

Ethnicity and economic development programs in Indonesia and Malaysia

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B.A., University of Missouri - Columbia, 2005

A Thesis Presented to the Graduate Faculty
of the University of Virginia in Candidacy for the Degree of
Master of Arts

Department of Anthropology

University of Virginia
May, 2007

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Introduction

Indonesia and Malaysia are neighboring Southeast Asian countries that share a land border in Borneo and significant cultural and historic links. Both were colonized by European powers. At the time of independence, neither country had a significant level of industrialization; both economies were based on the export of primary products, including petroleum and agricultural produce. However, in 2006, Indonesia's per capita Gross Domestic Product (GDP), calculated at purchasing power parity (PPP), was \$3,800, compared to Malaysia's \$12,700 per capita GDP at PPP (CIA World Factbook). This thesis will address the factors that contributed to this difference.

I will discuss the specific impact of these disparities on the Iban, one of several indigenous ethnic groups whose territory was divided by boundaries imposed by colonial rulers. There are approximately 600,000 Iban in Sarawak, Malaysia, and only about 14,000 Iban in West Kalimantan, Indonesia (Wadley 2000:129). Iban are primarily swidden agriculturalists; in addition to cultivating hill rice, many also grow cash crops, such as rubber or pepper, collect forest products, and participate in wage labor. In 1995, the per capita income for West Kalimantan residents was only one fifth that of Sarawak per capita income; this divide became even more pronounced following the 1997 Asian economic crisis (Eilenberg 2005:80).

As a result of the economic disparity between the two states, Kalimantan Iban have looked to their kin in Sarawak far more so than Sarawak Iban have oriented themselves toward their Indonesian kin. When Sarawak Iban have traveled to Kalimantan, it was for social or recreational reasons. Highlighting the different levels of development, one man described the purpose of his trip to Kalimantan with his two

teenaged sons as being to show them “how we lived in the past”. Others visited to attend weddings, funerals, and various traditional rituals or to consult *manang*, Iban shamans (Eilenberg 2005:97).

The Iban have a long history of using the externally imposed border to their benefit. Under colonial rule, before headhunting was successfully suppressed, Iban would cross the border to take heads, knowing that any official punitive expedition sent out would not be able to follow them home across the border (Eilenberg 2005:57, Pringle 1970). Today, border crossings are an important part of the economic strategy of many Indonesian Iban – those seeking wage labor as well as those seeking better markets for cash crops.

For West Kalimantan Iban, their ethnic affiliation as Iban is often a far more significant identity marker than their national affiliation as Indonesian citizens, in part due to the disparity in economic opportunities offered by either affiliation (Eilenberg 2005:70). This comes out clearly in Kalimantan Ibans’ efforts to find employment in Malaysia, as there is a scarcity of jobs available in West Kalimantan that offer comparable wages. The procedure for doing this legally would be to travel to Pontianak, the provincial capital, to acquire an Indonesian passport. This involves travel to a city about 700 kilometers away, where the Iban have no kin or other connections who may offer a place to sleep or advice, dealing with a complicated bureaucracy, which is even more difficult to navigate for Iban who have had little formal schooling, and the payment of substantial fees (Wadley 2000:135).

In contrast, the Kalimantan Iban are far closer to their Sarawak kin, both spatially and culturally, than they are to Pontianak, and it is legal to cross the border for a short

period to visit kin. One alternative strategy involves crossing the border and using kinship networks to find employment as an illegal worker. However, this puts one at risk of fines, imprisonment, and repatriation to Indonesian soil, often at a location distant from familiar territory (Eilenberg 2005:84). Another alternative strategy is to acquire Malaysian identification papers and citizenship, which transforms the holder into a legal worker. Until fairly recently, births were not well documented in rural areas, so it was easy for a Kalimantan Iban to find a female relative who would sign a birth certificate, claiming to have given birth to him on Malaysian soil. As authorities have caught on to this strategy and increased vigilance in requiring women to show up for pre-natal care and give birth in hospitals, Iban have found other loopholes (2005:85). For example, Eilenberg mentions one Kalimantan Iban woman who traveled to Malaysia for pre-natal care and planned to give birth there to secure Malaysian citizenship for her child (2005:90-1).

So what factors contributed to the sharp difference in economic circumstances on either side of this international border in the midst of the Bornean jungle? Under colonialism, both countries were used for agricultural estate production and mineral resource extraction, with little industrialization introduced. Following independence, both countries pursued industrialization, often backed by foreign direct investment, and both countries achieved impressive economic growth rates for many years. Both countries are also known for practicing “crony capitalism,” in which political connectedness is often the key factor in distributing government contracts and licenses¹.

¹ Scandals broke out in both Indonesia and Malaysia following the 1997 Asian Economic Crisis regarding this form of political corruption, with protests against “corruption, collusion, and nepotism” contributing to the fall of Suharto’s New Order government.

However, the Indonesian experience of colonialism under the Dutch and the Malaysian experience under the British were quite divergent. The different colonial authorities had very dissimilar outlooks on the issue of independence for their colonies. Malaysians had a relatively peaceful transition, leaving their industry and infrastructure intact, while Indonesians fought a lengthy and costly battle to gain their independence. More importantly, however, British colonial policies of importing laborers from China and India significantly altered the demographic composition of Malaysia. In contrast, the Dutch faced conditions of overpopulation and increasing poverty on Java, so had comparatively little need to import labor.

These drastically different ethnic compositions led to different economic policies post-independence. Malaysia's master plan for economic growth through the 1970s and 1980s, the New Economic Policy, emphasized an indigenous/non-indigenous split which provided for significant rural development policies. Indonesia also pursued some policies based on an indigenous/non-indigenous split, but these policies had limited effect on the majority of the population, as their non-indigenous population amounts to no more than five percent of the population. The more significant divide in Indonesia is that between the Inner Islands (Java, Madura, Bali) and the Outer Islands. Many of their rural development programs have shown a strong bias in favor of the Inner Islands, such as subsidized inputs for irrigated rice agriculture but not for smallholder cash crop production, which is primarily an Outer Island occupation.

The Iban are a minority population in a peripheral region in both Malaysia and Indonesia. However, Iban in Sarawak have benefited more from the rural development

policies pursued in Malaysia than their cousins in West Kalimantan, in large part due to the ways in which ethnicity is politicized in either country.

In this thesis, I begin by tracing the history of Malaysia and Indonesia, with the Malaysian section broken down into the national “core” of the Malayan Peninsula, also called West Malaysia, and the peripheral state of Sarawak, one of the states of East Malaysia, as they were held by different regimes until after World War II. In the next section, I trace the different development policies that directly relate to ethnic relations that were pursued from approximately 1970 through the early 1990s. In each section, I discuss the ways these policies were actually implemented on the ground as they relate to the Iban. Finally, in the conclusion, I reiterate the contrasts brought out in the policy section, comparing the ways the differing development policies have impacted the economic circumstances of Iban on either side of the border.

Historical Background

Indonesia and Malaysia share many important cultural and historical similarities. Evidence of significant interaction within the region, especially among the territories that now make up Malaysia and western Indonesia, can be traced as far back as 300-500 BC with the circulation of distinctive bronze drums (Bellwood 1997). This interaction continued with the rise of sea-faring trading entrepôts controlling trade through the Malacca Straits. However, their experiences under colonialism differed significantly, leading to important contrasts in the post-colonial period.

Malaysia

Malaysia was not united as a single colonial unit as the Netherlands East Indies (NEI) were. The British had established settlements and trading centers along the Straits of Malacca, and then gradually extended their influence over the Malay Peninsula (also referred to as Malaya). The Borneo territories, however, had quite different circumstances. British North Borneo, now Sabah, was held by the British North Borneo Chartered Company. In this capacity, the Company's primary goal was to turn a profit, rather than to develop a colonial state. Sarawak was established as the private kingdom of James Brooke, with two further Brookes succeeding the title of White Rajah. In this section, I will discuss British policies in Malaya as they relate to Malaysian politics and the relevant history of Sarawak.

Malaya

Pre-colonial patterns of Malay political organization emphasized small household size and ease of mobility, making it relatively easy to relocate in case of political or ecological upheaval. In cases of political strife or excessive tribute demands from a local ruler, people could readily move to another region under the influence of a less demanding ruler (Ong 1987:14). This became significant as British influence spread into Malaya.

British entry into the region began as trading ports along the Straits of Malacca and on Singapore. During this period, beginning in the early 19th century, the British strategy was to take Indian goods to Southeast Asia, trade those goods for items desirable to the Chinese, such as tin, gambier, and birds' nests², which they would then trade for Chinese tea and silks for consumption in England (Drabble 2000:32). The British were not yet directly active beyond the coastal trading centers, but they impacted local politics by attracting trade from interior regions to their ports. This contributed to intermittent warfare among Malay rulers. At this point, the above noted mobility of Malay households becomes relevant – a huge proportion of the population had moved away from the warring region before British became directly involved in the interior. The British intervened, mainly in the south-western portion of the Peninsula, in 1874; by that time, many of the villages were significantly depopulated (Ong 1987:14).

Faced with conditions of low natural population growth and an unnaturally depopulated territory, British colonial officials sought to fortify the diminished

² The nests of a species of swiftlet found in Southeast Asia are the main ingredient in bird's nest soup, a Chinese delicacy. They still draw "startling" prices, while competition to harvest them has led to earlier and earlier harvests, which endangers the species as nests are harvested before the swifts have a chance to use them to raise their young (Tsing 2005:38-9).

population through immigration. They drew peasant farmers and contract agricultural workers from the Netherlands East Indies, including many Javanese. Many immigrants signed on as bonded laborers until they worked off their payments to shipping agents, then took advantage of land grants, small loans, and rent remissions (Ong 1987:16-7).

The British also encouraged significant Chinese and Indian immigration during this period. Immigrants from both regions were present prior to British involvement. Chinese immigrants were already becoming active in cash crop (pepper and gambier) production and tin mining in the early eighteenth century (Drabble 2000:13). However, during the early period of British colonial involvement, booms in both tin and rubber, driven by European demand and improved transportation infrastructure, drew significant numbers of immigrants, as Chinese employers preferred to hire Chinese workers (Drabble 2000:65). European employers also preferred to import their laborers, but they relied mostly on Indian indentured and contract workers to staff agricultural estates (Drabble 2000:66). By 1911, the Chinese population had risen to account for 35 percent of the Malayan population, while Indians made up about 10 percent (Drabble 2000:90). By 1931, those proportions had grown so that Indians and Chinese totaled 49 percent of the population, while Malays, including immigrants from the Netherlands East Indies, made up only 49.2 percent of the Malayan population (Drabble 2000:143).

This influx of people may not have been significant if it were not for British policies that institutionalized inequality between ethnic groups³. The Chinese, owing to

³ There was and is, of course, considerable intra-ethnic inequality, but the broad generalizations of the position of “the Chinese” and “the Malays” is the aspect that directly relates to later ethnic policies.

their early involvement in tin mining, cash crop production, and revenue farming⁴, were able to amass a significant amount of wealth within their communities (Drabble 2000:58). In contrast, Malays increasingly became confined to agricultural production, with government service their main route to a more prosperous lifestyle. During the early 1900s, some Malays who had acquired government salaried positions did accumulate wealth, often in the form of land holdings to rent out (Ong 1987:29), but this emerging Malay middle class accounted for a relatively small portion of the wealth held in the Peninsula.

In 1897, a Federal Land Enactment, based largely on the Torrens system, which was first imposed in Australia, was introduced. This allowed for up to 999 year leases of large blocks of land and officially registered smaller holdings (Drabble 2000:63).

Suddenly, land that had previously been claimed based on traditional land tenure systems became an individually-owned commodity. This, combined with a significant expansion of the rubber plantation industry in the early 1900s, enticed many villagers to sell their lands to money lenders, Chinese planters, and European companies for quick cash (Ong 1987:19).

The rate at which Malays were selling off their land alarmed British colonialists, who were concerned about the development of a landless class. In 1913, colonial officials passed the Malay Reservation Enactment, setting aside special areas for Malay cultivation which could not be alienated to non-Malay lessees or buyers. These included restrictions on cash crop production “to ‘preserve’ the purported kampung character of

⁴ Revenue farming involves an individual or syndicate purchasing rights to collect taxes in a given area for a specified period of time. The system was developed by the Dutch and copied by indigenous rulers prior to 1800; the British continued the practice for administrative ease until the colonial government and infrastructure were sufficient to collect taxes directly (Drabble 2000:56).

Malay lands and reinforce the assigned role of Malays as food-producers” (Ong 1987:21). Legislation directed specifically toward Malays required a legal definition of who counted as Malay, especially in light of earlier policies encouraging immigration from the NEI to settle as smallholders. The British defined a Malay as “a person belonging to any Malayan race who habitually speaks the Malay language or any Malay language and professes the Muslim religion” (Ong 1987:20). At independence, a similar definition, one who “professes the Muslim faith and practices Malay culture,” was written into the Federal Constitution of Malaysia (Jawan 1991:14-5). This will be relevant in the discussion of Sarawak politics below.

Drabble points out cultural factors contributing to economic differentiation along ethnic lines, as rice agriculture is less profitable than other pursuits. Therefore, immigrants are less likely to plant rice, while Malay culture places greater value on rice production than mere economic value (2000:74). However, British policies institutionalized this divide while significant immigration exacerbated its importance.

Sarawak

James Brooke, an Englishman who had military experience and had inherited a modest fortune, sailed from Singapore to northern Borneo in 1839 (Pringle 1970:2-3). He arrived during a period of internal tumult in the Sultanate of Brunei. Offering to assist the Sultan in reestablishing control, he managed to maneuver his way into his own fiefdom. By 1842, Brooke was firmly established in Kuching (Pringle 1970:67), though conflicts with surrounding territories and resulting territorial expansion continued for

much of his and his successor's rule. His lineage, also referred to as the White Rajahs, ruled Sarawak until 1946.

The characteristic that most sets James Brooke's rule apart from that of a Chartered Company or colonial government was his ability to work within native power structures. The specific details of his rise to power, including the political maneuvers, entourage-building, and displays of power, fit the traditional structure through which Malay nobles sought to gain positions of power (Walker 2002). In campaigns to subdue unruly upriver Iban, he called on those Iban whom he had already won over to provide the bulk of the fighting force, allowing them to take heads and plunder. This provided an outlet for headhunting demands while preventing raiding of downriver Iban longhouses or other, less bellicose, ethnic groups, such as the Bidayuh (Pringle 1970). It also provided an inexpensive on-demand military force for a small state which struggled to be financially self-sufficient. For administrative ease, Brooke continued the native pattern in which Malay elites played a politically dominant role (Kaur 1995:72).

James Brooke was succeeded by his nephew, Charles Brooke (nee Charles Anthoni Johnson), in 1868. Charles Brooke served as an outstation officer in predominantly Iban territory for many years, leading important campaigns with Iban forces against Iban rebels. As an officer, he learned Iban language and customs, as well as how to manipulate Iban cultural values to gain their assistance in his pursuits. As a Rajah, his political philosophy centered upon "respect for local custom, and a gradual, selective approach to change" (Pringle 1970:137). This philosophy laid the basis for many of the differences that would develop between Sarawak and Malaya and between ethnic groups in Sarawak.

Charles Brooke “appreciated Sarawak as he had found it,” leaving education and economic development as rather low priorities (Pringle 1970:138). To maintain self-sufficiency as a state, he had to allow some economic development, particularly in mining and agricultural estates, but these operations were generally limited in their impact on the native populations (Kaur 1995:75). As with Malaya, there was a small Chinese population present prior to Brooke rule, but the Brookes encouraged further immigration, offering cheap land and tax incentives for Chinese immigrants who would take up cash crop (pepper, gambier, rubber) production (Drabble 2000:58). In keeping with his gradual approach, Charles Brooke also introduced new crops, including rubber, to indigenous people to mix in with their subsistence production; this served as a means of transforming them from shifting agriculturalists into settled farmers (Kaur 1995:83-4). This change was necessary in order for the Rajah to finally gain control over the rebellious upriver Iban, but Charles Brooke insisted that it not be abruptly forced upon them. In education, Brooke established a ‘Government Lay School’ around the turn of the century, but the school only taught Malay students in Malay language and Chinese students in Mandarin. Without any pressing need to impose formal schooling on the Dayaks⁵, Charles saw it as “tantamount to destroying their particular genius” to even teach them to read in their own languages (Pringle 1970:139).

Vyner Brooke (nee Charles Vyner Brooke) became the third White Rajah in 1917, upon the death of his father (Pringle 1970:4). Vyner lacked the force of personality that his father had and was not particularly interested in the details of governing; therefore,

⁵ Dayak is a catch-all term for non-Malay, non-Muslim indigenous populations of Sarawak, including Iban, Bidayuh, and Orang Ulu (several smaller ethnic groups including Kayan, Kelabit, and Penan; Jawan 1991:8).

most public policy followed the precedents set by Charles Brooke (Pringle 1970:337). In many ways, practices instituted by Charles based on practical concerns were continued without reevaluation, even after practical circumstances had changed (Pringle 1970:338-9).

Most relevant to the current analysis were the entrenchment of Malays as a ruling class among natives and the exclusion of Dayaks from state-sponsored schooling. The Sarawak Native Officer corps was predominantly made up of Malays under Rajah Charles as a matter of practicality: the Malay aristocracy had already ensconced itself as a ruling class in many areas and few Dayaks had the background for or interest in administrative tasks. However, where circumstances differed, Charles was not adverse to bestowing titles upon Dayaks. Vyner, however, made it a matter of principle that Malays, and Malays alone, fill the Sarawak Native Officer corps (Pringle 1970:154). After 1919, the State school system served only Malay students, systematically excluding Dayaks. The Chinese were in the process of expanding their private school system during this time, so were less adversely affected. However, this meant that Iban education was entirely in the hands of missionaries, who did not have the personnel or resources to reach more than a small portion of children in the more accessible areas (Pringle 1970:339).

Japanese forces took control of Sarawak in 1941, occupying the territory until their surrender in 1945. Citing inability to adequately rebuild following the occupation, Vyner Brooke ceded the state to the British Crown in 1946 (Pringle 1970:4).

Through the course of Brooke rule, society was painted along ethnic lines, as was done in Malaya. Chinese immigrants made up a much smaller portion of the population

than in Malaya, but they had become a politically significant minority. Chinese were concentrated in the occupations of shopkeeper, money lender, and wage laborers in agriculture and oil fields. Malays, who traditionally saw themselves as the “natural ruling class” in the region, became entrenched in political roles to the exclusion of others (Pringle 1970:154). Meanwhile, Dayaks were kept as an illiterate community of smallholder cash crop producers and subsistence farmers whose only significant role in state affairs was as an occasional military force (Kaur 1995:72).

One important contrast between Sarawak and Malaya is the land tenure system. In a proclamation issued in 1863, and restated in 1920 and 1931, the Rajah “asserted his personal ownership over the whole of his domain,” particularly in regard to mineral rights and road building (Kaur 1995:85). However, this land is divided up into four categories: Native Area Land, of which only a native can successfully claim possession; Mixed Zone Land, where any Malaysian, including ethnic Chinese, can claim rights; Interior Area Land, which is not yet claimed but rights can be acquired by natives; and Reserved Land, including national parks, forest reserves, etc. (King 1988:284). Within Native Area Land, land rights are held based on traditional *adat* land tenure (Pringle 1970:339) – individual title based on the Torrens system is not granted. These policies were intended to protect indigenous inhabitants from encroachment by the Chinese who had been encouraged to immigrate and establish cash crop production; however, the flip side is that state interests trump customary claims, as the state officially owns all of the land.

Formation of Malaysia

The transition to independence was a peaceful process within Malaysia. After the Japanese occupation during World War II, the British returned to resume control of their colonial territories. There was no significant opposition to British return to Malaya; instead, conflicts focused on communal disparities. Specifically, Malays opposed full citizenship for non-Malays, including ethnic Chinese and Indians whose ancestors had immigrated two or three generations earlier, while non-Malays argued against the special privileges granted to Malays (Turnbull 1989:232-3).

In 1946, both Sarawak and Sabah were ceded to the British colonial government; they were far behind Malaya in terms of economic development, physical infrastructure, and social services, such as health care and education. The post-war Labour government in Britain was committed to eventual independence for British colonies; therefore, colonial policy during this time focused on rebuilding and preparing a native political infrastructure for independence (Drabble 2000:152).

The Federation of Malaya was granted independence in 1957. A coalition style government composed of communally based political parties was established in 1954 as a step toward independence. This style of government met the British stipulation that they would only grant independence to a multi-ethnic government. However, the coalition style of governance (though in different configurations) has continued “because of the apparent electoral appeal of a multi-racial coalition of parties as opposed to that of a single multi-racial party” (Gomez and Jomo 1997:12). However, Malays were the largest single ethnic group and secured special status in the Malayan constitution, including

recognition of Islam as the state religion and Malay as the official language (Drabble 2000:152).

In the following years, the British government was under increasing pressure to divest of its Borneo territories. In addition, Malaya wanted to merge with its tiny, wealthy neighbor, Singapore. Conversely, Singapore officials wanted independence, but feared the state was too small to be economically viable, so they also sought merger with the Federation of Malaya (Turnbull 1989:252). However, the ethnic balance of Singapore's population would tip the scales in favor of the Chinese as the largest single ethnic group in such a combination. The addition of Sarawak and Sabah into the mix, with their large native population and proportionately small Chinese population, would prevent the Chinese from becoming a majority population, thereby preserving Malay political dominance (Jawan 1991:6). Uniting the Borneo territories with Malaya would also allow the British to divest itself of these holdings without concern for their level of infrastructure or development.

In 1963, the Federation of Malaysia was created, including Malaya, Singapore, Sarawak, and Sabah. Initial negotiations also included Brunei, but the tiny nation declined to join due to inability to agree on terms of distribution of revenues from their oil production (Drabble 2000:153). Special provisions were included in the agreement of federation, securing a significant amount of federal funding for development projects – initially focusing on building infrastructure – in Sarawak and Sabah. Further provisions granted state control over immigration, including that from both foreign countries and other Malaysian states, special rights for Dayaks comparable to those granted to Peninsular Malays, and safeguards on the freedom of worship for non-Muslims (Ongkili

1972:4; Drabble 2000:153-4). Internal frictions between Kuala Lumpur and Singapore, related to racial tensions between Malays and ethnic Chinese, led to the expulsion of Singapore from the Federation of Malaysia in 1965 (Turnbull 1989:259).

Indonesia

The modern state of Indonesia took the outline of the Netherlands East Indies, without the administrative divisions seen in Malaysia. Dutch influence in the region began with an influx of Dutch trading companies, which united in 1602 to form the United East India Company (Ricklefs 1993:27). In this capacity, the Company established and protected strategic ports within the archipelago, often expanding their territory to provide increased protection (Vickers 2005:10). Due to financial woes, the Company was dissolved in 1800, and the full territory it had claimed was transferred to the Dutch Crown. However, this did not immediately impact local residents, as many of the same personnel remained in their jobs (Ricklefs 1993:110).

Perhaps the most lasting impact of the United East India Company's involvement in the region was its establishment of a primary administrative center at Batavia (formerly Jayakarta, now Jakarta) in 1619. The site is favorable, as it has an excellent harbor and is near major trade routes between China and the West, as well as routes to Eastern Indonesian islands. One of the implications of the establishment of a major administrative center, however, was that it would act to draw Indonesians and Chinese to the area (Ricklefs 1993:30-1).

The Dutch established political dominance over the entire island of Java by 1830. They needed to extract a profit from the island to fund conquests in the Outer Islands, to

provide remittances to support the Netherlands economy, and to support Batavia – including administrative costs, rice imports, construction materials, etc. (Ricklefs 1993:119, 123). Dutch influence in the Outer Islands expanded through the rest of the century, with the timing depending upon their strategic interest in a given island. Their involvement in coastal Kalimantan (Indonesian Borneo) began in the form of treaties signed with small native states in the 1820s and 1830s to curb piracy. However, this was the full extent of their involvement until James Brooke's territorial expansion in the 1840s and 1850s instigated greater involvement in the region to safeguard their territorial claims (Ricklefs 1993:138; Wadley 1998:45). Dutch control over the full territory of Indonesia was not established until around 1910 (Ricklefs 1993:131).

As the Dutch became involved in the territories of the Netherlands East Indies, they encountered overall low population density. Throughout much of the archipelago, there were pockets of population, centered upon a kingdom or sultanate, with large regions of sparsely populated land between them. Estimates of the population of Java in 1800 suggest that it was as low as five million (Ricklefs 1993:15-6). However, by 1850, the Javanese population was approximately 9.5 million, and by 1890 it had reached 23.6 million (Ricklefs 1993:121). An official census conducted in 1930 found 40.9 million indigenous Javanese and Madurese, with another 18.2 million indigenous inhabitants spread throughout the Outer Islands. At this point, just under 70 percent of the population of the archipelago was living on only about 7 percent of the total land area (Ricklefs 1993:155). The important result of this was that the Javanese and Madurese populations were stressing the capacity of those islands, leading to poverty and increased landlessness.

Given these conditions, the Dutch did not need to import labor to a degree comparable to that seen in Malaysia. Instead, relocating Javanese to work on agricultural estates developed on the Outer Islands would solve both the need to provide labor and the need to reduce the population pressure on Java and Madura (Ricklefs 1993:155). The Dutch even went so far as to initiate a resettlement program, referred to as *kolonisasi*, to relocate Javanese to less densely populated islands in order to relieve the population pressure and poverty on the Inner Islands; most of these went to southern Sumatra (Ottens 1986:15-6). It is worth remembering that, in addition to migration within the NEI, Javanese migrated to Malaya and received land grants and other incentives from the British government (Ong 1987:16-7). These migrations had a notable effect in the receiving locations but were too insignificant to make an impact on Javanese overpopulation.

There are ethnic Chinese populations within the Indonesian archipelago. As was the case in Malaysia, some Chinese populations were present and active in trading, agriculture, and mining prior to the establishment of Dutch control over the region. Some plantations did import Chinese laborers (Vickers 2005:17). However, in the 1930 census, there were only 1.2 million ethnic Chinese resident in the NEI (Ricklefs 1993:155). This accounts for just under two percent of the total population, a sharp contrast to the proportions seen in Malaya at this time.

In the early 1900s, as the NEI was nearing full territorial incorporation, two major shifts took place. The ideological basis for colonial rule shifted from liberal economic theory to the Ethical Policy, brought about by popular complaints in Holland regarding reports of abuses taking place in the NEI. This policy emphasized concern for improving

the welfare of Indonesians as the justification for continued Dutch rule (Ricklefs 1993:151). The economic foundation of the NEI also shifted: Java had been exploited to its full potential for nearly a century while the conquest of the Outer Islands was recent and nearly complete. Most new economic development was shifting to the Outer Islands, with the establishment of agricultural estates and oil drilling (Ricklefs 1993:153). The profits amassing to foreign investment firms operating these plantations and oil drills could have been taxed more heavily, thus allowing the NEI to meet its Ethical debt to Javanese people; instead, the NEI required Javanese to fund those projects which the Dutch decided would improve Javanese welfare (Ricklefs 1993:154).

Thus the distinction between Java and the outer islands which had roots in the past was now further accentuated. The outer islands were the areas of deeper Islamic commitment, greater entrepreneurial activity, more valuable export products, greater foreign investment, more recent Dutch subjugation and lesser population pressure. Java was the land of more uneven Islamization, less entrepreneurship, declining value as a source of exports, lesser new economic development, longer and more fundamental colonial interference, and overpopulation (Ricklefs 1993:154).

This divide remains important today. It also relates to the nature of the growing Indonesian nationalist movement.

Indonesia was occupied by the Japanese during World War II, just as Malaysia was. However, the post-war years were very different than was the case in Malaysia. In the years leading up to the occupation, a nationalist movement had been growing among Javanese elites, but was strongly repressed by Dutch colonial officials (Ricklefs 1993:184-95). While the Japanese were heavily oppressive in their rule, toward the end of their occupation, after defeat became inevitable, they allowed revolutionary forces to grow, hoping to frustrate European efforts at reconquest (Ricklefs 1993:200). In October

1943, the Japanese began training an Indonesian volunteer army, the Peta (Pembela Tanah Air, Protectors of the Fatherland), in guerilla warfare, using Indonesian nationalist ideas in indoctrination; the purpose was to resist Dutch reconquest (Ricklefs 1993:206).

On 15 August 1945, the Japanese unconditionally surrendered, leaving Indonesia in limbo – the Japanese were still officially in control but only to hold the territory, while the Dutch had not yet returned. On 17 August 1945, Sukarno, a Javanese leader in the Indonesian nationalist movement, read a declaration of Indonesian independence (Ricklefs 1993:210).

The Dutch did not readily accept this declaration of independence. They waged a lengthy and expensive battle to reconquer the Netherlands East Indies. Facing international pressure to find a peaceful resolution, the Dutch proposed a federation of Indonesian states, which would have some measure of autonomy yet still be under Dutch influence (Ricklefs 1993:223). In promoting this plan, the Dutch attempted to take advantage of suspicion and resentment found among many Outer Islanders toward Javanese predominance (Osborne 2000:157). Indonesians were split in their loyalties; several *rajyas*, Christians, and several ethnic groups of Kalimantan supported the Dutch federation proposal (Ricklefs 1993:224). The revolutionary Republic of Indonesia, centered on Java, clearly opposed such a federation, favoring complete independence instead. Many battles were fought, including attacks on Indonesians who sympathized with Dutch federalism.

Finally, from 23 August until 2 November 1949, Indonesian and Dutch leaders met at the Hague to negotiate a fully independent Republic of the United States of Indonesia. The entire NEI territory, except for Irian Jaya (now Papua), was ceded to the

Republic. However, the Dutch retained control of Irian Jaya pending further negotiations, which led to further conflicts. More importantly, the newly independent Republic agreed to take on the substantial NEI debt, much of which was incurred in the battle for reconquest (Ricklefs 1993:232). On 17 August 1950, the Republic was reorganized into a unitary Republic of Indonesia (Ricklefs 1993:233).

Following the conclusion of military engagement with the Dutch, all was not smooth sailing for the new Republic. Factional conflicts bogged down the central government, while several regional rebellions broke out. Sukarno was Indonesia's first President, but much of his tenure was marred by bureaucratic ineffectiveness, factional infighting, and soaring inflation.

When the Federation of Malaysia was announced in 1963, Sukarno opposed it as a "British neo-colonialist plot in Southeast Asia" (Ongkili 1972:7). Indonesian aggression erupted into violence in December 1963, as a troop of approximately 100 Indonesian regular force soldiers attacked a timber-milling camp in southeastern Sabah (Ongkili 1972:10). Incursions into Malaysian territory, often carried out by irregular forces using guerilla tactics, continued into 1964 (Ongkili 1972:15). Through the conflict, Malaysia called upon British forces to assist in resisting Indonesian aggression (Ongkili 1972:18); this of course validated Sukarno's claims that Malaysia was a neo-colonialist enterprise.

On the night of 30 September to 1 October 1965, a major coup was attempted⁶, but General Suharto stepped in to take charge; he managed to put an end to the coup

⁶ It is not known exactly who was involved in this attempt – the political maneuvers were so complex that there is no direct link, and what evidence is available is suspect (Ricklefs 1993:280). However, the major Communist party (PKI, Partai Komunis Indonesia) came out in support of the 30 September Movement,

without any fighting (Ricklefs 1993:280-2). Following this event, Suharto maneuvered himself into power, creating situations in which Sukarno would have to rely on military forces under Suharto's command to maintain order (Ricklefs 1993:289). Suharto effectively established his New Order government in 1965, though Sukarno remained the increasingly politically marginalized President until March 1967, when Suharto was declared President by a government body of elected and appointed representatives (Ricklefs 1993:292).

Suharto moved as quickly as was reasonable to end the confrontation with Malaysia, reducing government-backed aggression as early as 1965. One of his primary goals was to rein in the economic problems, including soaring inflation rates, that plagued the last years of Sukarno's reign. To do so, he sought Western economic aid; one of the conditions attached to that aid was an end to the confrontation with Malaysia (Ricklefs 1993:290).

Significant Contrasts

Several important contrasts stand out in the histories recounted above. On a basic level, the size of the territories is vastly different, which brings differences in resources and in management. Beyond that, the British gradually prepared Malaya for independence, while the Indonesians had no significant experience in self-governance. Third, they attained independence with vastly different levels of infrastructure intact.

holding a march in Yogyakarta and publishing an editorial on the topic in their Jakarta daily paper (Ricklefs 1993:282). This led to a massive purge of PKI members throughout the country, with the worst massacres happening in Java and Bali. Scholars estimate that at least 500,000 people died in the 1965-6 killings, though this is only an estimate as no one counted at the time (Ricklefs 1993:287-8).

Fourth, the Malaysian-Indonesian Confrontation had different impacts on the different states. Finally, the ethnic composition of the two states is significantly different.

Before addressing the policy decisions that contributed to different levels of development, it is worth noting that the sizes of the territories concerned are vastly different. Indonesia is made up of around 6000 inhabited islands, with a total land area of 1,826,440 square kilometers; Malaysia has a total land area of only 328,550 square kilometers (CIA World Factbook). While historical circumstances and policy decisions are far more important factors in economic development, in fairness, building a transportation and communications infrastructure throughout Indonesia comparable to Malaysia's infrastructure is an enormous task.

A second distinction between the two states pertains to colonial attitudes regarding independence. Indonesian independence came much earlier than Malaysian independence, with those individuals who would play key roles in Indonesian central government rejecting a Dutch return after World War II. Indonesian nationalist movements began to surface during the early 1900s, especially in Java and parts of Sumatra (Ricklefs 1993:163). The Dutch reacted repressively, making it clear that the only means to reach independence would be through active opposition (Ricklefs 1993:181). In February 1940, the Dutch central government "announced that so long as it held ultimate responsibility for Indonesia there could be no question of Indonesian autonomy or parliamentary government" (Ricklefs 1993:194).

This lack of preparation contributed to the chaos that plagued much of Sukarno's rule. When colonial constraints were lifted from the Indonesian bureaucratic administrators, "many simply had no idea what to do" (Ricklefs 1993:214). Much of the

factional infighting during the early years of independence reflected tensions that were not worked out prior to independence.

In contrast, the post-war British government favored moving toward independence for its colonies. By the mid-1950s, British officials had come to the conclusion that it was best to leave its colonial territories magnanimously, and that the best way to do so was to “modernize” the administrative and social structures in place (Ongkili 1972:80). In Malaya, they encouraged the development of structures for self-governance. While racial issues remained a contentious issue post-independence, Britain’s condition that it would only grant independence to a multi-racial leadership forced the Malaysians to establish a form of government that would be able to address racial tensions and maintain some sense of balance. This concern also contributed to the formation of the Federation of Malaysia – British officials were of the opinion that the Borneo territories did not yet have sufficient administrative and social structures, or economic infrastructure, in place to be viable on their own. However, merging them with a federation that already had sufficient structures in place would allow a magnanimous exit without any further expenditure.

Following from the different circumstances in which these states attained independence, they started out with vastly different levels of infrastructure in place. Without delving into pre-war variations in colonial approaches to economic development, the Japanese occupation took a heavy toll on infrastructure as well as on the people of both states. In Malaya, Europeans took a scorched earth policy in their retreat as the Japanese invaded, causing significant damage to the tin mining industry. In addition, during the occupation, maintenance of perennial cash crop plantings (especially rubber)

lapsed; large swathes of rubber trees were cut down in favor of subsistence crops, as the Japanese prohibited rice imports (Drabble 2000:150-1).

In Malaysia, the British were allowed to return, at which point they put serious effort into reconstruction. By 1949, Malaysia's economy was back to its pre-war shape, based largely on agricultural estates and tin production (Drabble 2000:156). Having recovered a healthy revenue base, the largest allocations of funding went to developing infrastructure, including building roads, expanding the electricity network, and improving communications networks (Drabble 2000:162-3). Following this period of reconstruction and administrative preparation, Malaya, then Malaysia, attained independence peacefully, with its economy and infrastructure intact.

In contrast, many Indonesians heartily opposed a Dutch return following the war. Indonesian nationalists fought Dutch forces for four years, with many lives lost. The economy was fractured, many areas faced food shortages, and inflation soared during this period (Vickers 2005:101). Industrial installations and agricultural estates suffered significant damage (Ricklefs 1993:237). Furthermore, even during the revolution, the new state had to contend with regional rebellions, such as the challenge posed by Darul Islam, which continued into the early 1960s (Ricklefs 1993:227-8). Following the end of hostilities with the Netherlands, the Indonesian bureaucracy expanded, but "inefficiency, maladministration and petty corruption" abounded, while the infrastructure necessary for the export sector, such as roads, ports, and irrigation, were left to deteriorate further (Ricklefs 1993:239). Furthermore, in order to sustain the net-importing economy of Java, monetary exchange rates were held at artificially high rates, which seriously hurt the net-exporting economies of the Outer Islands (Ricklefs 1993:238). With factional infighting

among politicians and the effective impotence among bureaucrats, inflation continued to rise and the economy did not significantly recover until Suharto's New Order government came to power in 1965.

The impacts of the Indonesian-Malaysian Confrontation are yet another important contrast. Sukarno attempted to use the external, neo-colonial threat as a rallying point, behind which he could rehabilitate the "revolutionary spirit" that had gotten him to his current position (Ricklefs 1993:273). However, as briefly recounted above, Suharto managed to wrest control of the government in 1965. Furthermore, the Indonesian government hoped to stir up revolutionary sentiments and discontent among the people living along the border, which would have served to incorporate relatively isolated people into Indonesian nationhood. Instead, most of the Dayaks living near the border helped both sides in a bid to protect themselves (Wadley 1998:48). In contrast, the external threat did help to create a sense of Malaysian nationhood. The people of Sarawak and Sabah were not unanimously in support of joining Malaysia, though official reports show majority support (Ongkili 1972:2). However, in the face of Indonesian aggression, most East Malaysians, including most inland dwellers, pledged their loyalty to the federal government; native trackers in Sarawak played key roles in containing the threat during the height of Confrontation (Ongkili 1972:13).

Finally, the issue of ethnicity, particularly in relation the way lines are drawn in shaping major internal contrasts, presents a significant distinction. As noted above, in 1930, only a tiny portion of the Indonesian population was non-indigenous, whereas Chinese and Indians together made up nearly half (49%) of the Malayan population in 1931. While Malaysia contended with finding a balance between communal interests,

Indonesia dealt with other internal divisions, including that between Java and the Outer Islands. I will focus the next section of this thesis on the issue of ethnic policies stemming from the sharply contrasting ethnic compositions of the two states.

Ethnicity in Development Policies

Owing to their vastly different ethnic compositions, economic development policies that took ethnicity into account had very different outcomes in Malaysia and Indonesia. Ethnic Chinese were economically dominant in both countries, leading to official policies favoring indigenous over non-indigenous entrepreneurs in an attempt to level the playing field. However, with their far greater proportion of non-indigenous people, and with their indigenous population concentrated in rural agricultural pursuits, Malaysia's New Economic Policy directed substantial projects toward rural development, including such measures as subsidies for smallholder farmers. However, the application of these measures was not even throughout the country, with East Malaysian rural farmers seeing fewer benefits due to conditions of local politics.

In contrast, there were two major directions in Indonesian policy that relate to ethnic issues. First, the Indonesian government did pursue some official policies favoring indigenous business over non-indigenous business interests; these had very little impact on the average Indonesian citizen. The other policy direction that relates to ethnic relations was Indonesia's measures toward developing the sparsely populated Outer Islands, which focused on bringing "backwards" tribal groups into the ideal Indonesian mainstream. The major development projects undertaken in this vein were transmigration programs, in which the government developed large plantation schemes and relocated poor Javanese peasants to work them, providing an example for "backwards" tribes to follow. However, other funding was allocated to rural districts for development projects, and rural people benefited from infrastructure improvements, such as road construction.

Malaysia

In May 1969, general elections were held in Malaya, with elections scheduled to be held in Sabah and Sarawak later that month. In Malaya, opposition parties calling for racial equality and an end to special provisions for Malays won a large upset victory, gaining a significant number of parliamentary seats (though by no means a majority). This led to riots in Kuala Lumpur, as victory rallies held by the opposition parties drew Malay counter-protestors, and the confrontation led to violence. The rioting lasted for two days, costing hundreds of lives, and causing widespread property destruction. To gain control of the situation, the government declared a state of national emergency, brought in the military, disbanded parliament, and postponed elections in East Malaysia (Turnbull 1989:267-8). These riots exposed latent racial hostilities within Malaysia, instigating the national leaders to devise policies that would level the playing field, with a redistribution of wealth that would ideally remove the need for the special provisions for Malays.

The plan devised to address these issues was labeled the New Economic Policy (NEP), which was to guide national economic planning from 1970 until 1990. The two stated goals of the NEP were to “restructure” the economy and society to remove the link between ethnicity and economic function and the “eradication of poverty irrespective of race” (Drabble 2000:197). By emphasizing the poverty alleviation aspect of the plan, the government garnered widespread support for the plan while minimizing political opposition from those who may object to economic restructuring (Gomez and Jomo 1997:24). The issue was particularly urgent, as the poverty rate in Peninsular Malaysia in

1970 was at about 49.3 percent; about 74 percent of the people in this category were Malay (Jawan 2003:187). In addressing these issues, government officials claimed their intent was not to take from the wealthy, but to create new sources of wealth through economic growth, which would then be distributed so as to level the playing field (Turnbull 1989:269).

The categorization used in NEP initiatives is *bumiputera*⁷ or non-*bumiputera*, indigenous or non-indigenous. The term became popular during the 1920s and 1930s, when it was used by colonial officials to distinguish indigenous from non-indigenous subjects of colonial authority. *Bumiputera* roughly translates to “son of the soil,” a designation that reflected colonial policies reinforcing the agricultural role of the indigenous populations (Siddique and Suryadinata 1982:663-4). In West Malaysia, *bumiputera* is nearly synonymous with Malay, though it also applies to the small population of *Orang Asli*, native tribal groups. In East Malaysia, it includes Malays as well as the many non-Malay indigenous groups. However, this seemingly simple dichotomy is complicated by the fact that non-indigenous immigrants from the Netherlands East Indies, including Java, were classified as Malays by colonial authorities and would still count as Malays under the current constitutional definition (Ong 1987:20, Jawan 1991:14-5).

In order to address the economic disparity between *bumiputeras* and other Malaysian citizens, the NEP focused on four major fields of activity. First, it set continued rural development as a high priority, including land development schemes. Second, it promoted development of the manufacturing industry, especially in the export-

⁷ Also spelled bumiputra, depending on the reference used.

oriented sector. Third, it provided for regional development policies, with the intention of evening out regional inequality. The western coast of Malaya was most heavily developed under colonial rule and during the first years of independence, while several eastern Peninsular states and East Malaysia remained significantly less developed with higher rates of poverty. Finally, it provided for preferential access for *bumiputeras* in higher education and government employment, with the goal of increasing *bumiputera* participation in professional and administrative positions (Drabble 2000:197).

Some of the specific projects undertaken include land development schemes and state investment in industrial pursuits. Land development schemes took one of two forms: either *in situ* rehabilitation or new developments. *In situ* land rehabilitation schemes offered assistance to farmers to improve or diversify their farming practices. This assistance included instruction in better crop management techniques, provision of improved planting materials, such as higher-yielding rubber trees, and subsidies for chemical inputs, such as fertilizer and pesticides. New land development projects were designed to open new land for settlers from districts where land was a scarce commodity and holdings were too small to meet subsistence needs⁸. These projects developed a large agricultural estate; the land was either divided up into smallholdings, which were expected to be managed following estate-style practices, or the settlers were hired as wage-laborers. In most cases, these new developments included housing, roads, and electricity, among other amenities (King 1988:277-8, Drabble 2000:219).

⁸ Islamic law stipulates that land holdings must be divided between all offspring. In areas where there is little unclaimed land available, this leads to smaller and smaller holdings with each generation, so that many families must combine farming and wage labor to meet their subsistence needs (Ong 1987).

In order to increase the proportion of *bumiputera* ownership of capital, the state established *bumiputera* trust agencies. These were government-owned public companies, “whose equity holdings are either fully or partially held by the government” (Gomez and Jomo 1997:29). The trust agencies claimed to be accumulating wealth and holding it on behalf of the entire *bumiputera* community. One such agency is *Perbadanan Nasional Bhd (Pernas)*, which acquired several publicly listed companies, resource based industries, and export manufacturing companies (Gomez and Jomo 1997:30-2). These trust agencies nominally increased the *bumiputera* share of capital ownership, but they generally bought out enterprises owned by Chinese or foreign investors, which restructured wealth but did not increase manufacturing output or Gross Domestic Product (Drabble 2000:245).

In the 1980s, government policies toward these government-owned holding companies began to favor privatization. In Malaysia, privatization may mean either some measure of transfer of ownership from the public to private sector, the licensing of private enterprises in a field where a public company previously held a monopoly, or simply private management of an enterprise that remains government-owned (Gomez and Jomo 1997:75). Faced with an economic downturn in the mid-1980s and saddled with significant foreign debt, Malaysia came under pressure from multilateral and bilateral institutions to introduce economic reforms, including privatization. However, Prime Minister Mahathir Mohamad (Prime Minister 1981-2003) “had long been of the opinion” that public holdings should only be used as a temporary means to help create *bumiputera* entrepreneurs, businesspersons, and a property owning class; therefore, privatization

measures may have been enacted even without the external pressure (Gomez and Jomo 1997:80).

Through the period of the NEP, most Malaysians did see significant benefits, including increased incomes, while there was an overall reduction of poverty rates. The poverty rate in Peninsular Malaysia dropped from 49.3 percent in 1970 to 16.7 percent in 1990; likewise, the poverty rate in Sarawak dropped from 56.5 percent in 1976 to 21.0 percent in 1990 (Jawan 2003:202-3). Further, all major sectors, including urban, rural, domestic, and industrial sectors, saw a significant increase in physical infrastructure, such as roads and communications (Drabble 2000:268). However, some argue that a significant portion of poverty alleviation occurred because of economic growth and increased productivity, while the distribution of capital and land did not really become more equitable (Gomez and Jomo 1997:29). For whatever good was achieved, the NEP had several important flaws.

As a result of design flaws and political patronage networks, a significant portion of the expenditures aimed to help poor *bumiputeras* provided significant boons to a relatively small portion of the *bumiputera* community. In some cases, projects designed to help the poor actually provided greater benefits to farmers with large land-holdings. For example, guaranteed minimum price schemes designed to benefit poor rice farmers actually provided much greater benefits to those who could produce a greater surplus; hence, land-rich *bumiputeras* made a large profit, while those who produced little more than their subsistence needs saw only a marginal benefit (Gomez and Jomo 1997:28). Further, a minimum price guarantee would likely hurt the truly poor *bumiputera* farmer whose land-holdings were insufficient to meet subsistence needs.

In addition, political patronage networks have directed the bulk of NEP benefits to a small number of well-connected cronies. Government officials have used policies designed to improve *bumiputera* participation in the economy to distribute patronage to important supporters, granting monopoly rights, concessions, and government subsidies, often in the form of low-interest loans granted by government financial institutions. These policies did serve to create a “new rich” class of *bumiputera* businessmen; however, this provided a large benefit to relatively few people, and several of those were reputed to be little more than proxies for government officials who could not openly grant such largesse to themselves (Gomez and Jomo 1997:25-6, 99). When the government turned toward privatization, policies drew even greater criticism, as major contracts and sales were granted in a “nebulous ‘first come, first served’ principle” (Jomo 1995, quoted in Drabble 2000:201). This led to significant transfers of wealth to politically well-connected persons, mostly but not exclusively Malays, at below-market cost. Many government contracts were granted on the basis of political connection, regardless of the economic merits of the bid or the bidder’s experience in that field (Drabble 2000:201). Through such practices, “NEP privileges – claimed in the name of the mass of ordinary Bumiputeras – have mainly been appropriated by the better connected in the Bumiputera community” (Gomez and Jomo 1997:53).

Furthermore, government policies designed to help *bumiputeras* have increasingly favored larger enterprises over smaller up-start companies. Those with more capital to use to gain political access and patronage had a significant advantage in gaining government contracts, licenses, low-interest loans, and other NEP benefits. Furthermore, smaller companies are at a disadvantage when they come into competition with large

public enterprises, such as PERNAS (Gomez and Jomo 1997:53). Many of the practices that favor large companies seem to stem more from political patronage, or corruption and cronyism, than directly from NEP policy; however, as NEP policies became intimately linked with the distribution of patronage, the need to continue distribution of patronage influenced NEP policies.

A major outcome of the above noted flaws has been a significant increase in intra-ethnic inequality. By the late 1980s, inter-ethnic inequality had narrowed quite a bit, but a substantial gap remained, with non-*bumiputeras* on average claiming a notably higher income. However, with the growth of a small “new rich” Malay class, intra-ethnic inequality grew from 1970 to 1987 (Drabble 2000:279). Regional inequalities also continued to exist, with the more highly industrialized regions seeing reduced poverty rates, while regions that are dependent on the export of primary industries, such as logging, saw little poverty reduction. While existing infrastructure and other concerns likely played a role, political patronage played a role in this discrepancy as well – those with stronger connections to the center of political power were better able to attract industrial development to their regions (Drabble 2000:279-80).

Another important flaw in NEP policy is an apparent pro-Malay bias. One of the two principle aims of the NEP was the eradication of poverty, irrespective of race. Yet, very little has been done to improve the situation of poor Chinese persons or of plantation workers, who are predominantly ethnically Indian. Complaints have also come from non-Malay *bumiputeras*, including the *Orang Asli* in West Malaysia and many indigenous communities in Sarawak and Sabah (Gomez and Jomo 1997:39-40, Siddique and Suryadinata 1981:682-3).

An important outcome of this bias has been the creation of insecurity among Chinese investors. From the early phases of NEP policy, the government has encouraged foreign direct investment as a source of income, due to a need to increase investment for economic growth and a corresponding fear that economic growth would otherwise contribute to further accumulation of wealth among ethnic Chinese (Gomez and Jomo 1997:18, Drabble 2000:245). With the growth of *bumiputera* trust agencies, such as Pernas, Chinese businesspersons saw even greater difficulty as the trust agencies won important contracts at the expense of Chinese entrepreneurs. More importantly, the trust agencies maneuvered take-overs of foreign companies, including some strategically important Chinese enterprises (Gomez and Jomo 1997:40). These conditions caused many ethnic Chinese to become reluctant to invest in the Malaysian economy and may have led to capital flight from the country (Gomez and Jomo 1997:44).

Following from the pro-Malay bias, another flaw in NEP policies is its emphasis on conditions in West Malaysia. While it was introduced and worded in such a way that it would apply to the nation as a whole, it was primarily a reaction to the conditions prevailing in the Peninsula (Drabble 2000:197). As I will discuss below, the *bumiputera/non-bumiputera* dichotomy is not productive and actually obscures inequality along ethnic lines in Sarawak (Jawan 1991). Furthermore, many of the development projects, especially the land development schemes intended to improve rural incomes, were designed for the Peninsula and simply transposed onto Sarawak, failing to account for different prevailing agricultural practices and land tenure systems (King 1988).

Sarawak

In comparison with the developed core areas of Malaysia and Indonesia, Borneo is economically backward in terms of a variety of criteria; it has a low level of industrialization and urbanization; inadequate provision of infrastructure and services such as roads, housing, water and electricity supplies, education and health care; it has a high incidence of poverty, especially in rural areas, associated with low-income agricultural activities (King 1988:264).

The population of Sarawak is ethnically diverse, with no single ethnic group holding a majority. According to official 2005 statistics, there were approximately 604,000 Iban, 462,000 Malays, 113,000 Melanau, 285,000 other *bumiputeras*, and slightly more than 537,000 Chinese in Sarawak, with “others” and non-Malaysian citizens bringing the population to just over two million people (State Planning Unit 2006:12)⁹. *Bumiputeras* are clearly in the majority, but non-Malays are the clear majority within this category. However, Malays have been politically dominant since 1970. This is largely because non-Malay *bumiputeras* are politically fragmented, splitting their support between two or more political parties, while Malays have been a fairly unitary voting bloc since 1970 (Jawan 1991).

A pro-Malay bias in federal policy has been evident in Sarawak since Federation, not only with the implementation of the NEP. A key issue of contention lies with the precedent set by the federal government in 1963. Following the first elections in Sarawak, two Dayak parties won the largest numbers of seats. They came to a compromise, placing a member of one party in the office of Chief Minister, while a member of the other party would become Governor of Sarawak. However, the federal government objected, arguing that the two posts should not be held by the same ethnic

⁹ The numbers have grown, but proportions have remained stable since 1970 (Jawan 1991:59).

group and pushing for a Malay Governor (Jawan 1991:11). However, in 1970, a Melanau became Chief Minister, while a Malay held the Governorship (Jawan 1991:15). This is significant because, though Melanaus are still counted as ethnically distinct, most of them have converted to Islam; according to the Constitutional definition of “Malay,” they should be counted as Malay. Constitutionally-defined Malay political control also marked a shift from interest in rural development, which would help Dayaks, to a focus on urban development creating a wealthy *bumiputera* class (Jawan 1991:27).

To illustrate the lack of proportionate distribution of NEP benefits, Jawan traces employment patterns from 1960 through 1980. In 1960, most of the population was involved in primary agricultural production, but Ibans were “heavily underrepresented” in the secondary sector; at the same time, Orang Ulu and Melanau were proportionately represented and Chinese and Malays were overrepresented (Jawan 1991:29). In 1970, at the inception of the NEP, these proportions continued to skew, as more Malays, Melanaus, and Chinese moved into secondary processing and the agricultural sector became more heavily Dayak. In 1980, after ten years of NEP sponsored programs to assist *bumiputeras*, there had been “no discernible change in the pattern of Iban labor deployment” (Jawan 1991:30).

As in Peninsular Malaysia, the NEP has widened the income gap within the *bumiputera* category in Sarawak. However, unlike the case in Peninsular Malaysia, much of this increased disparity appears between ethnic groups. In 1976, 45.3 percent of those below the poverty line were Iban, while 18.2 percent were Malay and 7.3 percent were Melanau (Jawan 1991:74). By 1982, the total number of households falling below the poverty line had decreased, but the ethnic distribution had shifted: 49.5 percent of the

poor were Iban, while Malays comprised only 13.2 percent and Melanaus only 1.4 percent of those below the poverty line. Bidayuhs saw a sharp increase in total numbers of poor and their distribution within the poor category (Jawan 2003:204). These statistics are not highly significant, as they only cover a six year period, rather than the full twenty year run of the NEP. Unfortunately, since 1988, the published data covering poverty rates has consolidated the numbers for all *bumiputeras*, without subdividing the category by ethnicity. Jawan argues that this is an attempt to obscure systematic ethnic discrimination carried out by the government (1991:31-2).

Economic development carried out in Sarawak did not do much to improve the position of Dayaks. While economic growth in many regions took the form of export-oriented industrialization, the major growth industries in Sarawak were timber and petroleum. The impact of the petroleum industry was limited to small enclaves surrounding refineries. The timber industry had a much wider effect, but the benefits were limited while the environmental degradation was widespread. The bulk of profits from logging activities accrue to the concession holders and contractors. Meanwhile, contractors tended to hire contract laborers, only employing locals for the lowest-paying positions (Drabble 2000:280). Timber-felling activities and the supportive infrastructure, such as logging roads, have significantly denuded the forest cover and caused extensive topsoil erosion, which has led to silting up of many rivers. It has also impinged on traditional settlement patterns and shifting cultivation practices (Drabble 2000:288). To protect logging interests, the state government tries to exclude people from areas marked for cutting; this puts additional pressure on areas where shifting agriculture is practiced and land is limited (King 1988:272).

Nicolaisen argues that the timber industry and the ways timber revenues have benefited Malay politicians have done more to radicalize the issue of ethnicity among Dayaks than any other issue (1997:245). The Punan Bah, one of the smaller ethnic groups lumped in the Orang Ulu category, are split on the issue of logging in their territory. Many lament that “their culture and very identity are in jeopardy due to the extraction of timber” (Nicolaisen 1997:229), while many have prospered from it, though benefits are unevenly distributed (1997:237, 258). An interesting response to the uneven dispersal of benefits and Malay political dominance has been pressure to convert to Islam. “Some longhouse leaders, for example, become Muslim to be accepted as part of the power elite and to obtain a share of the logging business, whereas young men convert in the hope that a job, a scholarship, or the like will be more readily available” (Nicolaisen 1997:245). Being *bumiputera* is not enough, even under the NEP, to gain these benefits – one must be Malay.

Despite the negative picture painted above, several rural development projects were attempted in Sarawak during the NEP period. Some of these projects had important design flaws, in that officials took a model that had worked in West Malaysia and imposed it upon Sarawak. In addition to complications introduced by the complex land tenure system in Sarawak, several large land development schemes suffered because the state departments responsible did not have the managerial, financial, or technical expertise needed to get the schemes up and running properly (King 1988:280). In addition, shifting agriculturalists often found it “too difficult” to give up rice production and adjust to settled cultivation dependent on a single cash crop (King 1988:281). I question King’s interpretation, suspecting that such cultivation was too insecure, too

subject to price fluctuations and other variables, to make it worth giving up the relative security of a more diversified productive system. Regardless of the reasoning, such monocrop cash crop schemes were dropped by 1981 (King 1988:281). Plantation schemes, which were intended to provide a long term base for wage labor employment, also failed to provide economic development for Sarawak natives – instead they attract young men who stay for short periods, often only a few months (King 1988:282-3).

Despite these failures, some land development initiatives have had some success. The Sarawak Land Consolidation and Rehabilitation Authority (SALCRA) has implemented projects to rehabilitate land without altering customary tenure rights. Perhaps more significant to the success of these projects is the fact that participants can continue to cultivate rice, fruit, or other cash crops while participating in the development scheme (King 1988:285). SALCRA does face difficulties in developing customarily held land, as it must get consent of all members of a community; failing this, it may have to develop non-concurrent patches of land or otherwise negotiate a deal that would allow it to continue without impinging on customary rights (King 1988:286-7). In addition to SALCRA schemes, the Department of Agriculture provides subsidized inputs, including fertilizers, herbicides and pesticides, and improved planting materials. They also offer “extension services and instruction in improved crop management and animal husbandry” (King 1988:278).

Indonesia

The ethnic composition of Indonesia is quite different from that found in Malaysia. One source notes that, without even parsing the complex situation in Papua,

there are more than 300 cultures and more than 200 languages spoken in the Indonesian archipelago (Scheffold 262-3). Ethnic Chinese made up only about 2 percent of the population in 1930; by the turn of the 21st century, their share was up to 5 percent of the total population. However, similarly to Malaysia, ethnic Chinese held a disproportionate share of the country's wealth – approximately 85 percent (Nguyen 2004:xxvi).

Therefore, the indigenous/non-indigenous dichotomy was relevant in some policy measures, but had limited salience in regard to Indonesian development as a whole.

The term *pribumi* is used in Indonesia in much the same way as *bumiputera* is used in Malaysia. In 1971, Suharto suggested that *pribumi* be considered an “economically weak group;” this distinction allowed Suharto to insist that the measures were not a form of racialism, arguing that they were based on economic position regardless of race (Siddique and Suryadinata 1981:675, 678). Indonesian policy already required that foreign firms wishing to invest in Indonesia set up joint ventures with Indonesian nationals; in 1974, Suharto amended this policy to require that those joint ventures be made with indigenous Indonesians, not just any Indonesian citizen (Siddique and Suryadinata 1981:677). Also in 1974, the government initiated the Kredit Investasi Kecil (KIK, Small Investment Credit) and Kredit Modal Kerja Permanen (KMKP, credit for permanent capital works) programs to benefit *pribumi* entrepreneurs (Siddique and Suryadinata 1981:677). In a Presidential Decree issued in 1979 and amended in 1980, Suharto increased government allotments to help *pribumi* businesspersons, giving them priority in getting government contracts (Siddique and Suryadinata 1981:678).

Despite the number of measures initiated to help *pribumi* entrepreneurs, their real impact on the average Indonesian citizen was very limited. The actual benefits of these

initiatives were concentrated in a very few hands – particularly the family and close associates of the President (Booth 1992:32). Efforts to encourage small business, such as the KIK, were countered by policies that strongly favored big business. For example, small *pribumi* trading establishments were prohibited from the vicinity of new shopping centers; such a move seems to strongly favor the capital-intensive big business interests of shopping mall developers over small entrepreneurs (Booth 1992:34). Booth attributes such contradictory policies to a desire to maintain control over those amassing significant profits.

It was clear that the government did not wish to encourage the emergence of a vigorous, independent, and competitive class of private entrepreneurs, especially when they came from ethnic groups which tended to ally themselves with regional and religious opposition groups. The dominant Javanese military and bureaucratic elite preferred to deal on a patron-client basis with foreign or ethnic Chinese businesses over whom they could exert more control, and from whom they could extract more rents (Booth 1992:33).

Such a claim is backed up by the results of a 1988 survey of the forty largest private business groups in Indonesia, ranked by annual sales figures. Only twelve of those were controlled by *pribumi* businesspersons, and four of those are closely connected to the President's family. One of the top three *pribumi* businesses is in fact owned by one of Suharto's sons. The persons controlling other *pribumi* interests have political connections, such as being a former member of the Cabinet. Furthermore, the top ten on the list, which make up 57 percent of annual sales, are all owned by ethnic Chinese (Booth 1992:32).

In regard to economic disparities and regional development issues, Indonesia rejects "indigenous" as a useful category, as all Indonesians (excluding ethnic Chinese)

are indigenous – Javanese as much so as Batak, Kubu, Papuan, or Dayak. Instead, these minority ethnic groups are considered *masyarakat terasing* (isolated communities) and seen as “deviations” from mainstream Indonesian culture (Persoon 1998:295). This isolation was the single most important characteristic of such groups, as it was considered the primary reason for their lack of economic or political development and their failure to adhere to a monotheistic world religion (Persoon 1998:288-9). To promote development, these groups needed to be integrated into mainstream Indonesian culture, including adopting mainstream settlement patterns and agricultural practices; efforts to achieve this integration often included cooperation with non-governmental organizations with similar aims, such as missionary organizations and projects to improve education (Persoon 1998:289, 295).

Sukarno set about a radical plan to modernize such *masyarakat terasing* – those groups in accessible locations faced measures such as the prohibition of traditional religious practices and forced settlement into villages that could be surveyed (Schefold 1998:271). However, Suharto turned to *transmigrasi*, or transmigration, as a crucial element in the effort to modernize such “backward” populations (Schefold 1998:272).

Transmigrasi is a continuation of the Dutch *kolonisasi* policy, which sought to relocate people from the overpopulated Inner Islands to the seemingly empty Outer Islands. Several goals came into play in this policy. One goal was to relieve the population pressure in Java by relocating landless peasants to areas with lower population densities. Another goal was national integration, bringing *masyarakat terasing* into mainstream Indonesian culture. The presumption was that the isolated peoples could learn from the example set by the Javanese settlers, as they practiced permanent

settlement in neatly organized villages and practiced “modern” (as opposed to shifting) agriculture (Otten 1986:30). The third major goal of *transmigrasi* was regional development. The government blamed the low population density on the Outer Islands for their relative lack of economic development – there simply wasn’t a sufficient labor pool to supply private enterprises that may otherwise set up production in these regions (Otten 1986:24).

In 1984, in defiance of officially recognized problems with previous *transmigrasi* schemes, Suharto announced that *transmigrasi* “was to play a crucial role in the overall development strategy of Indonesia” (Otten 1986:3). During the first half of the 1980s, *transmigrasi* programs received at least 25 percent of centrally allocated development funds (Otten 1986:146). Another scholar writing a decade later claims this figure is amounts to one third to nearly one half of total provincial development funds (Hoshour 1997:572). In Riau, for example, *transmigrasi* projects took up 24 percent of provincial funds from 1979 through 1982; by 1985, this share had jumped to 35.8 percent (Hoshour 1997:572n.37).

These projects appropriate land which may be in use but to which local people have no legal title (Dauvergne 1993:511). Those displaced locals were integrated into the early transmigrant settlements. Policy later shifted to a focus on parallel development instead of integration; rather than mixing local ethnic groups with Javanese in a single settlement, the developers set up separate settlements in the same vicinity. This allowed for the resettlement of entire communities, rather than only those families with claims to the appropriated land (Otten 1986:37-8).

Several major problems arose from the *transmigrasi* programs. It failed to meet the goal of reducing population pressure on Java. This was so clearly apparent to the Indonesian people that the government shifted from claiming that *transmigrasi* would improve conditions on Java to merely claiming that the lives of transmigrants would be improved, as they would finally have a plot of land to call their own (Otten 1986:27). Despite the small impact these policies have had on Java, they have had a significant impact on receiving areas. Ecologically sustainable population densities were exceeded, while indigenous populations become minorities pushed from their traditional lands and local politics become dominated by the now more numerous Javanese settlers (Otten 1986:127).

The goal of improving national integration was also not met in many cases. In a case study of a *transmigrasi* development in Riau Province on Sumatra, Hoshour found that the inequitable allocation of resources in the project led to greater divisions based on ethnicity rather than greater integration. Divisions became apparent between Christian Sumatrans and Muslim transmigrants, particularly as two large mosques were provided but petitions for land on which to build a church were rejected. Furthermore, divisions erupted within the Muslim community, between Sumatrans and Javanese; Sumatrans wound up forming their own worship groups, complaining that the Javanese turned weekly prayer meetings into social events (Hoshour 1997:564-5). Many Sumatrans resent the share of state revenues and development funds that are funneled into the *transmigrasi* settlement program. *Transmigrasi* is commonly criticized as a new form of colonization, this time perpetrated by Javanese rather than Europeans (Hoshour 1997:571).

It is equally difficult to argue that regional development goal has been met through transmigration policies. In many cases, *transmigrasi* sites were poorly chosen and developers failed to provide adequate infrastructure, causing the settlement to fail to meet even subsistence goals. Further, the isolated location of many settlements meant that those rare transmigrants who succeeded in producing surplus crops were unable to transport the surplus to a market (Otten 1986:139). In the mid 1980s, the government announced a switch from food crop production to the development of export-oriented cash crop estates, which may be seen as recognition that traditional *transmigrasi* schemes “failed to promote any kind of development in the receiving areas” (Otten 1986:140).

The transmigrants rarely provided a positive example from which the locals could learn. In many of the poorly prepared, poorly chosen settlement sites, yields began to decline after only a few years of production due to declining soil fertility. In these cases, transmigrants took up shifting cultivation, following the example of native cultivators; unfortunately, they often failed to learn the means of practicing sustainable shifting agriculture, leaving patches where nothing but coarse grass will grow when they move along to the next plot (Dove 1996:49). Furthermore, discrimination from transmigrants often prevents the sorts of interactions that would promote such “learning.” In Papua, natives “find themselves shut out of economic life and looked down upon in their own homes” by the “straight hairs” (Otten 1986:168).

While *transmigrasi* is the major development initiative that takes on explicit racial overtones, several other initiatives were implemented. The Mass Guidance Program (Bimas) provided subsidized credit for farmers who adopted “recommended rice technology packages” (Tabor 1992:178). Pesticides were also subsidized, but the largest

agricultural subsidies were for fertilizers¹⁰ (Tabor 1992:178-80). The Inner/Outer Island divide becomes relevant in analyzing these agricultural subsidies as well. These food crop subsidies had a clearly positive effect in rural Java. However, Outer Island producers tended to focus on non-food export crops, for which little government assistance was available. Further, due to less developed infrastructure and a lack of adequate irrigation facilities, those subsidized agricultural inputs that may have been appropriate were disseminated very slowly outside of Java (Booth 1992:354-5).

The results of the various development policies pursued by Indonesia through these years have led to claims of a systematic pro-Java bias, pitting the Inner Islands in sharp contrast to the Outer Islands. As late as 1976, the poverty issue in Indonesia was predominantly a Javanese problem, as 70 percent of urban poor and 74 percent of rural poor were concentrated there. However, poverty distributions have shifted drastically since then. By 1986, East Kalimantan had the highest per capita Gross Domestic Product due to its timber and petroleum resources; at the same time, rural poverty levels were higher than anywhere in Java (Booth 1992:28-9). Part of this shift in distribution may be credited to the fact that overall poverty rates and real numbers of persons below the poverty line have dropped significantly since the 1960s. However, poverty rates have fallen less rapidly in the Outer Islands than they have in Java (Booth 1992:354).

The disparity in rates of poverty alleviation and economic growth have led to accusations that the Outer Islands are subsidizing Javanese development. Revenues from resource extraction activities flow through Jakarta to be redistributed among all Indonesian provinces. Some development grants are issued in equal amounts to each

¹⁰ It is difficult to tell whether farmers or industry benefited more from fertilizer subsidies, as they provided around 45 percent of average total revenues for the domestic fertilizer industry (Tabor 1992:180).

province – one may argue whether this is the most equitable means of distributing funds, but it does prevent a pro-Java bias, as smaller, less populous provinces receive much greater per capita allotments (Hill 2000:240). However, the share of revenues that goes toward initiatives that disproportionately benefit Javanese, such as subsidized food crop inputs, provide support for arguments of a pro-Java bias in funding distributions. This impression is further reinforced by policies that disadvantage local smallholders and small business. For example, a ban on the export of unprocessed *rotan* (cane) hurt the economic prospects of smallholder producers in the Outer Islands, while benefiting the Java-based processing industry (Booth 1992:30; Hill 2000:219-20).

West Kalimantan

In this brief segment, I will primarily focus on the Iban of West Kalimantan, a tiny ethnic minority in the distant hinterland. The Iban number only about 14,000 in West Kalimantan (Wadley 2000:129); the total provincial population was a little more than two million in 1971, and nearly doubled to just over four million in 2000 (Badan Pusat Statistik 2007). The majority of Indonesian Iban live in four sub-districts (*kecamatan*) located near the border with Sarawak in the Emperan region (Wadley 1998:33). The border presents a sharp economic divide – in 1995, the per capita income for West Kalimantan residents was only one fifth that of Sarawak per capita income (Eilenberg 2005:80).

The most densely populated segment of West Kalimantan is along the coast, where the predominantly Malay and Chinese population supports itself through wet rice agriculture and coconut farming (Ward and Ward 1974:31-2). The Bimas Program noted

above was officially operating in the region in the early 1970s, but the province had “a low national priority,” leading to a low overall impact. Some improved seed was distributed, but the complete package of subsidized inputs was not available in West Kalimantan (Ward and Ward 1974:34-5). Ward and Ward’s survey does not state where Bimas aid was distributed, but it was likely limited to the more densely populated coastal region.

Until 1972, the majority of West Kalimantan’s export earnings were agricultural products. In the agricultural sector, in the early 1970s, smallholders accounted for 99 percent of production, as only one estate was still in production (Ward and Ward 1974:36). This has been surpassed by timber (Ward and Ward 1974:33), but most of the profits from timber activities accrue to a small number of well-connected concession holders and flow through Jakarta. Logging has continued steadily since the 1970s, with most Iban communities dealing with the impacts, such as muddied waters and a loss of forest products (Wadley 1998:49).

In 1972, a survey was commissioned to assess the feasibility of improving road transportation through the province. The commission suggested plans to develop both a north-south and an east-west corridor, with secondary roads to connect to rural settlements (Ward and Ward 1974:46). In the 1980s, a government road network was expanded throughout the Emperan region; in 1991, a road was built through the territory claimed by Wong Garai, the longhouse where Wadley centered his fieldwork (1998:50).

Iban practice swidden agriculture focusing on the cultivation of hill/dry rice to meet subsistence needs. They also cultivate rubber trees, collect forest products, occasionally grow pepper, and often participate in circular wage labor migration to meet

the monetary needs of their families. The lack of government subsidized inputs for cash crops has put Indonesian Iban at a disadvantage in comparison to their Sarawak neighbors. In pepper production, West Kalimantan Iban must rely on wage labor income if they wish to maintain the chemical inputs needed for pepper production during non-boom years; therefore, they are often unable to apply the same quantities of fertilizer and pesticides as Sarawak Iban can (Wadley and Mertz 2005:290-1). This difference becomes even more pronounced when one considers pepper production as one of many possible activities employed in a diversified economic strategy. When pepper prices boom, Iban increase their labor input in pepper production; when pepper prices drop, Iban turn to more lucrative pursuits. Indonesian Iban face greater difficulty in responding quickly to a pepper boom due to a lack of subsidized inputs or credit (Wadley and Mertz 2005:302-3). As smallholders throughout environmentally-suitable regions rush to respond to the price boom, the resulting glut brings prices back down. Those who are unable to respond quickly often miss their chance to sell at a high price (Wadley and Mertz 2005:290).

The relative lack of national integration leads Iban who seek wage labor to travel to Malaysia instead of seeking work with Indonesia. One important factor in this circular migration pattern is the scarcity of jobs in West Kalimantan and the comparatively low rates of pay for those available. However, another important aspect is the lack of local markets for cash crops and “the prohibitive distance to others where there are better prices” (Wadley 1998:148).

Until 1985, the Iban longhouses in the Emperan region received a small annual village stipend (subsidi), which was administered by the longhouse headman. Though

some pocketed the funds, others either invested directly to help the longhouse or saved up for larger projects, such as the construction of a new longhouse (Wadley 1998:140).

However, in 1985, the central government imposed a new system of village management, based on the Javanese system. A set of longhouses were clustered as a *dusun*, and two or three *dusun* were combined to form a *desa*. The hierarchical structure made the disbursement of development funds more legible to the center; however, it proved to be relatively unworkable for the Iban, as the structure makes it far more difficult to reach a consensus over how the stipend now allocated to the *desa* should be disbursed within the *desa* (Wadley 1998:60). So, while Iban do receive some development funding directly from the Indonesian government, it has limited impact on the welfare of each longhouse. Since 1985, it has had even less impact, as it has been allocated through a hierarchical system that is not appropriate for Iban culture.

Conclusion

Throughout this thesis, I have emphasized significant contrasts between Indonesia and Malaysia. However, the two countries also share many similarities. Both embarked upon significant economic development programs, drawing in foreign direct investment and utilizing a mixture of natural resource exploitation and industrialization, which resulted in significant economic growth through much of the 1970s and 1980s. Both economies were characterized by “crony capitalism,” in which one’s political connections mattered more than the economic value of a bid when one seeks a government contract. In addition, major development projects in both countries had significant flaws and were implemented imperfectly, with the politics of ethnicity playing a large part in the distribution of benefits.

Several studies have discussed flaws in development schemes that were poorly devised and/or implemented. *Transmigrasi* developments, planned communities that were imposed in the midst of a region that is illegible to the state and intended to convert shifting agriculturalists to sedentary cultivators, fit clearly with James Scott’s discussion of the failures seen in village resettlement schemes that fail to consider local knowledge and the local appropriateness of farming techniques and crops preferred by the state (Scott 1998). Malaysia’s land development schemes, particularly those copied from West Malaysia and imposed upon Sarawak, failed to take into consideration the different land tenure system and cultural variations. Both Scott and Ferguson (1990) point to development projects that failed to provide any significant benefit because the project planners failed to consider the cultural values and local knowledge that shapes the rational economic decisions of those people whom the project is intended to help. The

story of flawed economic development programs is by no means limited to Indonesia and Malaysia, and many of the characteristics of these flawed programs fall easily within larger generalizations found in the development literature.

Despite the many similarities between Indonesia and Malaysia, and the generalizations one could make between the flaws in their development projects and development projects implemented in many regions, divergences between Indonesian and Malaysians policies present an important contrast. The actual impact of these policy choices on the lives of minority smallholder producers in peripheral regions presents a sharp contrast. Iban on either side of the border cultivate rice, with the ideal of meeting at least subsistence needs, and pursue other economic strategies to meet their need for cash and as a buffer for those years of poor rice harvest. Many Sarawak and Kalimantan Iban have rubber trees, which they tap when they need cash or when rubber prices are high. Sarawak Iban have benefited from Malaysian policies designed to assist rural smallholder rubber producers; this includes improved planting materials and tapping technology (Drabble 2000:219-24).

In contrast, the Indonesian government has consistently favored large, estate-style rubber cultivation. In the 1970s, they did direct some effort toward smallholders, but this was largely an attempt to remake smallholder production following the organization and aesthetic of larger estates, often locating the plots as satellites under the supervision of a large government-run estate. However, as of the 1980s, only approximately 8 percent of smallholders had been involved in any such extension programs. Therefore, “the vast majority of smallholdings today are little changed from those that could have been observed seventy-five years ago” (Dove 1996:37).

A similar incongruity is evident in pepper production. While rubber trees require relatively little maintenance without a significant drop in productivity, pepper requires intensive inputs in labor and chemical fertilizer. Many smallholders rush to plant pepper when prices begin to boom, harvest regularly until prices drop again, then turn to more profitable enterprises following the price drop, often allowing their existing plants to fall into disrepair. However, the net effect of smallholders around the world responding to this price boom tends to lead to a glut in the market, knocking prices back down. Therefore, to reap a significant benefit from a price boom, one must be able to respond more quickly than most other smallholders. This is precisely what Malaysian subsidies on seedlings and chemical inputs allow Sarawak Iban to do. In contrast, Kalimantan Iban must provide for all inputs with the proceeds from wage labor or other cash-acquisition strategies (Wadley and Mertz 2005). Even when a Kalimantan Iban has the cash at hand to afford the required inputs, one would expect rational economic strategy to dictate some hesitation to make sure the boom is not a short-term fluke; on the other hand, if the inputs are subsidized, then the smallholder risk is limited to labor input, making it less risky to rush to plant pepper gardens as soon as the price starts to go up.

Another difference is the level of development of infrastructure in these peripheral regions. This variable is impacted by more factors than just the politics of ethnicity, but the politics of ethnicity have affected the emphasis placed on rural infrastructure development. This becomes evident in the activities of the SALCRA land rehabilitation projects in Sarawak. The primary emphasis of SALCRA projects is to improve the agricultural practices of current inhabitants; however, when these projects are undertaken in an area lacking adequate infrastructure, SALCRA also provides

sufficient infrastructure, including building roads to reduce transportation costs to get produce to decent markets (King 1988). Projects to build roads through West Kalimantan were undertaken by the Indonesian government, but rural infrastructure remains behind that seen through most of Sarawak. This impacts transportation to markets. It also impacts the flow of outside capital into the region – many Sarawak Iban have the additional option of attracting tourism to their region, providing wage labor opportunities close to home (Wadley and Mertz 2005).

As noted in the introduction, an important effect of this economic inequality has been the prevalence of transnational circular labor migration among Kalimantan Iban. Sarawak Iban, especially those in the more peripheral rural areas, also participate in wage labor migration within Sarawak. However, I am not aware of intensive studies addressing the number of males leaving, the length of their absence, and the strategies they use to gain employment. Many Kalimantan Iban would opt for employment closer to home if jobs offering comparable working conditions and wages were available. Unfortunately, this is not the case, leading a significant proportion of Iban men to travel to Sarawak, Sabah, or Brunei for employment, often in construction, logging, or oil fields. One impact of this has been the various strategies employed by Kalimantan Iban to obtain official Malaysian citizenship (Wadley 1998, 2000; Eilenberg 2005). Another impact has been chronic male absence in Kalimantan longhouses, which has important effects on both social relations and agricultural practices (Wadley 1998).

The many factors that contribute to the economic disparity between Indonesia and Malaysia, particularly as found in rural parts of peripheral regions, are far more complex than one could address in a single thesis. However, the differing policies relating to

ethnic relations, which can be clearly traced to policies pursued by colonial powers, significantly impacted the form and implementation of rural development policies among minority groups which are not well connected to the central government and planning agencies. This, in turn, has led to significantly different economic prospects for rural subsistence and cash crop smallholder farmers on either side of the Sarawak-West Kalimantan border.

Both Sarawak and West Kalimantan are peripheral to the federal centers of power in Malaysia and Indonesia. The Iban, and non-Muslim Dayaks in general, are a minority in each nation, despite the position of Iban as the largest single ethnic group in Sarawak. Within the sphere of the state, Iban inhabit the rural periphery, while Malays dominate the urban core. However, the relative position of peripheral indigenous groups in the national discourse regarding ethnicity places greater emphasis on efforts to bring some measure of development to Malaysian Iban than is the case in Indonesia.

Malaysia demographics were greatly altered by colonial practices, so that only about half of the population of Malaya was of an indigenous ethnic group by 1931. Of those, I found no figures that distinguished between native Malays and Malay immigrants from the NEI. However, as the largest single ethnic group and as an ethnically indigenous group, Malays took a position of political dominance post-independence. The federal government is a coalition of communally based political groups, but the United Malays National Organization, the most prominent Malay political party, has maintained itself as the dominant party within the federal coalition since independence.

The negotiations to expand the Federation of Malaya to include Singapore, with its Chinese majority population, and the Bornean territories, to prevent the establishment

of a Chinese majority in the Federation of Malaysia, shifted the emphasis from Malay as opposed to immigrant to an indigenous/non-indigenous dichotomy. The non-Malay indigenous populations of Sarawak and Sabah were key to preserving an indigenous majority over a Chinese minority. The NEP enshrined this indigenous/non-indigenous split as the central focus of national economic policy.

Therefore, Malaysia must provide some development benefits to peripheral minority indigenous groups to maintain the legitimacy of federal policies and the Sarawak government must provide enough benefits to prevent Dayak groups from uniting to wrest political dominance from Malay parties. Sarawak Iban have generally, with rare exceptions, tended to split their voting power between at least two parties, which allowed Malays to gain political dominance in the state arena by supporting a single Malay party. However, Javan (1991) specifically warns that perceived imbalances in the distribution of development funds was on the verge of providing a rallying cry among Dayaks, causing them to unite behind a single political party. To prevent this, the state government must provide rural development programs and agricultural subsidies that benefit peripheral indigenous groups, despite a preference toward urban development and a tendency to copy projects that worked in Malaya without sufficiently adapting them to local conditions and practices. Failure to provide some benefit to a numerically significant indigenous ethnic group would also cast doubt on the legitimacy of policies that have been justified on an indigenous/non-indigenous basis, suggesting instead that the policies are racially motivated to benefit only a single indigenous ethnic group.

In contrast, Dutch colonial authorities did not encourage immigration that would alter the demographic situation in Indonesia in the same way as the British did in

Malaysia. By the time the Outer Islands were entirely under Dutch control, the Dutch were seeing rising population densities and increasing poverty rates in Java. Javanese provided a surplus labor pool for projects in the Outer Islands; the Dutch also instituted the *kolonisasi* program to resettle poor Javanese farmers to (presumed) unoccupied land in the far less densely populated Outer Islands. Rather than setting up an indigenous/non-indigenous dichotomy involving any significant portion of the population, Dutch policies contributed to an Inner/Outer Island dichotomy.

With more than two thirds of the population occupying approximately 7 percent of the land mass, the government can maintain its claims to legitimacy by primarily focusing on alleviating the rural poverty found on the Inner Islands. Some development funding was disbursed to the peripheral Outer Islands, both in the form of funds distributed for use by rural communities (assuming they can agree on how to best use it) and as development projects designed by the central authorities, such as the plantation schemes noted above that intended to transform smallholder practices to resembling estate management practices. However, the politics of ethnicity in Indonesia do not emphasize the improvement of the economic position of peripheral indigenous groups in a way comparable to that found in Malaysia, as those peripheral indigenous groups are not integral to upholding the legitimacy of an indigenous/non-indigenous split that is necessary to maintain the political dominance of one of those indigenous ethnic groups.

Both Indonesia and Malaysia attained significant economic growth rates through much of the 1970s and 1980s. Both achieved significant drops in overall poverty rates as well as regional poverty rates. However, the different power relationships between peripheral minority ethnic groups and the central government led to differing economic

development policies; Malaysian policies provided a much greater benefit to rural Iban than did Indonesian policies.

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