

Colonialism impact on economic development in indonesia



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Introduction

The impact of colonialism on economic development is often believed to be negative. Such institution might also be a drag on the economic performance nowadays. The establishment of Dutch Cultivation System in Java played a critical role in economic changes in Indonesia. The Java Island was the major population center of the Dutch colonial empire in the East Indonesia, and it remains the population and economic center of Indonesia at present.

Starting from the 1830s to the 1870s, local people were forced by the Dutch colonial state to cultivate sugar and process it in colonial factories for exports to Europe further. Such system stimulated great economic changes in Indonesia; moreover, the Cultivation System raised the expertise about the economic potential of the area and led to the capital accumulation and entrepreneurship growth by groups working initially in the system margins (van der Eng 17). Sugar production continued after the System had abolished, but it crashed at the period time of the Great Depression. Before the Cultivation System, Indonesian economy was focused on rice cultivation, mostly for own consumption. However, the System demanded greater economic system reorganization. After the Cultivation System, new reforms and liberal changes pushed further the economic development of the area. These changes became significant in transforming the economic system of Indonesia and reducing the failures and negative effects of the previous Cultivation System. Therefore, in Indonesia the economic development was intensive during the Cultivation System and the period of liberal reforms, which was expressed through the formation of the monetary system, infrastructure, and improvement of the working conditions and approach.

Historical Background

Before the time of being colonized, there were several influential kingdoms in Indonesia such as Majapahit, Mataram or Srivijaya. In terms of the early trade dynamics, a great role played such ethnicities as Chinese, Arabs and other indigenous groups of entrepreneurs and traders. From the 16th to 19th century, western colonizers had not enough number of spots for trading in Indonesia (Touwen). In general, most of the economic history of Indonesia is not researched too much. A great part of this region was engaged in economic activities involving intensive agriculture and regional and local trade. From the 17th to 18th century, the Dutch trade in the Far East was controlled by the Dutch East India Company or VOC (Verenigde Oost-Indische Compagnie) (Touwen). Nonetheless, at that time Indonesia was still fragmented, and it is evident that the presence of the Dutch was from the small number of the trading posts. At the same time, at the 18th century, sugar and coffee became the most vital products, and the Java is extremely important. Gradually, the VOC took control over the local rulers and productive parts of the territory (Touwen). In the 19th-century, the intensive colonization process started, mostly in Java, which led to the establishment of the Cultivation System.

The Cultivation System

The Cultivation System, which was plunged in the 1830s and finished in the 1870s, became a critical power that pushed Java to produce crops, sugar and coffee for the Dutch. The Colonial System was established by Johannes van den Bosch. The VOC trading posts at times of the Napoleonic period in Indonesia were controlled by Britain, but in 1814, the Dutch took over control

again. When the Java War started, the Dutch rule in Indonesia was challenged by the powers led by Prince Diponegoro (Touwen). In order to manage the revolt and take control over Java, colonial expenses were raised, which led to a greater emphasis on the economic exploitation of the colony.

The Cultivation System became a strong force that promoted economic development. Specifically, the System earned one third of the Dutch government revenues and four percent of the Dutch GDP, which made Java be one of the most lucrative colonies from the financial perspective (Dell & Olken 7). Sugar production played a significant role in Java. While coffee production was also profitable, local people grew it on the remote forested mountain areas that previously were unpopulated. The sugar system was the main enterprise because Java was the second greatest sugar producer at the time. The system began with more than seventy thousand growers cultivating cane for fifty-nine factories that within time increased to ninety-four factories and a great share of the Javanese population (Dell and Olken 7). Twenty-five percent of the local population were engaged in the Cultivation System, and more than two point five million forced workers had to work in sugar factories or related field in addition to free laborers, whose number expanded greatly with time (Dell & Olken 7). Those villages that were placed near every factory were forced to allocate up to one fifth of their land to produce the cane. Therefore, the Cultivation System became a powerful force that led to a great number of changes in Indonesia. The Cultivation System was administrated by local officials who gained greater control over the labor and land in comparison to previous practice (Knight 227). At the same time, villages gained extra incentive payment for

cultivating crops. The industry had finished its existence during the Great Depression.

Exports of coffee and sugar were organized in huge amounts. In particular, the coffee output rose from 20, 000 tons in 1829 to 64, 000 tons in 1839, and sugar output increased from 6, 700 tons in 1831 to 58, 000 tons in 1840 (van Zanden 166). Hence, the Cultivation System had some elements of the planned economy. The central government was placed in different residencies for coffee as well as indigo and sugar cultivation, which transformed into the targets every village and district. Van den Bosch expected a lot from the indigo cultivation in spite of the fact that administrators and workers did not have enough experience with it (Indonesia Investments). The workers received a payment for planting new crops and thus could pay the rent of the land. They also had to supply labor services to bring the crops to the state warehouses for the new road construction in order to manage infrastructural constraints for the sugar crop processing in the sugar factories (White 223). During the first decade, the system worked well, and export production increased rapidly.

One of the reasons why the system functioned positively was that the government was spending a large amount of money mostly platoon in return for the export crops. There was “unsatisfied demand for small copper coins – doits – for small exchange on the island, and by applying new industrial techniques in the Netherlands the colonial authorities managed to produce huge amounts of cheap doits that could be used to pay the platoon” (van Zanden 167). Hence, money circulation became developed, which reduced money challenges in rural areas that always had difficulties because of the <https://assignbuster.com/colonialism-impact-on-economic-development-in-indonesia/>

lack of cash. It was researched that GDP per capital increased during the years of the Cultivation System, and a rapid rise in export earnings from cash crops had a positive effect on the economic welfare. The economic growth had different periods with its falls and raises; therefore, GDP increased during the 1830s, but decreased during the 1840s. At that time, the consumption per capital dropped because the colonial drain continued to progress (van Zanden 167). However, the economic structure changed greatly. In particular, the textiles share in the GDP dropped from fifteen percent in the 1820s to about six to seven percent at the beginning of the 1850s. It was the outcome of very slow output growth in addition to the rapid decrease of the relative prices. The share of export agriculture in GDP rose from 4% in the 1820s to more than 12% at the beginning of the 1850s (van Zanden 170). Therefore, the effect of the Cultivation System on the economy of Indonesia was strong and persistent.

Colonial sugar cultivation became a great source of economic changes in the area. It is easy to believe that the Cultivation System had a positive economic influence on villages. Villages placed close to the factories gained incentive payment that was based on the quantity of the sugar produced and often exceeded the land tax that had to be transited to the Dutch. In a place “ without forced cultivation, money for taxes had to be obtained by selling rice to Chinese traders, who colluded with officials to monopolize the rice trade” (Dell and Olken 9). Money earned from cultivation payment provided people with a chance to avoid selling a great amount of rice for lower prices. Moreover, such an approach contributed to economic modernization. Specifically, rail and road infrastructure was built for the connection of areas

focused on sugar production with ports, as a result, promoted to make the market be integration. Moreover, the Cultivation System led to the greater economic specialization, which was performed through the creation of different economic opportunities apart from the forced cultivation. At the same time, “ factory and transport workers were often paid a wage, and there were also employment opportunities making baskets and matting to transport the cane, making clay pots for use in the factories, and transporting firewood to the factories” (Dell and Olken 9). In general, the Dutch colonial sugar industry significantly changed economic activity in Indonesia. Hence, the economy of the country experienced great effects of the Cultivation System in Indonesia.

Reforms Period

In order to improve the situation during the 1950s, several reforms were introduced. For instance, the government abolished the most ineffective cultures such as indigo, and make contracts more efficient by removing unnecessary parts of it to let sugar factories canceled the tax on local markets that hindered local trade, which was a move to free wage labor. It was found that the free wage labor was more efficient (Lindblad 7).

Additionally, the government decided to raise the export of crops to newly established product markets, which led to the reintroduction of prices.

Moreover, the monetary system experienced reforms, and new silver coins were introduced, which stabilized the currency. At the same time, during the 1860s, the system abolishment and its replacement with liberal economic order led to new changes (van Zanden 174). In particular, all coerced labor forms were abolished and replaced with the free wage labor. Such transition

was completed toward the end of the century. Additionally, sugar production was changed in the industry based on free contracts with workers and villages, while coffee cultivation kept being grounded on coercion because it was less critical to the agricultural Javanese economy.

Moreover, new export cultivation forms such as tobacco and tea were developed with the use of European entrepreneurship and capital. The Agrarian Law of 1870 created conditions for Europeans to rent the land for maximum seventy-five years in order to create and develop plantations (van Zanden 174). Additionally, the colonial bureaucracy was changed in the Weberian style, where the salaries were grounded on formal hierarchies and rules. Hence, all these changes led to an increase of productivity and GDP per capital, which returned to its pre 1830 level, and after 1860, a gradual decline of the level of exploitation of the Javanese economy by the (colonial and Dutch) state (van Zanden 174). Therefore, reforms led to great changes in Indonesia had a positive character for the local economic development.

Nonetheless, additional changes were set in the near time. In particular, during the 1860s and 1870s, a new colonial political system was introduced. The main force of the export agriculture of Java were private entrepreneurs – mostly of Dutch origin – who ran large plantations and sugar plants using ‘ free’ wage labor and ‘ free’ land (van Zanden 175). Export agriculture was the most significant basis of the colonial system. Still, old approaches to employees, recruitment and land had a critical role as well. Wage labor in some Java parts continued to involve coercive elements, but starting from the 1880s and onwards, the free labor market became highly important (Wihardjaa and Negara 45). Moreover, the colonial bureaucracy stated its <https://assignbuster.com/colonialism-impact-on-economic-development-in-indonesia/>

main goals are the Javanese economy and society modernization due to the left-wing criticism of the Cultivation System. Before the 1850s-1860s, the main goal of the colonialism was to transfer income directly through the colonial state channels to the Dutch treasury, and such policy was successful during the Cultivation System. However, with the establishment of liberal economic policies in the 1860s and starting from the end of the 1870, the Dutch state subsidized the colonial treasury in order to finance war attempts directed at pacifying the provinces.

In 1902, the Queen paid attention to the representation of welfare services directed at the improvement of the economy and living standards of the local population. It involved extension services and agricultural research, greater infrastructure expenditure, education and irrigation, medical services, policies directed at the rice markets' stabilization and regulation of rural capital markets (van Zanden). The long-term outcomes of such market-focused policies that started in the 1860s and 1870s became more radical during the 1890s and the 1900s. In particular, the economic growth accelerated during the 1890s and was fast until 1913 (van Zanden 176). In addition, per capital consumption levels represented a continuous rise at that year as general factor productivity. While the agriculture experienced great challenges in the period before 1980, the latter started to contribute greatly to the productivity growth. It led to the development of more favorable conditions on rural markets.

Indonesia colonization set the ground for the area's industrialization. The Dutch represented rubber, tobacco, cacao, tea and coffee, and greater Java expenses became plantations cultivated by local workers, collected by <https://assignbuster.com/colonialism-impact-on-economic-development-in-indonesia/>

Chinese intermediaries and sold in overseas markets by European merchants (van Zanden 176). At the end of the 19th century, the economic development was grounded on the global demand for coffee, tea, and sugar (Booth 39). The government invested strongly in the railroad network, newspapers, and shops; entrepreneurs opened banks and telegraph lines. The Dutch East Indies provided most of the global supply of pepper and quinine, oil, coffee, sugar, tea, coconut products, and rubber. Therefore, Indonesian economic system went through great changes and transformations stimulated by the colonization.

Conclusion

Overall, the colonial period in Indonesia led to great differences in the area, including economic development. The most critical period of the formation of a new economic approach was the Cultivation System. The Cultivation System, its origin, long-term influence, and functions had a great influence on the Javanese society and economy. The financial ground of the Colonial System had a great influence on the Java society and led to a great increase in export production and tax income. Such groups contributed to such an extent that they slowly started to take control over the export production of the area. Hence, the Colonial System had a great influence on the formation of the economic system of Indonesia. The liberal economic policies and reforms after 1970 led to a rapid increase in the GDP and consumption per capital. In general, the colonization of Indonesia contributed to the economic development. Colonial influence had many forms as well as direct effects, including the change of the economic structure. However, after the

Cultivation System, the liberal reforms managed to improve the economic system and stabilize the situation in Indonesia.