

The Dualistic Economy of Palembang in the Late Colonial Period¹

Abstract

The integration into the international economy proceeded from 1870, aided first by a system of state capitalism and later, from 1912/13 onwards, by private European enterprise in tea, rubber, coal and oil. Local farmers responded to market opportunities by a commercialization of the coffee and rubber production. After a brief period of retardation in the early 1930s, smallholder rubber regained pace following the introduction of rubber coupons.

1. Introduction

In writing this paper my aim is not to pursue what seems to me to be the rather controversial discussion of whether there is a 'dualistic economy', derived from the well-known thesis of Boeke, in which he categorizes the structure of the economy of colonial Indonesia by identifying an indelible dichotomy between Western capitalist enterprise and colonial business interests on the one hand, and the static self-sufficient indigenous economy on the other. It seems to me that more than enough ink has been spilled over and criticism levelled at Boeke's theory of dualism in the Netherlands Indies (or Indonesian) context (Wertheim, 1966; Higgins, 1955). My primary concern here is to take a closer look at certain developments in the economy of Palembang, which ran parallel to main trends in the Indonesian economy from the beginning of the twentieth century, and to see if any conclusions about the relationship between the two can be drawn.

The economic trends to be considered were those stimulated by the gradual incorporation of the archipelago into a newly developing international economy, which as far as Palembang was concerned was merely an extension of agricultural production and the old commercial networks between Palembang-Batavia and Singapore, expanded to cope with the increasing demands of world markets. The integration of Palembang into this international economy would have gone ahead whether or not the 'Dutch colonial state formation' had imposed formal imperial control over the archipelago, and whether or not the

¹ This paper is partly based on: Zed (1991).

steady intensification of Palembang's links with the international economy from the beginning of the twentieth century had promoted a constantly dynamic situation, to which local people responded attempting to mould in various ways (Lindblad, 1993: 235). This is the context in which I have chosen to deal with the subject of this article.

2. Identification

The region of Palembang (now the province of Sumatera Selatan) is one of the three former residencies of southern Sumatra, the other two being Bengkulu and Lampung. The total area of the three residencies was 137,655 km². Palembang, which was the largest residency, covered 84,692 km², 61.5 per cent of the total. It was two and half times the size of the Netherlands (Richter, 1911a: 284). Most of the Palembang region is dominated by rivers flowing to the east coast. The eastern lowlands through which the rivers run is locally called the Iliran. In 1905—when the population of the Netherlands had already reached 5.8 million inhabitants—the population of Palembang was only some 684,000 (65.8 per cent of the total population of South Sumatra). By 1930 the population of Palembang already exceeded one million inhabitants (Table 1). The inhabitants of the eastern lowlands were more numerous than the population of the high plateau in the narrow western strip around the Barisan mountain range.

The contrast between the low-lying eastern area and the highlands to the west was not only geographical, but was also expressed in terms of economy and the cultural orientation of the inhabitants. The people living in the former were mostly concerned with commerce, whereas the residents of the latter were farmers. As the lives of the people were, and still are, largely dependent on the river system, the society of Palembang can be categorized as a 'riverine society' (Zed, 1991). The famous maritime empire of Srivijaya, which flourished from the seventh to the tenth centuries, had its centre in this riverine area (Wolters, 1967). The commercial characteristics of a riverine society still persisted during the era of the Palembang sultanate from the seventeenth to the eighteenth century, most demonstrably in the commercial relations between the sultan and overseas merchants (Watson Andaya, 1989).

Table 1. *Ethnic composition of the population of Palembang in 1930.*

	Europeans	Indigenous	Chinese	Other	Total
Benedenlanden	2,557	528,705	18,922	4,285	544,469
Bovenlanden	1,117	25,773	5,523	331	332,744
Ogan & Komerling	153	207,489	1,621	79	209,342
Total	3,287	1,061,967	26,066	4,695	1,096,565

Source: Indisch Verslag, 1931: 13.

During the colonial period, the Palembang region did not lose its importance, which was in part attributable to its strategic geographical location as the bridge connecting the line of trade networks between Java and Singapore, but also due to its economic potential. Possessing great economic potential in terms of both agricultural commodities (especially rubber and coffee) and mining industries (oil and coal), from the beginning of the twentieth century, Palembang became one of the two significant 'profit-making regions' (*wingewesten*) for the economy of the Dutch colonial state and for Western capitalists alike. From the third decade of the twentieth century, Palembang was not only one of the most important 'profit-making regions' for the colonial government, but it had also experienced an *udjan mas* (golden rain) for the local indigenous people, to say nothing of the free traders and job-seekers from the neighbouring regions. In 1930 Palembang became the largest city in colonial Indonesia outside Java. It had a population of 109,069 inhabitants and was larger than Ujung Pandang (Makassar; 86,662) or Medan (74,976) (Wellan, 1932: 98; Richter, 1911a: 2).

3. State capitalism and the opening-up of Palembang

The manner in which Dutch colonial power was established in Palembang is important, particularly because the colonial power played the central role in allocating all the economic resources of colonial Indonesia. The confrontation between Palembang and the colonial power was by no means unique, it was one which occurred in many other regions of the archipelago as well. It began with the dispatch of military expeditions, which were followed by the introduction of a bureaucracy and the passing of laws and ordinances. In this way the regional territory was gradually incorporated into a colonial system in which a partnership between the state and capitalist enterprise was essential.

As with the adjacent regions in Sumatra, the pre-colonial history of Palembang was a record of a tripartite struggle between Britain and the Dutch who were trying to merge the region into their own respective possessions on the one side, and resistance from the Malay sultanate on the other side. Political intrigues and armed conflict marked the period 1816–1825 which ended with a Dutch victory. This marked the beginning of the colonial era in Palembang. Although the process of colonial expansion to the hinterland continued with the establishment of Dutch military outposts in a number of new administrative centres, this region was not yet significant in colonial economic exploitation (Zed, 1988).

The year 1870 may be considered a turning-point in the economic development of colonial Indonesia, inaugurating a new phase in which government intervention was applied more and more systematically. This was the beginning of the operation of 'state capitalism' (Milliband, 1969; Villami, 1979). In 1870, the colonial government introduced two laws concerning the future economic exploitation of the Netherlands Indies: the so-called Sugar Law, which was particularly relevant to Java, and the so-called Agrarian Law which regulated

property rights throughout the archipelago. These two laws opened up great opportunities for co-operation, and leading to the further involvement of European capitalist enterprises in developing their business activities both in plantation agriculture and coal and oil extraction outside Java, especially in Sumatra, Kalimantan (Borneo) and Sulawesi (Celebes) (Schöffers, 1980; Prince, 1993).

In the case of the Palembang region the years 1887–1893 alone saw the establishment of 21 coffee estates on *erfpacht* land (*i.e.* uncultivated land on lease for 75 years) on the high plateau of Pasemah. Nevertheless, right until the beginning of the twentieth century these areas were actually less interesting from a commercial point of view than the Deli (East Sumatra) region where the planters vied with each other to invest their capital in the tobacco plantations (Thee, 1977; Stoler, 1985). This state of affairs was partly due to the fact that these areas were relatively unknown to the circle of European private capitalists in Batavia and partly due to the red tape which they would have to fight through (Richter, 1911a: 276).

In fact, the opening up of Palembang to private European enterprises occurred only after the reorganization of the local administration in 1912/13, which made it easier to obtain concessions on *erfpacht* land (Hoedt, 1930: 9). By this time too new agricultural products such as tea and later rubber which would prove even more important, had appeared on the scene, while this was also the period in which the foundation was laid for the exploitation of the region's coal and oil reserves. From this time on the waves of the opening of European private plantation agriculture rose dramatically from only 21 plantations in 1905 to 51 by 1916 (Table 2), plus 35 concessions for oil exploration (Hoedt, 1930: 9).²

Some of the important plantations grew both tea, coffee, later also turning to rubber. One of the big enterprises operating in this region was the Handels Vereeniging 'Amsterdam' (HVA), which began with coffee and rubber plantations on land totalling 31,6260 hectares including coffee estates on the Tebing Tinggi high plateau and rubber plantations in the Musi Ulu (upstream Musi River areas).³ Other foreign-owned companies such as the Cultuur Maatschappij 'Indragiri' (Swiss capital) established coffee and tea plantations on 2500 *bouw* of land in the Pasemah Highlands. A Swiss joint-venture with German capital, the Straits & Sunda Syndicate, started a rubber plantation on 7,000 *bouw* of land in Muara Dua (Hoedt, 1930: 165).⁴

The Nederlandsche Handel Maatschappij (NHM), originally a trading concern which later switched to banking, had already opened a branch in Palembang in 1841. The NHM was the biggest rubber exporter in colonial Indonesia and in Java it controlled more than 17 sugar factories (Allen & Donnithorne, 1957:

² Algemeen Rijks Archief (ARA), The Hague: Koloniën (Kol.): Vol. AA215. Memorie van Overgave (MVO) Palembang, by W. Steinbuch, 1936: 282.

³ ARA: Kol.: Vol. AA211. MVO Palembang, by O.M. Goedhart, 1925: 19.

⁴ Total share of large agricultural estates owned by European private firms in Palembang: Dutch (59 per cent), British (34 per cent), others, including German and Swiss (7 per cent).

Table 2. *Areas with major crops owned by European estates on leased land in Palembang, 1890–1929.*

	District	Crop	Number	Planted area (hectares)
1890	Pagar Alam	Coffee, tea	21	37,000
1900	Idem & Ranau	Coffee, tea	42	117,733
1910	Idem & Ranau	Coffee, rubber	12	28,592
1916	Idem & Komerling	Coffee, rubber	60	82,073
1925	Idem & Komerling	Coffee, rubber	?	89,622
1929	Idem & Musi Ilir	Coffee, rubber	110	95,320

Source: Wellan, 1932: 305.

188). By 1900 this company had already opened about 40 coffee and tea plantations covering 11,733 hectares of land in the Palembang region, primarily in the areas of Ranau and Pagar Alam. Up to 1929 this firm and other European enterprises also opened rubber plantations on 95,000 hectares of land in the Musi Ilir region (Hoedt, 1930: 189; Maandbericht, 1923–1940). Before the depression of the 1930s, the output of both coffee and rubber produced by the European agricultural plantations (*onderneming*) was still less than that of the smallholders (Table 3). This may have been due to the fact that company investment seems to have concentrated much more on mining industries. Besides, the export crops of the smallholders were fairly competitive.

Mining, *i.e.* oil and coal, made a major contribution to earning export revenue which could then be used by both the state and private enterprises. Since the first discovery of an oilfield in the region of Lematang Hilir in 1891, fresh explorations in the period 1899–1930 resulted in 35 new concessions for oil-mining with a total area of about 126,661 hectares. Most of these fields (71 per cent) only began producing in 1916 (Wellan, 1932: 357).⁵ The Royal Dutch Shell, through its subsidiary the BPM (Bataafsche Petroleum Maatschappij) remained the only main oil company operating in colonial Indonesia. However, the American-owned Standard Oil also started operations in 1912 through its subsidiary the 'Koloniale' or NKPM (Nederlandsche Koloniale Petroleum Maatschappij). In the years 1914–1921 the 'Koloniale' began drilling and established an oil refinery at Sungai Gerong, near the city of Palembang (Segers, 1987: 143–152; Allen & Donnithorne, 1957: 172).

In 1921, after the government went into co-operation with the BPM and the NIAM (Nederlandsch-Indische Aardolie Maatschappij), oil exploration in this region was extended to Jambi from where some of the oil was pumped by pipeline to the Sungai Gerong refinery. At this stage, Palembang had already become the biggest oil producer in Sumatra with a total production of 402,726 tons against East Sumatra (82,528), Aceh (86,924 tons), Jambi (5,773 tons)

⁵ ARA: Kol.: Vol. AA215. MVO Palembang, by W. Steinbuch, 1936: 282–285.

Table 3. *Comparison of indigenous agricultural production with European estate production in Palembang, 1923–1929.*

	Indigenous Coffee	Rubber	Estate Coffee	Rubber
1923	12,026	3,200	8,716	-
1924	19,881	6,506	16,903	-
1925	20,981	11,951	19,466	242
1926	25,364	11,488	32,591	313
1927	23,407	15,082	18,188	498
1928	28,229	12,509	16,405	668
1929	17,818	15,687	14,534	718

Source: *Tijdschrift Vereeniging van Landbouwconsulenten in Nederlandsch-Indië* 8 (1931) 820.

(Blink 1928: 123). From 1930 Palembang was responsible for one-third of the total oil and gas production in colonial Indonesia, coming into third place after the residencies of Southeast Kalimantan and East Sumatra (Wellan, 1932: 346).⁶ During World War II, the Palembang oil industry was the only one to operate in a relatively intact condition. The other refineries (3 in Sumatra, 1 in Kalimantan, and 3 in Java) had all been destroyed in the implementation of the Dutch scorched-earth policy prior to the Japanese occupation in 1942.⁷

The coal-mine at Bukit Asam in Tanjung Enim (c. 220 km from Palembang) had started production in 1917. Two years later, after the Bukit Asam coal-mine had been purchased from the 'Lematang' Maatschappij by the Dutch state, its production capacity equalled the Ombilin mine in West Sumatra, the only other major coal-mine in Sumatra. Yet another coal-mine was opened in 1917 at Bengkalis in Riau, but Bukit Asam emerged as the most important supplier of Sumatran coal in the decades preceding World War II (Wellan, 1932: 357; Allen & Donnithorne, 1957: 172).⁸

The joint opening-up of Palembang by the government and Western enterprises during the first three decades of the twentieth century brought a rise in export and import values in its wake, thereby also increasing government revenues from this region (Figure 1). Government revenue was marked by much fluctuation until 1930 but then increased. In 1933, for example, net returns pocketed by the regional government amounted to 4.2 million guilders and one year later, in 1934, net returns had doubled exceeding 7 million guilders (Wellan, 1935: 231). The implication of these rapid changes also proved to have a great impact on the local peasant economy.

⁶ The production capacity of the oil industries in various production areas in colonial Indonesia was: Kalimantan: 5,500,000 tons *aardolie* and 540,000 tons *aardgas*; East Sumatra: 2,600,000 tons *aardolie* and 270,000 tons *aardgas*; Palembang: 2,250,000 tons *aardolie* and 66,000 tons *aardgas*.
⁷ ARA: Buitenlandse Zaken: Londenarchief (LA). Dz/H.51. 'Japan's War Economy' (1943).

⁸ In the period 1925–1928, annual average supply of coal went to private companies (142,821 ton) and to state companies (68,485 ton).

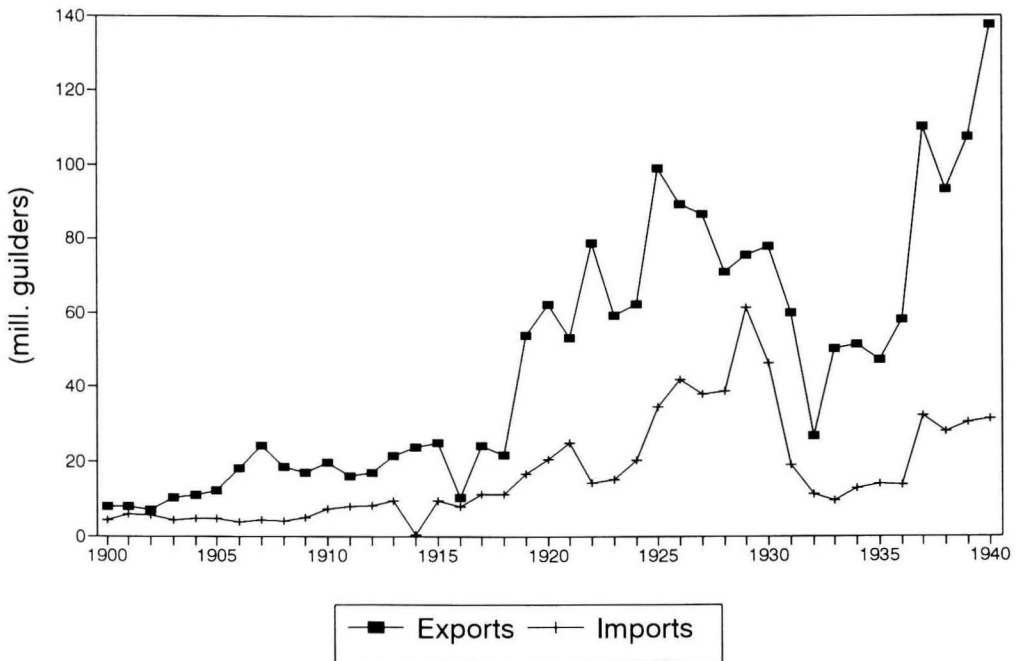


Figure 1. *Foreign trade of Palembang, 1900–1940.*

4. Local response

In depicting the impact of rapid changes during the first three decades of the twentieth century, Boeke refers to the transition of local transportation infrastructure ‘from trading *prahu* to loading *prahu*’ and ‘from tilt-cart and pack-horse to rail and car’ (Boeke, 1947: 17). This example can be suitably applied to Palembang. The first example is relevant to the boom in indigenous rubber in the riverine area and the second is opposite to the highlands. The impact of Western enterprises or foreign exchange controls on indigenous society also abounded in various other regions in colonial Indonesia.

Yet, Boeke views such examples from the point of view of his classical theoretical framework. He maintains that there were changes in the ‘native’ sector of the economy during the last seventy years of the colonial period, but there were not in any sense parallel changes. Such changes were merely elaborations of the existing system and were not engendered by the introduction of a new one, in the sense that the indigenous economic infrastructure remained largely unchanged since indigenous producers persisted with their ‘traditional’ basis,

even though they produced the export crops for the world market, mostly via Singapore (Figure 2).

It is clear that both the colonial government and private Western companies played a role in encouraging local peasants to produce more profitable export crops. Urban facilities and communication networks, built by the government and/or private Western companies, at least coincidentally did help local people to extend the commodity range of their agricultural production and also to introduce some division of labour within the indigenous sector itself. However, taking a closer look at the stages and development of the indigenous agriculture sector in the period studied, it is pretty clear that the coffee and rubber producers were not completely unaware of any of the advantages to be derived from their exertions, even though these applied only to small-scale production. Stimuli from the world markets pulled them further into a process of commoditization. These arguments need further clarification.

The first point is that at the time plantation agriculture was still at the experimental stage, whereas coffee and rubber were being produced and marketed by local peasants. Except for tea cultivation, which was entirely in the hands of large plantations, coffee, and later rubber, were grown for home con-

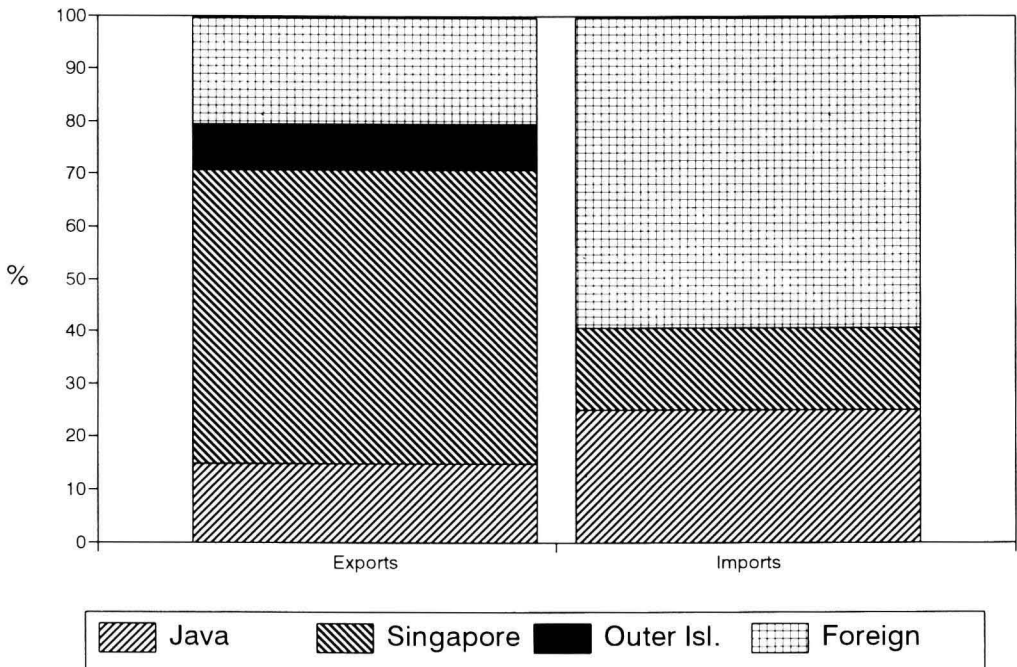


Figure 2. Overseas trade of Palembang: Composition in 1928.

sumption. By the end of the nineteenth century local coffee production, particularly the Arabica coffee from the Pasemah plateau, Semendo and Ranau, was available in the local *pasar*. At the beginning of the twentieth century it was reported that an estimated 15,000 piculs of local coffee were available on the Palembang market (Verslag, 1929: 178). Since the market price during the first decade of the twentieth century was not particularly favourable, the local coffee output fell to only about 4,000 piculs.⁹

However, until the mid-1910s, nothing specific can be said about the volume of coffee production on the European estates, even though they had been in operation since the last decades of the nineteenth century. Up to 1913, they had to be satisfied with their business producing no more than three tons of coffee. Even when the so-called 'Pasemah' estates, near Pagar Alam, started to book their record of 14,000 tons of coffee production in 1919, indigenous coffee production maintained around the estates tended to increase simultaneously since the local people there had the opportunity to sell their own harvest directly and to buy coffee seeds from the estates. Until the early 1920s, the volume of coffee production was still much larger than that of rubber; especially in 1924/25, when it made up 64 per cent of Palembang's total agricultural export crops but later on the position of coffee production was taken over by rubber (Touwen, 1991: 143).

Indigenous rubber cultivation in Palembang came later than that of coffee cultivation (Voon, 1976). Between 1906 and 1910, indigenous rubber growing was still in the *kinderschoenen* ('its infancy'), mainly because it was not encouraged systematically (Wellan, 1932: 263). However, a considerable turning-point was reached when the success of the rubber boom reverberated for the first time throughout the villages of the riverine area. The market price rose to about 120–130 guilders per picul in 1915, and after that the area of local rubber cultivation was expanded quickly.¹⁰ Before 1920 rubber cultivation had already become mass-cultivation. Virtually everybody in the low-lying flatlands in the riverine area owned his own rubber trees. The so-called *roemah toempak*, storage places for rubber, were scattered throughout areas such as Ogan, Komeriing, Musi Ilir, Rawas and Lematang. In the *roemah toempak* rubber could be stored before being taken to the market directly by the producer or kept while awaiting collection by traders based in Palembang (Soeloeh, 1917).¹¹

It can be said that the above-mentioned commercialization was not altogether new in the Palembang region, especially in the Iliran area. What was really new was the scale, or the degree, of the involvement of the local peasants in the agricultural commercialization as part of the local response to the increasing demands of world markets and also, of course, the consequences of this. It is often said that the transportation systems built by either the government or

⁹ ARA: Kol.: Vol. 214. MVO Palembang, by I.A. Rijn van Alkemade, 1906: 28.

¹⁰ ARA: Kol.: Vol. AA215. MVO Palembang, by J. Tideman, 1929: 248.

¹¹ In 1917 there were about 20 large-scale Chinese and indigenous traders who came regularly every month from Palembang to buy indigenous rubber in the hinterland.

European estates as well as all the urban facilities provided, had been both controlling factors and competitive advantages for the distribution of local agricultural commodities. Thus, in colonial Indonesia and Malaya in general, the spatial spread of rubber cultivations by peasants tended to run along the same lines as the evolution of road and railway networks and/or the pattern of development of administrative centres (Allen & Donnithorne, 1957: 279). Thee, quoting Myint, also emphasizes these tendencies when he says that improvement in transportation and communication systems became one of the crucial factors for rapid expansion in indigenous export production (Thee, 1989: 141).

The spatial area of indigenous agricultural commodities such as coffee and rubber in Palembang tended to spread in a centripetal pattern which originally started from old trees around the village areas (*dusun*) and then moved up to new arable land far at quite a distance from outside the original villages. This was largely due to the geomorphological nature of Palembang's topography, which was dominated by numerous rivers so that local peasants persisted in their use of the existing transportation network: the *prahu* in diverse sorts. In practice little can be said about the nature of local dependence upon the transportation networks developed by the government or private companies, except for long distances. As far as the regional water transportation business was concerned, Chinese and local companies also offered much competition (Zed, 1991: 89).

Undeniably, the colonial government and private Western enterprises did introduce some of the new skills which were needed by local peasants to improve the quality of their agricultural products enabling them to become more marketable and thus to raise prices. The process of commoditization occurred concomitantly with the process of commercialization. Financial transactions became far more frequent than before. Money from rubber output was needed to satisfy 'modern' luxury demands; a trip by motor boat or motor car or as part of the festivities at the end of the fasting month, for it was, and still is, a time-honoured custom to invest in new garments on this occasion (Richter, 1911b: 178; Wellan, 1932: 481, 489).¹²

It is also important to note that the presence of foreign trading firms introduced a new social and political polarization within the community. To some extent this division followed the racial lines described by Furnivall in terms of a plural society (Furnivall, 1939). Other factors to be borne in mind are that the Dutch administered the region as an integral part of the Netherlands Indies and private Western companies virtually controlled the modern economy which their capital had created. These firms, both estates and industrial enterprises, acted as intermediaries between the peasants and the world market. This intermediary role was also performed by Chinese traders in close co-operation with the Chinese business trading communities in Singapore (Thomas & Panglaykim, 1976).

¹² ARA: Kol.: Vol. AA215. MVO Palembang, by J. Tideman, 1929: 254.

Western investment triggered off a large-scale immigration of new people into this region, whether as contract coolies or so-called 'free' labourers, traders or professionals such as teachers, doctors, lawyers and the like. All of these developments, also determined the nature of the ethnic polarization in Palembang and affected the nature and performance of the local political leadership in contemporaneous development in the region, at least, until the time of the national revolution in the years 1945–1950.

5. The depression of the 1930s and its aftermath

Economic crisis (*malaise*) on a worldwide scale occurred in 1929/30 and the nadir of the depression in 1933 brought a worsening of agrarian conditions in colonial Indonesia as prices and foreign trade continued to decline and credit dried up. What is called the *agricultuurcrisis* was not, strictly speaking, a real crisis, that is to say a fortuitous event occurring suddenly and disappearing as rapidly as it arose. This was true for local business cycles. Although peasants, especially rubber producers, were severely hit when the products of their soil were sold at a loss, with the exception of the family of the local elite, the *pasirah*, they could generally still obtain the funds necessary to replenish their stock, reconstruct the necessary crops, except rubber trees and find ways to survive.¹³

Western estate agriculture and mining were especially hard hit by the grim conditions of the depression in the 1930s when the total values of exports and imports fell drastically (Figure 1). Some of the Western private companies were forced to give up their operations and others to reduce the scale. In 1934 through the initiative of the ZUSUMA ('Zuid-Sumatra Landbouw- en Nijverheids-Vereeniging'), a European business association which was established in 1925, their business activities could slowly be restored.¹⁴ Similar to AVROS ('Algemeene Vereeniging van Rubberproducenten aan de Oostkust van Sumatra'), one of the largest planters' business associations in the residency of East Sumatra, the ZUSUMA organized some 19 agricultural and industrial companies with 75 members, and after 1934 began recruiting new employees. The need for new labour was a natural consequence of the events in the early 1930s, when many contract coolies had run away from the plantation and industrial companies because of the inability of the companies to pay wages to their workers and employees.¹⁵ The result was that the structure of their manpower changed from contract coolies to free workers (Thee, 1989).

Thus, when the government introduced the *Rubberrestrictie*, a government policy to limit rubber production in 1934, many former contract coolies went to

¹³ ARA: Kol.: Vol. AA215. mvo Palembang, by J. Tideman, 1929: 248; Vol. AA214. mvo Palembang, by J.L.M. Swaab, 1933: 21. The estimation of minimal average property of small-scale indigenous rubber cultivations approximated about 800–1,000 rubber trees, while a large-scale holder was above 10,000. For 100 rubber trees could obtain circa 1 *katti* (= 100 pounds).

¹⁴ ARA: Kol.: Vol. AA215. mvo Palembang, by J. Tideman, 1929: 278.

¹⁵ ARA: Kol.: Vol. AA215. mvo Palembang, by W. Steinbuch, 1936: 277.

work as labourers on the smallholders' rubber cultivation (Van den Berg, 1984/85). In Palembang this policy was better known as *kupon karet* ('rubber coupon'), that is to say the issuing of licensing cards to the owners of rubber smallholdings entitling them to sell their products. The amount of the coupon was regulated on the basis of the quota of the rubber trees owned by the peasants. This was in accordance with the fluctuation index of the world market price, on the basis of which the colonial government, through its agencies such as private banking concerns or commercial firms, determined the value of crops. These agencies gave information to the peasant regarding, for instance, the monthly price indexes. As an illustration, in the middle of 1937 the price of the Palembang rubber coupon was 50 cents per kg (Boeke, 1947: 50–51). At that time many banks and rubber-trading companies re-opened their offices or set up new ones in the rubber-growing districts.

The rubber coupon eventually succeeded in stimulating the peasants to increase their rubber production capacity to a maximum level. These smallholders who had neglected their farms since the beginning of the depression, now began to take care of their rubber gardens again. Some even opened new, larger rubber gardens. Thus, in 1940 no other regions in colonial Indonesia were able to match their smallholder rubber cultivation at the most extensive level, but Palembang (Table 4). In the meantime, the rubber

Table 4. *Distribution of acreage of indigenous rubber cultivations in colonial Indonesia in 1940.*

	Planted area (hectares)
<i>Java & Madura</i>	16,413
<i>Sumatra</i>	
Aceh	99,077
East Sumatra:	
- Estates	43,970
- Bengkalis	36,518
Tapanuli	64,202
West Sumatra	25,550
Riau:	
- Indigenous	27,947
- Indragiri	20,798
Bangka & Belitung	15,507
Jambi	71,246
Southern Sumatra	
- Palembang	188,938
- Bengkulu	2,944
- Lampung	6,567
<i>Kalimantan</i>	
West Kalimantan	113,313
South and East Kalimantan	87,894
<i>Other</i>	146
Colonial Indonesia	731,037

Source: Van Gelder, 1950: 466.

coupons had increased the incomes of the peasants and thereby their purchasing-power. The flow of goods from the factories went up again, bicycles, canned milk and sewing-machines, were sent from Batavia and Singapore to this region. Japanese goods irrespective of their prices were carried to the hinterland. At that time, the *mantri teller*, the official who counted the rubber trees of the peasants, became well-known among the local people because they benefited substantially from the rubber coupon policy. The government too greatly augmented its income as the result of the people's prosperity.

In 1937 an institution called *dana karet* ('rubber fund') was created. It was financed by a special export duty on indigenous rubber. The money was used exclusively for government projects in public utilities such as research on plant diseases, the building of hospitals, irrigation projects and the like, and the monumental project of the Ogan long bridge, connecting the two banks at the Ogan rivermouth where it flows into the Musi, the largest river of Sumatra which bisects Palembang city (Zentgraaff & Van Goudoever, 1947: 31).

In 1940, two years before the fall of the Dutch colonial regime, Palembang saw the zenith of its economic growth. Several districts in the region even succeeded in collecting funds to buy 'aeroplanes' which were donated to the government. Such a present was given by the rubber peasants from the district of Talang Batutu to the Palembang Resident through their village heads at the beginning of January 1941. A similar present was also offered by the people of the *afdeeling* of Palembang Ulu, which surpassed any present received from the people in any other *afdeelingen* in Palembang. To quote the monthly local magazine, *Soeloeh Marga*, June 1941, the written acknowledgment of the Resident of Palembang, A. Oranye, to the people of the *afdeeling* of Palembang Ulu proudly ran as follows:

'Oleh Kepala-Kepala telah dikoempoelkan dari pendoeoek Afdeeling Palembang Oeloe dari Keresidenan ini oelang derma sebegitoe banjak, sehingga sekarang soedah dapat dibeli lagi satoe mesin terbang "Spitfire", ialah anoegrah jang ketiga dari pendoeoek Afdeeling tersebut. Oleh karena itoe dengan djalan ini kami sebagai Residen Palembang, atas nama pemerintah Hindia-Belanda, mengoetjapkan terima kasih jang tidak terhingga kepada sekalian toean-toean Kepala-Kepala dan pendoeoek jang telah memberikan bantoean sebegitoe besar hingga dapat dibeli alat peperangan jang sangat besar artinja oentoek mentjapai kemenangan bagi kerdjaan Nederland choesoesnya, dan bagi Negeri-Negeri Serikat oemoemnja.'

The economic activities of the local peasants now moved into a higher gear which only came to an end with the Japanese invasion in 1942. In general the Palembang society, as well as the foreigners who had come to this region, seem to have enjoyed the profits and wealth to be reaped from its rich economic resources. But the economic situation changed dramatically with the threat of a war with Japan. In the meantime Palembang society was also undergoing a series of important changes which ran parallel to the crucial changes in colonial policy prior to the fall of Dutch colonial rule in 1942.

6. Conclusion

While the colonial government had undeniably succeeded in conjuring up Palembang as one of the most profitable regions (*wingewesten*) in Sumatra, both augmenting state income and a 'golden land' for Western private enterprise, what was the cost/benefit ratio of such far-reaching developments for the local people, especially for the peasants? Discussions about the impact of the relationship between Western capitalists and local society seem to have been triggering off perennial debates for nearly a century. One of the main themes that has not yet been completely answered in this article is, to what extent exactly did Western companies—involved in various lines of production (both agricultural and mining), and at different times—affect the economy of local society? We have tried to focus our attention on a number of important points that are related to what actually happened in the agricultural sector of the local peasants during the period studied, particularly the participation of peasant society in the economic development of the colonial state.

Generally speaking, the specific impact of Western capitalist economic development on the local people refers to matters such as monetization, preservation of the traditional elite, commoditization of some agricultural products, population mobility and job opportunities. Yet, all these symptoms were gradually regarded by the most Indonesian people as symbols of exploitation and oppression (O'Malley, 1988: 234). As far as the case of Sumatra is concerned, such phenomena may be closely related to the developments in the East Sumatra region. As Lindblad puts it, East Sumatra long epitomized colonial economic expansion outside Java in its most dramatic form (Lindblad, 1993: 234). This impression, while accurate for certain things and for certain periods, is by no means true for the whole of Sumatra. East Sumatra may be considered a paradoxical region. It was described as a '*tanah emas* [golden land], a heaven for the capitalists, but a land to wring the tears of the dead, a hell for the coolies' (Reid, 1979: 39). In the context of the case of Palembang, on the contrary, we may observe rather different results. The opening-up of this region by Western agricultural and mining meant not only a *tanah emas* for capitalists, but also an *oedjan mas* (golden rain) for local peasants and in this we are following indigenous terminology pertaining to 'good luck' obtained from the 'rubber coupon' policy.

The key factor in this success might very well lie in a combination of different variables at different times. One of the most important factors was probably the flexible response of local peasants to challenges emanating from the outside world, especially foreign markets. The history of Palembang proves that this region was not only one of the richest and most accessible parts of the Outer Islands, but it was also strategically located to control trading links between Java and mainland Southeast Asia on the other side of the Straits of Malacca. And with their eyes open to every advantage, the local riverine society seemed to possess a plethora of options for future development. It is reasonable enough to say that when the colonial government introduced the 'rubber coupon' policy,

this was perceived by local peasants to be a real opportunity and not merely a measure of another agricultural policy. The difference between a policy benefiting peasants and agricultural policy in general is important. The former was geared more towards the subject or actors themselves, whereas the latter focused on business activities as such. The former enabled the peasants to increase their prosperity with greater freedom, while the latter allowed an almost uninhibited interference by capitalist business enterprises. Under the latter conditions, the fate of local peasants still seems to have been unfortunate, a fundamental issue that, in fact, still reverberates in the economic development of Indonesia today.

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