

ANALYZING COLONIAL REMNANTS: A COMPARATIVE ANALYSIS OF INDONESIAN ECONOMIC DEVELOPMENT (1950–1980)

Chrystle Feodore Manlee¹⁾, Fransisca Elvanty Kurniawan²⁾

¹⁾Alumni, Fakultas Ilmu Sosial dan Ilmu Politik, Program Studi Hubungan Internasional, Universitas Pelita Harapan

²⁾Alumni, Fakultas Ekonomi, Program Studi Akuntansi, Universitas Atma Jaya

e-mail: chrystle.manlee@uph.edu¹⁾, e.elvanty23@gmail.com²⁾

ABSTRACT

The Global South has always been a running contributor to the global inequality index, becoming a threat to international stability and sustainability. In most cases, it is found that colonial dependency is one major factor that causes this hindrance in development, leading to inequality. In its journey to independence, Indonesia had undergone a strict economic system under Dutch colonialism, and further transitioned to two different governing systems before its reformation, producing different outcomes of economic policy management and spread of inequality. Thus, this research wishes to understand the differences of economic system governance between the Soekarno and Soeharto era, and whether they possess any remnants of colonial dependency integrated within them. The Dependency Theory is used in this research with the concepts of postcolonialism, development, and inequality embedded into the discussions. The data of this research is gathered through academic literature, utilizing a qualitative approach, and is conducted with a descriptive and historical comparative approach. This research finds that Dutch colonialism contributed a major role in how Indonesia manages its economic strategies and how it impacts its high social and economic inequality. Further stretching to post-independence, it is found that Soekarno's decoupling of Western values translated worse into the economy, compared to Soeharto's Western-centric approaches to trade. The root causes of colonial dependencies and habits affect the outcome of economic habits, and thus contribute to the efficiencies of how Indonesia manages its economy during the period before reformation.

Keywords: Colonialism, Postcolonial Dependency, Economic Development, Indonesia, Inequality

ABSTRAK

Global Selatan selalu menjadi kontributor aktif terhadap indeks ketidaksetaraan global, sehingga menjadi ancaman bagi stabilitas dan keberlanjutan internasional. Dalam banyak kasus, ditemukan bahwa ketergantungan kolonial adalah salah satu faktor utama yang menyebabkan hambatan dalam perkembangan ini, alhasil menyebabkan ketidaksetaraan. Dalam perjalanannya menuju kemerdekaan, Indonesia telah mengalami sistem ekonomi yang ketat di bawah kolonialisme Belanda, dan selanjutnya beralih ke dua sistem pemerintahan yang berbeda sebelum reformasi. Ini menimbulkan hasil manajemen kebijakan ekonomi dan penyebaran ketidaksetaraan yang cukup berbeda. Dengan demikian, penelitian ini memahami perbedaan tata kelola sistem ekonomi antara era Soekarno dan Soeharto, dan apakah mereka memiliki sisa-sisa ketergantungan kolonial yang terintegrasi di dalamnya. Teori Ketergantungan digunakan dalam diskusi penelitian ini dengan konsep pascakolonialisme, pembangunan, dan ketidaksetaraan yang tertanam. Data penelitian ini dikumpulkan melalui literatur akademik dengan menggunakan pendekatan kualitatif, serta dilakukan dengan pendekatan komparatif deskriptif dan historis. Penelitian ini menemukan bahwa kolonialisme Belanda berkontribusi besar dalam bagaimana Indonesia mengelola strategi ekonominya dan bagaimana dampaknya terhadap ketidaksetaraan sosial dan ekonomi yang tinggi. Lebih lanjut membentang ke pasca-kemerdekaan, ditemukan bahwa pemisahan nilai-nilai Barat Soekarno diterjemahkan lebih buruk ke dalam ekonomi, dibandingkan dengan pendekatan perdagangan Soeharto yang berpusat pada Barat. Akar penyebab ketergantungan dan kebiasaan kolonial mempengaruhi hasil kebiasaan ekonomi, dan dengan demikian berkontribusi pada efisiensi bagaimana Indonesia mengelola ekonominya selama periode sebelum reformasi.

Kata kunci: Kolonialisme, Ketergantungan Pasca-Kolonial, Pembangunan Ekonomi, Indonesia, Kesenjangan

1. Introduction

1.1. Background

Amid global crises and rising inequality, the international society has pursued development in various conceptions and outcomes, in hopes of a more sustainable and stable world (Fahmy, 2022). However, with the widening gap of inequality in the world, especially towards the economic capabilities of the Global South, scholars have been pinpointing the root cause of this as a result of colonial legacies (Hopper, 2018). Dismantling European colonies after the Second World War became one of the driving factors of governance, and political and economic changes of developing countries in Asia and Africa (Head et al., 2010). These changes led dependency theorists to recognize a pattern within colonized countries, in which their development has been put to a setback due to dependence on the economic terms already shaped by their former imperial powers (Hopper, 2018). Moreover, various scholars have attested to this phenomenon. Acemoglu et al. (2001) and Banerjee and Iyer (2005) found that the pro-growth of institutions were the determining factor of why the change from postcolonial development declined to drastic measures. The manifestation of past colonial institutions overhangs the productivity of developing countries, causing differences in how they cultivate their new independent systems. Institution inclusivity also became one of the perpetuated factors of development, considering the unequal spread of exploitative conducts by past colonialism (Mahoney, 2010; Huillery, 2009).

Looking into the statistical aspect of the issue, repetitive evidence found in various postcolonial developing countries in the Global South showcases the urgency of the issue as a recurring pattern. In post-independent Algeria, shares of French imports fell by two-thirds from 8.8% to 2.7% in 1984, and falling again to 1.0% in 2006, despite having a stable 14-year period of shares during their colonialism (Head et al, 2010). Similarly, Guyane and Antilles share

a general declining trend of income from 15-30% in the mid-1980s to 10.5-17.5% in 2015 (Govind, 2020). Despite being a global competitor in current day, Malaysia also experienced financial and monetary setbacks due to the lingering sterling linkage system and uneven institutional strength, especially in the Unfederated Malay States and northern Borneo (White, 2017).

In subject to dependency, we may also find similar patterns in the phenomenon of post-colonialism of the Dutch towards Indonesian economic development, especially during the immediate period after early independence. Dutch colonialism could be considered as one of the most influential events that shaped Indonesian legislation and economy; as seen from the expansion of Dutch trading systems within Indonesia that contributed to its economic development at the time (Locher-Scholten, 1994). Its slow process of political expansion however did not hinder them from creating violent coercion towards the indigenous Indonesians through their profit-maximizing strategies of international trade and production control over the market (Markley, 2003). With Indonesia's strategic geographic location and its richness in natural resources, especially spices like nutmeg, mace, cloves, sugar (Wiharyanto, 2015); it made it harder to impede the Dutch exploitation. From the creation of the VOC (Verenigde Oostindische Compagnie) to the chaotic enforced liberalization process for a feudal society (Wiharyanto, 2015), we realize the significant role that colonization had brought for a post-colonial nation, especially in the marginalization of their development processes towards the indigenous inhabitants of a nation, creating an alteration of the disposition of its politics and even, identity (Hopper, 2018).

1.2. Research Questions

By corroborating these historical factors and incorporating it with empirical data, a few guiding questions for research can be set: How does the Dutch colonial

exploitation play a role in post-independence economic development of Indonesia, especially in the period of 1950-1980?

Taking into account Soekarno's "guided economy" and socialist approaches which stipulated a political-economic crisis (Fakih, 2020), and further comparing it towards Soeharto's economic liberation under authoritarian regime that regulated "rapid economic growth with low relative inequality" (Thee, 2007), we recognize the possibility of analyzing this comparison further into the roots of dependency and colonialism. By understanding these concepts, it is possible to underline the fact that the post-independent Indonesian economic system is still heavily dependent on the Dutch as well as capitalistic values that were planted, causing the inequality of poverty (Libretext, 2021) and burocratic class tiers (Robinson, 2009). To answer the question however, this paper will further analyze how colonization had developed further within the post-independence sphere in the reign of President Soekarno and President Soeharto, alongside its implications on the argumentation of dependency theory. Next, we provide arguments on the development process during the colonial and post-colonial era, its effects on national economy, a study case on FDI entry, and a few critiques on what dependency theory fails to explain. Finally, we examine the lessons learned from Indonesia to release its bonds to the colonial political and economic system and find its implications for states with historical similarities of postcolonial dependence.

2. Literature Review

2.1. Post-Colonialism and Its Effects on the Global South

Colonialism is integrated with the terms 'violence' and 'barbarity'. In the liberation process of a country, the colonial subject must win against the colonizer without violence, otherwise, they just prove the 'nature of underdeveloped people' that is set by the Western people (Fanon, 1965).

Fanon classifies violence in two points of views: the colonizer and the colonial subject. From the colonizer's point of view, violence is perceived as something needed to maintain and assert power dominance. It derives from their racialized view towards the colonial subject, 'dehumanizing them through colonialism, assuming they might not react to it (Maunier, 1949). On the other hand, from the colonial subject's point of view, violence is perceived as something 'cathartic' for them—that they will gain 'collective catharsis' by fighting back to free themselves from colonialism (Fanon, 1986).

Postcolonialism, on the other hand, examines the behavior and experience of states, particularly their societies and governments, during their transition from a formerly colonized nation to an independent one (Nair, 2018). In this light, Fanon (1963) and further emphasized by Wijanarko & Saeng (2022) underlines the prominent role of colonialism towards a state's national identity. Romanticizing past colonial culture and habits are a dangerous part of the postcolonial transition, which both authors warned states about. Consequently, it is more advocated for there to be a struggle during this liberation to develop a new aspiration of culture and identity. In an economic setting, the culture of exploitation, especially become one of the pushing factors of hindering economic development in the Global South, especially in the scope of post-independence. Fanon (1963) underlines that the dehumanizing systematic violence of past colonizers actually "rule[s] over the ordering of the colonial world, which has ceaselessly drummed the rhythm for the destruction of native social forms and broken up without reserve the systems of reference of the economy, the customs of dress and external life" (p. 40). Hence, we see a repetitive pattern of struggle in the Global South.

Understanding the destructive nature of colonialism to development, Haddour (2019) adds that the social system of colonialism leads further to the intersectionality of various classes, genders,

races, and other groups in forms of oppression. Hence, it affects not only the social structure of a post-independent civilization but furthermore on the internal political and economic governance of the state. To escape this dependency on colonial habits, Haddour (2020) emphasizes the need for a reclaimant of autonomy, not only in terms of national identity (Wijanarko & Saeng, 2022) but also to embrace new systemic habits for the economy and political institutions of a state (Haddour, 2019).

2.2. Post-Colonial Dependency and Development

Dependency itself can be defined as “a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected” (Dos Santos, 1970, p. 231). To describe dependency, we must understand that the dependency theory itself is not a single theory but it coheres to certain general assumptions (Namkoong, 1999). In the sphere of international political economy, however, the notion of development is often paired up with the existence of modernization. Herath (2008) explains that this concept was challenged by Raul Prebisch, who raised the idea of core-periphery, which emphasizes the specialization of industrial goods production in the core, causing the peripheries to be only left to primary goods. This distinction between the two concepts becomes a fundamental principle when talking about dependency, as it is often analyzed as a unit of the “world system” to understand the capitalist structure that has caused “backwardness” in the periphery (Farny, 2016). In correlation to colonialism, dependency theory believes in the structural reliance of the world system towards the nature of colonial economies, creating a web of compulsion towards the need of aid and loans, especially during the debt crises—initiating peripheral states to be bound to the international capitalist system (Hopper, 2018). Considering this, dependency theorists lay their argument on the relations

between the core-periphery: that the periphery will perpetually depend on the core under the conditions of not simply being reliant but has a more complex chain of structural relations that stretches to the domestic social and cultural structure and policy-making developmental processes, resulting in an unequal exchange in terms of trade especially for the underdeveloped countries (Namkoong, 1999).

Regarding development, McEwan (2016) in Noxolo (2016) underlines how colonialism's legacy stains development projects in postcolonial states. Especially in terms of governance, many projects prove to be replicatory of the hierarchical, extractive, and exploitation nature of colonial regime. Salem (2018) provides us with the example of Egypt and its comparison between the Nasser and Sadat regime. Following its post-independence period, Nasser's reign proved to one that broke the colonial dependency, where he attempted to change the economic and production system of neoliberal values derived from the Britain colonials. Nasser's regime was based on production and central capital accumulation managed by a technocratic class. In contrast, Sadat's reign in the 1970s resembled more on the neoliberal system of Britain, focusing on the liberalization of the economy and a turn towards foreign capital.

Interestingly, Salem (2018) showcases not only the contrast in ruling systems, but also its outcomes, where despite attempting to break colonial institutional systems, Nasser's regime projects fail and Sadat's succeeded. Therefore, this comparison showcases just one of many, on the relevance of colonial dependency toward post-independent countries in the Global South. Similarly, Ndlovu-Gatsheni (2013) elaborates a similar system of coloniality of power in African states, which heavily depend on past colonial knowledge systems, as a result of past "Western particularism through epistemological colonization" (p. 38). Thus, pointing out that the manifestation of colonialism still lingers as a part of state

development, especially when a state does not particularly have their own idea of development and progress (Salem, 2018; Ndlovu-Gatsheni, 2013).

3. Research Method

This paper utilizes a qualitative approach with a descriptive method to focus on answering the "how" aspect of the discussion. The paper mainly uses secondary data, gathered from existing information from reliable sources. Referred also as a literature study, the secondary data used in this paper is a collection of academic literature from books, journals, institution reports, and other various credible resources accessible online. The narrative data analysis technique is further utilized to present the analysis of the data and information in a structured and chronological order, to unfold the outcomes of the series of events. In order to make the paper more comprehensive, the analysis is done with a compare and contrast method to highlight the key differences in different time periods and settings. Collectively, understanding the order of events and the complexity of its outcomes is imperative for analyzing this research paper, especially when discussing historical factors that may affect future or current implications.

4. Result and Discussion

4.1. The Implications of Dutch Colonialism to Indonesia's Economic System

The implications of the Dutch reign had fundamentally become the main precursor toward Indonesian development and independence, seeing from its violent implementation disregarding the indigenous locals (Wiharyanto, 2015). Despite the various forms of coercion, we are able to classify them into the following:

First, due to the immense population growth of Indonesia between the early and mid-19th century which tallied up to 38 million (O'Neill, 2022), the colonials created an agenda to pursue industrialized modernization through the exploitation of

Indonesian human capital (Ahmadin, 2007). The most imminent form of this exploitation lied in forced labor, which can be defined as a form of mandatory decree by the Dutch government for the labor workers, politically bound without salary to a working contract based on the 1870 Agrarian Law (Tricahyono, 2020). Infrastructure-wise, the legislation was utilized in efforts to transform Indonesia into a defense port from the British, mobilizing Indonesian labor forces to finish Dutch projects, which included one major project, the 1000-km Highway from Anyer to Panarukan that had taken 12,000 lives (Luthfi, 2015). Agriculture-wise, the Cultuurstelsel (The Cultivation System) program pushed indigenous people and petty capitalists to meet agricultural demands of the global market (Tampubolon et al., 2022). Thus, as seen in the table below, the empirical data shows us that up until the 1920s, this system has been continuously implemented, as Dutch foreign capital remains highest, especially in the region of Java, taking up almost 75% of the total agriculture investment, and extremely high in the sugar industry.

Nationality	Culture Area			Total	Total invested in	
	Java	East Sumatra	South Sumatra		Sugar	Other Crops
Dutch	1 118.0	360.7	57.2	1 535.9	779.6	756.3
British	142.0	124.7	11.2	277.9	10.1	267.8
Franco-Belg.	35.9	72.5	3.2	111.6	-	111.6
U.S.A	-	53.0	-	53.0	-	53.0
Japanese	5.9	131.7	-	19.6	3.7	15.9
German	5.7	8.1	4.0	17.8	-	17.8
Swiss	-	4.4	0.7	5.1	-	5.1
Italian	2.1	-	-	0.1	-	2.1
Others, known and unknown	22.3	4.9	13.8	41.0	-	41.0
Total	1 332.4	642.2	90.4	2 065.0	793.5	1 271.5
% of foreign (non-Dutch) capital	16.1	44.1	36.8	25.7	1.7	40.5

Table 4.1.1. Indonesian Agriculture Capital (f.mil.) in 1929 (Furnivall (1944) in Robinson, 2009, p.32)

Second, under Cultuurstelsel, the Dutch colonials were able to have exploitation over land and resources, as well (Ahmadin, 2007). This system is a regulation that obliges each village to set aside a portion of its land (20%) for planting export commodities, especially coffee and sugar cane (Tampubolon et al., 2022). By forcing workers to plant certain exported agriculture,

they provide minimum profit to the laborers, instead they export plantation production to a various amount of countries, benefitting and enriching not only the Dutch but also the Indonesian bourgeois who owned land, (Tampubolon et al., 2022), as well as European officials and Chinese middlemen (Widodo, 2006), creating this gap of inequality within the domestic capitalist classes. In this sense, locals who were not politically in power went into poverty.

Forced labor and Cultivation System both endorse the exploitation of human and natural resources, which leads to issues of wealth distribution and economic inequality. Not only did they contribute to power abuse to the economic system, but it also widens the gap of inequality between the indigenous elites and leaders, Chinese middlemen, and indigenous laborers (Fasseur, 1986; Siregar, 2023). We can underline these aspects into two phases: 1) Tax and Wealth Distribution in Java, leading to 2) Prosperity Inequality.

Firstly, the Cultivation System itself is a system that combines both "compulsory surrender and land tax surrender" (p.67). Although the system seems beneficial at first, since it only took up 20% of one's land; the 80% rest of the land was subjected to getting taxed by the Dutch government. Moreover, people who did not own land had to compulsorily "work 75 days a year (20%) on government-owned plantations as a tax" (p. 68) (Siregar, 2023). In exchange for their exploitation, the Dutch government would then reward their labor with proportional incentives, according to the profits of crops harvested, depending on the quality of trade payoffs. However, the government only issues these payments through village heads or Indonesian government elites, which do not completely distribute the entirety of revenue to the villagers (Dell & Olken, 2018; Kroeze, 2021). Thus, perpetuating and kick-starting inequality between the elites, and local peasants.

Secondly, we should understand that central economic policies fuel the growth of an economy. Therefore, having an economic

system ruled under Dutch exploitation affected Indonesia's economic growth, as well as its distribution to the indigenous people. Moreover, having deeply rooted cultural beliefs of the status quo led Indonesia to further widen the gap to have a strong tradition of patron-client relationships (Wardhana, 2020). Unequal distributions, in addition to cultural tradition, led Indonesia to develop a distinct outcome of inequality during the colonial era.

Population growth, additionally, became a pushing factor to determine the political and economic position of the Cultivation system. Modernization of regional areas was only carried out where population grows (Siregar, 2023) – this became one of the considerations of where the Dutch colonials would plant their sugar or coffee factories (Fasseur, 1986; Dell & Olken, 2018). Especially in the span of 1856 to 1869, when identified research on Indonesian population growth occurs, Dutch colonials would conduct 'static expansion' to increase development in 'overcrowded' areas. Those expansions include newly cultivated land areas; new irrigation projects; new markets; and newly established villages (Fasseur, 1986). However, we recognize that outbursts of sudden development do not translate well into economic sufficiency, which further leads to an unequal distribution of resources, both human, natural, and wealth. In addition to this stimulating effect of commercialization of the economy, the Cultivation system led the growing population to an increase in standard of living, considering the taxing system and the social stratification of the wealthy (Siregar, 2023).

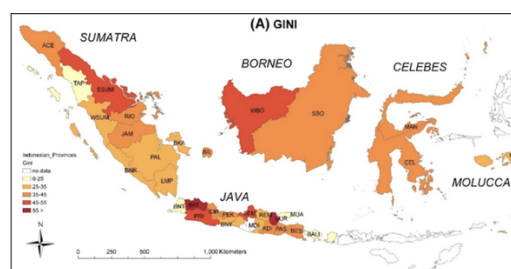


Figure 4.1.1. Levels of Inequality in 1924 Colonial Indonesia (de Zwart, 2022, p.187)

The figure above showcases the Gini coefficient during colonial Indonesia, which indicates the level of inequality within the certain regions, which is relatively high in areas of Java, East Sumatra and West Borneo. These areas were also considered cities where the rich bourgeois were settled, suggesting that most colonial exploitation was focused in these areas, especially noticing the majority of plantation production and low salaries among petty laborers and bourgeoisie (de Zwart, 2022). The massive inequality distribution from the Figure is also explained by the fact that unequal resource distribution contributes to the wide gap. Siregar (2023) interestingly found that only 5% of agricultural land in Java is used for the Cultivation System, meanwhile farming civilians that are actively involved in the system account for more than 70% in Java. In this case, we recognize that there is an exploitation of not only land, but profits taken by landowners in terms of both human labor and financial incentive from crop harvest.

4.2. Post-Independence Comparison Between the Old Order and New Order

4.2.1. Soekarno's Reign

During the Soekarno era, the private sector was still dominated by Dutch and Chinese capital. GDP per capita in 1950s had decreased far lower than the end of the colonial period, which meant that the revenue base was lower and there was a reluctance on many Indonesians to pay the taxes because the sentiment of the taxes as 'colonial legacy of exploitation', especially when it comes to land and excise taxes (Booth, 2016). However, in the 1950s, there was an introduction and implementation of sales tax, which increased the proportion of revenue though it was not sustainable. Despite Soekarno's efforts of releasing dependency bounds from the Dutch system, the 1950s had been recorded as 'the road to disaster' as regional uprising and political instability led to economic disaster and high inflation. On the same timeline, he rejected any form of

Western aid, specifically the United States, separating from the United Nations and its affiliated organizations—IMF and World Bank. Before 1966, production and investment levels had declined since 1950 with per capita income in 1966 was lower than 1938, industrial level only contributed 10% shares to the GDP, thus, have caused a serious unemployment problem, and during 1964-1966, Indonesia suffered from hyperinflation which has a detrimental effect on the economy (Arief, 2008). Furthermore, the national standard of living was execrable, as starvation became the common characteristic of Soekarno's "Guided Economy" (McCormack, 1999) in 1959-1965. Table 2 shows the available information on most serious famine cases gathered from press reports. From the reported regional famines listed in the table, and precisely 1963-1964 and 1966-1967 (Van der eng, 2012), the most severe famine took place—during Soekarno's "Guided Economy."

Table 1. Main Famines in Indonesia Reported in Local and Foreign Newspapers, 1951-1970				
Cropping season	Famine locations	Causes	At risk	Deaths
1951-52 November-May	• West Java (Kawang, Subang)	n.a.	7,400	n.a.
	• Central Java (Klaten, Sukakarta, Kertosono)	Poor harvest, malnutrition	53,000	n.a.
	• East Java (Banjuyuwang)	High rice prices	n.a.	n.a.
	• Nusa Tenggara (Flores, Timor, Sumba, Lombok)	Drought, malnutrition, high rice prices	10,000	n.a.
1952-53 October-December	• East Java (Banjuyuwang)	Rice shortage	n.a.	n.a.
	• Bali (Nusa Penida)	Malnutrition	35,000	n.a.
1954-55 January-April	• West Java (Indramayu)	n.a.	n.a.	n.a.
	• Central Java (Banyuwangara, Pekalongan, Pemalang, Wotigiri)	Rodent pest, malnutrition	17,000	n.a.
	• East Java (Jember)	Malnutrition	504	n.a.
	• Nusa Tenggara (West Timor, Sumba)	Drought, rice shortage	n.a.	n.a.
1956-57 December-April	• Central Sumatra (Jambi)	Floods	6,000	n.a.
	• South Sulawesi (Luwu)	Unsafe, unplanted fields	thousands	300
	• Central Java (Banyuwang)	Malnutrition	60,000	n.a.
	• Nusa Tenggara (Lombok)	Malnutrition	1,500	n.a.
	• East Kalimantan (Mahakam)	n.a.	50,000	n.a.
	• South Sulawesi (Makassar)	Shipping connection	n.a.	n.a.
1957-58 September-April	• West Java (Majalengka)	Floods	50,000	n.a.
	• Central Java (Banyuwang, Kebumen, Kurnajaya, 30 sub-districts)	Malnutrition, floods, transport problems	550,000	n.a.
	• Nusa Tenggara (Sumba, Sumbawa)	Drought	n.a.	n.a.
	• Central Kalimantan	Rice shortages	n.a.	n.a.
	• Sulawesi (S.E. Kendari; North and South)	Secessionist uprising, refugees, unplanted fields, rice shortages	n.a.	n.a.
Table 1 (continued)				
1958-59 January	• Maluku (Ambon)	Secessionist uprising, shipping problems	n.a.	n.a.
1960-61 September	• Central Java (Wanurebo)	n.a.	5,000	n.a.
	• Nusa Tenggara (Lombok)	Drought	thousands	5
1961-62 April	• West Java (Jakarta, Indramayu)	Drought, economic chaos, transport problems, rackeering	9,000	n.a.
1963-63 April-June	• Central Java	Drought	n.a.	n.a.
	• Kalimantan (Banjar)	n.a.	110	n.a.
	• Bali	Rodents, volcanic eruption	200,000	1,500
1963-64 October-February	• West Java (Indramayu)	Drought	304	n.a.
	• Central Java (throughout)	Drought, rodents, failure rice harvest	340,000 - 12,000	
1965-66 November-April	• Bali	Drought, rodents	1 million	n.a.
	• Nusa Tenggara (Sumbawa)	n.a.	100,000	n.a.
	• Nusa Tenggara (Lombok)	n.a.	5,000	100
	• Nusa Tenggara (Lombok)	n.a.	30,000 - 40,000	n.a.
1966-67 December	• Nusa Tenggara (Lombok)	n.a.	n.a.	10,000
	• Central Java (Yogyakarta)	n.a.	n.a.	1,700
	• Nusa Tenggara (Sumbawa)	Drought	5,000	100
	• Nusa Tenggara (Lombok)	Drought, malnutrition, smallpox, malaria	80,000	50,000
1967-68	• Nusa Tenggara (Lombok)	Rodents, grasshoppers	n.a.	20,000
	• Nusa Tenggara (Sumba)	n.a.	60,000	n.a.
1968-69 July	• West Java (Indramayu)	n.a.	15,000	n.a.
1969-70 December-April	• Nusa Tenggara (Flores)	Volcanic eruption	20,000	n.a.

Notes: Several other famines were reported, but reports were not always specific about the area, the number of people under threat, the number of deaths, and/or the specific causes of the reported famine. The foreign media generally reproduced reports by international news agencies such as Reuters, AP, UPI and AAP, which in turn tended to quote Antara or Indonesian newspapers such as *Suluh Indonesia* if they did not have their own reporters in Indonesia. Sources: An incomplete selection of domestic and international newspapers.

Table 4.2.1.1. Main Famines in Indonesia, 1951–1970 (Van der eng, 2012)

4.2.2. Soeharto's Reign

Soeharto was successful in making what was called as an 'economic miracle' during 1967-1997 by building strong macroeconomic policies, supporting agriculture sector in order to fulfill the self-sufficiency agenda, pushing investment in physical and human capital, and establishing liberal policies in the financial sector, trade, and foreign investment (Hoffman et al., 2010). As a result, according to the World Bank report, the percentage of the population in poverty, the absolute number of the poor, and the income inequality have significantly declined during the 1980s (World Bank, 1990). During his 32-year reign, Soeharto made a transformation of the Indonesian economy reflected from the rise of GDP which in 1960 was lower than many other Asian and African countries, to rise more than fourfold in 1997, as shown by the table below.

Table 1.1 *Per capita GDP in 1960, 1997, 2004 and 2010: ASEAN countries and selected Asian and African countries (2005 international dollars)*

Country	1960	1997	2004	2010
ASEAN countries				
Singapore	4,398	34,900	39,879	55,839
Brunei	NA	49,386	50,713	44,543
Malaysia	1,453	9,477	10,173	11,962
Thailand	962	6,066	6,734	8,066
Indonesia	665	3,143	3,079	3,966
Philippines	1,466	2,561	2,715	3,194
Vietnam	NA	1,371	1,912	2,779
Laos	NA	1,290	1,605	2,620
Cambodia	NA	859	1,338	1,890
Other Asian and African countries				
Korea	1,670	17,365	21,807	26,614
China (V.1)	772	2,276	3,915	7,746
India	724	1,679	2,317	3,477
Ghana	1,289	1,348	1,592	2,093
Nigeria	1,558	1,126	1,559	1,693
Ivory Coast	959	1,481	1,297	1,283
DR Congo	691	242	196	240

Table 4.2.2.1. Per capita GDP in 1960, 1997, 2004, and 2010: ASEAN and Selected Asian and African Countries (Heston, et al., 2012, cited in Booth, 2016)

Periods	Years	GDP per Capita	Export Volume	Export Price	Government Expenditure
Cultivation System	1830-1840	n.a	13.5	5.0	8.5
	1840-1848	n.a	1.5	-4.5	Very low
	1849-1873	n.a.	1.5	1.5	2.6
Liberal Period	1873-1900	Very low	3.1	-1.9	2.3
	1901-1928	1.7	5.8	17.4	4.1
Great Depression	1929-1934	-3.4	-3.9	-19.7	0.4
Prewar Recovery	1934-1940	2.5	2.2	7.8	3.4
Old Order	1950-1965	1.0	0.8	-2.1	1.8
New Order	1966-1990	4.4	5.4	11.6	10.6

Table 4.2.2.2. Annual Average Growth in Economic Key Indicator, 1830-1990 (Booth, 1998, cited in Widodo, 2006)

Moreover, shifting their focus more on fulfilling basic necessities and reducing the inflation through implementing new fiscal and monetary policies were right strategies as it resulted in improvement of people welfare, increase of life expectancy from 56 to 71 years, and the reduction of the absolute poverty from 60% in 1966 to 14% in 1990 (Hadi, 2004, as cited in Arief, 2008). Trade liberalization in Soeharto's era brought extensive expansion to development and political stability. While Soekarno undertook ambitious project buildings without taking into account the competencies of indigenous capital, "Soeharto used the economy for political ends, but initiated a generally orderly process of development supported by large infusions of foreign aid and investment" (p. 336) (Widodo, 2006). The efforts are further translated in Table 4, showcasing the increase of both GDP and export value in Soeharto's reign, compared to Soekarno's. Interestingly, from all the periods of post-independence, Soeharto's Western liberal strategies brought Indonesia's economic development to a similar, or even higher level compared to the time of colonization.

Therefore, we analyze that the distinction between Soekarno and Soeharto regime was their focus. Soekarno's main focuses were establishing Indonesian identity that is much anti-colonialism and anti-western (including counter-global capitalism) by building many national infrastructure despite lack of funding and pushing indigenous people of Indonesia to have a contribution to the economy. Continuing Soekarno's legacy to emphasize Indonesian national identity, Soeharto however incorporated this vision to contribute more to the system of global capitalism (McCormack, 1999). Another distinction was their style of leadership. Soekarno who was very much democratic, while Soeharto who was very much authoritarian. Soeharto adapted 'bureaucratic polity', which is much similar to what Dutch rule did during the colonial era (McAvey, 1982). As a result, Soeharto was

considered successful in developing the economic aspect of Indonesia, with similar successes as the Dutch managed to get during the 1830s as Indonesia was a second-largest sugar exporter globally, hence showcasing a form of dependency of economic development based on the colonial system embedded in Indonesia. In contrast, the economic growth and foreign investment during the Soekarno era was not that prominent due to his anti-western personal belief. His personal beliefs clashed with the reality of political instability and the fact that Indonesia still needed to be dependent on other countries.

4.2.3. Case Study: Indonesian Foreign Direct Investment 1950–1980

	Real			Nominal			Dividend yield
	GM	AM	STDV	GM	AM	STDV	
1919-1928	14.3	41.2	59.0	17.2	36.9	58.3	2.7
1929-1938	-2.8	3.9	40.1	-3.5	2.9	42.2	1.3
1939-1948	-22.6	-18.7	35.2	-11.4	-7.7	27.6	0.6
1949-1958	0.3	4.2	25.9	1.7	5.6	26.3	3.3
1919-1936	8.9	27.4	52.2	9.3	24.0	53.1	1.7
1919-1938	5.4	22.5	51.0	6.3	19.9	51.8	2.0
1919-1939	4.0	20.5	50.4	4.9	18.1	51.0	2.0
1921-1939	1.7	12.7	46.0	4.4	16.3	49.9	2.0
1919-1924	15.5	38.9	54.3	17.0	21.5	51.7	1.9
1919-1925	33.9	65.4	64.2	30.0	61.1	64.1	2.3
1919-1926	30.1	58.1	59.1	29.6	49.0	58.5	2.6
1919-1927	26.7	51.9	56.1	29.7	46.9	55.5	2.9
1919-1928	14.3	41.2	59.0	17.2	36.9	58.3	2.7

Table 4.2.3.1. Average investment of Dutch capital in Indonesia during 1919–1939 (Buelens & Frankema, 2016, p. 213)

Pre-independence, Indonesia used to be one of the largest ports of FDI and foreign capital in Southeast Asia, considering that 70% of it came from Dutch-owned firms, showcasing the market circulation domination during the colonial era (Lindblad et al., 2013). In the 1920s alone, the amount of Dutch capital reached more than \$250 million. However, regardless of this figure, we will notice the fluctuation of FDI during post-independence.

During Soekarno’s reign in 1950s to 1960s, Indonesia had chosen to reject the entry of Western capital and foreign investments, partially due to the sentiments of their colonial counterparts, regulating suspicion and paranoia towards any existence of FDIs. Ironically, in the 1950s, much of Indonesian infrastructure was still controlled by Dutch capital, contradicting the legislation towards foreign capital (White, 2017). This

caused the Indonesian government failure in nationalizing and expropriating facilities with a proper systematic approach—the indigenous locals were given the upper hand in handling capital and assets (Robinson, 2009). However, without proper education, capital was sold back to the foreign capitalists and domestic Chinese businessmen, showcasing a “dependent development” in the sectors of conducting foreign trade and internal economic management (Albertini, 2017).

In contrast to Soekarno, Soeharto was very West-centric despite his authoritarian reign in creating a new form of economic nationalism. After 1966, disregarding the Netherlands, borders to FDI entry were encouraged, admitting various waves of FDI from American, European, and East Asia (White, 2017).

TABLE 5.2
 APPROVED CAPITAL INVESTMENT UNDER PMA/PMDN TO
 DECEMBER 1973

Sector	Total investment approvals (in US\$ million) ^a		% of Total investment approvals	
	PMA	PMDN	PMA	PMDN
	Forestry	495.5	356.8	58
Agriculture)				
Fisheries)	113.0	232.5	33	67
Mining	860.5	46.2	95	5
Manufacture (textiles)	1 045.1 (436.9)	1 740.9 (749)	38	62
Tourism, Hotels.)				
Real Estate)	195.9	200	50	50
Other (inc. infrastructure/ construction)	118.3	207	37	63
Total Approved	2 828.3	2 978.5	49	51
Total Realised ^b	1 131.2	876	56	44

Source: Palmer 1978, Tables 5.3 and 5.4, pp. 110-11, citing BKPM sources.
^a based on the 1971/72/73 exchange rate of Rp415 = US\$1.
^b based on the realisation rate of 40% for PMA and 34% for PMDN applying over the period 1967-80. See I. Suhartoyo, *Penanaman Modal dan Industrialisasi* (Jakarta, 1981).

Table 4.2.3.2. Indonesian Capital Investment in 1973 (Palmer (1978) from Robinson, 2009, p.142)

The precursor towards opening FDI borders was due to a realization that foreign firms were relatively larger, more capital intensive and productive compared to domestic ones (Robinson, 2009). As shown in the graph, despite intensive filtering, foreign firms/capital (PMA) was almost twice as large as state firms (PMDN), in which Robinson (2009) further added seven times as large as domestic private firms. In this sense, Soeharto was a more opportunist

analyst in economic restoration, however, was hit with political instability due to the economic and debt crises (Thee, 2007), highlighting the realization of aid dependency on the colonials and hindering economic independence for Indonesia.

5. Conclusion

The Dutch colonial exploitation played a major role in post-independence economic development in Indonesia. First, the political instability after independence originated due to the remaining colonial values circulating the society, creating

challenges in implementing the appropriate economic reforms. Second, dependency on economic development, especially in terms of the system that needed to be adopted in the newly independent Indonesia—no clarity and confusion in choosing the economic development model suited for the country. Third, exploitation caused the Indonesian petty bourgeoisie to be out of the competition, a victim of capitalism, branching out till after independence, where only the elite Indonesian, Chinese and foreign businessmen rose up better than the actual locals below the supply chains.

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