Routledge
Taylor & Francis Group

*Bulletin of Indonesian Economic Studies*, Vol. 43, No. 3, 2007: 395–407

# ABSTRACTS OF DOCTORAL THESES ON THE INDONESIAN ECONOMY

## A Small Monetary System for Indonesia

*Yoga Affandi* (yogaff@bi.go.id)
Accepted 2007, Faculty of Economics and Politics, University of Cambridge

In the aftermath of the Asian crisis in 1997 and the enactment of a new central banking law in 1999, a framework based on inflation targeting was proposed as the new approach to monetary policy in Indonesia. This development clearly increases the need for a better understanding of monetary transmission mechanisms and for a robust forecasting model, particularly of inflation and output.

The central idea of this thesis is to develop a model that can be of use for monetary policy analysis. We construct a small monetary system for Indonesia by employing long-run structural modelling based on a New Keynesian theoretical approach. This strategy allows us to incorporate long-run relationships as well as short-run dynamic restrictions from economic theory. The model is therefore well founded in the area of New Keynesian monetary theory, while at the same time having a sufficiently rich dynamic structure to be capable of fitting the development of the Indonesian economy. The model not only provides a transparent theoretical foundation but also generates robust short-run forecasts of output and inflation needed for effective implementation of inflation targeting.

Three objectives were important in constructing the model:

- First, the model is designed to simulate the Indonesian economy using aggregate macro variables. The simulation is expected to produce quantitative information on the responses of the economy to various impulses that could originate from developments in the world economy such as changes in foreign interest rates and oil prices, or from economic policy measures, such as changes in the stance of monetary policy.
- Second, the model is constructed for forecasting purposes. The study allows for different sources of uncertainty and develops point as well as probability forecasts. Probability forecasts are of particular interest to central banks because they allow them to make a clear statement about specified relevant values that are of concern to policy makers, such as the inflation target range or the range of output growth rates.
- Third, the model offers new insights. Its structure allows us to generate the permanent and transitory components of each of the endogenous variables. Particular attention is paid to the decomposition of output and inflation, as these variables are the main concerns of the central bank. The permanent and transitory components obtained are then used to estimate a New Keynesian

ISSN 0007-4918 print/ISSN 1472-7234 online/07/030395-13
DOI: 10.1080/00074910701727639

policy model. The estimated parameters are later applied to analysis of the recent performance of monetary policy in Indonesia.

In modelling a developing country such as Indonesia, one difficulty lies in the small sample data issue. In dealing with this, the study employs the bootstrap method, which is likely to be more reliable than an analysis of the large sample tests based on asymptotic theory. This method is also applied in forecasting analyses when we consider the presence of future parameter uncertainty. Another difficulty is the issue of the structural break due to the Asian crisis. In our modelling strategy, we consider the inclusion of dummy variables. The results suggest that the structural break is not significant in long-run relations, but is clearly important for modelling the short-run dynamics of the Indonesian economy.

**Studies on Employment and Minimum Wage Effects in Indonesia**

*Maria Goreti Arie Damayanti* (ariedamayanti@yahoo.com)

Accepted 2006, Graduate School of Economics, Kyoto University, Japan

The thesis consists of self-contained studies on married female labour supply, participation choice between the formal and the informal sector in urban Indonesia, and the impact of minimum wage increases on employment and poverty reduction.

The study of married female labour supply examined factors determining the participation, wages and hours of work of married women, using a standard model containing an hours worked equation in reduced form, a wage equation, and a selection equation applied to two cross-sectional data sets from the Indonesian Family Life Surveys (IFLS) of 1993 and 2000, which provided samples of 4,352 and 5,294 married women, respectively. The wage and selection equations were estimated using a two-step method, and the labour supply equation was estimated with a simple Tobit approach. Self-selection bias was found only in the 2000 rural sub-sample. While there was a positive correlation between wages and labour supply in three sub-samples (the 1993 and 2000 urban sub-samples and the 2000 rural sub-sample), in the 1993 rural sub-sample wages were negatively correlated with labour supply, indicating that an inverse S-shaped labour supply curve may apply to poor rural women.

The second study examined participation in the formal and informal sectors of urban Indonesia using multinomial logit selection and probit selection models applied to the 2000 IFLS data. Analysis was carried out for men and women separately. The results support the important role of education in determining participation: the more educated tend to be found in the formal sector and the less educated in the informal sector. Although the results for men were sensitive to model specification, returns to education were generally found to be higher in the formal than in the informal sector, supporting the hypothesis of labour market segmentation between the two sectors. The results also suggest that women with the highest unobserved informal sector skills were indeed working in the informal sector.

The last studies concerned the impact of minimum wage rises on formal and informal wage employment (1997–2002, Sakernas [National Labour Force Survey] data) and on poverty reduction (1995–2003, Susenas [National Socio-Economic Survey] data), and used constructed province-level panel data. Reduced form equations were estimated with a method robust to the heteroskedasticity inherent in grouped data. The results suggest that minimum wage rises have affected women more than men, and this is consistent with similar studies. They also suggest that, in response to minimum wage increases, informal work has expanded in the form of informal wage employment rather than self-employment. Some workers previously in self-employment may have shifted into informal wage employment to gain higher incomes. As for poverty reduction, the impact of minimum wage increases has been small and not statistically significant. A reason is that workers affected by the minimum wage policy were more evenly distributed than those on sub-minimum wages, and tended to be in higher-expenditure households. Thus the benefits of minimum wage increases would be about evenly distributed across the income distribution rather than skewed towards low-income households. In addition, low compliance with the minimum wage policy in Indonesia makes it ineffective in reaching the poor.

### Education and Economic Growth in Indonesia

*Akhmad Bayhaqi* (bayhaqi@gmail.com)
Accepted 2007, Southeast Asian Studies Programme,
National University of Singapore

This study aims to analyse the relationship between education (defined here as human capital) and economic growth in Indonesia. It seeks to explain the nature and magnitude of education's relationship to economic growth and performance.

The links between education and economic growth can be of many kinds, and are likely to involve two-way rather than one-way relationships. The analysis is undertaken at three levels.

*The Macro-Aggregate Level.* Education has a direct impact on labour, because during education people increase their skills. At this level the link between education and economic growth is examined by applying the Solow growth model to the Indonesian case using national aggregate data. First, we consider a simple two-factor model of growth consisting of capital (K) and labour (L). Second, in order to assess the direct relationship of education to growth (through the workforce) we use a three-factor model of growth, adding the human capital factor (H).

*The Household Level.* Macro analysis is useful at the aggregate level, but we would lose many insights by relying too much on aggregated data, especially for a diverse economy such as Indonesia's. Micro analysis of education and income growth is required to complement the macro analysis. This chapter analyses the Mincer equation using data from the 1976 and 1997 Sakernas (National Labour Force Surveys). Additional insights are provided by other census data and secondary data where applicable.

*The Ideology–Policy Level and the Institutional Level.* The thesis then attempts to explain the effect of education on economic growth at the ideological and institutional level. Education affects ideology and culture, at both the elite and mass levels. At the elite level, we analyse why economic policy making in Indonesia is so 'capitalist' biased, despite the inherent socialist ideology of founding fathers like Soekarno and Hatta. At the level of the masses, we look at the culture and characteristics of the average Indonesian. We also assess the ideology of education in Indonesia. Is education seen merely as a 'noble' activity, as Aristotle saw it, or as a means of improving the skills and welfare of all Indonesians? The goal is to see how this affects the emergence of 'indigenous' or 'native' entrepreneurs, and to relate it to Schumpeter's theory of growth.

The three levels of analysis show that economic growth should not be viewed only in physical or material terms. Structural change occurs at both the physical and the deeper ideological level. Economic growth has brought changes to both society and individuals.

Instead of simply supporting 'physical' growth in human capital at household and national levels, education would have achieved more had it also been directed towards developing Indonesians who are self-sufficient, independent and entrepreneurial. Only then could economic growth be said to be 'self-driven', rather than following the current pattern of dependence, whether on foreign direct investment, international trade or oil.

## Embedded Geographies and Quality Construction in Sulawesi Coffee Commodity Chains

*Jeff Neilson* (jneilson@geosci.usyd.edu.au)
Accepted 2004, School of Geosciences, University of Sydney

Changing global conditions of agri-food production, trade and consumption are resulting in industry re-regulation and new forms of supply chain governance. This thesis explores emerging governance structures within a set of globally coordinated coffee commodity chains in eastern Indonesia, which feed into a growing international café culture. The research scrutinises relationships between shifting consumer trends, the geographies of agricultural production and global commodity chain structures. To this end, a detailed investigation of production geographies and trade networks is performed across the coffee growing districts of South Sulawesi. The diverse ways in which regional geographies are inserted within, and transformed by, global supply chains in the coffee sector provide insights into emerging characteristics of the global agri-food economy.

Between 2001 and 2004, prices paid for tropical commodities such as coffee were at historic lows because of the combined effects of chronic global oversupply and the concentration of economic power within a limited number of multinational roasting firms. Quality-related product differentiation is a common policy recommendation made to producers of tropical commodities who wish to escape depressed prices. However, a key insight of this thesis is the addition of a cautionary note to the argument for product differentiation as an unqualified economic development option for commodity producers. In the case of Sulawesi coffee, powerful corporate actors are able to appropriate the value of geographically informed quality differentiation. This is achieved through the ability of these non-local actors to construct and retain ownership over quality associations in the market, through their use of registered trademarks, and through their capacity to dictate (at a distance) the trade relationships between local actors.

This thesis examines quality management in the global economy through an approach that integrates two broad analytical perspectives: (i) global commodity chain (GCC) analysis; and (ii) embeddedness theory. GCC analysis, inspired by the work of Gary Gereffi and others, provides an effective meso-level theoretical framework that allows the researcher to follow the transformation of raw materials through processing and trade to final marketing and consumption. This approach focuses on how powerful 'lead' actors establish control of strategic nodes in the chain to coordinate the organisation of upstream and downstream processes, thereby enacting supply chain governance. Then, Mark Granovetter's elucidation of Polanyi's notion of embeddedness (and the instituted economy) helps explain the entanglement of economic theory with social and political relations, where production, trade and consumption systems are created from the place-based contexts in which they arise. The synthesis of these approaches provides valuable insights into the inability of marginalised farmers in eastern Indonesia to employ place-informed quality associations to resist the pervasive influence of corporate actors within this commodity chain.

In this analysis, traceability emerges as a critical mode of supply chain coordination that allows authentication of, and control over, quality constructions. Traceability imperatives require innovative forms of supply chain coordination, and are resulting in the emergence of new industry structures across Sulawesi. The implementation of traceability systems, with control over quality construction and management, has important consequences for the allocation of economic benefits among supply chain actors.

## Indonesian Manufacturing and the Economic Crisis of 1997–98

*Dionisius A. Narjoko* (dion_ardiyanto@csis.or.id)
Accepted 2006, Division of Economics, Research School of Pacific and Asian Studies, Australian National University, Canberra

This study examines the responses of firms in the Indonesian manufacturing industry to the deep economic crisis of 1997–98, using a rich annual data set on medium and large plants in the manufacturing industry from 1993 to 2000. Three aspects of the responses are emphasised: performance and survival; export supply; and firm entry.

The descriptive analysis reveals substantial variation in the plant-level impact of the crisis. While many firms contracted and recorded weak performance, some actually expanded and improved during the crisis. This variation can be seen even at a disaggregated level of industry and in the early recovery period. The analysis also shows that the crisis severely affected the demographics of the plants. Exit rates, for example, increased to almost double their pre-crisis level at the peak of the crisis.

The study finds that foreign ownership, sales orientation (to domestic or export markets), size, factor intensity and product market competition are the major determining characteristics of firm responses and survival. The positive effect of foreign ownership was more significant in the early than in the later stages of recovery, suggesting that the role of parent companies was more important during this period. Meanwhile, the positive effect of export orientation appears to have been weaker in the early stages of recovery. The analysis also found interrelationships between some of the characteristics. In particular, the effect of sales orientation was higher at plants with a high foreign ownership share, and did not necessarily weaken with increasing plant financial leverage.

Confirming the findings of earlier research, the study shows that the characteristics of firms and industries are important determinants of firms' success in their export response. More importantly, the results reveal the significant role of 'sunk costs', i.e. costs already committed to exporting activities. The descriptive analysis shows a strong trend for plants that were non-exporters before the crisis to remain so during and after it. The econometric analysis reveals that variables related to sunk costs—such as exporting history, the industry's export intensity, and the industry's prior export competitiveness—are positively related to the probability of exporting during and shortly after the crisis. Apart from sunk costs, ability to compete in international markets and foreign ownership are the other important determinants. Non-exporters before the crisis found it easier to become exporters in the crisis period if they were more efficient, were able to produce goods to international standards, and had some foreign ownership share.

The study also analyses differences in the determinants of firm entry between the pre-crisis and the crisis period. It finds that the cost disadvantages faced by new entrants increased during and shortly after the crisis, and competitive pressure among firms appears to have been stronger in this period. This conclusion is supported by several findings: demand and profit opportunities seem to have become more important after the crisis; the likelihood of collusive behaviour appears to have fallen significantly; and the crisis seems to have pushed some less efficient firms out of the industry. Finally, the crisis seems to have provided opportunities for some potential entrants, despite the unfavourable economic situation. This is indicated by increased entry rates in some export-oriented industries.

**Health, Education and Economic Crisis: Protecting the Poor in Indonesia**

*Robert Sparrow* (sparrow@iss.nl)

Accepted 2006 , Vrije Universiteit, Amsterdam

When an economic crisis hits, a primary policy concern in developing countries is protecting social services and, in particular, maintaining access to health and education for the poor. Using the Indonesian Social Safety Net (SSN) as a case study, this thesis investigates the effectiveness of targeted demand-side interventions in protecting access to education and health for the poor in times of crisis, when policy makers are faced with severe information and time constraints.

The SSN was implemented in 1998 in response to the Southeast Asian economic crisis, and included a scholarship program targeted to children from poor households, and a health card program entitling poor households to free public health care. Both programs followed a partly decentralised allocation process, and were implemented at remarkable speed. In the first half-year of the SSN, approximately 22 million people lived in households that received a health card, and 2.1 million children aged 10–18 had scholarships.

The thesis chapters address targeting performance, dynamic marginal benefit incidence and the impact of the programs on educational attainment, child labour and utilisation of primary health care. Using Indonesia's national socio-economic survey (Susenas), the study sought to obtain a reliable estimate of the counterfactual: what would have happened if the SSN programs had not been implemented? Because of non-random program placement, answering this question requires non-experimental evaluation methods.

The scholarships were effective in keeping children in school and relieved the pressure on households to draw on children's labour. Without the program, 13% of the recipients would have dropped out of school. The scholarships reduced child labour among recipients by 27%. They were especially effective among those most vulnerable to the crisis: poor rural households that tended to reduce investment in education of the youngest and increase labour use of the oldest children. Nevertheless, a large proportion of the funds was allocated to students who would not have dropped out of school. Furthermore, priority should have been given to protecting primary school enrolment, where the scholarships seem most effective, and to providing support for children from the poorest households in the transition from primary to secondary schooling.

The impact evaluation of the health program endeavours to disentangle the direct effect of allocating health cards from the indirect effect of a supply-side impulse in the form of budgetary support provided to public health care facilities to manage the expected rise in demand due to the health cards. The health card price subsidy increased health care utilisation among the poor and led to substitution from private to subsidised public care. For the non-poor, the health card only affected choice of health care provider, without increasing utilisation. Overall, the program's largest effect on health care utilisation occurred through increased supply of public services resulting from the budgetary support to public providers. However, the poor were not responsive to this supply impulse; these benefits seem to have been captured mainly by the non-poor. As a result, most benefits of the health card program went to the non-poor, even though distribution of the health cards was pro-poor. The findings suggest that had the program established a closer link between funding and provision of services to the target groups, the results would have been more pro-poor. This emphasises that without appropriate incentive mechanisms for health care providers, general increases in public spending are relatively ineffective in reaching the poor.

**Growth Effects of Political Institutions**

*Tao Kong* (tao.kong@anu.edu.au)

Accepted 2006, Division of Economics, Research School of Pacific and Asian Studies, Australian National University, Canberra

The economics literature considers economic growth as an immediate outcome of various factor accumulation and productivity improvements. However, attributing variance of growth rates to these 'immediate' factors only begs the follow-up question: why are these pro-growth factors present in fast-growing economies and absent in stagnating economies? This study emphasises that the decisions of economic agents, which shape the development process, are constrained by incentives. Discovering why some countries grow rapidly and others do not inevitably involves understanding the process through which the structure of incentives is determined. While acknowledging that many factors affect economic performance, this study examines the growth effects of institutions by analysing incentive structures, using Indonesia and China as case studies.

There is an extensive literature on the impact of institutions on economic performance, and wide agreement that 'institutions matter'. The present study focuses on why and how they matter. It proposes a framework that systematically examines the organisational structures of political institutions and the impact of these structures on economic growth. An explicit distinction is drawn between the concepts of *political institutional structures* and *governance quality*, with *governance quality* seen as the outcome of the institutional arrangement of political power. The study also investigates the mechanisms through which the growth effects of political institutions operate, identifying theoretically the channels through which governance quality changes the economic incentives for factor accumulation and productivity growth, and thereby determines economic performance.

A key argument is that political institutional structures that excessively concentrate or disperse power are susceptible to various governance problems, and thus are detrimental to economic growth. A configuration of power encompassing checks and balances as well as flexibility and decisiveness is most likely to produce a favourable economic outcome. Moreover, the optimal structure of political institutions is contingent on a country's prevailing socio-economic environment. No unique political institutional configuration is optimal for countries across different levels of development. Rather, compatibility of the political order with the level of development holds the key to sustained economic growth.

Hypotheses derived from the theoretical models are tested with cross-country data, and preliminary findings are generally supportive of the key arguments. Furthermore, the thesis demonstrates that arguments on the growth effects of political institutions can aid in understanding shifts in the economic developmental paths and political institutional arrangements of China and Indonesia throughout the past half-century. At different historical periods both China and Indonesia have had political institutions dominated by prominent leaders, while both countries have experienced economic disasters in which development was severely set back either by continuous political movements or by lack of capacity to make and implement policies. On the other hand, in a context of relatively balanced political institutional arrangements, both countries experienced extended periods of rapid economic growth combined with deepening integration with the global economy. The disruption of economic growth in the past decade also shows that a political institutional order favourable to growth at one time may come to undermine the sustainability of growth as socio-economic conditions change.

### Identifying Cartel Practices of the Trade Association: A Time Series Analysis of the Indonesian Cement Industry

*Zakir Machmud* (zakir@lpem-feui.org)
Accepted 2007, School of Commerce, University of South Australia, Adelaide

This thesis examines anti-competitive conduct—in particular cartelistic practices of trade associations. It focuses on the role of the association in coordinating or orchestrating members' engagement in cartel or collusive behaviour, and the effectiveness of such behaviour. More importantly, it seeks to provide empirical evidence of the presence of coordination–compliance relationships between the association and its members.

The study documents and reviews the literature on the behaviour of cartels and their linkages with industry associations. It also discusses the methods used to detect cartelistic behaviour. It is noted that these issues have been the subject of debate by economists and by antitrust regulators. There are no generic formulae for analysing the competitive impact of trade associations, so it needs to be assessed on a case-by-case basis.

The thesis uses the Indonesian cement industry as a case study, because of assertions that the Indonesian Cement Association has been involved in cartel-like behaviour for some time. Such behaviour was once recognised and even sponsored by the Indonesian government. However, a change in the regulatory regime following the financial crisis that began in 1997 caused those assertions largely to disappear.

The thesis develops a methodology for uncovering cartelistic practices. It conjectures that if an association coordinates an allocation scheme among its members, they will behave according to the scheme. If all members comply with the scheme, one would expect a synchronised pattern of changes in output between each individual member and the association. To provide empirical evidence of this, the thesis applies time series analysis and examines the pattern of monthly production for each cement company and for the Indonesian Cement Association. Three commonly used techniques are employed for that purpose: the Granger causality test; testing for stationarity; and testing for cointegration. The thesis separates the analysis into the pre-crisis period, the transition period and the post-crisis period.

The general findings suggest some variations in the behaviour of the association and its members between the pre-crisis and post-crisis periods. During the pre-crisis period, when such arrangements were still in place, evidence was found of a coordination effort by the association and long-run compliance of its members with this scheme. It is therefore reasonable to infer that the association was behaving as an effective cartel. In contrast, during the post-crisis period, when such arrangements were allegedly no longer present, mixed evidence was found

of a coordination and compliance relationship with the members. For that reason, it is plausible to suggest that the association, even if it still engaged in cartel-like behaviour, was no longer behaving as an effective cartel.

The structured analysis in this thesis offers a complementary framework that antitrust agencies can use to enhance their efforts to detect cartelistic practices, particularly those conducted by trade associations and for which direct evidence is not available. In addition, the framework can potentially be used to indicate the existence of other forms of behaviour such as tacit collusion, whereby conspirator firms may act in concert without any formal agreement.

## Political Connection, Trade Protection and Multinational Corporations: Firm-Level Evidence of Patronage in Indonesia

*Denni P. Purbasari* (purbasari@fe.ugm.ac.id)
Accepted 2006, Economics, University of Colorado at Boulder

The assertion that corruption is not favourable for business is not new. In our research we concentrate on the opposite question: can business benefit from a corrupt environment? We answer this question using firm-level data from Indonesia and use firm political connection as the pivotal point in our research. In corrupt economies, political connection plays an important role in determining private gains in terms of performance and improved security of a firm's assets. Recorded firm election campaign contributions and membership of industry associations or lobbies are not the best measures of firm political connectedness in developing countries. In countries like Indonesia where corruption is prevalent, unofficial mechanisms such as nepotism and bribery are of first-order importance.

In chapter 2 we study the impact of firm political connectedness on the likelihood that a firm receives import licences. Whereas previous empirical papers in this area have used measures of industry-level trade protection, we compute a measure of import licensing protection that is specific to each firm, because protection in corrupt countries really occurs on the basis of personal relationships between politicians and firm owners. Using various limited dependent variable models, this study finds strong evidence that politically connected firms are more likely to be awarded licences to import raw materials.

While chapter 2 illustrates how political connection explains government favouritism in granting trade protection, chapter 3 illustrates how 'other firms' perceive or value the firms that have political connection. Political connection is valuable and other firms therefore find ways to become connected with governments, either directly (e.g. by bribing government officials) or indirectly (e.g. by partnering with connected firms or influential individuals). In chapter 3 we investigate the effect of firm political connectedness on the likelihood that a multinational corporation (MNC) chooses the firm as a partner in a joint venture. Previous research has emphasised MNC characteristics, whereas we focus on the local partner characteristics that drive MNC decisions. Using conditional logit estimation, this study finds strong evidence that, in joint venture schemes, MNCs are more likely to choose politically connected than unconnected partners. This result is robust across different MNC asset levels, sales levels and countries of origin.

Our finding in chapter 3 is consistent with profit-maximising behaviour. To mitigate political risks and to gain market access and government protection, MNCs choose connected local partners. While the effect of firm political connection is undeniable, there is no clear evidence that firm fundamentals such as productivity and profitability affect trade protection and MNC choice. These findings speak to existing debates on corruption, globalisation, corporate responsibility and business ethics, because even though connection-based decisions are efficient for private agents, such decisions are arguably costly for the society as a whole. This dissertation fills a gap in the literature on corruption. Not only do we study the mechanisms of corruption, but we also shed light on the reason for corruption's persistence: flawed governance works in tandem with (unethical) profit-maximising firms that demand the corruption. Firms will continue to seek political connection as long as such connection contributes to the success of their business.

## How Chinese Are Entrepreneurial Strategies of Ethnic Chinese Business Groups in Southeast Asia? A Multifaceted Analysis of the Salim Group of Indonesia

*Marleen Dieleman* (marleendieleman@hotmail.com)
Accepted 2007, Leiden University

This in-depth longitudinal case study aims at unravelling the strategy of the Salim Group, an ethnic Chinese family business group in Indonesia. The extant literature on ethnic Chinese family business groups can be categorised into three streams. The cultural perspective describes how Chinese values influence corporate strategy; the minority perspective emphasises the networking behaviour of diaspora Chinese; and the institutional perspective explains how corporate strategy evolves in weak institutional settings.

The study shows the shortcomings of the cultural and minority perspectives. It argues that, contrary to popular notions of the flexible and transnational Chinese firm, the Salim Group focused on a consistent local-for-local business model. Rather than being based on Chinese values, the strategy of this group can be understood by considering that it operated in an emerging market characterised by high transaction costs, weak institutions and high levels of corruption and cronyism. In such environments, institutional theory predicts that companies are likely to diversify into conglomerates and build tight social networks. Theories on intra-ethnic networking predict that ethnic Chinese firms have a preference for Chinese partners, and theories of crony capitalism focus on alliances with politicians. Ethnic and political connections were important for the Salim Group in the early days, but foreign partners are now more prevalent. Rather than focusing only on ethnic networks or on political connections, the Salim Group has effectively built different types of social capital: bonding capital with their own ethnic group and bridging capital across social strata.

While institutional theories focus on the influence of the context on the firm, the dissertation shows that internal factors matter as well. The transition to second generation leadership marked a shift to a new corporate strategy. Institutional theory argues that emerging market business groups are likely to move over time from a relationship-based strategy (based on network connections) to a market-based strategy (based on rational allocation of resources). This study supports that notion, but at the same time argues that it is overly simplified. The Salim Group strategy did not follow a straight path but rather oscillated frequently between the two models, depending on external factors such as regime changes and internal factors such as generational changes in leadership.

This study shows how firms may have passive, reactive and also proactive responses to their environment. The Salim Group was not merely influenced by political regimes: in the Soeharto period it was also able to influence policies proactively—an unusual situation for a single company. This study describes co-evolutionary patterns of interaction between company and institutions. Because of its position of power in Indonesia, and its close alignment with Soeharto, the Salim Group became a symbol of the Soeharto regime. Management theory often assumes an implicit distinction between company and domestic institutions, but this study shows how a single large corporate player may morph into an institution in itself.

## Commerce and Capital in Colonial Java: Trade Finance and Commercial Relations between Europeans and Chinese, 1820s–1942

*Alexander Claver* (alexanderclaver@hotmail.com)
Accepted 2006, Faculty of Social Sciences, Free University, Amsterdam

Trade and related activities have always been a prominent feature of Indonesian history. Trading opportunities drew the Dutch, like others before them, to the eastern hemisphere. According to the stereotype, the colonial government tried to monopolise central economic endeavours, discouraging private business initiative in key commercial sectors, and leaving the economy strangely devoid of private entrepreneurship. This apparent predominance of political over economic considerations is, however, deceptive. Indeed, private initiative was part of the economic processes at play in the Indonesian archipelago.

With the demise of the Netherlands East India Company, private business slowly expanded. Trading companies were founded from the beginning of the 19th century. With the help of numerous case studies based upon research using primary sources, this study describes how trading business in Java was organised during the 19th and the first half of the 20th century. The thesis focuses primarily on wholesale trade, its financial arrangements and those participating in this sector, which was characterised by complex interactions between traders and bankers, and between Western and Chinese enterprise.

A seemingly perpetual flow of credit formed the basis of the colonial import–export trade. Securing one's investment was of obvious concern to those involved, and the acquisition of information and security was crucial. In other words, there was a continuing reciprocity between credit, relevant business information and security concerns. These and related issues are explored by looking at the organisation of trade and the strategies used by European and Chinese enterprise in pursuit of these goals.

For this purpose an instrumental approach is adopted, with capital and entrepreneurship acting as crucial economic agents. Economic change was ultimately determined by the institutional aspects of capital—whether European or Chinese—rather than by state regulation, foreign capital inflows or international economic influences. The search for a research tool to complement this framework resulted in the formulation of the concept of access, that is, access to capital, information and security. Access to all of these components was of crucial importance to each participant irrespective of ethnic background. Each case study deals with these issues, because they are related in many respects. The issues of trust and networking are a part of the concept of access.

The research clearly shows the over-riding importance of capital considerations. Capital took priority over information and security. Access to capital was a necessary condition for establishing and maintaining a trading business. In other words, where information and security resemble ultimate causes, capital resembles a proximate cause. Looking at the instrumental aspects of trade and ethnicity, and focusing on 'how' instead of 'why', the research highlights the fact that those participating in trade were, first and foremost, interested in earning money. Whether European or Chinese, a trader cared primarily for the deals he closed and the profits accruing from them.