The Role of Colonial Legacies in Shaping Indonesian SME Development (1900-1945)
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Two aspects of Indonesian small and medium enterprise (SME) development in the 20th century stand out:

1. The inability to grow with an apparent ceiling
2. SMEs owned by Sino-Indonesians fared comparatively better

The root causes for these different trajectories can be found in the foundations laid by the Dutch colonial state.

Under Japanese occupation (1942-45), while causing large scale destruction, new opportunities were created for indigenous entrepreneurs. However, the period of Japanese rule was too brief to shape Indonesian SME development.

Different Opportunities to Gain Business Experience with Dutch Firms

The colonial government relied on Sino-Indonesian middlemen to manage the financial and trading network between Dutch trading companies and indigenous farmers. In Dutch colonies, the indigenous population generally occupied much higher positions than indigenous Indonesians. Therefore the opportunities for knowledge spillovers and backward and forward linkages were very different.

Improved Popular Access to Credit

The colonial formal credit market mainly served European clients. While some large Sino-Indonesian enterprises obtained credit indirectly through European wholesalers, the indigenous population relied mostly on the informal credit markets:

(1) Travelling credit providers, the microsji, who lent small sums at high interest rates and collected repayment in small instalments (this business practice was forbidden during Japanese rule and thus virtually disappeared).

The ethical colonial policy proclaimed by the Dutch in 1901 identified the development of a low-cost popular credit system that provided cheap credit as a main objective:

After independence loans from pawnshops at first dropped to almost a sixth (1940) and then slowly increased, but these popular credit institutions continued to play a role in rural credit supply until at least the 1980s.

Insufficient Investments into Education - Lack of Skilled Labour

At independence, Indonesia was rich in labour but poor in skilled labour, due to low investments in education during the colonial period. Even better-off indigenous families often remained unsuccessful in enrolling their children in the few and expensive Dutch schools. In 1940, 5.1% of Javanese men over 15 could read Roman script. This situation was different for Sino-Indonesians, from 1907 onwards. When Indonesia gained independence in 1945, the average educational level of Chinese Indonesians was considerably higher than that of the indigenous population.

Conclusion

- Insufficient investments into education under Dutch colonial rule
- Few opportunities for even educated Indonesians, who rarely held supervisory posts in Dutch firms; little changed even after independence
- Few opportunities for even educated Indonesian SMEs, who lent small sums at high interest rates and collected repayment in small instalments (this business practice was forbidden during Japanese rule and thus virtually disappeared). When Indonesia gained independence in 1945, the average educational level of Chinese Indonesians was considerably higher than that of the indigenous population.

References
