Mlipir: The Genesis within Relations of Production between Industrial Sector and Rural Society

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Abstract

This paper examines how the interactions between industrial development actors in rural setting reflect the internal dynamics of Third World countries that maintain dependence on developed countries. The diverse discussion on the impact of industrialization which mostly emphasized on particular issues is difficult to depict the comprehensive situation on the impacted society. Further analysis which recognized the existence of the mutual relations among state, market, and society is necessary to best describe the invisible but essential impact of industrialization. Thus, this paper argues that inequality is the essential impact of industrialization which has been emerged in various form of social system as the consequences of the relation of production between local elites and market economy actors in all level of development. Through analyzing the case of particular system of production called mlipir system which emerged and perpetuated within relations of production in the plywood industrial development area, the study found that the interactions of national actors and local actors who have aligned interests with the global imperialism have perpetuated particular group of people who remain in poverty despite actively conduct production activities.

Keywords: mlipir system, manufacturing industry, local elite, relations of production
INTRODUCTION

“Third World elites, once in power, had little choice but to industrialize”.
—Philip McMichael, 2000

National Strategic Data noted the role of manufacturing industry is becoming increasingly dominant in the structure of the Indonesian economy with a contribution to Gross Domestic Product (GDP) by 24.8 percent. Rapid pace of industrialization in the history of Indonesia’s economy is characterized by the increased contribution of manufacturing sector to GDP which the peak of structural changes occurred in the period 1993-1998 when the contribution of manufacturing sector is higher than the agricultural sector to GDP. In line with the increasing role of the manufacturing industry, the contributions of the agricultural sector become smaller in the structure of the national economy. The changes in economic structure are in fact not meaningfully accompanied by changes in the structure of employment share. Despite the growth of the manufacturing industry grew rapidly, agriculture is still the largest labor absorbing sectors in Indonesia. This condition triggers the imbalance of productivity among sectors which then leads to income inequality among workers in agriculture and industry.

Suhartini and Mardianto (2001) point out that the agricultural sector absorbs the large amount of labor exceeds its capacity due to its accessibility by unskilled labor force. Consequently, this sector bears the burden of very high unemployment which put the level of per capita income in this sector is much lower compared to other sectors. The study also find that the changes in economic structure which are not in line with the changing structure of employment has led the wide disparity in national income, as evidenced by the gap index of productivity between the two sectors. Agricultural productivity index in 2000 was 0.4248 while the index for the industrial sector was 2.2216. Productivity gap and the employment rates of these two sectors was stated as the main cause of the high proportion of people living under poverty in the agricultural sector and rural area (Suhartini and Mardianto 2001).

This paper describes how the relationship between industrial development actors in rural setting reflects the internal dynamics of Third
World countries that maintain dependence on developed countries. The internal dynamics refers to the role of national actors and local actors who have aligned interests with the global imperialism. This paper also describes the involvement of the state, market and society in development through discussion of the existence of a particular group of people who remain in poverty despite actively conduct production activities.

The debates on the impact of industrialization mostly address the existing issues around national economic growth, justice and equality for communities, and or social and political change along the wave of economic activity change in particular region. Industrialization often accused as the driving force of economic growth which widely assumed as the measure of state’s economic performance. In addition, it is also commonly discussed that as a part of development strategy, industrialization triggers conflict within communities due to the absence of justice and equality. This discussion particularly arose in the extractive industry development topic. Sociological view on industrialization can be found in the debate of class conflict under the relation of production and its impact to social structure related to the change of social system which usually emerged as unintended consequences of industrial development.

The author recognized the diverse discussions on the impact of the industrialization above; especially those which emphasized on particular issues such as economic structure, class conflict, or social capital are too narrow to depict the comprehensive situation on the impacted society. The author believes that further analysis which recognized the existence of the mutual relations among state, market, and society would best describe the invisible but essential impact of industrialization. Thus, this paper argues that inequality is the essential impact of industrialization which has been emerged in various form of social system as the consequences of the relation of production between local elites and market economy actors in all level of development.

RESEARCH METHOD

Case study is chosen as the best approach within qualitative inquiry to provide comprehensive as well as deep understanding on the persistence of inequality in the rural community who experienced the significant change of means of production due to industrial develop-
ment within a putting out nuanced production system called *mlipir system*. It is hope that the policy analysis which is taken as complementary method would elevate the finding into broader but relevant discussion, particularly to put the local impact of industrialization as the consequences of structural decisions made by higher level of power holder, beyond the national political process.

**INFORMALIZATION OF LABOR IN INDONESIA MANUFACTURING INDUSTRY**

There are clear indications that since 1990 there has been increasing informalization of labor in the manufacturing industries which take a form as chain of production expansion to informal workers outside the factory. Informalization of labor is characterized by the relocation of labor-intensive factories from urban to rural areas which triggered the increasing demand for informal workers (De Ruyter et al 2009:10). This informalization was accelerated during post-1997 economic crisis. Study by Wulandari (2008) in Surabaya point out interesting findings; the informalization of labor had forced factory workers to experience massal dismissal and shoved them into home-based industry. This home-based industry was designed as an integral part of the manufacturing industry to increase profit of businesses. The relocation of factory to rural area had reduced the production cost because the owner does not have to fulfill the rights of home-based workers who supplied semi-finished materials to the factory (Wulandari 2008:21). This empirical finding is supported by the survey by Humanika in 2003 that found 73.3 percent of home workers in East Java were working for manufacturing industry.

Responding crisis in 2007, Indonesia government planned to establish informalization of labor policy as a revision of Labor Law No. 13/2003. This revision aimed to attract foreign investment which was expected to support national economic recovery (Nugroho and Tjandraningsih 2001:1). It should be noted that the revision of labor policy was a prerequisite given by international development agencies; International Monetary Fund and the World Bank who provided financial assistance for post-crisis economic recovery. Informalisation of the labor market is one factor that caused the increasing number of vulnerable employment and precarious form of work through subcontract system within the relation of production which emphasized
the inequalities between core and pheriphery countries in the global production structure (Tjandraningsih 2011:v).

In the 2007 two-third or about 63 percent of the entire workforce in Indonesia was working as vulnerable employment⁴ (De Ruyter dkk 2009:7). This condition was worsening during economic crisis between 2008 and 2009. The number of workers in employment categories deemed to be more vulnerable and to carry a higher economic risk grew significantly (ILO 2011:44). In addition, the industrialization expansion to rural areas has triggered informalization of labor towards vulnerable employment that leads to the labor exploitation.

This paper helps to make sense the informal labor conditions which perpetuated in the development process which is influenced by various development actors at the local to international level, particularly within manufacturing industry development in Indonesia.

THE ROUTE OF INDUSTRIALIZATION AND INDONESIA FOREIGN INVESTMENT POLICY

Industrialization has been established by the government of Indonesia as the driving force in the national development policy. The development strategy is directed toward accelerating the economic growth through strengthening industrial sectors by attracting foreign investment.² Policies that support foreign investment in Indonesia changed according to the political and social conditions since the beginning of industrial development era in Indonesia. The first policies which issued as a hallmark of the enactment of open door policies are Law No 67/1968 Concerning Domestic Capital Investment and Law No. 1/1967 Concerning Foreign Investment which were then re-

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¹ ILO defines vulnerable employment as the sum of own-account workers and contributing family workers. They are less likely to have formal work arrangements, and are therefore more likely to lack decent working conditions, adequate social security and “voice” through effective representation by trade unions and similar organizations. Vulnerable employment is often characterized by inadequate earnings, low productivity and difficult conditions of work that undermine workers’ fundamental rights.
² In 2006, President Susilo Bambang Yudhoyono issued a Presidential Instruction No. 3/2006 Concerning the Policy Package for Improvement of the Investment Climate that is intended to facilitate the Foreign Direct Investment in Indonesia. This is in line with the vision of government industrial policy to put Indonesia as a newly industrial country in 2020 with a mission to increase economic growth above 7 percent and increase the attractiveness of foreign investment (Ministry of Industry Republic of Indonesia 2009: 4).
fined through Law No. 11/1970 (Syamsudin and Setiawan 2011:111). These policies were then updated by the issued of Law No. 25/2007 Concerning Investment. All policies which are issued at the different periods reflect Indonesian government openness in providing widest opportunities for foreign investors to invest in Indonesia.

At the national level, the local elite have aligned their interest with global interests to shaped industrialization nuanced development by providing various facilities that facilitate foreign investment into Indonesia in the form of supporting policies. The transformation of foreign investment policies over time clearly shows the presence of powerful alliance of local and global forces in facilitating the intervention of developed countries to Indonesian national development strategy.

Table 1. The Transformation of Foreign Investment Policy in Indonesia

| The 1945 Constitution | Law No. 1/1967 Concerning Foreign Investment | Law No 67/1968 Concerning Domestic Capital Investment | Government Regulation No. 20/1994 on Investment | Law No. 25/2007 on Investment |
|-----------------------|---------------------------------------------|-----------------------------------------------------|-----------------------------------------------|-----------------------------|
| Article 6, paragraph 1 of Law No. 1/1967 mentioned the permissibility of foreign investment but not on those areas of business that are closed to foreign investment in the full of exploitation: the areas that are important to the state and affect the life of the people | Article 3, paragraph 1 of Law No. 67/1968 allowed foreign investors mastering the sectors of production which "affect the life of people" as long as the share of foreign capital did not exceed 49%, while portion of the domestic capital should be increased to 75% before 1974. | Article 5, paragraph 1 of Law No. 20/1994 allowed foreign companies conducting business activities categorized as important to the country and affect the life of people, such as ports; production, transmission and distribution of electricity; telecommunications, shipping, aviation, water; public rail services, the atomic generator; and mass media but at least 5% of the shares owned by the Indonesian side. | Article 6 of the Investment Law No. 25 of 2007 stated that the government gives equal treatment to all investors from any country conducting investment activities in Indonesia. |

Source: Recycled from Gie (2012)

The foreign investment in Indonesia began in the 1970s on the oil and gas industry then expanded rapidly to manufacturing industries during 1980s to 1990s due the availability of supporting foreign investment policies after oil boom case in 1982. In the late of 1990s, Indonesian government revised the economic policy to promote for-
eign investment, particularly in industrial sector with a purpose to stimulate the diversification of economic activities and export oriented economy (Wie 2001:590).

Considering the information given on the table 1, the transformation of Investment policy in Indonesia tends to support the foreign investment from its adoption in 1960s until today.

In 1967, the investment law allowed foreign investor to invest in Indonesia except the important sectors which affected the life of the people. Furthermore, in the Domestic Capital Investment Law 1978, foreign investment had been allowed to invest on the important areas on the condition that the domestic investor should hold the biggest portion of the investment. Since the oil boom in 1982, the policy aimed to attract and expand foreign investment in order to create an economy that did not rely on oil and gas sector. This policy had sparked industrialization in Indonesia, especially for the development of the manufacturing industry. In addition, the adoption of Government Regulation No. 20 /1994 had extend the area of investment to wider sectors and finally in 2007 the foreign investment have an equal treatment as the domestic investment.

Government of Indonesia in the 2010 National Industry Roadmap states that FDI (Foreign Direct Investment) in the form of industrial development aimed to reduce poverty through increasing working opportunity for the people. In fact, FDI accounts for 70 percent of Indonesia’s total investments, which stood at Rp 313.2 trillion throughout 2012 but most of its realization is taking form as capital-intensive industries so that the industrial development could not address the problem of unemployment (Central Bureau of Statistics 2012). Thus, industrial development in the form of expansion of industries based on foreign investment to rural areas is not always the driving force to address the poverty issues. Generally, the reason behind relocating industries to rural is to reduce the cost of production due to labor costs and land prices are low in rural areas. This explains how the presence of manufacturing factories in the rural areas is not necessarily means as welfare for rural communities.

Study by Syamsudin and Setiawan (2011) which used Error Correction Model in analyzing FDI and unemployment point out that the number of people working is not related to the increasing of foreign investment into Indonesia.
This conclusion is supported by data from the Central Bureau of Statistics Annual Report 2006, which states that foreign investment in Indonesia during the years 2003-2005 was dominated by investment in capital-intensive industries such as pharmaceutical and automotive, as well as during the years 2005-2010 the dominance of foreign investment realization is in the chemical and pharmaceutical industries. The development of capital-intensive industries requires workers with particular skills or educated labor, so the presence of this industry is not able to absorb unskilled labors that are abundant in rural areas.

Dhanani and Hasnain (2002) who examined FDI in the manufacturing industry in Indonesia during the 1990s illustrated that FDI influenced the increase of national income and labor supply in manufacturing industry, but in terms of financial, FDI has brought much greater negative impact. The disadvantages occurred on the Indonesia’s balance of payments and contributed to persistent deficits in manufacturing industry due to the larger import of inputs production.

Miguel, et al (2002:33) in her study of industrialization in Indonesia found that the proliferation of large industries in rural Indonesia has resulted in the destruction of social capital in rural development. In addition, study by Sirait (2003:72-73) suggested that the rapid industrialization in Indonesia has moved most of the agricultural labor to industrial sectors that trigger changes in family structure and employment structure. These changes have led to the economic vulnerability of industrial workers and their families.

With regard to the changes caused by industrialization, the policy drawn up by the Indonesian government is against the efforts of improving the life of workers and their families. For example, the minimum wage policy is calculated based on the needs of one person working alone without taking into account the needs of their families, as well as employment policies that do not recognize informal workers to be guaranteed by law (Sirait 2003:73). Therefore, the study of society and the development of the industry are necessary in order to explain how the industrial development was chosen as the panacea to alleviate rural poverty but still have many consequences experienced by lower class communities.
Industrial development which is driven by foreign investment in one of the rural areas Jombang, East Java, reflects similar conditions. The existence of manufacturing industries in this rural areas even perpetuate poverty for the lower class communities through unique productions system that emerged as the consequences of the interaction between industries and local elites. The production system is reflected in economic activity called *mlipir*. *Mlipir* is recycling the residue of plywood industries to be a half semi-finished material which then brought back to the chain of production within the factory. This work is part of the chain of plywood production which is relocated to the houses around the factory.

*Mlipir* is identified as informal economic activity which remind to *putting out* system, the form of production system that appears in the history of working organization in Europe in the middle ages. Unlike *putting out* that appears as a forerunner of modern production system in the industry, *mlipir* emerged after the plywood industry was in going in the village. It is certainly interesting to have a further study on this case. Most of *mlipir* worker are women, housewives, while others are men who do not have a steady job. Raw materials such as wood residues, plywood, glue and plaster wood imported from the factory and the output of *mlipir* in the form of semi-finished plywood sheets is transported back to the factory to be processed into the final plywood products.

Special attention on the relationship between the function of the formal economy and the informal sector has emerged in the study of sociology of development (Martinussen 1997:314). Theories of the network point out that there is an interdependent relationship between huge industry with service providers or small-scale producers. Martinussen stressed that the high productivity and lower production costs often rely on the availability of supply from the informal sector.

The emergence of *mlipir* production system in the development of the plywood industry is supported by intertwined relationships between local elites, company, and society. In this case the local elite as part of the government institution that holds the authority to administer particular areas have aligned interests with the industrial sector in realizing the capital accumulation through system of production. The industrial sector concerned to reduce production costs and
provide helpful environment through building local people trust and good relations. Besides, the local community has an interest to benefit from the factory that stood in the area where they live. The concrete manifestation of the relationship between these actors is the cooperation in the process of industrial development as a unique production system so called mlipir.

Any relationship that exists between actors in the development related to industry have consequences in the form of profits and losses which experienced by the actors. To give an idea of the relationship between the actors of production, presented the following scheme in figure 1 of the production process that includes inputs, production process, production output, outcome and impact components. In the cases studied, each component in the production system reflects the relationship between actors and then helps to make sense how the whole system can work persistently. The following figure illustrates production schemes that link the production relations between the local elite, industry, and society in the case.

![Figure 1. The Scheme of Plywood Production System which Reflects the Relation of Production between Local Elites, Industry, and Communities.](image)

In general, the cooperation between the local elites, industrial sector, and the community in the production process as illustrated on
Figure 1 is a mutually beneficial cooperation. In this partnership, the benefits gained by the company is the reduced cost of production and guarantees the sustainability of the production process due to legitimacy and other support from the local administrator. Local elites gain benefit in the form of salary provided by the company and their administrative areas received the economic and social benefits. While the community benefit from the presence of new jobs and social benefits in improving the social condition.

The mutual benefits obtained by three actors can be explained through production inputs within the scheme. First, as an effort to provide the land to construct the factory, the company formed a partnership with local elites to facilitate land acquisition between companies and communities. In return, the company provides cash rewards and offers functional positions in the factory management to the local elite. In addition, the local elites establish an informal security team consists of their local allies in order to safeguard the factory building on their own initiative. The company also entrusted some legal procedures regarding to early factory construction licensing at the district level to the local elite. Thus, the production costs have been reduced in the effort to provide the land as a factor of production that is very fundamental. In many cases in Indonesia, land disputes between companies and local communities are a common thing and the process is costly. Another benefit derived by the company is reducing the risk of conflict between communities and companies through close partnership with local elites as local administrator. In this cooperation, the only benefit for local community is the conversion of their unproductive land into cash as the company purchase the land to build factory sites which is facilitated by the local elites.

Second, local elites are involved in the management of community development programme titled “Planting Trees on the Degraded Land” which the future harvested woods would be purchased by the company as inexpensive input of productions in the form of raw material. Local elites were appointed to facilitate the cooperation between community and the company in Sengon timber cultivation as the main raw material in the production of plywood. The company took the benefit from the availability of raw materials which close to industrial sites, while local elites obtain economic benefits in the form of cash rewards of the enterprise and the political benefit as they are seen as the initiator of community development programme. Local
elites’ image are lifted up as they are claimed themselves as initiator of the community development programmes, which improve their bargaining power and political advantage for political process that occurs at the local level. Communities only gain economic benefit from the sales of their harvested timber.

Third, the cooperation in the effort to provide the cheap labor is the domain with enormous benefits for both parties. There are two forms of cooperation that arise in this domain; the first is the involvement of local elites in the formal recruitment of workers who work in a factory. In this partnership, local elites gain a double advantage, besides receiving wages as recruitment manager, presumably local elites developing a conditional recruitment mechanism involving bribery to potential employees. The second form is the involvement of local elites in the effort of job distribution to home workers outside the factory as a contractor or sub-contractor within mlipir system.

The production process goes in two schemes, the customary production system that runs inside the factory building involving the authorized worker and mlipir system which involving larger home-based worker within local communities. The company obtained huge benefit through this diversification of production scheme, particularly in the availability of widespread cheap labor outside the formal system of production. The company can reduce the authorized labor cost by enlarge the number of informal worker. Thus, the burden to provide wages and other charges such as health insurance and severance payment for authorized employees could be reduced in such a way.

It should be considered that the presence of mlipir system has provided the opportunity to increase the local community’s income. Most of the communities were previously depend on the agricultural sector which the capacity to derive economical benefit is decline overtime. Through mlipir system, people have an income received on a regular basis so that open up their opportunities to take the credit loans to improve their lives. For example, one home-based worker were allowed to access loans from the bank after he had a regular income. The loan was used to renovate the house and invest the higher education for their children. In addition to economic benefits, the system allows the local community to work on organized working group which strengthen social ties between them. According to one of local elite, since mlipir system established in the villages, the friction that usually occurs in the community is no longer the case. Mlipir system enables
the community to work with flexible working time so that they can still gained economic benefits without reducing the communal work to keep the social capital within the community. The communal work which strength the social capital takes a form as volunteer work called *rewang*, a customary activity to help the neighbor conducted wedding celebrations or funeral.

The cooperation between local elites and companies as an effort to supply labor within *mlipir* system that being analyzed in the case is line with the economic development theorist under the theory of rent-seeking (Tullock 1980:43; Conybeare 1982:25). This theory states that the local elites who hold power in government institutions have a tendency to use their political resources to obtain rents from various parties through mutually beneficial transactions and also through the creation of rent-seeking monopoly. This rent-seeking phenomenon also appears within *mlipir* system around the factory. The following section provides analysis of the rent-seeking monopoly which created by local elites as well as the home-based workers condition that continuously maintained as a consequence of the relationship between local elites and the industry.

**HOW THE MLIPIR SYSTEM PERPETUATED WITHIN RURAL INDUSTRIALIZATION?**

In the examined case, the home-based worker in the *mlipir* system does appear to have freedom to determine the allocation of time due to the informal nature of their work. In fact, the workers have limited choices to make a decision due to their means of production and the forces which consistently appears within their everyday life as lower class society. The decisions made by the worker for allocating working time is motivated by the desire to earn more wages to fulfill basic household needs. More wages can only be obtained if the workers produce the output of productions in large quantities since wages are calculated based on units of goods produced. In addition, there is pressure from the factory to meet production targets in a given time. The issue of allocation of time based on the worker experience complements Friedmann (1992) thoughts that the decisions in the allocation of time was not only triggered by the division of household labor, and so forth, but also fueled by the pressure from employer and
the economic background which forces individuals in the household willing to work hard to meet their basic needs.

Figure 2 below is an adaptation of Friedmann’s whole economic model that helps to form an understanding of the complexity of the worker positions in the mlipir system which are always situated below the other economic actors. This model can also be used to explain how the intersection between the political and the market economy domain can trigger the rise of particular group’s interest which potentially gaining control over resources in the scheme of mlipir system.

The limited option of workers to allocate working time has perpetuated them to stay within the mlipir system. The nature of work within mlipir system requires them to allocate a large amount of time in production to obtain a greater output of production which produces higher income. The amount of time allocated for this work has narrowed the opportunities of workers to engage on political activities and formal economic activities which aimed to capital accumulation. Thus, the economic activity within mlipir system does not accumulate the capital although organized as productive work and involved a large allocation of working time. The aim of the workers chose this kind of work is to meet the daily household needs inspite of to achieve capital accumulations. The characteristic of this kind of work is identified as
the part of subsistence economy within Friedman’s whole economic model (Martinussen 1997:312).

The everyday life of home-based worker in the *mlipir* system, which most of them is located in the intersection of social-culture and economic domain, has put the workers on the unpaid volunteer communal work and costly social activities. In the socio-cultural relations within the community, there is a traditional practice to perform *rewang* and *buwoh*. *Rewang* is voluntary work which performed particularly by rural women to help relatives and neighbors who held a funeral and celebration of marriage or children circumcision. This activity encourages worker to allocate their time without any compensation. Social sanction will be given to those who do not perform this *rewang*, they will usually be negatively discussed and stigmatized by the communities or they will not be helped if they held a celebration and funeral. Other costly social activity is *buwoh* which refers to the visitation activity to relatives or neighbors who hold a celebration by donating money or relevant material such as rice, sugar, or noodle. This activity is costly due to the responsibility to expense extra money from the limited income of the workers. In addition to volunteer work in the community, the workers also allocate time to perform household chores such as cooking, washing and caring for children.

These findings support Friedmann’s thought than within socio-economic relations, the households who engage in the informal economy is situated on the intersection between market economy and civil society domain which resulted as the melting the boundaries between informal employment jobs, volunteer work, and household chores.

Unlike the worker, local elites’ job within *mlipir* system focused on the capital accumulation. The greater range of *mlipir* distribution channeled to the worker, the greater profit they are gained. The worker is the primary resource for these local elites to multiply the capital within *mlipir* system. Therefore, the local elites hold a higher bargaining position than the workers.

The limited choice of time allocation has put the position workers lower than the local elites. Figure 3 shows how local elites generate a wider and various choices in allocating their time. They allocate time for political activities, the formal economy, and also the informal economy. In political activities, local elites run their authority as village administrators or even actively involved in political organization at the district level. One of the local elite in this case is a branch...
coordinator of political parties which brought him elected to parliament after winning an absolute election in five villages around the industrial areas. In the formal economy, he was appointed as Head of General Affairs in the company as well as managing the workers cooperative organization within the factory. He also involved in the informal economic activities who act as contractors and distributor within mlipir system. The diverse activities in these various domains have brought local elites to have higher earnings and position than the workers.

In line with these findings, Friedmann also explained how the freedom in choosing the time allocation determines the position of households in socio-economic relations within society (Martinussen 1997:311). Upper class communities have more opportunities to engage in formal economic activities that focus on multiplication of the capital while the lower classes of society spend their time working in the informal sector which do not accumulate any capital but lead to the subsistence economy.

This paper has described how the poverty which experienced by the home-based workers within mlipir system have been perpetuated by several factors. First, the monopoly rents on economic network which built by local elites and company have reduced opportunities for workers to move from the informal economy to a market economy-oriented capital accumulation. Second, the existence of several forces which push the workers to stay in the mlipir system, (a) The absence of economic alternatives activity in the rural area apart of agricultural sector and mlipir; (b) the relocation of industry to the rural have brought the informal work related to manufacturing industry closer to the lower class worker; (c) the flexibility of work within mlipir system which absorb unskilled labor; (d) the force of the basic economic needs of households that sustained by the informal economy. Third, the limited options in the time allocation that shaped by the socio-economic structure have led the workers to consistently choose mlipir as the most possible job, moreover the flexibility nature of this kind of work which allowed them to do communal volunteer work and household chores. Thus, the worker is difficult to change their weak and lowest position due to the unavailability of time allocation to involve in market oriented economy or political activities.

Furthermore, to gain the understanding on why the poverty condition is perpetuated in the rural industrialization, it should be noted
that the involvement of lower class worker in the informal economy related to industry is the best choice was made based on their capacity and capability in order to survive. Various external forces contribute to perpetuate the poverty. However, the lower class workers are the important actors who move the driving force of rural development through their high productivity apart of the limited choices they have.

**THE GLOBAL AND LOCAL POWER ALLIANCES WHICH PERPETUATED THE POVERTY WITHIN RURAL INDUSTRIALIZATION**

In the section, the writer tries to see the *mlipir* system, which emerged at the local level, as part of the industrial development framework at the national level which involves various actors with diverse background and interests. Previously, the paper been analyzed how the *mlipir* system have perpetuated the poor conditions on the lower class communities who work as home-based workers for plywood manufacturing industry. The emergence of *mlipir* system is a consequence of industrial development which initiated by development actors at different levels. The following analysis model (Figure 3) helps to make sense the complexity of the interaction between actors and their consequences within the development of the manufacturing industry.

The alliance referred in this analysis is the cooperative efforts among development actors using their capacity and resources in creating a mutual partnership to express their interests. Figure 3 illustrates that at each level of development there are different actors in the industrial development scheme. Similarly, the consequences of the alliance that existed are varied in each level. This scheme is designed to understand the complexity of industrial development, particularly within the manufacturing industry at every level using historical approach. Each level within the scheme is interconnected. Through this design, it is hope to gain further understanding on how the *mlipir* system emerged and perpetuated in the rural industrialization as a consequence of the development actors alliances.

The informalization on production systems in the manufacturing industry is recognized since New Order era, especially at the post-oil boom of the 1990s. The manufacturing industry has developed so rapidly that the manufacturing industry is characterized by the
The rapid growth of manufacturing industry in Indonesia is a logical consequence of the development policy transformation which issued by national elites, who served in important positions in the New Order government. The national development strategy under New Order regime was very contradictory to the previous regime. Foreign investment was stated as the driving force of the national development hence there should be supporting policies to attract more foreign investor. In a review of the dynamics of policies related to foreign investment (see Table 1), it is clear how the Indonesian government intended to facilitate foreign investment to stimulate the growth of
the industrial sector in Indonesia. Foreign capital was worshipped as a panacea in determining the success of development in the goal to eradicate poverty and to improve social welfare.

At the national level, the consequences of the alliance between the global power who represented by the capitalist from the developed countries and the national elite was the establishment of supporting policies that encourage foreign investment to Indonesia. The policy on foreign investment in 1967 had been prepared by some of Indonesia economists in order to restructure the Indonesian economy through industrial development strategy. These national elite’s interests aligned with the interests of capitalist in developed countries to fire up the industry in developing countries. In November 1967, a group of Indonesian economists was attending the economic conference in Geneva, facilitated by The Time-Life Corporation. Besides Indonesian economists, the conference was attended by the capitalist from developed countries. The purpose of the conference was to design industrialization in Indonesia which supported by foreign capital. John Pilger (2002:37), in his documentary titled “The New Rulers of the World” describes the conference as follows:

“In November 1967, following the capture of ‘the greatest gift’, the Time-Life Corporation sponsored a special conference in Geneva within three days to design the takeover Indonesia projects. The participants include the most powerful capitalists in the world, like David Rockefeller. All Western corporate giants represented: oil companies and banks, General Motors, Imperial Chemical Industries, British Leyland, British American Tobacco, American Express, Siemens, Goodyear, the International Paper Corporation, and U.S. Steel. Across the table were Suharto’s people who were called as ‘Top Indonesia Economist’ by Rockefeller.”

The output of the meeting was passing of the Law of Foreign Investment in 1967 which containing the legitimacy of foreign investment in Indonesia.

In fact, the development of manufacturing industries in Indonesia which bolstered by foreign investment have brought losses. A study of foreign direct investment in the manufacturing industry in Indonesia during the 1990s, found that the FDI disadvantaged Indonesia’s bal-
ance of payments and contributed to persistent deficits in manufacturing industry due to the larger import of inputs production (Dhanani and Hasnain 2002). Nevertheless, it should be noted also the positive side of the development of manufacturing industry which has opened new job opportunities for the people.

Furthermore, the manufacturing industry is still unable to address unemployment issues through optimally absorb labor force. Employment data from 1986 to 2001 shows that the agricultural sector with the low productivity, is still largely absorb the labor compared to the manufacturing sector (ILO 2000). This condition is contrary with the Indonesian structure of economy; the manufacturing industry’s contribution to the national economic structure has exceeded the contribution of the agricultural sector since 1993. These conditions lead to inequality within economic structure and he national workforce structure which in turn impacted on the persistence of income inequality and poverty in Indonesia.

In addition to the foreign investment policy, the consequence of the global power and elite alliances at the national level is the issued policy that supports the informalization of labor. Responding 2007 crisis, Indonesian government planned to establish informalization of labor policy as a revision of Labor Law No. 13/2003. This revision aimed to attract foreign investment which was expected to support national economic recovery (Nugroho and Tjandraningsih 2001:1). It should be noted that the revision of labor policy was a prerequisite given by international development agencies; International Monetary Fund and the World Bank who provided financial assistance for post-crisis economic recovery. Informalisation of the labor market is one factor that caused the increasing number of vulnerable employment and precarious form of work through subcontract system within the relation of production which emphasized the inequalities between core and periphery countries in the global production structure (Tjandraningsih 2011:v).

The review of the global forces and national elites alliances, which arising in the discussion on industrial development in Indonesia, are in line to the thoughts of the neo-Marxist on the dependency and underdevelopment in the Third World context. For instance, the dynamics of transformation policies concerning foreign investment is seen as the consequence of the capital accumulation forces in the central states to continue the exploitation of the peripheral countries.
so that the underdevelopment situation in the peripheral country can be perpetuated. (Clements 1997:65). Although rapid industrialization occurred in Indonesia, the nature of the emerging industrialization is dependent industrialization that emphasizes and depends on foreign investments than domestic investments.

The alliance of global forces and national elites in Indonesia also complement Cardoso’s criticism against classical dependency theory on the persistence of internal dynamics, which is not merely economic pressure within dependency relationship between First World Countries and Third World countries (Suwarsono and So 1991:140). In the cases which analyzed in this paper, it became clear how national elites play an active role in efforts to invite foreign investment into Indonesia to establish and expand the industrialization. National elite interests are aligned with the interests of First World countries’ imperialism. Thus, the dependent relationship is not entirely determined by the dominance of foreign economic forces.

The existence global forces and national elites alliances in initiating the industrial development in Indonesia explains how the elite’s interests at the national level which intersect with the interests of foreign capitalist have the power to change the structure of the Indonesian economy. Since the passing of the Foreign Investment Law 1976, industrialization in Indonesia was growing rapidly and become the foundation of the national economy up to now. This is in line with Cardoso thought on how external factors (global economic pressures) and internal (national elite dynamics) intertwined to realize a new structure in the Third World. There are external of dominant class interests which are translated into the national dominant class interest that produces the potential power to determine the development (Suwarsono & So 1997:144).

Foreign investment policy and the policy on informalization of labor market which established as consequence of the global and national elite alliance practically have expand the manufacturing industry development with the informal industrial relations pattern. This informalization can be seen in the expansion of manufacturing production chain involving informal workers who are less paid in order to reduce production costs. Informal workers are mostly categorized as vulnerable employment because they do not receive labor’s rights such as health insurance and the minimum wage as well as the formal or authorized labor.
In the case of *mlipir* system, it was found that the logic of the alliance between the national elite and the global forces that support industrial expansion also occurred at the provincial and local level. Various attempts were made by district governments to attract foreign investment, such as facilitating the investment process through one-stop service strategy and the issued of District Regulation No. 21 of 2009 regarding the planning of industrial areas. In the district, industrialization which is supported by foreign investment, have been realized in the wood processing industry, footwear, and fodder. All three sectors are labor-intensive industries that absorb more labor. One of plywood industrial company is implementing a production system contributes to the emergence of *mlipir* system by employing informal workers outside the factory. This strategy is embodied in the form of a partnership program with the communities that are also supported by the local government through the Community Development Partnership Program (PIU-CSR), which was formed in 2011.

At the local, the alliance between local political elite and foreign economic interests is reflected very clearly as the collaborations to relocate and establish industrial development in the rural areas. On the previous analysis, this paper has been discussed how local elites in line with the industrial sector contribute to the emergence of *mlipir* system which is trapped the lower class worker in vulnerable working conditions. The cooperation of local elites with the industrial sector can be identified in the early construction of the factory.

The alliance also reflects the thoughts of the Neo Marxist on dependency and underdevelopment in the Third World. In a dependent-development, local elites are taking advantages in the penetration of external economic interests. The advantages being taken are not limited to economic benefits, but also political benefits. Furthermore, within the alliance, local elites also form a monopoly rents that ultimately hinder the people to access maximum advantage from the rural industrialization.

**CONCLUSION**

The social impact appears on the consequences of the alliance which experienced by the local community, especially lower class workers. They experienced various challenges in shaping their strategies to survive within *mlipir* system. The workers are actors in the
industrial development that are most exposed to the social impact of the interests alliance, they are exposed the changes of domestic economic activity and trapped within the production system which halt them to achieve decent work and prosperity although they are very productive. This condition has perpetuated the lower class worker living under poverty and the lowest position in society.

Through this comprehensive analysis which examines the intersection relation among state, market, and society, it is believed that inequality is the essential impact of industrialization which has been emerged in various form of social system as the consequences of the relation of production between local elites and market economy actors in all level of development. The analysis of this case also enrich the understanding that in the industrial development, there is a congruent pattern at the national and local levels with regard to the alliance between the forces of economic foreign interest and the political elite that hold a variety of interests. The dynamics of social, economic and politics at every level have shaped the interests of elites toward foreign investment forces. In this case, the dynamics of the interaction between the two forces has shaped the structure of industrial development that leads to the emergence of mlipir system at the local level.

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