



# Promises and Predicaments

Trade and Entrepreneurship in  
Colonial and Independent Indonesia  
in the 19th and 20th Centuries

Edited by

**ALICIA SCHRIKKER** and  
**JEROEN TOUWEN**

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Alicia Schrikker and Jeroen Touwen



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# **INTRODUCTION**



# 1

## Building Bridges between Themes and Approaches in Indonesian Economic History

*Jeroen Touwen and Alicia Schrikker*

Indonesia's economic history is an important and fast-developing field that has attracted many talented scholars over recent decades. It is a challenging theme as it covers a large heterogeneous region, with extensive natural resources, multiple ethnicities, a vibrant political economy and a rather capricious path-dependency. The histories that have been produced in this field can serve as inspiration for historians whose interest lies beyond the Indonesian Archipelago, such as scholars working on late colonial and independent Malaysia and the Philippines, as well as historians of other Southeast Asian regions such as Thailand, Vietnam, Laos, Cambodia and Myanmar.

This collection of essays explores the economic development of Indonesia before and after decolonization from three angles: the impact of trade, the changes in entrepreneurship and the changing political regimes. Economic history is arguably one of the best-developed fields in Indonesian history, thanks to the dedicated commitment of and co-operation between scholars worldwide—from Indonesia, Australia, the Netherlands

and elsewhere. The volume is dedicated to J. Thomas Lindblad who has made an indispensable contribution to the field over the past thirty years.<sup>1</sup>

Since the nineteenth century, trade in the Indonesian Archipelago has been expanding in various forms. It is typical for Indonesia that diverse ethnic groups participated in this developing world trade. Some of these groups were successful in creating new opportunities to earn an income, combining more traditional forms of agriculture and trade with the cultivation of export crops. Entrepreneurial activities thrived under the aegis of the late colonial regime, from the end of the cultivation system to the late colonial state of the 1930s. After independence new economic actors gradually took the stage, next to those who remained in place. Economic decolonization was a slower process than political decolonization and presented different problems, while the subsequent post-1945 regimes placed varying priority to economic growth. These variables shaped a remarkable mixture of promises and predicaments in a resource-rich economy.

The essays in this book build upon the insights that we find in *The Emergence of a National Economy*.<sup>2</sup> In this well-received textbook (published in 2002) Dick, Houben, Lindblad and Thee present an integrated approach to Indonesia's economic history in which the interconnection between globalization, state formation and the development of a national economy takes a central position. To start with, they show that Indonesia's outward orientation has to be understood in the light of the centuries-old globalization process that constituted long-term interaction between the region and the world economy. This outward orientation is used as a prism through which the trade activities in the Indonesian Archipelago can be viewed and which explains much of its historic dynamism. In contrast with the continuous outward orientation, state formation in Indonesia followed a capricious path. Before the arrival and intervention of the European colonial powers, the archipelago was connected to the larger Southeast Asian economy through myriad small-scale trade flows.<sup>3</sup>

One could say that trade was a predecessor to state formation. During a protracted era of expanding world trade, the colonial state gradually manifested more strongly—in the nineteenth century in Java and after 1870 increasingly in the Outer Islands, reaching the remote corners of the archipelago. Although in the early twentieth century this was still a bureaucratic construction based on trial and error, it eventually shaped the outline of the modern Indonesian nation state. After independence, Indonesia again followed a remarkable trajectory in which political and

economic priorities seemed to change intermittently through the decades. But, despite its regional diversity, the state still clung together and gradually consolidated.

Dick, Houben, Lindblad and Thee show how the two processes of globalization and state formation contributed to the emergence of a national Indonesian economy. Unlikely as it seems, the national economy arose from the many local economies that once constituted the Malay Archipelago, in which many actors ignored the bureaucratic state borders and developed substantial transnational flows of commodities and people. It was the interaction of many local economies that gave Indonesia's modern economic history its unique character.<sup>4</sup>

A number of important themes follow from this perspective. Below, we briefly comment on these themes, in order to provide a context for the essays collected in this book. We address the development of economic institutions that facilitate economic development, the connection between the political economy and macro-economic analysis of trade and investment, the periodization across different regimes, the economic roles of specific ethnic and social groups, and the spatial distribution of economic activity in the archipelago. The contributions to this volume all relate to one or more of these aspects, as will be discussed in the latter part of this introduction.

Economic historians have increasingly combined distinct approaches to economic history in their analysis. They connect a macro-economic focus on economic development, based on the statistical analysis of trade, income or investment, to the political economy of power, policy priorities and economic institutions. This is certainly a very fruitful approach. In addition to the economic structure, there is a demand to develop a better understanding of the economic institutions, which, formally and informally provide the backdrop of the market economy. For example, in the period between roughly 1914 and 1942, the late colonial state constrained the bottom-up processes of institution building—the organization of societies, unions, political parties with a mass following—hindering the development of a stronger civil society.<sup>5</sup>

At yet another level, economic historians have developed a keen eye for the economic actors themselves (both men and women) such as the entrepreneurs, traders, smallholders, credit suppliers and consumers, but also politicians, government officials, the military and households. The role of historical economic actors is essential for understanding the larger picture of stagnation and growth. But conversely, national growth and trade statistics may underpin or inspire local and regional histories, or



more thematically oriented studies. It has become clear that the agency of economic actors provides an explanation of economic change within the structure of the political economy. For example, even under colonial rule, certain non-privileged groups found space to expand their business. In the early independence period rights and rules were often disputed, while economic roles were generally fluid, which created unexpected outcomes.<sup>6</sup>

Increasingly, we observe a tendency to analyse Indonesian economic history from a long-term perspective and to look across regimes and the dominant historiographical periodization. Many scholars position their research in one of the obvious periods: delineating, for example, the pre-colonial period, the VOC period (roughly between 1600 and 1795), the cultivation system (1830–70), the liberal and late colonial period (1870–1942), the early post-war independence period of Sukarno (1945–65), the new order period under Suharto (1965–98) and the post-Suharto period up until the present. However, economic performance and characteristics in earlier periods had strong effects in later periods. One may think of path dependencies, when specific firms, sectors or local economies are receptive to the legacies of earlier times. There are also various types of resemblances, for example when different regions share a similar tradition of trade openness, or when the political economy displays similarities under different regimes.<sup>7</sup> A recent study crosses five of the above-mentioned periods and seeks to explain long-term Indonesian growth by analysing specific factor inputs and structural institutional and geographic forces over a period of two hundred years.<sup>8</sup> Not all contributions to this volume place such a long time frame at the centre of their analysis, but a perspective that traverses separate periods is generally present, even when figuring in the background.

Decolonization can be viewed as a radical breaking point but also as a process of gradual transition. After the protracted political struggle, the economic side of the Indonesian revolution still had to begin and took more than a decade.<sup>9</sup> At the core of economic decolonization lies nationalism, as an aspiration to own and control the productive assets of the country. The strive for *Indonesianisasi* was a conscious effort to bring the economic leadership into Indonesian hands. This example shows how trade, entrepreneurship and political regime were closely interrelated, but the regime's influence was not straightforward, since human capital and ownership had their own characteristics and structures.<sup>10</sup>

In this volume, we aim to analyse economic development as a result of the interplay between foreign trade, new forms of entrepreneurship and the political economy. Historians, in their analysis of specific economic