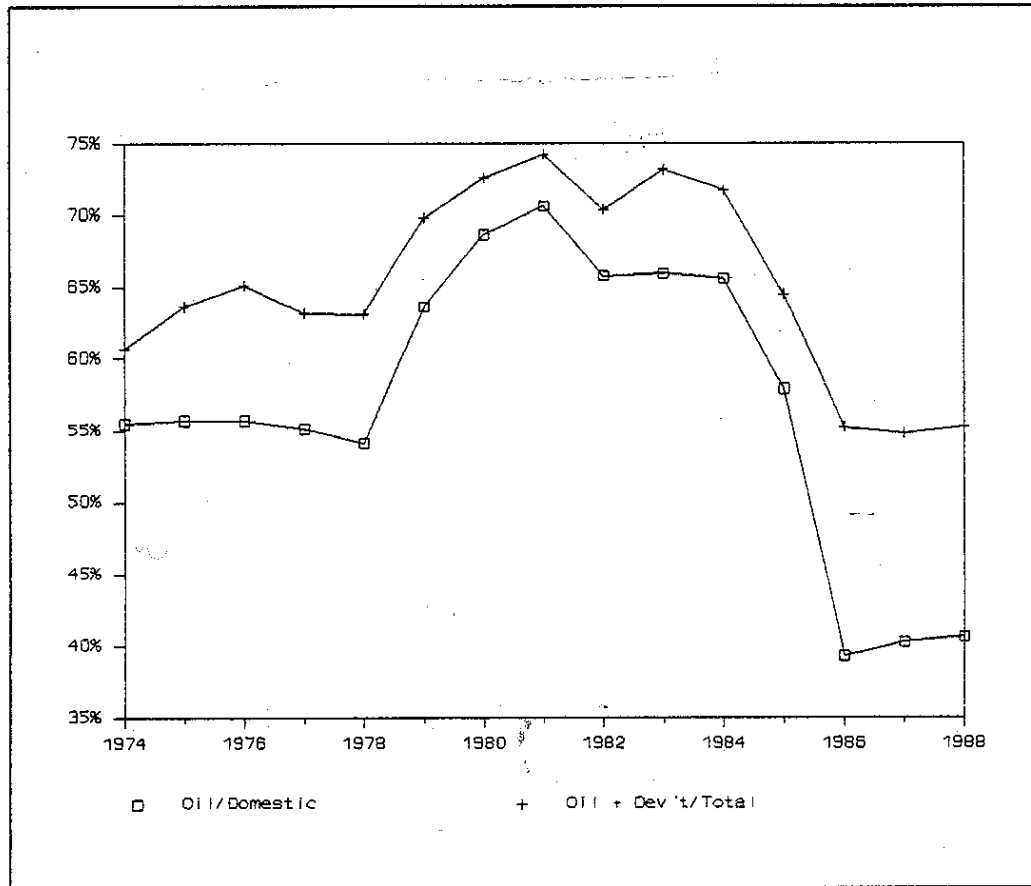


Figure 6.1  
 Indonesia, 1974 - 1988  
 Oil and aid (development) funds  
 as a percentage of total government budget

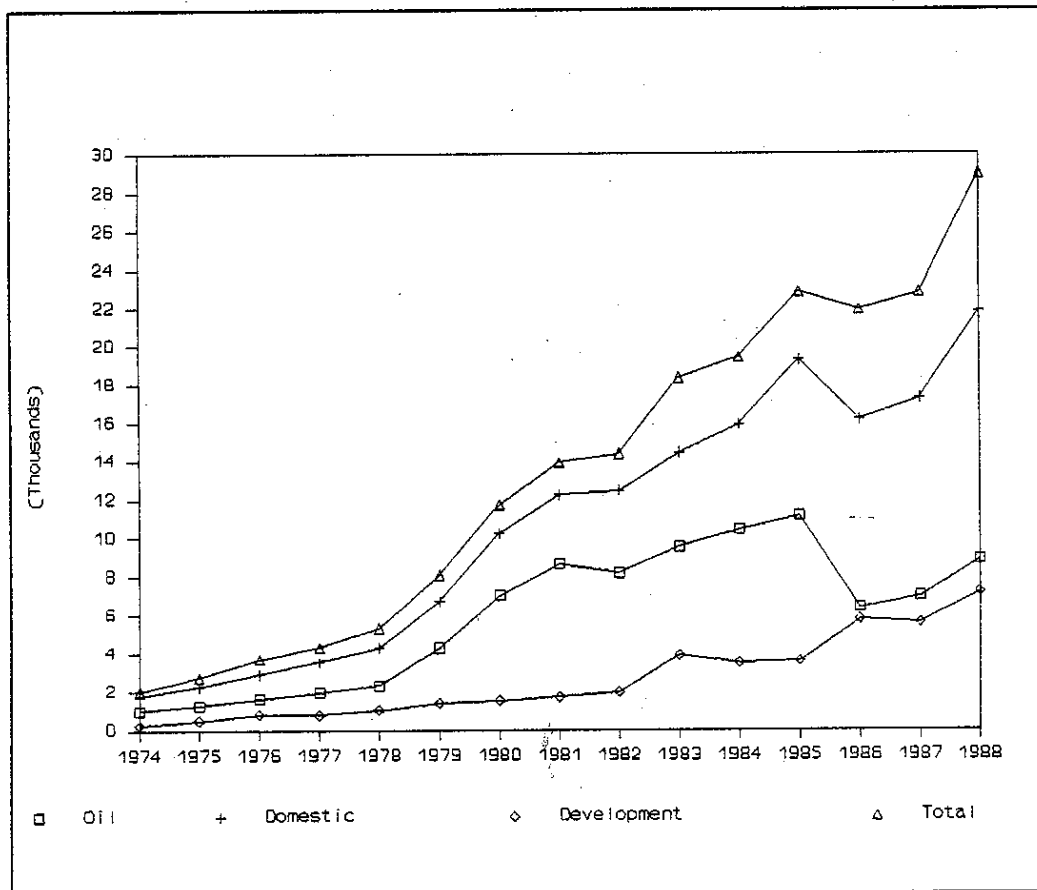


Figure 6.2  
 Indonesia, budget revenue sources  
 1974 - 1988  
 Rupiahs (thousand billions)

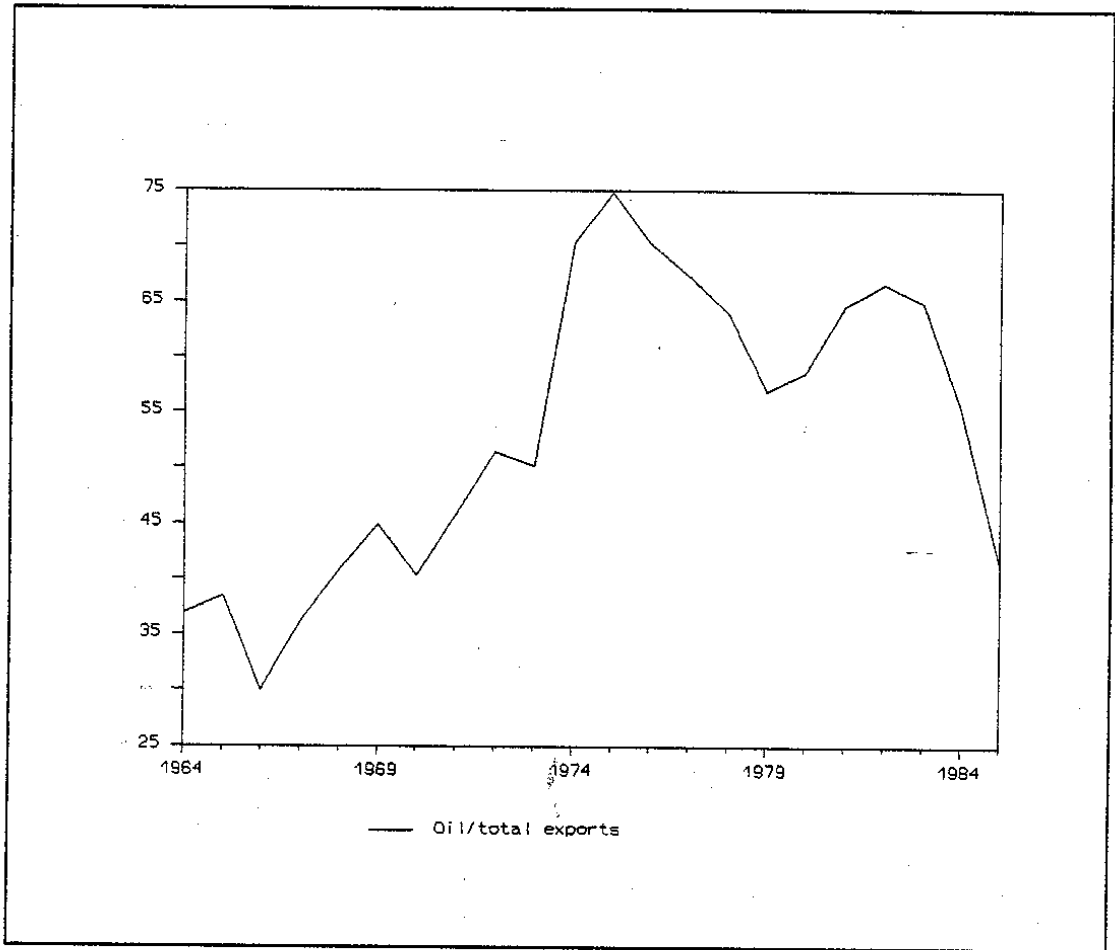


Figure 6.3  
Indonesia, oil exports (value)  
as a percentage of all exports  
1964 - 1985

social forces of global production, in the present state-forms, and in the prevailing world order.

The motivations behind the huge amounts of foreign aid to Indonesia that have come through the International Governmental Group on Indonesia [IGGI] and other channels are obviously complicated and have varied over time and between donors, but there can be little doubt that the dominant theme has been the desire to support a government that maintains domestic tranquillity of a kind, and which accepts an asymmetrical involvement with the world economy. Until recently, foreign donors have required very little from the Soeharto government beyond what it would like for itself - a domestic rentier state, more or less unencumbered access for foreign capital, and reliable access to particular raw materials.<sup>17</sup> As the oil rush runs down somewhat, that may all change as foreign donors alter their requirements and the domestic aspects of the rentier economy obstruct continued capital accumulation.

This external component of the rentier-state is an indispensable one - and in fact is logically prior to the domestic manifestations. It is possible to imagine a state dependent on rent-income from oil exports which has no domestic rentier elements, where the foreign rent income is applied by the state, directly or otherwise, to the restructuring of the domestic economy in a productive direction through investment in industry and infrastructure which will become the basis of future domestically-generated economic strength. But it is hard to imagine the converse, at least over any reasonable period: a state with an internal class-coalition dominated by a rentier-group, but which has to pay its way in the world economy through the productive labour of its people. Most enduring cases of domination by a domestic rentier-class are dependent on sustained external sources of rent - in the form of mineral rents, aid, or, as in the case of nineteenth century Britain, rents from abroad. As Syngman Rhee and Ferdinand Marcos discovered, the combination of devouring the productive elements of the capitalist class, fostering unproductive investment, plundering the state coffers, in the context of limited utility in the world economy, is not an enduring option, even though foreign aid may hold off the day of reckoning.

In the Indonesian case, the domestic rentier-components have been closely interwoven with, and dependent upon, the external foundations. It is the external source of rent which determines the domestic possibilities. Ominami makes the point that as a result of the characteristic dualism of the petro-rent states, oil rents circulate through an "administrative" form of articulation between industrial sectors:

The State budget constitutes the point of articulation between this industry and the non-oil sector of the economy.<sup>18</sup>

It is this which creates the possibility of the establishment of a domestic rentier-phenomenon. As Mahdavy puts it rather dryly:

The temptations of a government bureaucracy to turn into a rentier class with its

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17. The restrictions that have periodically been applied to foreign investment have never reached the degree of seriousness of, say, South Korea where foreign capital is subordinate to the state and national capital. See Robison *Indonesia, op.cit; Capitalism, op. cit.*, on Indonesia; and on South Korea see Cho Dong Sung, "Incentives and restraints: government regulation of direct investments between Korea and the United States", in Karl Moskowitz (ed.) *From Patron to Partner: the Development of U.S. - Korean Business and Trade Relations*, (Lexington: Lexington Books, 1984).

18. Carlos Ominami, *Le Tiers Monde dans Le Crise: Essai sur les transformations récentes des rapports Nord-Sud*, (Paris: Editions La Découverte, 1986), p.127).



own independent source of income are considerable.<sup>19</sup>

In conclusion, then, Indonesia under the New Order should be understood as a rentier-capitalist state primarily because of the character of its relation to the global political economy, and only secondarily because of the domestic regime of accumulation in which rentier elements predominate. The second characteristic is dependent on the first: it is the relation to the world political economy which sets the outer limits of domestic economic and political possibilities in Indonesia.<sup>20</sup>

The structure of global power and peripheral state possibilities

The external rents in oil and aid revenues that were the pre-condition in Indonesia for the emergence of the rentier-militarist state in the domestic sense were a function of Indonesia's location in the broader pattern of United States Asia-Pacific hegemony that shaped the region in the postwar period. Above all, the growth of the rentier-militarist state was influenced by the postwar US-Japan relationship, the centrepiece of US hegemony in the Pacific. It is the uniquely contradictory character of this American hegemony that explains both the possible emergence of Indonesian rentier-militarism, and the emergence of a quite different mercantilist-militarism in South Korea over the same period. Here the Indonesian phenomenon is to be set not just within the global social forces of production, but within the particular world order that has characterized the American era.

In his commanding analysis of the origins of the Northeast Asian political economy Bruce Cumings delineated some of the peculiarities of US hegemony - by which he means not a Gramscian sense of class ethos, but hegemony as a characteristic relation of dominance:

the demarcation of outer limits in economics, politics and international security relationships, the transgression of which carries grave risks for any nonhegemonic nation.<sup>21</sup>

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19. Mahdavy, *op.cit.*, p.467. Of course, it is precisely because of the administrative articulation of sectors of the economy that the possibility remains of an alternative, benign allocation of national income to ends which establish the basis for long-term national economic autonomy through productive investment.

20. Tornquist remarks that such an approach

leaves us with a rather static view. It is hardly the origin of the resources, but rather the monopolization of them, that is basic...And even if state incomes dry up (like oil revenues in contemporary Indonesia), there is still the option for influential persons within the state apparatus to demand rent from outsiders, who need "favourable" regulations and/or can give something in return for getting access to the remaining resources."

"Rent capitalism...", *op.cit.* It is certainly true that my emphasis on the external requirement is a partial view, and one that is otherwise compatible with the detailed examination of domestic rentier phenomenon provided in Tornquist's own work, as well as that of Robison and Yoshihara. However, these two particular claims are less supportable. The trajectory and composition of external rent does explain the limits of opportunity and possibility for the New Order - though not more than that. Moreover, it is most implausible that the level of unproductive domestic rentier-activity characteristic of Soeharto's Indonesia to date could continue if external rents decline further - or even if they do not rise substantially. Part of the difficulty with Tornquist's comparison of India and Indonesia is that no clear indication of the scale of political rentier activities in the two cases is given.

21. Bruce Cumings, "The origins of the Northeast Asian political economy: industrial sectors, product

The hegemony that the US established in postwar Asia was, Cumings argues, essentially triangular: United States (core), Japan (semi-periphery) and Southeast Asia (periphery). The crucial decisions were taken in the late 1940s at the time of the Reverse Course policies leading to the abandonment of demilitarization and limitations on full-blown democratization of Japan (if not earlier). George Kennan, realist of empire, made quite clear the choice for the United States regarding Japan as ally at a 1949 meeting of the Policy Planning Staff of which he was the head:

You have the terrific problem of how the Japanese are going to get along unless they re-open some sort of empire to the south...

If we really in the Western world could work out controls...foolproof enough and cleverly enough exercised really to have power over what Japan imports in the way of oil and other things ...we could have veto power over what she does.<sup>22</sup>

Kennan's comments were no offhand quip: they were a summation of a programme that when implemented established the framework for more than three decades of Japanese postwar political economy, domestic and foreign. In his Memoirs Kennan himself described this programme to re-establish Japan as "the sole great potential military industrial arsenal of the Far East" as,

after the Marshall plan, the most significant constructive contribution I was ever able to make in government. On no other occasion, with that one exception, did I ever make recommendations of such scope and import; and on no other occasion did my recommendations meet with such wide, indeed almost complete, acceptance.<sup>23</sup>

The model Kennan commended to MacArthur, and which provided the base for the postwar hegemony, involved the dismantling of the demilitarization and democratization projects; the re-establishment on a subordinate basis of Japanese domestic and maritime security forces; and the revival of an essentially unreconstructed Japanese capitalism with an orientation towards trading interests in Southeast Asia.

The hegemony that Washington organized had, in Cumings' words, the quality of a

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cycles and political consequences", *International Organization*, 38,1, (1984), p.6. There is a large debate about both the nature of hegemony in the global system, and the interpretation of the ongoing US decline. Cox, "Gramsci,..." op.cit., employs a Gramscian approach which stresses the moment when domination does not require coercion. A powerful example of the mainstream interpretation of U.S. global decline is Andrew Mack, "The political economy of global decline: America in the 1980s", *Australian Outlook*, 40,1 (1986). Two strongly dissenting voices are Bruce Russett, "U.S. hegemony: gone or merely diminished, and how does it matter?" in Takashi Inoguchi and Daniel I. Okimoto (eds.), *The Political Economy of Japan: Volume 2 - The Changing International Context*, (Stanford: Stanford University Press, 1988); and Stephen Gill, "American hegemony: its limits and prospects in the Reagan era", *Millenium: Journal of International Studies*, 15,3 (1986).

22. Cited in Cumings, op.cit., p.18. See also Jon Halliday, *A Political History of Japanese Capitalism*, (New York: Monthly Review Press, 1975), pp.186ff.; and John Dower, "Occupied Japan and the American lake, 1945-1950", in Edward Friedman and Mark Selden (eds.), *America's Asia: Dissenting Essays on Asian-American Relations*, (New York: Pantheon, 1969), pp.173-183). Note that Halliday cites the same passage, but ascribes the second half of the remarks to Owen Lattimore. Lance Castles has reminded me of the point that should be obvious: while my argument is true enough for the Japan - Southeast Asia relationship, it appears to be anything but true for Japan itself. Yet that is precisely the problem involved in predicting the future course of the U.S. - Japan relationship.

23. George Kennan, *Memoirs: 1925-1950*, (Boston: Little, Brown, 1967), cited in Dower, op.cit., p.178.

"grand area".

Within that area nations oriented themselves toward Washington rather than Moscow; nations were enmeshed in a hierarchy of economic and political preferences whose ideal goal was free trade, open systems and liberal democracy but which also encompassed neo-mercantile states and authoritarian politics; and nations were dealt with by the United States through methods ranging from classic negotiations and trade-offs (in regard to nations sharing Western traditions or approximating Western traditions or approximating American levels of political and economic development) to wars and interventions (in the periphery or Third World) to assure continuing orientation towards Washington.<sup>24</sup>

The unique quality of the American hegemony, revealed in the latter stages of the Vietnam war and full blown in the fierce trade struggles subsequently is that it is a style of hegemony (a world order in Cox's terms) that

has outer limits sufficient to keep countries in the system, but not sufficient to protect the home economy against destructive competition, and not sufficient to maintain effective dependency relationships or a frozen hierarchy. The system permits upward mobility.<sup>25</sup>

In Indonesia those outer limits of the American hegemony were struck by Soekarno's Guided Democracy around September 1963 with the burning of the British Embassy in Jakarta. Whatever the actual degree of US direct involvement in the affairs of October 1, 1965 may have been, there can be no doubt that various agencies of the United States had been working towards facilitating something like the outcome that finally obtained.<sup>26</sup> And once Soeharto demonstrated his firm control by the second half of 1966 by making sweeping pro-capital economic reforms, the cornucopia of IGGI funds began to open up, albeit not until the policies recommended by Soeharto's advisors reached standards set by an IMF team.

With the removal of Soekarno, the re-orientation of Indonesian politics and the establishment of ASEAN, United States policy demands on Indonesia subsided, allowing the development of the new growth-oriented military dictatorship to develop unimpeded. Japanese investment and trade with Indonesia outstretched that of the US itself before long, as the original design Kennan had in mind for the region was achieved. Japan's need for oil and its outward surge of foreign investment in the 1970s provided the second prop for the consolidation of rentier-militarism - still within the framework of American hegemony.<sup>27</sup>

Within the outer limits determined by the United States (and increasingly supported only by its military power), it was Japan which was the dominant force over Indonesia within two decades. By the mid-1980s Indonesia became part of the Japanese economic sphere of influence, as indicated by trade, investment and loans. In the late 1980s Indonesia sent half of its exports to Japan, mostly oil and liquid natural gas (LNG), for

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24. Cumings, op.cit., p.6.

25. Ibid., p.20.

26. For a comprehensive review of the publicly available evidence to date see Peter Dale Scott, "The United States and the overthrow of Sukarno", *Pacific Affairs*, 58,2 (1985).

27. The Japanese story is, of course, much more complicated than I am allowing here. Wayne Robinson, op.cit. provides a fine portrait of the problems faced by Japanese investors in the early New Order period, particularly rivalry with the United States within IGGI and in influencing Jakarta policies.

which Indonesia was Japan's third largest supplier despite inroads from Chinese non-Opec oil and the prospect of declining overall consumption of oil as Japanese industries re-structured.<sup>28</sup>

Japanese direct foreign investment in Indonesia made up 33% of the cumulative total between 1969 and 1984, making it far and away the dominant foreign investor<sup>29</sup>. Conversely, Indonesia has for many years been the second largest host of Japanese foreign investment after the United States: in 1988 the cumulative total of Japanese investment in Indonesia was US\$9.218bn.<sup>30</sup>

By the mid-1980s, when Indonesia once again became an international policy problem because of its growing debt and balance of payments problems, it was the Japanese, not the Americans, who lead the rescue activities. Whereas in 1970, the United States had provided almost half (47%) of Indonesia's foreign aid and Japan about one-quarter (27%), by 1984 the positions were reversed: Japan provided 37% of a rather larger aid budget, and the United States figure had declined relatively and absolutely to only 15%.<sup>31</sup> In 1987/88 the United States pledged US\$190 mn., and Japan US\$606 mn.<sup>32</sup> But in mid-1988 in what may be the largest single annual aid transfer to date between two countries Japan committed \$2.3 bn. in soft loans specifically to ease Indonesia's balance of payments problems (with more to follow in project grants).<sup>33</sup>

This external framework has not lead to a simple foreign dominance of the Indonesian economy. As Robison and Yoshihara have argued in slightly different ways, the dominant elements of the Indonesian corporate economy are at least as much Indonesian as foreign capital - in the form of state-capital and Indonesian Chinese capital. Yet, in Yoshihara's view, a new version of industrial capitalist dependency has developed in Indonesia, for three reasons connected with industrial production, the crucial area for capitalist growth in world markets. Firstly, most industrial development has taken place in firms that are nationally owned and controlled, but are often dependent on the flow of state funds the oil boom permitted.

...the state sector is out of all proportion to the private sector, dominating in

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28. Charles E. Morrison, "Japan and the ASEAN countries: the evolution of Japan's regional role", in Inoguchi and Okimoto, op.cit. But note that despite the increased Chinese share of Japanese crude oil imports, Indonesia's share still rose 11.5% in 1986 to 13.4% in 1987, as well as in petroleum products. See Jetro (Japan External Trade Organization), *White Paper on International Trade - Japan 1988*, (Tokyo: Jetro, 1988), table 30.

29. Kinoshita Toshihiko, "Japanese investment in Indonesia: problems and prospects", *Bulletin of Indonesian Economic Studies*, XXII,1 (1986), p.42, citing data on approved foreign investment from the Indonesian Capital Investment Board. Kinoshita notes, however, that in recent years Japanese investment has been slowing down.

30. Keizai Koho Center, *Japan 1989: An International Comparison*, (Tokyo: Keizai Koho Center, 1989), p.56, citing Japan Ministry of Finance data. Note that there are important differences in classification and definition between Japanese and Indonesian government sources of data on direct private foreign investment.

31. Morrison, op.cit., p.440. Note that the U.S. data exclude military assistance.

32. USAID [United States, Agency for International Development] *USAID Program in Indonesia*, (March 1988), p.4.

33. Interview with Japanese embassy official in Jakarta, 31/6/88. The \$2.3 bn. loan was in several parts, mostly at about 2.7% interest (with the Tokyo prime rate at the time at about 6%). David Bourchier has pointed out to me that the original name for the International Governmental Group on Indonesia was to have been the Tokyo Club. See Masashi Nishihara "Japan: regional stability" in James W.Morley (ed.) *Security Interdependence in the Asia-Pacific Region*, (Lexington: D.C.Heath, 1986), p.70.

particular the capital-intensive upstream sector of industry (especially petrochemicals and steel), which sells high-cost or low-quality products to the downstream private sector. In addition, it has a monopoly on fertilizer production, it dominates shipbuilding, and it has a large stake in cement and pulp production. Despite access to low-interest loans from government banks and various other privileges (including some monopoly rights), many of these state enterprises are running at a loss.<sup>34</sup>

Secondly, a number of the private industrial capitalists producing complex machinery such as motor vehicles are in fact Japanese (or other foreign producers') compradores: e.g. William Soeryajaya's Astra group is Toyota's compradore, and Sjarnoebi Said's Krama Yudha group is Mitsubishi's.

The South-East Asian capitalists are essentially the distributors of Japanese cars, with the difference that they have assembling plants. Technologically, however, they are almost 100 per cent dependent on their Japanese licenses, and, under the present set-up, it would be impossible for them to become technologically independent and start exporting their products. Their technological dependency is not temporary, but being structural, semi-permanent.<sup>35</sup>

Thirdly, another large group of industrial capitalists, especially in textiles, steel, cement and downstream petro-chemicals, are not compradores - but their complex plants are mainly imported, often as turnkey operations and with foreign engineers and technicians. The crucial difference with earlier generations of Asian industrializing countries is that unlike Japan and Korea, Indonesia (and most other ASEAN countries) lacks substantial numbers of skilled and technically educated workers.

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34. Yoshihara Kunio, *The Rise of Ersatz Capitalism in South-East Asia*, (Singapore: Oxford University Press, 1988), p.108. See also Thee Kian-wie and Yoshihara Kunio "Foreign and domestic capital in Indonesian industrialization", *Southeast Asian Studies*, (March 1987). Yoshihara points out that exports from a number of these plants are no sign of commercial health. Mostly such exports are possible because export prices charged do not cover costs. op.cit., p.109. Clearly this is not an enduring option.

35. Yoshihara, op.cit., p.112.

What this suggests is that the forms of transnational economic dominance are more complex than a simple matter of foreign direct private investment, but remain extremely potent. The outcome of the past two decades of Indonesian involvement in the world economy has been to generate considerable wealth and some important changes in the Indonesian economy, not least rice self-sufficiency and some improvements in basic welfare as the result of an expansion of state-provision of health and education services. What did not happen was the utilization of oil rents to establish the foundation of national economic autonomy through thorough-going social transformation for auto-centric industrialization.

#### Global sources of legitimacy for a fortuitous etatism

In addition to the material foundations to the state provided by hydrocarbon revenues, a final element in the global pre-conditions for the emergence and survival of the rentier-militarist state has been the provision of foreign support for states with limited domestic legitimacy. In the course of a bravura comparison of classic European and contemporary Third World state-formation, Charles Tilly reminds us that in the real world, legitimacy derives less from the assent of the governed than from "the probability that other authorities will act to confirm the decisions of a given authority".<sup>36</sup> In the contemporary world-order, it is other national and supra-national authorities whose confirmation is crucial. For Tilly, what marks out contemporary Third World state formation from its European precursors is the relationship between the acquisition of war-making capacity and subject populations on the one hand, and other states on the other. In Europe, he argues, armies were built up

through sustained struggles with their subject populations, and by means of a selective expansion of protection to different classes within the populations. Agreements on protection constrained the rulers themselves, making them vulnerable to courts, to assemblies, and to withdrawal of credit, services and expertise.<sup>37</sup>

The formation of Third World states in a system of nation-states reinforcing each other and projecting extra-territorial power to both support and modify each other meant that the requirement of a domestic process of adjustment and mutual constraint between social forces was often limited or even absent. The network of external military, economic, political or ideological support for peripheral states on an historically unprecedented scale provides the possibility that

the new states harbor powerful, unconstrained organizations that easily overshadow all other organizations within their territories. To the extent that outside states guarantee their boundaries, the managers of those military organizations exercise extraordinary power within them.<sup>38</sup>

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36. Charles Tilly, "War-making and state-making as organized crime" in Peter Evans, Dieter Rueschmeyer and Theda Skocpol (eds.), *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985), p.171.

37. Charles Tilly, "War and the power of warmakers in Western Europe and elsewhere, 1600-1980", in Peter Wallensteen, Johan Galtung and Carlos Portales (eds.), *Global Militarization*, (Boulder: Westview, 1985), p.83.

38. Tilly, "War-making and state-making...", op.cit., p.186. The fact that the normal condition of the present world order is for the major powers to guarantee the borders of their main allies and subordinate

The argument is, of course, extremely general, and under-estimates both the complexity of forms of transnational political-economic constraint and the degree of contestation of military power that has occurred in countries such as Indonesia. Yet the process Tilly discusses is exactly what has characterized the Indonesian military in the New Order (and in the Guided Democracy period for that matter).

After 1949 significant military actions were conducted by the Indonesian armed forces, but none involved a response to a serious threat to the integrity of the borders of the state. In both the revolution of 1945-49 and the campaign for the decolonization of Irian Jaya US diplomatic and economic pressure on the colonial power played a central part. Only in East Timor from 1975 to the present has the Indonesian Army mounted a sustained foreign campaign. The borders of Indonesia have been defined by and protected by the United States (and more generally by the industrial capitalist alliance) diplomatically, and as a reserve force, by the Seventh Fleet.<sup>39</sup> And in the case of East Timor, the willingness and capacity of foreign governments (especially the United States, Japan and Australia) to legitimate the ongoing war or nullify the effects of democratic opposition in their countries has been a central Indonesian political resource. Despite its large armed forces, foreign war-making has not been an important activity for the Indonesian armed forces, East Timor apart. As a result the state has not been required to entertain the political compromises that would be entailed in a domestic revenue base.<sup>40</sup>

As Liddle and others have argued, the Soeharto regime is not without domestic legitimacy, both in the form of positive affirmation for the government, and approval of its performance in a number of different ways. But the crucial elements that make possible even this level of domestic legitimation are, as Liddle says, repression (particularly to the extent that what Liddle terms "performance legitimacy" depends on both state resources to "perform" and on the exclusion of alternatives) and the remarkable distance the regime has from general domestic public sanction because of its foreign backers and external rentier base - oil plus IGGI.

Mahdavy's analysis of the consequences for government of national rentier income fits Indonesia well:

The oil industry's major contribution is that it enables the governments of the oil-producing countries to embark on large-scale public expenditure programmes without resorting to taxation and without running into drastic balance of payments

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states was paradoxically revealed by the Iran-Iraq war. Although most major arms producers were involved in supplying one or other or both sides, what was striking about the protracted and horrific war was that unlike most recent wars, the major powers did little to arrest its progress. The point is all the clearer in the aftermath of the Iraqi invasion of Kuwait.

39. The most important work on foreign support for Soeharto remains Noam Chomsky and Edward S. Herman, *The Washington Connection and Third World Fascism: Volume I of The Political Economy of Human Rights*, (Boston: South End Press, 1979), a source continually ignored in mainstream writings on Indonesian politics.

40. Tilly's thesis is confirmed by the South Korean experience. The large-scale expansion and upgrading of the South Korean armed forces after 1965 was funded almost entirely by United States assistance for successive Force Modernization Programs, in addition to funds for the ROK Army units in South Vietnam. It is significant in this regard that it is only with the longrunning East Timor war that the Indonesian armed forces have moved beyond territorially-based operations towards a substantial technology-heavy conventional military capacity. While oil-revenues and foreign military aid allowed the government to proceed with the war the restraint of without serious taxation of the Indonesian population, the military costs of the protracted campaign have induced internal changes in the armed forces.

or inflation problems that usually plague other developing nations. And since oil revenues typically increase at a faster rate than the GNP of the local economies, the public sector of the oil-producing countries expands rapidly. This need not result in some kind of socialism, but may turn into what can be considered as a fortuitous etatisme.<sup>41</sup>

Mahdavy points accurately to the two crucial political consequences of external rents: the removal of two sources of pressure for political change.

...in the Rentier states the increasing welfare and prosperity (of at least part of the urban population) acquired through government expenditures and large imports pre-empts some of the urgency for change and rapid growth encountered in other countries. The blatant inequalities of income and wealth may create frictions, but not so much as in other countries since exploitation of a natural resource rather than direct exploitation of the people is the main source generating the disparities.<sup>42</sup>

A government that can expand its services without resorting to heavy taxation acquires an independence from the people seldom found in other countries. In political terms, the power of government to bribe pressure groups or coerce dissidents will be greater than otherwise. By the same token, this power is highly vulnerable, since the stoppage of external rents can severely damage the government finances.<sup>43</sup>

In no way does this suggest that there has been no domestic legitimation in the way that Liddle suggests. Rather that the requirement to achieve such legitimation as has developed has been greatly minimized by the external context. The external rentier-character of New Order state formation has generated a considerable degree of freedom of the state from constraint by the subject population. Moreover, the legitimation that has finally mattered in Indonesia, other than that of the army as the governing group, has been the balance of opinion of state-managers in Washington and Tokyo. That external legitimation, coupled with the material basis of the external rentier-economy, has made possible the hypertrophy of the state vis-a-vis other social organizations and the capacity of the state to ignore any need for serious negotiation with subject populations - to say nothing of holocaust and terror.

The economic dimension of external legitimacy has been rooted in the opinion of international institutions such as the International Monetary Fund and the World Bank, as well as the attitudes of the governments making up the IGGI group. This external economic legitimacy did not come easily in the first months of the New Order in 1966. Even after the holocaust against the PKI and strong indications by the new leadership of a reorientation in economic policy, the United States and other western powers held off from more than a "low-profile" (Marshall Green) approach until the acceptance of a stabilization package devised by an IMF team in consultation with the government's economic advisors led by Professor Wijoyo Nitisastro. Mas'oeed remarks of the most

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41. Mahdavy, op.cit., p.431.

42. Ibid., p.437.

43. Ibid., p.467. Indonesian military capital spending is largely dependent on foreign military assistance and on hidden subsidies from sources such as Pertamina. According to official budget figures (which may well account for only half or two-thirds of total military spending), foreign project aid funded one-quarter of the military development budget during the expansion period of 1981-85. Examination of US and other foreign military assistance to Indonesia over the same period suggests the actual figure is still larger.



important outcome of the IMF visit:

If the March 11, 1966 transfer of power is seen as the milestone for the New Order politics, the economic regulations of October 3, 1966 are for the economy.<sup>44</sup>

The Australian Prime Minister of the day, Harold Holt, summed up the judgement of the Army's foreign backers when he assured the well-lunched members of the River Club of New York in July 1966 that

with 500,000 to 1,000,000 Communist sympathizers knocked off, I think it is safe to assume a re-orientation has taken place.<sup>45</sup>

Since 1966, Indonesian economic policy formation has involved somewhat shifting policy positions, as already mentioned. "Nationalist" policy positions became more prominent effective at the height of the oil boom, and a great variety of ad hoc regulatory regimes were set up, to the benefit of political rentier-capitalists. After the decline in oil revenues beginning in 1979 and declining rapidly after 1986, the influence of market-oriented positions within the Indonesian state and more importantly, within the World Bank and International Monetary Fund began to swell once more. Under foreign pressure, and with significant domestic support, "deregulation" of import monopolies and privileged licensing and quota arrangements have become a dominant item on the Jakarta agenda, along with a slow build-up of pressure for some regularization of business practices.<sup>46</sup>

However, these processes, as in 1966, have two important aspects. On the one hand, they involve a renegotiation of the terms of external economic legitimacy - what will the international state and corporate financial community require in order to agree to meet Indonesia's needs? On the other hand what is also involved is a renegotiation of the terms of state-civil society relations both within Indonesia and transnationally. In the African context, Fontaine has pointed out that a great deal of the IMF pressure for economic liberalization and deregulation of state economic involvement glosses on a rhetoric of "the retreat of the state". IMF monetarist packages in the African context have involved governments taking responsibility for the attainment and maintenance of certain political conditions (as a result of changing domestic economic policy) - as a precondition for the granting of loans, and so on.

Hence state 'disinvolvement' appears now as a more complex matter. Clearly it amounts both to a shift in the domestic forms of public intervention, from purely economic intervention - in the sense of based on the tenets of economic analysis - to political intervention - in the sense of playing on internal struggle and opposition - and to a renegotiation of spheres of sovereignty, through a shift in the balance of considerations of an internal versus international nature, the internal "disinvolvement" being matched by an international "overinvolvement" of the

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44. Mochtar Mas'od, *The Indonesian Economy and Political Structure during the Early New Order, 1966-1971*, Unpublished Ph.D dissertation, Ohio State University, (1983), p.115. Mas'od provides an extremely useful account of the economic diplomacy of 1966.

45. *New York Times*, 6 July 1966, cited in Noam Chomsky and Edward S. Herman, *The Political Economy of Human Rights, Volume I: The Washington Connection and Third World Fascism*, (Boston: South End Press, 1979), p.217.

46. Robison, *Indonesia...*, op.cit.; Robison, "After the gold rush: the politics of economic restructuring in Indonesia", in Richard Robison, Kevin Hewison and Richard Higgot (eds.) *Southeast Asia in the 1980s: the Politics of Economic Crisis*, (Sydney: Allen and Unwin, 1987); World Bank *Indonesia: Adjustment, Growth and Sustainable Development*, Report No. 7222-IND, (1988).

state. Obviously these two shifts are related, and have some correspondence to each other, as the "politicization" of state intervention is a facet of the internationalization of monetary control.<sup>47</sup>

In the present circumstances in Indonesia, many critics of the regime see a connection between economic deregulation and opportunities for political liberalization and demilitarization - a generally benign form of "shift in the forms of public intervention". Since the First Family is pre-eminent amongst political rent capitalists, so the argument goes, any international pressure for regularization of business practices and for the application of market-principles to economic policy will weaken the power-base of the palace. Certainly, the hope is understandable, and with the overall aging of the original New Order establishment, any loosening is desirable. But what must always be borne in mind is that both the New Order and its desired transformation are in that case a function of the location of Indonesia in the global political economy, and such steps away from the current pattern of militarization are founded on yet another round of diminution of domestic political control. External influence may not be a matter of outright external control, and influence is never uncontested, but the new phase of the internationalization of the Indonesian state thus produced renders the relation between "state" and "civil society" more complex. It also becomes more difficult to bring under popular control, since the structure of the system of nation-states limits the effects of democratic controls mainly to the national level or below.

#### The South Korean response: mercantilist militarism

The contrasting pattern to these external conditions and domestic response can be seen with South Korea, which began its decolonization at the same time as Indonesia. Like Indonesia, South Korea is a deeply militarized society, with a large militarily-led state. Both are capitalist economies, oriented internationally towards the United States, and both have developed to their present positions within the US postwar Pacific hegemony. There the similarities stop. Korean economic growth has not only been faster and greater than that of Indonesia, but has made the crucial leap to a reasonably well-rounded industrialization (albeit with serious under-development of the domestic sector). Moreover, unlike Indonesia (or any other capitalist NIC for that matter), South Korea has a remarkably high level of domestic control over its productive sector. Levels of direct foreign investment are quite low, although they have recently begun to rise in the face of US pressure. Where Indonesia has, for the most part, been content to live off the oil rush with relatively little internal transformation, the South Korean state has taken an active mercantilist posture in the international system, coordinating capitalist and state investment and trade activities with a view to optimizing Korean national welfare in the international system.<sup>48</sup> The outer limits of the system of US hegemony were such, as Cumings argued, as to keep South Korea in the system, but "not sufficient to maintain effective dependency relationships or a frozen hierarchy".<sup>49</sup>

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47. Jean-Marc Fontaine, "Evolving economic policies and disinvolved states: notes in an African context", *IDS Bulletin*, 18,4, (1987), p.18. Gill, op.cit., places the issues of the internationalization of monetary controls and the global exercise of US influence to achieve economic liberalization in the context of a complex attempt by the United States under the Reagan administration to reconstitute US hegemony on a new post-Keynesian, post-Fordist basis.

48. On the South Korean state see Stephan Haggard and Moon Chung-in, "The South Korean State",

But it has been the military-strategic aspects of that hegemony which best explain the paths the two nations have followed. The single most important difference between the two countries has been their location in the global military order, and specifically in United States requirements for the containment of communism and preparations for global war fighting. The Korean War not only devastated both parts of the country physically and in human terms, but provided the impetus to complete the transformation of the rural class structure begun by the Japanese in the colonial period. By the end of the Korean war, the landlord class in the South had been dissolved, and that landed capital transformed into merchant capital. Throughout the 1950s United States aid paid for the bulk of South Korean imports - 90% by 1959. Under Syngman Rhee, rentier-activities flourished through bureaucrat-capitalists and their entrepreneurial allies, as the US-funded state ballooned and the economy floundered<sup>50</sup>.

Rhee's fall owed as much to the US desire to cease paying the bill as to the student demonstrators who finally pushed Rhee out. The April 1960 student revolt pre-empted a planned military coup under Park Chung-hee, but Park seized power anyway in May 1961. After an initial period of uncertainty of direction on both the South Korean and United States sides, within three years the foundations of the Korean mercantilist-militarist state were in place with American blessing: a bureaucratically effective state; state control of the financial system; effective closure of possibilities of profitable unproductive investment; limitations on foreign investment; and a plan for industrialization based on subsidization of manufacturing exports, control of imports and foreign exchange.<sup>51</sup> The influence of civil society could not have been less important: the state - national Korean or U.S. imperial - was virtually all.

Korean mercantilism was made possible by the importance the United States placed on South Korea's stable participation in the Northeast Asian anti-communist alliance, and specifically as a bulwark against North Korea, China and the Soviet Union, and as an ally in the Vietnam War. Park's rightwing statism was a revenant pre-war Japanese militarist fusing of strong national security and a strong, nationally controlled, economy. The bulk of capital was provided by massive foreign borrowings funnelled through the state-owned (until 1981) banking system. Domestic manufacturers were offered subsidized loans, on the effective condition of accepting government economic planners' "guidance" on investment allocation - with the alternative of borrowing at unsubsidized rates elsewhere. Foreign investment, while not completely locked out, was never given a free rein<sup>52</sup>. The result was that South Korean economic development

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in John B. Ruggie (ed.), *The Antinomies of Interdependence: National Welfare and the International Division of Labor*, (New York: Columbia University Press, 1983), although there are some differences between their analysis of South Korean mercantilism and my own. I say "national welfare" without negating the domestic maldistribution of wealth and wellbeing that has accompanied this growth.

49. Cumings, op.cit., p.20.

50. Clive Hamilton, *Capitalist Industrialization in Korea*, (Boulder: Westview Press, 1986).

51. See Cumings, op.cit., Hamilton, op.cit., Richard Luedde-Neurath, *Import Controls and Export-Oriented Development, A Reassessment of the South Korean Case*, (Boulder: Westview, 1986), Peter Evans, "Class, state and dependence in East Asia: lessons for Latin Americanists", in Frederick Deyo (ed.), *The Political Economy of the New Asian Industrialization* (1988), and Clive Hamilton and Richard Tanter, "The antinomies of success in South Korea", *Journal of International Affairs*, 41,1 (1987).

52. Cho, op.cit., and Hamilton op.cit. The comparison with Indonesia is striking. Even though South Korea is a much more important trading partner for Japan than is Indonesia, Japanese foreign investment by 1988 (even with several years of recent investment liberalization) still only totalled \$2.7bn compared

remained largely under Korean national control, and to a surprising degree, under effective state direction to a degree unknown in other peripheral capitalist countries.

Looking at South Korea from the perspective of Latin American debates on asymmetrical dependency, Evans argues that in fact the Korean experience demonstrates the importance of an early period of controlled withdrawal from international markets if industrialization is to succeed with any degree of autonomy. The Japanese colonial period, followed by the Korean war, U.S. capital's lack of interest in the aid-supported economy of the 50s, the effects of the U.S.-sponsored land reform, and the effects of the massive strategically-motivated aid programme itself all went to lay down the preconditions for Park's successful drive towards autonomous state-directed capitalist growth<sup>53</sup>. It is only necessary to add that it was Park's capacity to exploit the possibilities of that foundation and the opportunities inherent in Korea's special position within the US alliance structure which triggered the translation of potential into history.

Part of the reason for Park's strategy lay in the character of the South Korean military; or rather, the political and economic consequences of its integration into the US command and strategic planning. The South Korean military, while hardly free of scandal and a certain degree of corruption, held the upper echelons of state power, but never entertained a Korean parallel to the Indonesian political and economic involvement throughout the state and the economy. Their primary task was set by the Mutual Security Treaty with the United States, and the Joint Command structure that integrated the bulk of South Korean combat troops under a US commanding general. The South Korean military, unlike their Indonesian counterparts, operated to American standards, and performed as frontline nuclear-capable fighting troops not only in Vietnam over the best part of a decade, but in the most tense zone of the global Cold War for more than thirty years after the end of the Korean War. Military revenue has been limited almost entirely within the state budget: Indonesian-style extra-budgetary sources of unit income have not been institutionalized.

From the early 1960s onwards, the rentier-option was never a possibility within the conjuncture of the external mercantilist strategy and the US alliance: Park's Japanese-modelled drive for national security in terms of a strong, industrially-based economy and strong defence precluded any further toleration of the rentier-phenomena of the Rhee period. In any case, by the late 1950s the United States was no longer prepared to provide the external rent through massive foreign aid. Moreover, its strategic requirements of the South Korean military were such that it could not tolerate military incompetence of the level encouraged by political rent capitalism at an Indonesian level.

Within the broad and diffuse structure of US hegemony, South Korea has been tied economically to Japan, with a large proportion of Korean manufactured exports composed of Japanese semi-finished imports. As Japan moved up the industrial hierarchy, South Korea (and Taiwan) moved up behind it, to the point where after Japan, both South Korea and Taiwan constitute a strong threat to US industry.

The irony is that the very elements of success have generated their own antinomies: in domestic class terms, South Korean mercantilist industrialization has created a powerful and politically experienced urban working class, as well as a large and diverse entrepreneurial and salaried middle class; export growth in higher industrial export niches has provoked a hostile response from the protector; and Korean officer corps resentment

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to the Indonesian total of \$9.2bn. (Keizai Koho Center, op.cit.,pp.56,40.)

53. Evans, op.cit.

to US command has reached the point where the survival of the alliance demands some redress of the inequalities built into the US-dominated command structure. The foundations of the Park and Chun dictatorships were undermined by their very success, leading first to the liberalization measures of 1986, and then the holding of reasonably fair elections in 1987.<sup>54</sup>

Analytically, what has emerged is the re-establishment of the primacy of class forces over statist ones: civil society is now a meaningful concept in South Korea. In a reversal of the defining pattern since 1961, the internal dynamics of South Korean politics will now largely be determined by the inter-relationship with the state of a powerful capitalist class, a politically powerful and mature industrial working class, and a diverse middle class.

The differences with Indonesia are clear, and are largely explicable by the location of the two states in the pattern of global social relations - as understood in terms of production, the forms of state, and the particular pattern of world order that has characterized the American era. The importance that the United States placed on South Korea in the global containment of communism during the Park period permitted the formulation of the basic pattern of state-directed export-oriented capitalist industrialization. Moreover, that industrialization was attempted at a time when the postwar expansion of global trade was still on the upswing, and the number of competitors for the status of "newly industrializing country" was very much smaller than will face Indonesia in the near future.

Finally, the issue of "the strong state" should be examined, if only briefly, since the term is so frequently used about both countries. At least four senses of "strength" are usually conflated in that term. Both Indonesia and South Korea are "strong" in the sense of repressive or "tough". Both are capable of exerting considerable pressure on specific parts of their societies - they have a long reach. Both are numerically and proportionally big states. But there are three important senses of "the strong state" on which they differ - robustness, administrative effectiveness, and autonomy. The South Korean state has demonstrated great capacity to weather the pressures exerted from a changing world economy. It is not yet clear just how robust the Soeharto state will prove to be under challenge from changes induced in the external economic environment. Secondly, the South Korean state has a prodigious administrative efficacy; indeed, once demilitarization begins to take place this will prove immensely important (for example through the ability of a relatively disciplined and competent state bureaucracy to deal with the social after-effects for particular communities of the withdrawal of US ground troops). Finally, strength for a state may also involve a high degree of autonomy from would-be sources of

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54. Hamilton and Tanter, *op.cit.* What remains to be addressed in South Korea is the issue of fundamental demilitarization. While an elected government is in place and there is a broader range of political rights than for more than two decades, one of the most important generative causes of militarization - the structure of the economy - remains untouched. A need for repression of labour is built into the economic structure which binds economic growth to continued expansion of industrial export markets. South Korean exporters are caught between two powerful forces which are reducing their room to manoeuvre: the rising wave of protectionism in the United States, the major export market; and strong competition from a diverse group of less advanced imitators working with lower cost labour. South Korea's capacity to adapt is considerable, and a number of strategies are being orchestrated by government. However until this fundamental distortion of the economy is balanced by expanding the domestic sector, especially by increasing domestic purchasing power, the structural imperative for militarization will remain, always pulling against the limited liberalization and democratization.

pressure to change direction. For the first two decades of Korean industrialization, the state held a distinct position of autonomy from domestic capital and, on a number of economic issues, from U.S. state pressure. While the Indonesian state is quite autonomous from most sources of domestic pressure (certainly from capital), it is highly vulnerable to external sources of pressure and to erosion of the external rent which permits the domestic posture.

## Conclusion

The argument of this chapter is that the explanation of the contemporary Indonesian state and economic structure has been overly pre-occupied with domestic factors, neglecting the explanatory importance of external factors. This is not an argument for a universal causal priority for the global over the national or local, or vice versa. Simply, it is clear that in both the Indonesian and South Korean cases over the past quarter century, external factors have so structured the limits of domestic possibility that they must be assigned such a causal priority. What was then important was the manner in which the two states manoeuvred within those limits, to the point where, in the South Korean case, dependency was reversed, unlike Indonesia.

For Indonesia, the combination of huge oil export revenues and fluctuating but substantial foreign aid revenues provided a material foundation without which the domestic florescence of a rentier-militarist state would have been impossible. Equally importantly, the survival of the Soeharto regime, and the pattern of its relationships with domestic social forces has been contingent on the location of that state in the wider world order established under American aegis after 1945. Most importantly, the United States orchestrated the allocation of Southeast Asia and Indonesia in particular in the Japanese sphere of influence. The full manifestation of that structure is only now emerging as Japan leads the international support for the Soeharto regime in the face of a decline in the price of oil and rapid rises in levels of debt repayment.<sup>55</sup>

The peculiar quality of rentier-militarist regimes, understood in this externally-oriented sense, is their relative capacity to ignore, or at least postpone, cultivation of domestic support and the class compromises which that process requires<sup>56</sup>.

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55. That Japan is now the principal economic power in Southeast Asia and sponsor of the Soeharto government is clear. What is rather less clear is what that means in terms of Japanese power. As is repeatedly pointed out, Japan's capacity to replace the United States as regional hegemon is severely constrained by the fact that in terms of power projection capacity it is militarily insignificant in Southeast Asia, politically vulnerable due to the memory of the war and domestic resentment of Japanese economic power, and lacks any serious autonomous cultural suasion. (See, for example, Morrison's account, *op.cit.*, of the evolution of Japanese Southeast Asian policy). As Johan Galtung pointed out almost two decades ago, Japanese imperialism walks on one-leg, the economic, while the U.S. variant in its heyday walked on at least four - the political, military, economic and the cultural: see his "A structural theory of imperialism", *Journal of Peace Research*, (1971). What remains to be seen, however, is just how skilfully Japanese donors and Southeast Asian recipients are able to manoeuvre against each other in the politics of aid, trade and investment.

56. This raises the question of the actual degree of domestic legitimacy of the Soeharto government. Emmerson focuses on the large Golkar vote in 1987, stressing that while considerable coercion was employed in gaining that vote, it cannot be said "the 62.4 million who voted for GOLKAR were coerced into doing so against their will. What the results of the election demonstrate is the sheer authoritative nature of Soeharto's regime and the absence of a workable alternative". Donald K. Emmerson, "Invisible Indonesia", *Foreign Affairs*, 66,2 (1988), p.380. See also his "The military and development in

Comparisons are often made between Indonesia and South Korea, mainly based on the fact that both countries were former Japanese colonies that, after an initial period, experienced right wing military coups about the same time, followed by a prolonged period of political stability and capitalist economic growth. The limited democratization that has taken place in South Korea has encouraged many to hope for a comparable retreat of the military in Indonesia.

However, the burden of this chapter is that there are few grounds for comparing Indonesia and South Korea, or seeing "a South Korean" path for Indonesia - either in terms of strongly mercantilist industrial growth or limited democratization related to economic change. The external conditions that made possible the Korean growth out of dependency - the coinciding of US strategic requirements and opportunities in the global economy - do not apply to Indonesia at present. It is likely that Indonesian non-oil and - gas exports will grow substantially in the coming years, but it is rather less likely that manufactured exports will grow at the rates achieved in South Korea, or that they will grow under a regime of accumulation that allows a great deal of national autonomy. Indonesia is of considerable strategic importance to the United States and Japan, but is under no strategic threat whatsoever. It is difficult to imagine a functional equivalent for Indonesia of the strategic privilege Park was able to exercise.<sup>57</sup>

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Indonesia", in J. Soedjati and Yong Mun Cheong (eds.), *Soldiers and Stability in Southeast Asia*, (Singapore: Institute of Southeast Asian Studies, 1988. But as he goes on to point out the regime fundamentally rests on the external supports of oil and foreign aid combined with the regime's skills at he accurately terms "coercive deterrence". One of the most important consequences of that "coercive deterrence" - ranging from the slaughter and detention of hundreds of thousands of communists after 1965 to the skilful use of psychological warfare operations by ABRI's Strategic Intelligence Agency [Bais] - has been precisely to prevent and deter the evolution of a workable alternative. The argument of this paper is that the external supports vitiated the need for extensive domestic support, and provided the leeway for the establishment of a large and complex apparatus of political monitoring and intervention, part of whose task was the prevention of any disturbance to the "order and calm" of the society - in other words, political mobilization other than that approved by the government.

57. This chapter is stressing the external aspects of the issue. There are, of course, a great many internal differences to be assessed. One of the most important is the level of education amongst the two populations, and the implications of that difference for rapid development of manufacturing. On the other hand, in the South Korean case, the growth of technical skills was partly a benefit of the Japanese period and partly a matter of Korean cultural values. But equally important was the pressure for raising technical standards from the continuous influx of conscripts into the 600,000-man armed forces operating with relatively advanced weapons-systems.