

Towards a Historiography of the National Economy in Indonesia

Since the late 1960s Indonesia's economic growth has been so fast that the once 'underachiever' no longer figures on the World Bank's list of less developed countries. The economic structure of Indonesia has changed dramatically with the shift towards non-agricultural and non-extractive export production. Indeed, the oil and gas sector, which provided the initial impetus to rapid growth under the *Orde Baru*, is now itself increasingly superseded by manufacturing in terms of generating export revenue, national income and employment. The combination of sustained rapid growth with structural change does instill a certain confidence in sustained growth also in the future even if unresolved problems do remain with respect to for instance the foreign debt burden and Indonesian competitiveness in export markets. On the other hand, it should be stressed that social achievements have lagged behind by most international standards (Hill, 1994: 54–60).

A key feature of the successful economic performance during recent decades lies in the rise to maturity of a truly national economy throughout the entire Indonesian archipelago. Opinions may differ about how to precisely define a 'national economy' but few would argue against its existence in Indonesia today. The various economic relations, that together constitute the national economy, are separated from and connected to the outside world through economic policies pursued by the government of the modern nation-state.¹ This national economy has not emerged out of thin air. Its historical roots can be traced back to colonial times. That is what this book is all about.

We perceive two processes of political integration, one in the late colonial period and the other after independence. The first process concerns the formation of a colonial state whereas the latter one moulded the modern nation-state of Indonesia. Each of the two processes had a dynamic of its own. They should be studied both in separation and in juxtaposition. The two processes were highly interrelated as the colonial state formed an essential part of the basis of the modern nation-state. It is even a matter of dispute whether one should consider colonial state formation and the emergence of the modern nation-state as two separate processes or different phases within one long-run process of integration.

¹ This is elaborated in the keynote address by P.W. Klein and the introductory essay by H.W. Dick below. We deliberately choose not to adopt a more rigorous definition of the 'national economy'.

Political integration was accompanied by the more gradual evolution towards a cohesive and self-contained economic system. We identify three types of change occurring at the same time and reinforcing one another: a shift of orientation in economic transactions towards a new regional centre in Java, an active economic policy on the part of the colonial government and an enlargement of productive capacity conditioned in part by a massive inflow of factors of production.

The colonial state may appear an evasive concept but it is an indispensable device in fully appreciating how the Netherlands Indies gradually evolved into a separate entity from the Netherlands. Colonial Indonesia became a political and economic system in its own right and with its own viability. The political side of the argument has been illuminated by Cribb, who identifies three important changes taking place simultaneously during the late colonial era, *i.e.* in the former half of the twentieth century. These three changes are: a constitutional separation from the Netherlands, a growing administrative sophistication in the colony and an increasing ideological awareness of responsibility to the people (Cribb, 1994: 5–6).

In discussing the colonial state it is useful to distinguish between its foundations and its final elaboration. In the former case we focus on the actors in the process of state formation such as the colonial government, Western pioneers and Javanese peasants. In the latter case, however, we are more interested in determinants of economic development under the auspices of the already existing colonial state, *i.e.* in different types of producers and in factors of production. In this context we touch on several traditional debates in Dutch historiography about colonial Indonesia. However, our aim is to advance from merely commenting on historiographical debates. This in turn is accomplished by applying the wider concept of the colonial state during both its infant and maturing phases.

The birth of the modern nation-state Indonesia is identified with the declaration of independence on 17 August 1945. However, much historical writing on the early nation-state in Indonesia has been dominated by politics, *e.g.* the nationalist movement, the struggle for independence and the experiments with constitutional democracy under Sukarno. Independent Indonesia is often considered in virtual isolation from its colonial heritage. As a consequence one easily overlooks important questions concerning for instance the uniqueness of the Sukarno era and whether the years of turmoil and Sukarno rule constituted a political and economic aberration from a basic line of continuity in the long-run development of Indonesia towards a nation-state with an integrated national economy.

Modern nation-building is just as complex a matter to study as colonial state formation. It is necessary both to devote attention to the decisive years of transformation and to introduce an explicit historical perspective into the long-run analysis. In the former case our concern is with what one may call the economic prelude to decolonization, as well as with economic policy as pursued by the numerous cabinets of the young Republic. More specifically we look at early

external contacts, Japanese economic activities prior to the Pacific War and the attitude of the Sukarno government towards foreign capital and domestic development. In the latter case, however, we are interested in economic achievement under the protective umbrella of the nation-state rather than in the formation of the nation-state as such. Such achievement is discussed at several levels including natural endowment and key sectors (agriculture, forestry), individual regions and the national economy as an aggregate. The novelty of this approach lies in the focus on economics in areas where politics usually have prevailed and the use of a longer historical perspective when surveying economic developments.

The various contributions presented at the Amsterdam Colloquium in September 1994 on the 'Historical foundations of a national economy in Indonesia, 1890s-1990s', 22 in total, are ranked in accordance with the principles outlined above. The theme of the national economy under construction is introduced by Klein's keynote address and Dick's general model (Part I). The foundations of the colonial state in the late nineteenth and early twentieth century are described in terms of policy (Prince), Western corporations (A Campo), state and peasant producers in Java (Suroyo and Elson) and Locher-Scholten's case study on colonial expansion in southern Sumatra (Part II). The elaboration of the colonial state during the decades immediately preceding World War II embraces two key production lines: sugar (Knight) and rubber (Purwanto) as well as two factors of production: labour (Houben) and capital (Lindblad) whilst also including three case studies of regional economic development in Sumatra and Sulawesi offered by respectively Ismail, Zed and Leirissa (Part III). The emergence of the modern nation-state is described through studies of Aceh contacts with the outside world (Reid), prewar Japanese economic activities (Post) and economic policy during the Sukarno era as discussed by Thee and Mackie (Part IV). The historical perspective including both colony and independent nation is applied to developments in agriculture (Van der Eng), forestry (Potter) and regional infrastructure (Colombijn) whereas Booth offers an assessment of economic performance in Indonesia prior to the *Orde Baru* (Part V). References are added to each individual contribution. In the remainder of this introduction some main lines of argumentation are reviewed against the background of the existing historiography and tied together.

Part I is on the framework of analysis. Much conventional writing on Indonesian economic history is of a rather descriptive type adopting the perspective of individual sectors, regions or ethnic groups and scarcely ever transcending the borderline between the late and post-colonial periods, from whatever direction. Therefore, Klein's plea for a more analytical approach is especially welcome. An attempt in this direction is undertaken by Dick who identifies a time/space dimension in the evolution of the national economy of Indonesia. The time dimension embraces both the late colonial and post-colonial periods, whereas the dimension of space forces us to view Indonesia within the wider context of the Southeast Asian region. Java was transformed from a periphery into a core region and the Outer Islands underwent a reorientation in economic

life from mainland Southeast Asia to Batavia. Such a perception of the formation of the national economy stresses gradual change, macro-economic undercurrents and restructuring.

Part II shows us how the colonial state evolved as an entity in its own right. The key question arising from Prince's contribution on colonial economic policy concerns the extent to which monetary policy served the colony as opposed to the mother-country. On the one hand, no-one disputed that mother-country and colony should be on the same monetary standard. In fact, the Java Bank never really became a central bank. Yet, on the other hand, the Java Bank did develop an increasingly independent profile as illustrated by conflicts with the Bank of the Netherlands about gold transactions with third countries. The theme of an ever stronger local entrenchment in the colonial economy is further pursued by A Campo in his survey of the rise of a corporate business network in colonial Indonesia prior to the First World War. By virtue of its cohesion and impact this network represented something more than a mere appendix of the economy of the colonial mother-country, thus anticipating a national economy in Indonesia. In terms of historiography Prince revitalizes a recent discussion on the monetary situation in the colony (Potting, 1987) whereas A Campo suggests a new mode of analysis dealing with the entire network of Western enterprise rather than individual firms.

The role of the colonial state in economics is especially pronounced in our assessment of the Cultivation System in Java. Suroyo draws on the discussion about Geertz's agricultural involution which has evolved in the literature. She asserts that the Cultivation System had a lasting impact on peasant society in Java, better for some and worse for others, which must be seen in separation from the system as it was implemented from above. Elson challenges the conventional conception of the Cultivation System by claiming that the system reflected the weakness rather than the strength of the colonial state in nineteenth-century Java. The causes of its decline must therefore be sought in Java, not in the Netherlands, which runs counter to long-established views in Dutch historiography (Fasseur, 1975, 1992). Whatever the causes and consequences of the Cultivation System as such, this kind of far-reaching state intervention in economic life clearly gave the national economy a different base in Java than what was elsewhere the case in Southeast Asia.

The relationship between economics and politics is nowhere as intricate and controversial as in the lengthy Dutch debate on the extension of colonial rule throughout the Outer Islands (Lindblad, 1989; Locher-Scholten, 1994). Locher-Scholten demonstrates how in the case of Jambi the economic interests had to be politicized before territorial expansion got underway during the first very decade of the twentieth century. It thus appears more fruitful to differentiate between stages in colonial state formation than to quibble over the supremacy of political or economic motivations of expansion since their 'mix' was different in each case and each period. This offspring from the Dutch imperialism debate suggests a twin foundation of the colonial state in Indonesia: political and economic.

Part III is on the maturing of the colonial state during the first four decades of the twentieth century. Knight scrutinizes the economy of Java sugar against the background of the *dependencia* theory and revisionist literature and comes to several surprising insights. Sugar was unique in its combination of technologically advanced manufacturing with an extremely labour-intensive estate production. Profitability was high, at least in part because of the reallocation of resources brought about by colonial state intervention. This may be contrasted with the success story of indigenous rubber in the Outer Islands as told by Purwanto. Success was safeguarded by the responsiveness of smallholders to market signals from abroad and the close trading links with Singapore in particular whereas the institutions of the colonial state, bureaucracy and Western enterprise, played no role of significance. Sugar and rubber both produced a fair measure of prosperity, respectively to some and the many, but neither delivered long-run progress. The two sectors represented widely different sides of the same system geared as they were to respectively the Java-based colonial state and the indigenous alternative to Western expansion in the Southeast Asian market.

The unique character of the late-colonial economy is revealed by the way in which factors of production were mobilized. Houben presents a model for analyzing conditions of coolie labour in the Outer Islands using primarily the detailed reports of visits paid by labour inspectors. Such a model underscores the importance of explicitly incorporating the segregated labour markets into our perception of the colonial economy. On the other side of the nexus between employer and employee, Lindblad considers various business strategies adopted by leading Western firms in both Java and the Outer Islands. The quest for continuity emerges as a paramount motivation thus reflecting a high degree of local entrenchment in the colonial economy. Within the context of Dutch colonial historiography, Houben calls for a more systematic approach in the heated debate on labour conditions in Western enterprises (Bremen, 1987) whereas Lindblad argues that business performance should also be assessed in terms of the impact on the local economy.

Dualism in the sense proposed by Boeke has for several decades prevailed in the thinking about Western versus non-Western modes of production in the colonial economy (Boeke, 1953). This paradigm is challenged by several case studies on regional economic expansion in the Outer Islands. Ismail contrasts the limited impact of Western enterprise with continuous indigenous adaptation in the economic life of Aceh. Zed shows how the integration of Palembang into the world economy gave rise to a different kind of dualism between Western and indigenous lines of production. In Manado a Westernized type of financial arrangement in the copra business facilitated rapid growth and high profits for indigenous producers. Leirissa argues that the concept of 'dual economy' does not hold as far as Manado is concerned. The mature colonial economy allowed for parallel but separate paths of economic expansion, *i.e.* for different types of dynamic change in economic life rather than for a dichotomy between Western progress and non-Western stagnation.

Part iv is on the transition from the colonial economy to the economy of the new nation-state. The transition was foreshadowed by tendencies in the periphery to seek outward contact and also by the inward movement on non-Dutch foreign, especially Japanese capital. Reid draws a long line of continuity in Aceh's external trade relationship with Penang and Singapore stretching from the early nineteenth century until beyond independence. He proposes that the orientation towards Sumatra during the period of the late colonial state was rather artificial and transient. In his contribution on incoming Japanese capital, Post stresses that Japanese investment was more important in political and social terms than in volume or economic impact. Strategies and performance differed as compared to those of Western investors as is illustrated by the high degree of interaction with Chinese and indigenous business. Both Reid and Post remind us that the economy of late colonial Indonesia was an exceptionally open one.

The Sukarno regime has a singularly bad reputation when it comes to economic policy-making and performance. Both Thee and Mackie emphasize the rise of economic nationalism in the 1950s and the inevitability of the collapse of the colonial economic system. Two major turning-points in the long-run economic history of Indonesia are suggested: 1930 when the economic pillars of the colonial state began to crumble and 1957 when Dutch presence effectively came to an end. The forces of change remained beneath the surface up to the Japanese occupation and reached culmination only at the turn towards the Guided Economy of Sukarno. The time of turmoil, from 1942 to 1965, thus constituted a formative stage in the development of an independent or truly national Indonesian economy.

Part v takes a wider view of the shift towards a national economy by searching for what remained of the colonial legacy in the post-colonial situation. Van der Eng's overview of the long-run development of agriculture shows that labour productivity rose far more slowly than did rural incomes. This contradiction can only be resolved by referring to rising non-farm rural incomes and a reallocation of rural labour that found its origin in the colonial economy. Potter renders an image of current exploitation of natural resources, forests in particular, occurring on a different footing compared to the colonial period. Local effects, especially on the physical environment, now give rise to more concern. The theme of long-run continuity and discontinuity is also pursued by Colombijn in his case study on regional infrastructure. The transport network in West Sumatra is found to fit into a model of export-induced change in late-colonial times and again after 1965. All three contributions demonstrate the usefulness of historiographical innovation attained by a juxtaposition of developments from before and after Indonesian independence.

In the final analysis, it is economic performance that counts and offers promises for the future. Booth's review of the statistical evidence on economic development in Indonesia under Sukarno reasserts that the period 1942–1965 formed a retrogression rather than a step forward, an interlude in the long-run economic expansion for which Indonesia possessed the necessary endowment

and capability. The transitional phase easily obscures the essential continuity connecting colonial economic expansion with structural change under the *Orde Baru*.

The road from the economy of the colonial state up to the truly national economy of contemporary Indonesia was a long one. There was an economic relationship between colonial Indonesia and the Netherlands but over time the distinctive character of the Indonesian economy became more and more obvious. The economy of the colonial state thus became more than a mere appendix to the economy of the mother-country. We encounter this in many ways: colonial economic policy, the rise of a corporate network in the colony, the impact of state-run cultivation in Java, the twin foundation of colonial expansion in the Outer Islands, the unique character of the sugar economy, the peculiarities of colonial labour markets and the local entrenchment of Western enterprises in the colonial environment.

In its mature phase and final moments the colonial economy embraced developments that were separate from the mainstream of Dutch-controlled economic expansion. Examples include the rise of indigenous rubber and copra, simultaneous but different paths of economic expansion on the regional level, external contacts at the periphery and the penetration of non-Western segments of the economy by Japanese capital.

The economy of the emerging nation-state at first retained many elements of the colonial economy but increasingly came to constitute a break with the past. This is illustrated by the following: the turn to economic nationalism and the collapse of the 'colonial' system under Sukarno, the interplay between change and continuity in agriculture as well as forestry or infrastructure, and not in the least in the marked retrogression in economic performance between late colonial times and the *Orde Baru*. New research in the modern economic history of Indonesia should go beyond this transitional phase and focus on the long-run development since the interwar period.

References

- Boeke, J.H., *Economics and economic policy of dual societies*. Haarlem: Tjeenk Willink, 1953.
- Breman, J., *Koelies, planters and koloniale politiek; Het arbeidsregime op de grootlandbouwondernemingen aan Sumatra's Oostkust in het begin van de twintigste eeuw*. Dordrecht/Providence: Foris, 1987.
- Cribb, R., 'Introduction'. In: R. Cribb, ed., *The late colonial state in Indonesia; Political and economic foundations of the Netherlands Indies 1880–1942*. Leiden: KITLV, 1994, 1–10.
- Fasseur, C., *Kultuurstelsel en koloniale baten; De Nederlandse exploitatie van Java 1840–1860*. Leiden: Universitaire Pers; *The politics of colonial exploitation in Java; The Dutch and the Cultivation System*, trans. by R.E. Elson & A. Kraal. Ithaca: Cornell University Press, 1975, 1992.

- Hill, H., 'The economy'. In: H. Hill, ed., *Indonesia's New Order; The dynamics of socio-economic transformation*. Sydney: Allen & Unwin, 1994, 54–122.
- Lindblad, J.Th., 'Economic aspects of the Dutch expansion in Indonesia, 1870–1914'. In: *Modern Asian Studies*, 23, 1, 1989, 1–23.
- Locher-Scholten, E.B., 'Dutch expansion in the Indonesian archipelago around 1900 and the imperialism debate'. In: *Journal of Southeast Asian Studies*, 25, 1994, 91–111.
- Potting, C.J.M., 'De muntvoorziening in Nederlands-Indië, 1877–1913'. In: *Economisch- en Sociaal-Historisch Jaarboek*, 50, 1987, 111–144.