

## Moneylenders and Merchant Bankers in India and Indonesia

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Rural (and to a lesser degree urban) finance nowadays forms one of the key concepts of development planning. Access to cheap capital at the grassroots level is identified as a means for development. Among perceived obstacles to development are the insufficient creditworthiness of the target groups and traditional forces such as moneylenders, who -- depending upon the particular concept -- have to be eliminated, curbed by competition or integrated for the sake of development. Unfortunately, development planners are subject to a high degree to means-end rationalizing, which limits their perspective to the present and future of their specific settings.

The author considers past history important, in the sense that contemporary financial landscapes and regional differences are largely a result of processes in the past, transcending national political levels. Professional moneylenders such as the Chettiar in colonial Asia are a structural phenomenon of expanding merchant capitalism. Once a market integration of certain regions has been achieved, such moneylenders eventually lose their function as they are replaced by banks, and they move into other business-related or industrial activities. Besides such large-scale professional moneylenders there have been, and still are, many various small-scale part-time moneylenders in developing countries. They belong structurally to the market economy, providing credit to marginalized people beyond the scope of banks (Schrader 1992).

This paper will test this hypothesis with a review of professional large-scale moneylenders in pre-colonial and colonial India and colonial Indonesia. Scholars of Indian financial history stress two issues in particular. One is the growing rural indebtedness during the second half of the nineteenth and early twentieth centuries, the other is the “indigenous banker” who still participates in the Indian economy. The literature on Indonesian history has no direct evidence of professional large-scale moneylenders or indigenous bankers. The colonial literature focusses on changes in society and economy and, at the turn of the century, the “ethical policy”, two facets of this policy being popular credit and public pawnshops. One may, therefore, ask whether in Indonesia there were no professional large-scale moneylenders who pushed forward market integration and, if not, how this is to be explained. To provide a possible answer, the financial landscapes in both countries will be reviewed.

### India: Moneylenders, Indigenous Bankers and Commercial Banks

#### *Definitions*

According to the Study Group on Indigenous Bankers (1971), hereafter SGIB), a moneylender lends his own funds, while an indigenous banker acts as a financial intermediary by accepting deposits or making bank credit available. While moneylenders do mainly cash transactions, indigenous bankers deal in short-term credit instruments (*hundis*<sup>2</sup>) for financing the production and distribution of goods and services (SGIB 1971: 9). The profit of indigenous bankers is based on the quick turnover of capital. They prefer lending high amounts to a limited number of clients and to leave the financing of agriculture to moneylenders.

#### *Indigenous Bankers Until the Mid-Eighteenth Century*

According to Habib (1964), medieval India ranges from about the beginning of the thirteenth until about the mid-eighteenth century, i.e. until the introduction of British rule. During the medieval period the Mughal emperor Akbar had introduced a common monetary system, free movement of goods and a system of land allocation and taxation throughout the empire. Moneylending and indigenous banking were already ascribed to certain castes, and were found all over the country. Almost all peasants demanded short-term loans to bridge

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  2. A clear definition of a *hundi* has never been provided by any authority on banking. *Hundis* perform three functions: (1) the raising of money, (2) the remittance of funds, and (3) the financing of inland trade (for details see SGIB 1971: 48f).

the income gap until the next harvest, to pay taxes and to pay for social events. Credit suppliers were various semi-professional lenders such as village headmen, well-off agriculturalists, traders, *zamindars* (tax farmers, revenue collectors and landlords) and some professional moneylenders. Demand came from peasants, artisans, merchants, and nobles. The rates of interest varied widely and depended upon the security offered. Repayment normally took place in kind, by labor service or sometimes by the sale of the debtor's children (Goldsmith 1987: 113). Sometimes whole villages were indebted to *mahajans* (moneylenders) to pay land revenue and repay old debts.

While the financing of cultivators was a matter for moneylenders of various kinds, indigenous bankers were concerned with the financing of trade, nobles, the state, and the emerging East India Company. Most of them were merchant bankers. Commercial interest rates varied considerably according to place.

Medieval India consisted of a complex web of cash and kind credit from the village level up to the highest commercial plateaux, provided by moneylenders for the financing of agriculture and indigenous bankers for the financing of trade. A third sphere was the financing of the state by certain top indigenous bankers: treasurers, minters, money changers and financiers of the government production units (*karkhanas*) and of the monumental Mughal architecture. These credit agents existed in spite of the strict prohibition of interest by the Qur'an, which was circumvented in many ways.

With her "great firm theory" Leonard (1979) goes beyond a pure description of indigenous bankers during the Mughal period and makes them responsible for the decline of the Mughal Empire. Others hold the increasing indebtedness of peasants to *zamindars*, and resulting rebellions, as well as an inflated superstructure, as responsible for its decline. Leonard's argument runs as follows. The rise and maintenance of the Mughal empire required a strong central administration and a coalition with strategically important groups and institutions to keep down various oppositional élites. Traders and bankers were important for the provision of goods and cash to the "unproductive" administration. A monetized market economy and a complex system of credit was already existent. The "great firms" were multi-purpose enterprises that included indigenous banking. When the trade in Surat harbor declined for lack of state protection, these firms began to look for business elsewhere, such as revenue collection or financing other emerging powers, particularly the East India Company.

Leonard's argument is supplemented by Subramanian (1987: 510), who even speculates that the rise of the Company at the West Coast was assisted by Surat and Benares indigenous bankers. Toward the end of the eighteenth century, however, the British tried to free themselves from dependence on indigenous bankers by issuing government bonds and institutionalizing their own banks. This coincided with a step-by-step reduction of the functions of indigenous bankers. The British abolished the farming-out of revenue collection in 1778, renounced the take-over of debts of former rulers to indigenous bankers, incorporated the import-export trade, eventually appropriated the minting rights and introduced a single currency (1834-35) for all-British India.

### ***Indigenous Bankers in British-India and Independent India***

The reduction of the functions of indigenous bankers, however, did not make them disappear. The British believed in economic liberalism and a self-regulating market, and did not introduce -- parallel to the decentralized administration -- a well-organized and decentralized financial system. During the colonial period there existed, as Tomlinson (1979: 8) calls it, "a three-decker-system of credit institutions which, linked together to some extent, were capable of running along distinct and sometimes diverging lines". It consisted of British exchange banks with their branches in India, Indian import-export firms and Indian and expatriate joint-stock banks, and indigenous banks. I see another three-tier distinction: an upper one for the financing of import-export trade and the colonial state (banks and British import-export firms), a medium one for the financing of domestic trade (indigenous bankers with certain refinancing possibilities at banks), and a lower one of financing agriculture (moneylenders of different forms). In addition to the organizing and financing of domestic trade in India, the British expansion to Burma, Malaya and Ceylon provided new opportunities to indigenous bankers for the financing of pioneering activities in trade and agriculture, that is, risk finance in which banks were not willing or able to participate. Increasing rural indebtedness during the second half of the nineteenth and early twentieth centuries together with land alienation caused the British eventually to interfere with the money market by passing legislation on moneylenders and usury. Their hesitation stems from the dilemma of depending on moneylenders for pre-financing land revenue payment by cultivators, while also fearing peasant revolts resulting from increasing rural indebtedness and land alienation (cf. Dhanagare 1991). The new laws required the registration and licensing of professional moneylenders, adequate recording of transactions and accounts, and issue of receipts for all payments made by debtors. However, few moneylenders complied.

Official interference with the financial market has continued after independence. As a whole, the importance of informal finance has decreased during the post-colonial period. The SGIB (1971: 113) estimates for 1968 a

total of almost 34,000 moneylenders and indigenous bankers, of which more than 19,000 are urban based.

The interest rates of indigenous bankers vary according to place, type of the loan, security provided, duration, etc. Prevailing rates of interest reported for the 1970s are 18-36 percent per annum. Risk loans bear an interest between 6.25 and 12.5 percent per month (Timberg and Aiyar 1980: 280). Some indigenous bankers accept deposits, offering deposit rates.

In nineteenth and twentieth century India the important indigenous bankers were Multanis, Gujarati Shroffs, Marwaris, Nattukottai Chettiars and the Kallidaikurichy Brahmins. Most combined banking with trade, and nowadays with commission agency business or hire-purchase financing. Few of them are pure bankers. The bulk of credit provided is for commerce and small- and medium-scale industries. Special demands come from such enterprises which have no physical security to offer.

Various committees have suggested the integration of indigenous bankers in the formal money market, but the indigenous bankers' association rejects this. The SGIB considers the indigenous bankers an indispensable link in the money market for certain neglected sectors of the economy such as small-scale trade and industries. With the nationalization of commercial banks in 1969 and 1980 and the application of a multi-agency approach, formal credit has been geographically and sectorially expanded (Bouman 1989; Balamohandas 1991). However, until now the indigenous bankers have found niches which are insufficiently covered by banks or government credit programs.

To sum up, most of the indigenous bankers in India moved into merchandizing-cum-banking or pure banking already before the advent of the British. The main field of finance was trade, both foreign and domestic. The Mughal period is generally considered to have formed the heyday of indigenous banking business. Later, and especially after the emergence of British-India, indigenous bankers were deprived of some of their functions while, on the other hand, the colonial economy provided new opportunities of opening-up regions for cash-crop production and estate business. Increasing interference of the British with the financial market during the late colonial period as a reaction to growing rural indebtedness, and of the Indian government during the post-colonial period with moneylending and usury laws and the systematic promotion of formal banks<sup>3</sup>, have led to the decreasing importance of indigenous bankers.

But what became of them? Particularly from the 1930s onward, Marwari, Gujarati, Parsi, Punjabi, Chettiar and others invested in commerce and industries (cf. Bagchi 1972; Ray 1979; Goswami 1989), the analysis of which goes beyond the scope of this paper. The long-term development of indigenous bankers reveals their high degree of adaptability to changing circumstances and opportunities and supports my argument that indigenous bankers are a structural phenomenon of merchant capitalism, with an eventual substitution by banks. However, the same business groups reappear in other sectors of the economy with better opportunities for capital accumulation.

### **Indonesia: Petty Moneylenders, Chinese Networks, Banks and Government Credit**

The literature of the Dutch colonial period has two major foci, monetization and credit in a dual economy, and rural credit that was provided by moneylenders and, after 1900, by the popular credit system.

#### ***Pre-Colonial and Colonial Economies***

Contrary to the highly developed economy of medieval India, scholars describe pre-colonial Indonesia as a predominantly agricultural, static subsistence society, remaining unchanged until 1800. Surplus was extracted by the feudal élites through taxes, rent in kind, forced labor and, to a limited degree, money. During the period of the *Vereenigte Oostindische Compagnie*, (Dutch East India Company, hereafter V.O.C.) which was wound up at the turn of the nineteenth century, regional rulers had to provide rice, coffee, cotton etc., and labor against small compensation (*contingenten*) or for free (*verplichte leverantien*) and in turn forced the peasantry to deliver these in addition to the revenue for the rulers. During this period Indonesia was less monetized and less integrated into world trade than pre-colonial India.

Budgetary deficits of the colonial government and the interest in exploiting the colony led to the introduction of the Cultivation System<sup>4</sup> in 1830, which lasted until around 1870. The colonial government, like the

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3. The early development plans of independent India were designed to develop infrastructure and industries.

Commercial banks acted primarily as short-term financiers. With the Green Revolution, the awareness of the importance of finance for agriculture and backward areas increased, and commercial banks were encouraged to offer more credit to priority sectors. In 1969 and 1980 the government nationalized various commercial banks. The number of offices rose from around 8,350 in 1969 to more than 42,000 in 1983, of which more than half were in rural regions and 9,000 in semi-urban ones (Balamohandas 1991: 1-21).

V.O.C., employed middlemen (Westerners, Chinese and *priyayi*, indigenous nobles), for communication with the population. The Chinese controlled trade and moneylending, tax-farms (local and regional monopolies farmed out to private persons) for toll posts, markets or opium, and financed the feudal élites and indirectly of V.O.C. and the colonial state. In trade, they organized the flow of export goods from the inland to the harbors, while the Dutch monopolized the export.

The change from *Cultuurstelsel* to private enterprise, and the Agrarian Law of 1870, replaced forced labor by wage labor contracts, and forced commitments of land by land rent and land lease, while simultaneously land transfers to foreigners were further prohibited (Burger 1975; Suroyo 1987).

Toward the end of the nineteenth century indigenous welfare decreased significantly as a result of the world sugar crisis in 1884, population growth and increasing scarcity of land. A call for state interference, a reflection of the *Zeitgeist*<sup>5</sup>, was manifested in the “ethical policy”, with the introduction of an agricultural and irrigation system, the popular credit system (later *volkscredietwezen*) and the government *pandhuisdienst* (pawnshops).

### **Credit**

I shall initially distinguish two levels for credit in colonial Indonesia. The upper level largely financed exports, the estates and the processing factories. It consisted of state credit, later bank credit, and advances of exporting firms to intermediaries, estates and processing firms. Large-scale private indigenous credit has probably played an insignificant role in the financing of these export crops.

The lower level of credit consisted of the traditional credit relations in kind within the village, which were subjected to moral obligations and customary law, and of commercial credit relations of merchants-cum-lenders and pure moneylenders, not much different from India. One form was credit in cash or kind, to be repaid in kind after the harvest (Deventer 1904: 228). Typical were advances by Chinese merchants to farmers on standing crops (*ijon* or *idjon*). The professional moneylenders were mainly aliens: Chinese and to a lesser extent Arabs, Chettiar, and Europeans. The increase of credit and rural indebtedness occurred parallel to monetization. Dangerous for the farmers, argues Gonggrijp (1922: 540), were not so much the foreign moneylenders to whom land transfer was prohibited, but rather the Indonesian lenders. Private landownership allowed for the mortgaging of land to indigenous lenders. Did the “foreign Oriental” and European moneylenders provide a separate sphere of financing domestic trade?

### **The Ethnic Component of Moneylending**

Arab moneylenders used to operate in Java in towns between Cheribon and Semarang. Colonial literature describes them as the most usurious and violent lenders. European moneylenders worked secretly, so that hardly any data on them exist. Indigenous moneylenders are a more current phenomenon.

*Tjina mindering*<sup>6</sup> were the Chinese itinerant moneylenders in Java who provided small-scale installment credit to villagers, market vendors and small artisans. Since they lent on personal security, their debtors were not in danger of losing land or means of production, such as buffaloes. They pedalled to villages by bicycle to collect installments and to offer new loans and repayment terms, adapted to the requirements of the borrowers. Amounts ranged from one to 100 guilders. For the colonial period, typical loan examples on market days are: f1 in the morning, repaid at noon with f1.01 to f1.05; or f1 to be repaid in 12 installments of f0.10 per market day, i.e. f1.20 in total; or f5, to be repaid in five weekly installments of 1.20 or f6 in total (Gutem 1919). Recent field work in Java has shown that the *mendrik* still practices in a similar way. However, the Chinese itinerant trader-cum-lender has largely been replaced by indigenous people.

In addition to *minding*, Chinese moneylenders have combined merchandizing and shopkeeping with trade, making the moneylending aspect less apparent. During the colonial period the biggest lenders lent on

4. Originally designed as voluntary, the *Cultuurstelsel* (Cultivation System) soon became one of forced cultivation. The products were processed in factories or mills, established by entrepreneurs/contractors with government loans, mostly Europeans and Chinese. The processed goods were exported to the Netherlands by the *Nederlandsche Handel-Maatschappij* (Netherlands Trading Company) enjoying a state monopoly, and auctioning into international channels. The system got into difficulties after the 1840s.

5. The second half of the nineteenth century saw the birth of the European cooperative movement. The core idea was the protection of the common people from the harsh effects of industrialization and market integration.

6. The Dutch word *minding* means “reduction” (of credit, paid back in instalments). Burger (1930: 397) argues that, after the obligation that Chinese need a permit for traveling within Java had been abolished, the number of *Tjina mindering* increased.

mortgages to other Chinese or Europeans and employed lawyers to set up legal contracts. Reasonable interest rates are reported. Both Chinese and Arabs provided loans to civil servants and employees (Coolhaas n.d.: 112).

Chettiar research has overlooked the operations of Chettiars on the East coast of Sumatra as the outposts of Indian-based firms. The first Chettiar reportedly came in 1879. In the 1920s Medan was the main center of Chettiar moneylending activities (Westenenk 1922). Their approach was similar to that in other countries, they had overdrafts at banks and accepted deposits. Moneylending ranged from f100 to sometimes f50,000, usually against promissory notes; for high sums collateral was required. Interest rates were 12 to 24 percent per annum for big loans and higher for small amounts (Schoorl 1926). The profit of a Sumatran agent after a three-year period ranged from f20,000 to f50,000, but amounts of even f200,000 have been reported. The total capital of the seventy Chettiars in Medan has been estimated at between f10 and f12 million.

Chettiars and the big Chinese and Arab lenders provided a medium level of credit, comparable to some indigenous bankers in India. However, their number was rather limited. Indigenous banking firms in India had far-spread financial and trading networks. Were there comparable networks among the Chinese, and did the *Tjina mindering* belong to such networks?

### ***The Economic Role of the Chinese in Indonesia***

Chinese migrants in Indonesia have been engaged in trade for centuries. In addition to coolie labor, which by far outnumbered other professions, they were engaged in trade between indigenous cultivators and exporting companies, tax-farms, contracting for public work, sugar and saw mill contracting, arrack production, or as artisans. In 1835 the Cultivation System inspired a decree to have the “foreign Orientalists” live in separate quarters under their own chief and to restrict their free travelling (pass law). Although new immigration of Chinese was prohibited in 1837, shortage of skilled labor forced a revocation of this decree. The pass law, however, remained and was revised in 1863.

Rush (1990: 83-107) describes the role of the Chinese in opium farms, introduced in 1809 and replaced in 1904 by the Dutch-managed opium bureau, the *regie*. His description of Chinese patronage networks is here of interest. In many cases the tax farmers were high officials, with considerable power over the Chinese community. In addition, tax farmers were excluded from settlement and travel restrictions. The tax farms supported therefore Chinese patronage networks, which spread from the coastal cities and towns to the countryside. Various opium-farm-cum-official combines existed, each representing a complex network of economic relations, family liaisons, and cultural and contractual obligations. These *kongsi* (joint living and business houses) included tax-farms<sup>7</sup>, commercial agriculture, light industry and networks for the flow of inland produce to the harbors and distribution of imports in the country, where they were sold in shops and by pedlars. In most cases, members of a *kongsi* held different monopolies in the same region. After revision of the Agrarian Law (1879) the Chinese quickly stepped into estate business, construction, transport, etc. Opium farms, argues Rush, provided the *kongsi* with the necessary capital for the provision of credit to farmers, and allowed them to control the inland trade.

The abolition of the opium and other monopolies in the early twentieth century, replaced by government control, deprived the Chinese élite from their major income. Adaptation to other professions was necessary. Some Chinese invested in the sugar industry, others in food processing, tobacco industries, or batik factories. Many of them again became involved in trade/commerce including import-export with Chinese in Singapore, Thailand, China and Indo-China. However, many enterprises were medium or small-scale family firms, and only few entered heavy industry or developed into multi-corporate enterprises. Furnivall’s (1938) assumption that, after World War I, the Chinese in Java had a stronghold in banking, has been rejected by The Siau (1989: 173-174). On the Outer Islands there was a strong Chinese engagement in the production of raw materials and in trade<sup>8</sup>.

7. In 1850, besides the lucrative opium farm, the following “small means” existed: bazaar leases (i.e. the right to tax goods offered for sale in the bazaars), abolished in 1851; the slaughtering of cattle and pigs; fishing and the supply of fishing nets, abolished in 1864; the sale of arrack and liquor until 1864; the practice of certain occupations, the poll-tax on Chinese, the import and cultivation of tobacco; toll bridges, river crossings and sluices; the harvesting of birds’ nest; timber from forests; the products from the “Thousand Islands” close to Batavia; *wayang* performance; pawnshop and gambling house leases (The Siau 1989: 161).

8. For 1921 Cator (1936: 64, quoted by The Siau: 173) has estimated a total investment by Chinese of f340 million or 10.6 percent, compared to f2,350 million or 74.4 percent Dutch investments and f300 million or 9.4 percent British investments.

### *Volkscredietwezen, Pandhuisdienst and Banks*

Unlike in India, rural indebtedness in Indonesia gave no cause for serious discussion. One reason was that land alienation was constrained by legislation, another was the Dutch introduction of a popular credit system and public pawnshops<sup>9</sup>. Their introduction supports my argument that, unlike the British, the Dutch interfered extensively with the money market -- as before in the commodity market through the Cultivation System.

To sum up, the British in India applied a *laissez faire* policy that left room for different types of indigenous finance, but simultaneously produced increasing rural indebtedness and land alienation. The Dutch mercantile policy, on the other hand, favored market restriction, with various state monopolies and tax farms. Such an interventionist policy allowed for a speedy reaction to increasing rural indebtedness, at the expense of private entrepreneurship. This brings us to the central question: to what extent could Chinese as the only entrepreneurs in such a restricted market constitute financial networks comparable to those of indigenous bankers in India?

### Conclusion

In the Netherlands Indies, there were no specialized credit agents comparable to indigenous bankers in India, with the exception of the Indian Chettiar in Sumatra and some Chinese and Arab moneylenders. On the other hand, multi-functional Chinese networks existed, ranging from the high ranking tax farmers-cum-bureaucrats to itinerant moneylenders in the countryside. They controlled almost the whole private sector of trade and finance. How can we explain the different financial landscapes of colonial India and Indonesia?

First, in the pre-colonial period large parts of India belonged to an empire which had a highly developed monetized, partly industrialized economy, and was to a high degree involved in foreign trade. According to Alavi (1962), the British systematically undermined the existing Indian cottage industry to promote their own textile production and pushed back the Indian economy to a level of raw material production and a market for British products. In contrast, pre-colonial Indonesia was divided into many states and islands of which only a few were involved in foreign trade, while most of these states had subsistence-oriented economies.

Second, during the colonial period the economic and political situations in England and the Netherlands, as well as their colonial practices<sup>10</sup> were different. According to Furnivall (1956), liberalism combined a double aspect: material and moral, economic and social. British colonial practice developed on the premise that individual freedom and freedom of property and trade would lead to progress. This doctrine implied a money economy and merchants to build up a colonial market of export of raw materials and import of British industrial goods. The British constituted the legal framework of a market for production factors. Land became private property and transferable. Import-export trade was advantageous for British private capital. The land revenue system provided the state finance. However, the *laissez-faire* colonial style resulted in unexpected side-effects from the mid-nineteenth century onward, such as increasing rural indebtedness and land alienation, defying the assumption that the moral system of Hinduism would protect against the disruptive forces of the market. Therefore, state interference took place very hesitantly. Moneylenders and usury laws were introduced as late as the late nineteenth and early twentieth centuries, and the cooperative movement was vigorously promoted from the early 1900s. The interference, however, did not go so far as the introduction of a popular credit system as in Indonesia.

Quite different was the colonial practice in Indonesia. Following Furnivall, Tichelman's (1980: 113-125) analysis starts from the point that the industrial-capitalist colonial exploitation of Indonesia started very late because of a weak Dutch capitalist class. Raffles' British interlude had only limited success in bringing the Javanese peasant into direct touch with the market, because of the overall stagnation of society, the absence of any dynamic capitalist sector, and administrative failings. Raffles' policy was considered unsuitable for the indigenous population. Instead a "liberal policy adapted to their character and institutions" was pursued with the Cultivation System, based on state monopolies, and the maintenance of indigenous institutions for the administration.

With the 1870 Agrarian and Sugar Laws, private estate enterprise became possible on land from the govern-

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9. The *Volkscredietwezen*, with its district, village and *padi* banks was introduced in 1913 primarily to provide consumption credit, while cooperatives were intended to provide production credit (see e.g. Schmit 1991). In 1903 the government monopolized the running of pawnshops. Although public pawnshops were not introduced to make profits, they contributed to a government revenue of 163 million guilders between 1904 and 1938.

10. Furnivall (1956) distinguishes colonial policy and practice and argues that both British and Dutch colonial policies were based on the ideology of liberalism, while colonial practices developed differently: British India from "direct" to "indirect" rule and the Netherlands Indies from "indirect" to "direct" rule.

11. All land for which private ownership could not be proven was declared "state domain".

ment domain<sup>11</sup>, or on private land hired or rented from Indonesians. In all colonial phases, argues Tichelman, the Dutch channelled Indonesian products into the world market, while the indigenous people were kept away from that market and from capitalist development. High finance in the Netherlands showed no interest in investing until the early twentieth century.

From 1870 onward, private capital began to penetrate Indonesia and weaken the colonial bureaucracy, which still continued to play the role of the “protector” of Indonesian society. For the indigenous people, this period meant a much heavier exposure to the money economy, much higher tax obligations and labor services. During the “ethical period”, the Javanese standard of living fell dramatically, with a simultaneous improvement of the infrastructure, necessary for the expansion of capitalism. The years of anti-colonial struggle (1918-19 and 1923-27) hit the Dutch rather unexpectedly and their reaction was reactionary and authoritarian. This “frustrated” the rudimentary attempts at industrialization and development of Indonesian capitalism. The period was one of maintenance of the status quo and a de-liberalization of the “ethical policy” (see Kat Angelino 1931).

Colonial practices in Indonesia and India can be explained by the economic and political conditions “at home”. According to Tichelman, the specific evolution of capitalism during the late nineteenth century, with its concentration and centralization of capital and production, monopoly formation, intertwining of banking and industrial capital, falling profit rates and surplus capital export, had barely begun in the Netherlands. In other words: the Dutch did not, like the British, build up their own industry by importing raw materials from their colonies to process and re-export them as final products into the colonial markets. For a long time, they continued a mercantile exploitation policy, appropriating raw materials and produce and selling these in the world market. The related monopoly kept down Indonesian trade and shipping and confined Java and most of the Outer Islands to agricultural and estate production.

The lack of financial agents in Indonesia, comparable to indigenous bankers in India, can hence be explained by the Dutch mercantile policy of a one-sided movement of produce and raw materials from Indonesia to the Netherlands. In such a controlled economy, private credit demand and supply were rather limited. Transport to the harbors was partly financed by credit from the exporting firms to Chinese intermediaries, partly by Chinese internal networks. During the Cultivation System, the estates and certain processing industries obtained government credit, later bank credit which, similar to India, financed only certain sectors of the economy. In addition, most Indonesian estate production was not very capital intensive. A step toward imperialism, with foreign investment in domestic industries, as took place in India from the late nineteenth century onward, was for long delayed in Indonesia. To sum up my argument: large-scale professional moneylenders were not necessary in such an economy, because the opening-up of the private capital market was not pursued and private investment kept down for long. The liberalization of the economy, however, coincided with the institutionalization of foreign banks. Another factor was that the owners of capital in Indonesia were Chinese. In India, domestic investment was provided by various Indian entrepreneurs who had mostly been traders and intermediaries. In Indonesia, the Chinese traders had the necessary capital. But they were aliens, occupying the commercial sphere, while Indonesians tried to get a foothold in this field. Chinese were subjected to government restrictions and more or less regular pogroms before and after independence. This may explain the Chinese reluctance, until recently, to make long-term capital investments in a lucrative but very hostile environment.

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