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Colonial Migration and the Origins of Governance: Theory and Evidence From Java

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Abstract

This article explores the origins of local governance in postcolonial contexts. Focusing on migrant communities in the Indonesian island of Java and the networks of elite political and economic relations that emerged under colonial rule, I develop a theory of social exclusion and competition that specifies the conditions under which trading minorities will forge cooperative relations with local political elites in the absence of well-functioning property rights institutions. These informal relationships under colonial rule affect contemporary economic governance. To clarify the importance of social exclusion rather than other factors that may differentiate colonial districts with large Chinese populations, I exploit variation in the settlement patterns of Chinese and Arab trading minorities in Java, which played comparable roles in the island's colonial economy but faced different degrees of social exclusion. These findings contribute to recent work on colonialism and development, ethnicity and informal institutions, and the origins of democratic performance.

Keywords

migration, political economy, politics of growth/development, race, ethnicity, and politics, subnational politics

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Introduction

In countries as diverse as Brazil, China, Indonesia, India, Mexico, Nigeria, Russia, and Vietnam, the quality of local governance is a central concern for policymakers and citizens. Yet while most research targets cross-national variation in governance, local governance is critically important for emerging economies, and its origins are poorly understood. This article uses colonial data from the Indonesian island of Java to explore the origins of local governance in one large emerging economy. Like many recent contributions, I argue that colonial settlement has profound effects on governance (Acemoglu, Johnson, & Robinson, 2001; Putterman & Weil, 2010), and that ethnicity affects governance, conflict, and policymaking (see, among others, Baldwin & Huber, 2010; Habyarimana, Humphreys, Posner, & Weinstein, 2009; Jha, 2013). I extend this literature by focusing on migrant communities and their relations with indigenous communities under colonial rule.

Colonial governments in the tropics often encouraged migration from third countries. Examples include Lebanese and Syrians to West Africa, South Asians to East Africa and the Caribbean, Chinese to Southeast Asia, and many others. In Indonesia, the Dutch colonial government allowed large numbers of "foreign Easterners"—Chinese, Arabs, and South Asians—to settle in the Indies during the colonial period. These migrant communities came to form the commercial core of the Indies, one whose influence is still obvious throughout Indonesia today.

Focusing on the island of Java, I argue that the origins of local-level governance today lie in local governance in the colonial era, and that these governance relations emerged as a response to migrant settlement. Central to this explanation is *social exclusion*, which I define as the social distance maintained between native populations and migrant communities who—unlike Europeans—remain excluded from formal politics in the colony. Socially excluded trading minorities, such as the Chinese in the Indies, developed cooperative relations with local political elites under Dutch colonial rule to mitigate threats of predation from indigenous populations and as a substitute for well-functioning property rights and contracting institutions. I propose a simple theory of social exclusion and interethnic competition that specifies the conditions under which trading minorities will seek cooperative relations with local political elites in the absence of well-functioning property rights institutions.

These informal relationships under colonial rule have observable effects on economic governance that persist today. Specifically, they determine the *accommodativeness* of economic governance to the interest of firms. I construct a dataset on colonial migration to Java using the 1930 Census of the

Netherlands Indies, which includes fine-grained demographic data on Chinese, European, and other migrant populations across the districts of Java, and show that Chinese settlement in the colonial era predicts the accommodativeness of local governance today. I also show that Chinese settlement in 1930 explains a host of other features of contemporary local political economies in Java, from industrial concentration to investment. To identify the effects of social exclusion—rather than other features of migrant communities, such as human or social capital—I exploit variation in the level of social exclusion among different migrant communities in colonial Java. Because Arabs and other foreign Easterners experienced a comparatively lower degree of social exclusion than Chinese, they did not face a comparable incentive to forge close links with local elites to contain predation and expropriation. As my theory predicts, there is no relationship between other foreign Easterner in the 1930s settlement and contemporary governance today.

The next section develops the concept of accommodative economic governance in more detail, and then outlines a theory of social exclusion, interethnic competition, and market exchange that draws on the colonial origins of economic development and ethnicity and informal institutions. I then describe the colonial economy of Java and the migrant communities that settled there before turning to a description of both the migrant density measures and my measure of contemporary economic governance. The subsequent section discusses my empirical results, discusses possible alternative interpretations and inferential challenges, and presents a case study of Kediri city in East Java to probe the mechanisms through which governance relations persist over time. The final section concludes.

Trading Minorities and Economic Governance

Contemporary empirical research on governance has focused on conceptualizing and measuring what is often referred to as "good" governance or "quality of government." Good governance is defined variously as "the norms of limited government that protect private property from predation by the state" (Kaufmann, Kraay, & Mastruzzi, 2007, p. 555) or "impartiality in the exercise of public authority" (Rothstein & Teorell, 2008, p. 166). These definitions imply that governance is a property of the behavior of state actors or public officials, evaluated against a normative benchmark. Recent critical analyses such as those of Agnafors (2013) have complicated the normative foundations of quality of government but retain some normative standard as a foundation for conceptualizing how governance varies.

While acknowledging that impartiality and norms of limited government are important, I propose that these conceptualizations provide limited insight into how governance actually varies, especially within diverse postcolonial economies. As an alternative, I draw on what Bevir (2013) terms a "decentered" (pp. 23-34) theory of governance to conceptualize governance as a relationship between rule makers and those on whose behalf they govern. Governance varies at different scales (local, national, global, as well as firms and organizations) and across domains (e.g., economic, environmental, corporate). Because governance is relational, it is constituted not by policy outputs, or the behavior of rule makers, but by rule-makers' interactions with those whom they govern.

Based on this conception of governance as relation, I focus on one dimension of governance at one scale of analysis: the extent to which local government policies are consistent with firms' ability to do business. Local economic governance is *accommodative* when local governments adopt policies, follow norms, and make rules that facilitate firms' profit-making activities. When rules, norms, or policies obstruct firms' activities or are otherwise inconsistent with firms' objectives, then governance is unaccommodative. Accommodative economic governance, defined this way, is clearly distinct from "good governance" as impartiality or limited government; it may be the case, in fact, that accommodative governments are partial in favor of local firms, or activist in managing local political economies. The core distinction is that accommodative economic governance captures empirically how governments and firms relate, without reference to a normative ideal from which governments depart or to the other domains across which governance may vary. Accommodativeness differs as well from simple cronyism, in that it entails no exchange of resources in exchange for protection or favors. However, it *is* possible that cronyism *produces or sustains* accommodative governance. I make no effort in this article to classify relations between firms and local governments in Java in terms of cronyism; given that this conceptualization of accommodative governance departs from normative conceptions of good governance, it is certainly possible that crony links between firms and local governance characterize much of Java's local politics.

Accommodativeness (or its absence) is a property of all governmental systems in which politicians and bureaucrats interact with firms. A map of the variation in accommodativeness across Java to be explained, using a measure of accommodativeness in district governments that I describe in greater detail below, is provided in Figure 1.

A theory of the origins of accommodative economic governance must contain a theory of why relations between local governments and economic actors would vary. In the remainder of this section, I argue that relations between migrant traders and local elites during the colonial era shape local economic governance today.

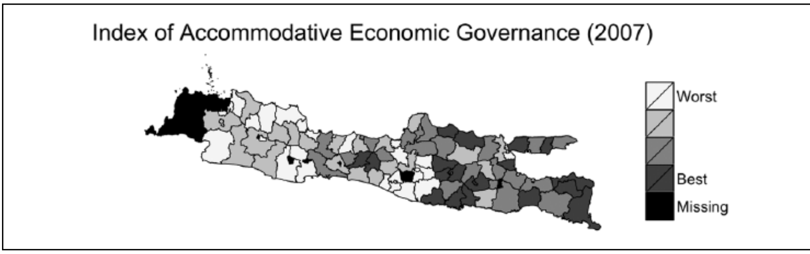

Figure 1. Accommodativeness of local governance in Java.
Source. Author's calculations; see text.

Colonial Foundations of Governance

The characteristic problem that trading minorities faced under colonial rule was the absence of formal legal institutions that secured property rights. Unlike settler colonies such as the United States or Australia, colonial governments in much of the tropics formed extractive political institutions (Acemoglu et al., 2001). Given inauspicious political institutions, however, an established literature in the new institutional economics has characterized how cooperative exchange relationships can emerge even when institutional rules and well-defined property rights cannot be assumed (Greif, 1993, 2006). Focusing on Chinese traders and middlemen in Singapore and West Malaysia, for example, Landa (1981) details the emergence of stable "particularistic exchange relations," both within the Chinese trading community and between Chinese traders and local non-Chinese producers.

The character of such exchange relations and their long-term consequences for local economic governance depend on two factors: the degree of competition between indigenous populations and trading minorities, and the social distance between trading communities and the indigenous population. To fix ideas, a typology is provided in Table 1.

Panel A provides illustrative examples. Cell IV (competition with high social distance) describes trading minorities such as Chinese in Southeast Asia as conventionally understood, where Chinese occupied market niches that might have been replicated by indigenous communities. Turning to other cells, Jha (2013) argues that in Indian port cities, Muslim traders with special access to overseas trade through the *hajj* did not compete with Hindus because Hindus could not replicate such connections themselves, and cites Voigtländer and Voth (2012) as providing evidence consistent with this account among Jews in medieval Europe (Cell III). Cell II, by contrast, preserves competition between traders and indigenous populations but

Table 1. A Typology of Trading Minorities.

Panel A: Examples

		Non-competitive	Competitive
Social distance	Low	I Arabs in East Africa	II Arabs in Java Chinese in Philippines and Thailand Lebanese/Syrians in Latin America
	High	III Jews in Medieval Europe Muslims in Indian Port Cities	IV Chinese in Java Indians in East Africa Lebanese/Syrians in West Africa

Panel B: Strategies

		Non-competitive	Competitive
Social distance	Low	I N/A	II In-group solidarity
	High	III Civic institutions	IV Elite linkages

eliminates social exclusion, which I argue below characterized Arabs in Java under the colonial period as well as Chinese elsewhere in Southeast Asia. Cell I completes the typology with an example of a trading minority with low social distance and limited competition with indigenous populations: Arabs in coastal East Africa.

The consequences of social exclusion and competition for economic governance are described in Panel B. In Cell I, when there is neither competition nor social distance between trading communities and the indigenous population, markets can emerge without special consideration of the possibility of conflict between the two groups. Markets can also flourish in Cell III, and communities with lower levels of intergroup competition may witness the development of civic institutions that mitigate conflict and violence (Jha, 2013; Varshney, 2002). In both these cases, the *general* problem of sustaining trade and exchange in the absence of property exists, but no *additional* challenge arises from competition between trading minorities and the indigenous populations among whom they live.

Cells II and IV are the cases of interest for this article, for the absence of property rights institutions requires an alternative strategy to sustain trade in the face of competition between indigenous and migrant communities. Where social distance between trading communities and indigenous populations is low, but competition is still high, traders may rely on strategies of in-group solidarity. This means nurturing a common identity with the indigenous community and rejecting intercommunal competition. The mechanisms through which this may take place are many, including religious conversion, social intercourse, intermarriage, and others. Over time, this strategy may indeed erase the distinctiveness of the trading minority. Examples include not only Arabs in Java but also Lebanese and Syrians in Latin America (e.g., Carlos Ghosn, Carlos Menem, Carlos Slim) and Chinese in the Philippines and Thailand (e.g., Corazon Aquino, Thaksin Shinawatra).

By contrast, where social distance is high (Cell IV), strategies of in-group solidarity are not available. The remaining strategy is *elite linkages*, creating close business relations with local indigenous political elites who—while unable to provide formal property rights due to their subordinate status vis-à-vis the colonial regime—do have the capacity to enforce local order and provide physical security to traders. These elite linkages are the "particularistic exchange relations" that form the political foundations to sustain trade and market exchange among migrant trading communities. The difference between elite linkages and in-group solidarity can be conceived in terms of the political hierarchy of the colonial state: In-group solidarity mitigates the threats of contract refusal, expropriation, and violence by reaching "down" to the indigenous community, whereas elite linkages mitigate such threats by reaching "up" to local elites for protection and enforcement.

Why would other trading communities not forge close ties with local political elites? They should, but establishing and maintaining these ties is costly. In the Javan case, traders and middlemen flourished because local elites had internalized the costs of monitoring and enforcing property rights on behalf of the Chinese. But in exchange, local political elites could levy informal taxes on Chinese traders and obtain other privileges such as preferential access to scarce commodities or consumer goods. To the extent that there are other complementary strategies for sustaining market exchange in the absence of property rights institutions without such costs, communities that do not face both competition and social exclusion have a lower incentive to pursue the costly strategy of elite linkages. Likewise, socially excluded trading minorities may strictly prefer in-group solidarity, but by assumption, they are unable to pursue this strategy.

This typology of social exclusion, competition, and trade builds on several recent contributions. It sheds light on the important role that non-European migration has played in shaping colonial and postcolonial political economies (Putterman & Weil, 2010). Like Jha (2013), I note that those Chinese in Southeast Asia who were subject to expropriation were vulnerable because unlike Muslims in India, they did not offer a "nonreplicable" service. Rather, Chinese in Java dominated petty trade at the local level—critically, by migrant "traders" in Java I refer to traders and middlemen who intermediated between local producers and consumers, not between China or the Middle East and Java (as would parallel Muslim traders exploiting *hajj* networks in the Indian Ocean).[1] My emphasis on informal institutions for managing communal conflict in Indonesia parallels Tajima (2013). The argument also comports with Baldwin and Huber (2010) that the mere existence of ethnic diversity may be less consequential for governance than the specific nature of cultural and economic differences among ethnic groups within a given society.

From Colonial Social Exclusion to Contemporary Governance

This theoretical perspective on how trading communities can sustain trade without property rights is clarifying for linking social exclusion to the strategies required for successful market exchange to emerge. I focus here on one implication of this theory: the consequences of social exclusion for market exchange. Doing so requires an explanation of what type of economic governance social exclusion produces and why that form of governance persists.

Because colonial institutions provided neither property rights nor security to trading minorities, they required that local elites provide the physical security and informal protections that facilitated their profit-making activities. Trading communities thrived under arrangements that were partial and accommodating of these needs. There is no general reason to suppose that such governments were impartial or limited; in fact, a local government that impartially enforced property rights might even run counter to the interests of a Cell IV-type trading minority.

Why would accommodative economic governance in the late colonial era persist over time? A simple explanation is that if "political shocks" to local business–government relations occur with equal frequency in both accommodative and non-accommodative contexts, then differences in initial conditions will persist over time. A more nuanced alternative is that market relations are path dependent (Arthur, 1994). If accommodative governance gives one locality an advantage over others in attracting economic activity, then it will increase the value to local political elites of maintaining an accommodative local economic environment—producing increasing returns to those localities where governance happens to have been accommodative. Accommodative political business relations would then persist in the postcolonial era because both local political elites and local business elites profit from cooperative relations. The linkages created by trading minorities in the colonial era, which were second best adaptations designed to support market exchange in the absence of property rights, become durable features of local political economies over the long term. If this account is correct, then the localities where the social exclusion of trading communities in the colonial era had forced migrant traders to purse a strategy of elite linkages should also be those in which business–government relations are most accommodative today.

To be clear, these mechanisms of persistence are not hypotheses that can be tested statistically, but rather theoretical claims about the mechanisms through which governance relations persist. I will shed greater light on these mechanisms below, using a case vignette of Kediri, East Java. Still, the notion that the roots of contemporary governance lie in the past is consistent with existing research on the origins of local governance. The hallmark empirical contribution is Putnam (1993), which explores democratic performance across Italian regions as a function of civic traditions, and argues that civic traditions emerged during Italy's medieval period. For related theoretical arguments on how political institutions can persist, see Acemoglu et al. (2001).

The Case of Java

There is wide variation in the character of local economic governance in Indonesia (Pepinsky & Wihardja, 2011). The island of Java—today home to more than 130 million people—contains striking variation across its districts as well. This section describes the colonial economy of Java in the first decades of the 20th century, under the so-called Ethical Policy, and contrasts the political, social, and economic positions of Chinese and Arab migrants. In doing so, it elucidates the specific mechanisms through which elite linkages and in-group solidarity operated among migrant communities in colonial Java.

My overview of colonial Java is inevitably incomplete. It cannot adequately address many of the subtleties of the complex and contested Arab and Chinese identities in the late colonial era, nor can it capture changes over time in ethnic relations, especially those prior to the Ethical Period and those set in motion by the Great Depression and the rise of Japan as an imperial power. It does capture, however, the key differences between the two migrant communities during the first three decades of the 20th century, which are a critical juncture in the formation of modern market relations across local administrations in Java.

Migrant Communities and the Plural Economy

The island of Java was the commercial and political core of the Netherland Indies and had been so since the mid-1600s when the Dutch East India Company founded a settlement in Batavia (now Jakarta). The precolonial kingdoms of Java had long maintained trade and tributary relations with China, India, and Arabia, and migration and cultural contact from these regions to Java has shaped the island's ethnic, cultural, and religious landscape. Migration from these regions to Java continued under the Dutch. The result was what Furnivall (1939) termed a "plural economy" in which European, other migrant, and indigenous Javan communities occupied distinct economic and social niches.

The Dutch identified four kinds of people in the Indies: indigenous peoples of various ethnic backgrounds (*Inlanders*), Europeans and other "assimilated persons" (*Europeanen en gelijkgestelden*), Chinese (*Chineezen*), and a residual category of non-Europeans collectively as "other foreign Easterners" (*andere vreemde Oosterlingen*). Administratively, the Dutch authorities placed Chinese and other foreign Easterners in a single category that was distinct from both Europeans and the indigenous peoples of the Indies. Foreign Easterners enjoyed some favorable legal protections under Dutch, and for a period were forbidden from settling on "native lands." By 1930, Chinese in Java numbered 583,431 individuals (1.4% of the total population), while other foreign Easterners numbered 52,269 (0.1% of the population; Departement van Economische Zaken, 1936).

The Chinese across Southeast Asia have long attracted interest due to their distinctive economic, social, and political position (Coppel, 1983; Lohanda, 2002; Setiono, 2003; Suryadinata, 1976). Today, outside of Java, there are many communities of ethnic Chinese farmers and fishermen, but in colonial Java, the Chinese occupied an important niche as petty traders and middlemen. In postindependence Indonesia, Chinese economic elites have occupied central positions in the country's economy and are variously described as tycoons or cronies. This class is not the object of investigation here. They are, in fact, a different community altogether from the colonial Chinese migrants who are the object of my investigation (see Twang, 1998). Most of the Soeharto-era elites arrived in Indonesia between the 1930s and 1950s, and the sheer scale of their wealth and influence meant that they had substantial impact on economic governance under the New Order as a whole (Pepinsky, 2009) but little impact on variation in local economic governance. I focus here on Chinese traders under the colonial period, who were no less important for describing the colonial economy but should be treated as an altogether different phenomenon than the crony capitalism of Chinese Indonesian business elites in the postcolonial era.

Although the Chinese communities of Southeast Asia are internally quite heterogeneous with respect to clan, language, length of settlement, and other factors, Chinese have come to be seen as a singular community from the perspective of the indigenous communities in which they settled. Dutch policy helped characterize the Chinese in colonial Java as an essentially different community, one whose religion, culture, and history were incompatible with their local counterparts on Java. The result was social exclusion: Colonial policy "prevented Chinese assimilation and upward mobility into native societ[y]" due to their "alien ancestry . . . [that] present[ed] obstacles to their cultural, economic, and political ascendance" (Sidel, 2008, pp. 132-133). Many Chinese in fact came to view themselves in similar terms, as culturally or racially distinct from local Javan communities.[2]

Arabs and Indians in the Indies have received less attention than have Chinese in popular discussions of trading minorities in Southeast Asia. This is partially a result of their relatively small numbers, but it may also reflect their uncontroversial status as Indonesians in the postcolonial era: There is no "Arab problem" equivalent to the "Chinese problem" in Indonesia or in Southeast Asia more generally. de Jonge (1993) places particular emphasis on Islam helping to bridge the social and economic divide between Arabs and the indigenous populations of Java in the early 20th century. Arab ancestry has long been a mark of prestige for many Muslims in Java, connoting an imagined personal connection to a religious homeland—in the words of Laffan (2003), Hadrami Arabs (those from the region comprising modern-day Yemen) "enjoyed a special place of honor among the Jawa by virtue of their assumed kinship with the family of the Prophet" (see also Federspiel, 2001, p. 61). As a result, Arab communities in Java and elsewhere in the Indies have integrated into native society more easily than have Chinese.[3] The same is true for South Asians in Java during the colonial period, although scholarly analysis of Indian communities in Java is limited. Moreover, Indians were a minuscule community in Java during the colonial era, so they can be safely ignored for present purposes. By 1930, more than 88% of the individuals classified as *andere vreemde Oosterlingen* in the Netherlands Indies were Arabs, and the majority of the non-Arab community—the South Asians—resided outside of Java (Mani, 2006).

Table 2 shows the distribution of occupational types across Chinese, other foreign Easterner, "Natives" (indigenous residents of Java), and Europeans in Java.

The majority of all employed Chinese and other foreign Easterners were traders. Among the trading professions, most Chinese concentrated in foods and small trading. By contrast, other foreign Easterners concentrated in the textile trade. In the supplementary appendix, I calculate an occupational dissimilarity index to show statistically that Chinese and other foreign Easterners were far less occupationally segregated from one another than from indigenous Javans.

Table 2. Occupations Across Ethnic Groups in Java.

Occupational group	English description	Chinese	Others	Europeans	"Natives"
I. Oerproductie	Farming, fishing, mining, etc.	9.1	2.8	17.6	65.3
II. Nijverheid	Industry	20.8	10.6	5.8	11.5
III. Verkeerswezen	Transportation	2.8	3.6	14.1	1.4
IV. Handel	Trade	57.7	72.6	14.2	6.3
V. Vrije beroepen	Medicine, law, religion, education	2.1	3.5	13.3	0.7
VI. Overheidsdienst	Public or government service	0.5	0.9	24.8	2.6
VII. Overige beroepen	Other	6.9	5.9	10.1	12.1
Among Group IV (Handel)					
Occupational subgroup	English description	Chinese	Others	Europeans	"Natives"
In voedings- en negotmiddelen	Foodstuffs	22.3	4.3	4.3	70.0
In textiele stiffen	Textiles	16.0	48.8	0.9	3.7
In ceramiek	Ceramics	0.5	0.3	0.2	1.5
In hout, bamboe en voorwerpen daarvan	Wood and bamboo products	0.7	1.3	0.9	4.8
In vervoermiddelen	Vehicles	1.0	0.5	6.8	0.2
In kleeding en lederwaren	Clothing	0.8	2.5	1.8	1.2
Gemengde kleinhandel	Miscellaneous small trading	46.8	27.5	16.3	10.8
Groot- en tusschenhandel	Wholesale and distribution	1.8	0.3	37.1	0.7
Overige handel	Other trade	5.1	8.6	12.7	5.7
Credietwezen	Banking and finance	5.1	5.8	19.0	1.5

Note. Each entry is a percentage of employed residents from each of the four census categories employed in each occupational category. "Others" means "other foreign Easterners."
Source. Author's calculations from Departement van Economische Zaken (1933; 1934; 1935, Table 14).

In sum, colonial Java was the archetype of a plural society, with a large indigenous majority and small but economically vital trading minorities. Both Arabs and Chinese in Java were visible minorities whose economic function differentiated them from the indigenous communities in which they lived, but whose social and political status remained separate from that of Europeans. While both Arab and Chinese communities were internally diverse, relative to the indigenous population, they were seen as homogenous and treated as such. But Arabs and Chinese in Java differed in one key respect: the former, as Muslims, faced far less social exclusion than Chinese.

Economic and Political Responses to Social Exclusion

For the Chinese in Java, social exclusion meant that their economic fortunes depended on their ability to forge cooperative relationships with both the Dutch authorities and the indigenous communities among whom they lived and worked (Suryadinata, 1976; Widihandojo, 1997). The most successful Chinese enterprises grew large enough to compete with Dutch-run firms, but such competition lies outside the scope of this argument. The more proximate threat facing the majority of small- and medium-size Chinese enterprises was expropriation and violence from the Javan community. Without institutionalized property rights or contracting institutions to facilitate arms-length exchange between Chinese traders and indigenous producers and consumers, market exchange—the very activity in which traders and middlemen specialize—was only possible when personal connections and informal collaboration emerged between Chinese traders and the local indigenous political elites.[4] Rush's description of Chinese opium merchants in Java is typical:

> To compete successfully the opium farm Chinese had to make their influence felt at every level—in the village, in the residency capital, and in Batavia . . . .It was typical of nineteenth-century Java that opportunities for such accommodation existed in abundance. *The integration of elite Chinese, Javanese, and Dutch interests was among the key institutional features of its plural society*. (Rush, 1990, p. 108, emphasis added)

Other descriptions of the fusion of Chinese elite interests and colonial political networks include Mackie (1991), Robison (1982), and Rush (1991). One everyday form of these linkages was the *langganan* (regular client) system, which encouraged "mutual obligations, considerable trust, and even friendship" (Willmott, 1960, pp. 70-71). Post (2002) describes one Kwik Djoeng Eng of the Kwik Hoo Tong Trading Society as regularly dining with agents of the Bank of Java in Semarang. Kwartanada (2002) mentions one Liem Ing Hwie, who headed the local *Siang Hwee* (Chinese Chamber of Commerce) in Yogyakarta and "enjoyed close ties with the Sultan" (p. 265). Numerous other examples can be drawn from the late colonial period.

Arabs, by contrast, pursued strategies of in-group solidarity with indigenous Javanese on the basis of a shared religious identity. Dutch colonial authorities feared that common religion united Arabs and Muslims in Java and elsewhere, and van Dijk (2002) notes that this fear emerged from "the esteem in which Arabs were held by the Muslim population of the Archipelago" (p. 55). Mandal (2002) describes Arabs as viewing themselves as leaders of all Muslims in the Indies, not merely a migrant group. With the lifting in 1910 of residential restrictions placed upon all foreign Easterners, what followed was "greater contact and cooperation between Arabs and native Muslim businessmen," while "Chinese and Arabs were pitted against one another" (Mandal, 2002, p. 165).

In-group solidarity was so effective that in many descriptions of local political economies, distinctions between Arabs and indigenous Javanese nearly disappeared. Writing decades later, in his classic description of the social and economic structure of a Javanese town prior to World War II (WWII), Geertz (1963) distinguishes *wong dagang* (traders) from *wong tjina* (Chinese), then immediately comments that "the Chinese, almost without exception, were traders" and "the leading figures [among the *wong dagang*, or non-Chinese traders] . . . were pious Muslims (some of them were actually of Arab descent)" (pp. 11-12). This quote neatly reinforces both the comparable economic function of Chinese and Arabs in Java and the social exclusion of Chinese and inclusion of Arabs. Laffan (2003) likewise observes that even in the Arab quarters, where Arabs had been forced to reside prior to the early 1900s, most "Arabs were in fact that Malay-speaking children of local mothers" (p. 45).

The political consequences of Arab social inclusion for Javanese politics are no less remarkable. The signature example is the foundational role played by Hadrami Arabs in the 1909 launch of *Sarekat Dagang Islamiah* (Islamic Commercial Union; Mobini-Kesheh, 1999), which represented the interests of Muslim traders—both Arab and Javanese—vis-à-vis the Chinese and Dutch. Its successor, *Sarekat Islam* (Islamic Union), became one of the key anticolonial movements in the late Dutch period.

To sum up, the economic success of both Arabs and Chinese in Java depended on their ability to form stable cooperative relationships with the communities with whom they traded in the absence of well-functioning property rights. Both communities were comprised of migrants, the majority of whom were traders, and both communities occupied a distinct legal position under Dutch colonial rule. Yet the social and political foundations of that cooperation, and of migrants' economic success, differed radically as a result of sharp differences in social exclusions.

Durability, Selection, and Confounding Differences

The Ethical Period ended with the Japanese occupation of the Indies during the WWII. However, if my theory is correct, local markets would have flourished, even after the end of Dutch rule, in precisely those communities that had previously featured accommodative economic governance. There is evidence that commercial associations founded by Chinese under the Dutch would actually become the hubs of panethnic business activity. The creation of new panethnic commercial associations in the independence era, such as the Johar Market Traders' Association in the city of Semarang, and the debate about removing *Tiong Hoa* (Chinese) from the name *Tiong Hwa Siang Hwee* (Chinese Commercial Association) to create a panethnic chamber of commerce (Willmott, 1960) reflect the long-term durability of informal institutions and their ability to adapt to changing political conditions and ethnic relations. In Surabaya, the second largest city in Java and a hub of Chinese and Arab trade alike, the local office of the Indonesian Chamber of Commerce (KADIN, *Kamar Dagang dan Industri*) occupied the same buildings through the 1980s as did the local Surabaya *Siang Hwee* under Dutch rule (Salmon, 1997).

What explains why Arabs clustered in some regions and Chinese in others? Perhaps Chinese settled precisely in those localities where collaborative or accommodative political business relations were most feasible ex ante, meaning that Chinese communities were choosing accommodative localities rather than catalyzing the formation of accommodative governance. This explanation would imply that Chinese settlement simply reflects preexisting local governance relations rather than independently shaping them. Individual traders arriving at Java during the colonial period must have been sensitive to the existing social and political conditions in localities where they planned to settle, and we lack measures of or proxies for local governance under the Dutch. But as I detail below, there is substantial overlap between the settlement patterns of Chinese and other foreign Easterners in Java, yet there is no evidence of a link between Arab settlement in 1930 and contemporary business-political relations, which would be true if trading minorities had settled in those localities that were ex ante more accommodative.

Finally, establishing a causal linkage between social exclusion and contemporary governance also requires that no other differences between Arab and Chinese communities in colonial Java can explain local governance today. There are, of course, many differences between Chinese and Arabs: In addition to the essential characteristics of "Chineseness" and "Arabness," one might appeal to Islam, Confucianism, civilizational norms, or other factors unique to each community. It is neither necessary nor desirable to argue that these differences do not exist. In fact, such differences are consistent with my theory and with the evidence below insofar as they themselves affect social exclusion. The precise assumption that underlies my empirical analysis is that Confucianism, Chinese culture, or some other factor unique to colonial Chinese migrants (and not Arab migrants) does not independently affect local economic governance in contemporary Java. Absent any theoretical mechanisms for such effects, and cognizant that Chinese trading communities in other parts of the world have managed to integrate into indigenous communities, I proceed with this maintained assumption.

The Data

My primary source on the social structure of Java is the 1930 Census of the Netherlands Indies (*Volkstelling, 1930*), the first modern census of the islands that today comprise Indonesia (Departement van Economische Zaken, 1933, 1934, 1935, 1936). I use data from Java only for two reasons. First, as Java was the social and economic core of the Netherlands Indies, data are available at a more fine-grained level than are data for the other islands, enabling a mapping from colonial administrative divisions to contemporary local governments. Second, the experience of Chinese communities outside of Java differed in important ways, in terms of both the degree to which Chinese experienced social exclusion and their occupational profile. I return to this issue in the conclusion (see Note 13).

In contemporary Indonesia, the most important level of administration at the subnational level is the "Tier 2" level (*kabupaten* or *kota*, equivalent to a county or city, translated here as "regency"). In most cases, Tier 2 divisions follow colonial administrative divisions known as *Regentschaap* (regency); the third of five administrative levels in colonial Java (see Table S1 in the supplemental appendix). I assign 1930 population data to Tier 2 administrations by exploiting the fact that (a) *Volkstelling* data are available at the *District* level (the level below *Regentschaap*) and (b) most changes in *kabupaten* borders have followed *District* boundaries (a full description of this procedure is available in the supplemental appendix).

The main explanatory variables are the density of Chinese and other foreign Easterner settlement at the regency level. I calculate these directly from *Volkstelling* data and operationalize them as the number of Chinese or other foreign Easterners per 1,000 inhabitants.

Figure 2 illustrates the spatial distribution of Chinese and other foreign Easterner settlement, using 1930 data mapped to contemporary regencies.

There is clear evidence of regional variation in settlement patterns. Chinese clustered around Jakarta, the gray area on Java's northwestern coast, and were spread relatively evenly through central and eastern Java. Other foreign Easterners were found primarily on the north coast of West Java and in the east of Java, especially near Surabaya, an important trading hub and Java's second most populous city. Both Chinese and other foreign Easterners were common in urban areas, the smallest administrative divisions in the map, but other foreign Easterners were relatively more concentrated in urban areas than were Chinese, and are largely absent from rural west and central Java. There is a strong relationship between settlement by Chinese and settlement by other foreign Easterners ($\rho = .582$, $p < .0001$), but at any given level of Chinese settlement, there is variation in other foreign Easterner settlement

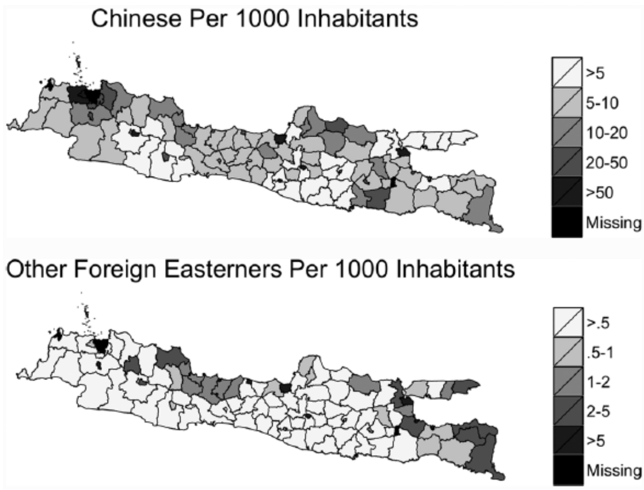

Figure 2. Migrant settlement in Java (1930).
Source. Author's calculations from *Volkstelling 1930*.

and vice versa (see Figure S2). This is the variation that enables me to isolate the effects of social exclusion.

Measuring Accommodativeness

My source for indicators of accommodative economic governance is the Indonesian Sub-National Governance and Growth dataset produced by the Indonesian Regional Autonomy Watch (McCulloch, 2011). That dataset summarizes the results from a large survey of Indonesian firms carried out in 2007 that covered roughly 50 firms in each of 243 regencies in 15 provinces, four of which were on Java (West Java, Central Java, Yogyakarta, and East Java).[5] Firms were asked a wide range of questions about the local governance environment; survey items capture both objective and subjective aspects of economic governance, from survey respondents' beliefs about the impact of various facets of governance on firm performance, to the existence of business development programs, to charges and fees for basic services, to judgments about the competence of local administrations. For each regency, researchers calculated average responses across firms, and then normalized each average across regency to create a series of comparable indicators of regency-level economic governance. Further details of this procedure are

Table 3. Key Loadings on the Economic Governance Index.

Indicator	Loading
Constraints of . . . on firm performance	
Interaction obstacles	0.24
Information access	0.25
Regent/mayor integrity	0.25
Infrastructure obstacles	0.26
Land access obstacles	0.26
Security	0.26
Transaction costs	0.28
License obstacles	0.28

Note. Each indicator is the normalized regency average of firm responses to survey items on the extent to which each factor is a constraint on firm activities or performance (see supplemental appendix for a description of the survey and the data, and Table S2 for a list of all indicators).
Source. Author's calculations from McCulloch (2011).

provided in the supplemental appendix. The resulting dataset contains more than four dozen indicators that can be used to study the origins and consequences of local economic governance in Indonesia (see, for example, McCulloch & Malesky, 2011). A full list and description of the universe of all governance indicators collected by Indonesian Regional Autonomy Watch is available in McCulloch (2011) and is reproduced in Appendix Table S2.

Recall from the discussion above that accommodative economic governance can be measured through firms' evaluations of how various aspects of local governance constrain their performance. Eight of the indicators are measures of exactly this: regency averages of firm responses about how various aspects of local economic governance constrain their activities. These are provided in Table 3.

The key point about these eight variables is that each asks about the extent to which each governance indicator affects firm performance. This comports well with the concept of accommodativeness as defined above: If, on average, firms in a regency report that information access, or infrastructure, or security constrains their ability to do business, then that regency's governance environment is not accommodative. Taken together, the eight indicators give a multifaceted view of how governments relate to firm in their regencies, without stipulating a particular government policy or normative standard.

It is reasonable to worry that I have selected these eight indicators because they produce statistically significant results. However, an exploratory factor analysis of the full complement of governance indicators also reveals that these eight indicators form a natural cluster that loads onto a first component with a weight of greater than 0.24 (after this, the next strongest loading is 0.18; see Table 3). I define the main independent variable, *Economic Governance Index* (*EGI*), as the first principal component of the full complement of individual indicators. Conceptually, what unites regencies that score highly on *EGI* is that they are behaving in ways that local firms find to be compatible with their own performance—which may naturally vary according to the characteristics of local political economies. And importantly, the indicators all load onto the first principal component, and the resulting index is highly correlated with an additive index created by McCulloch and Malesky (2011; $\rho = .749$, $p < .0001$). Together, these facts indicate that the concept of accommodativeness is appropriate for describing a key dimension across which governance in Java *actually varies*.

Method and Results

Figure 3 plots *EGI* versus the difference in settlement patterns of Chinese and other foreign Easterners by province.

Overall, there is a slight negative relationship between the two, but this masks the heterogeneity in *EGI* across provinces. Within provinces (with the exception of West Java), the expected relationship holds: Greater settlement by Chinese relative to other foreign Easterners is associated with higher values of *EGI*.[6] These preliminary results are the first piece of evidence about the long-term effects of social exclusion in the colonial era on contemporary economic governance.

To probe the relationship between colonial migration and contemporary governance further, I estimate a series of ordinary-least-squares (OLS) regressions of the following form:

$$EGI_{2007} = \alpha + \beta_1 CHI_{1930} + \beta_2 OFE_{1930} + \beta_3 EUR_{1930} + \gamma \boldsymbol{X} + \delta \boldsymbol{D} + \varepsilon.$$

The variables *CHI*, *OFE*, and *EUR* are the natural log of Chinese, other foreign Easterners, and Europeans as a percentage of the total local population in 1930. $\boldsymbol{X}$ contains a set of control variables, and $\boldsymbol{D}$ are province fixed effects. I include the measure of European settlement as an additional control as a simple way to ensure that European settlement (following Acemoglu et al., 2001) is not responsible for the long-run effects that I am attributing to Chinese, Arabs, and other migrant communities. Because *EGI* is an index, and the sample size is small, I follow Lewis and Linzer (2005) and calculate bootstrapped standard errors. To avoid focus on artificial boundaries of statistical significance, I report z scores, emphasizing that a z score greater/less than ± 1.96 corresponds to the standard $p < .05$.

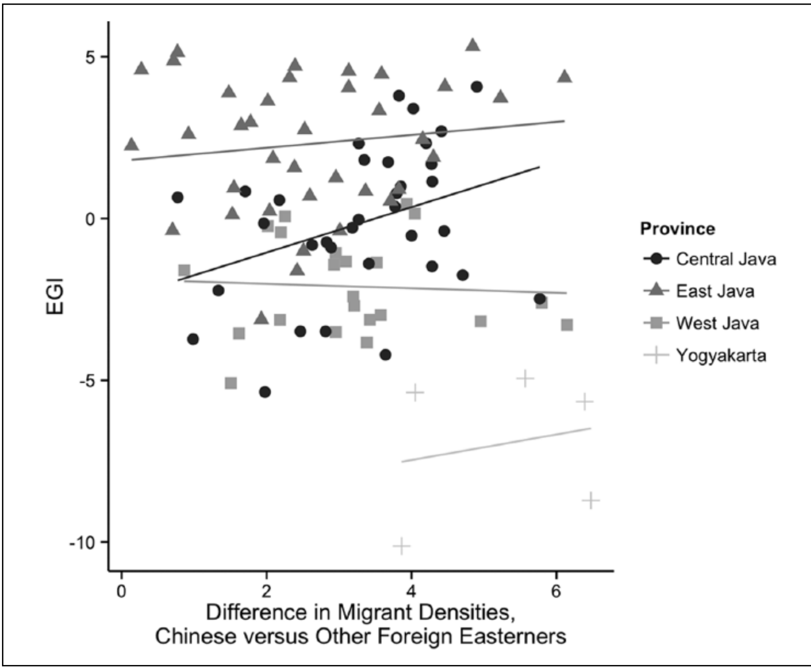

Figure 3. *EGI* versus colonial settlement by province.
Note. This figure compares settlement patterns of Chinese versus other Foreign Easterners in 1930, and the index of economic governance in 2007. Data points for each province are provided separately. Each line is a province-specific bivariate regression line, or line of best fit. *EGI* = Economic Governance Index.
Source. Author's calculations from *Volkstelling 1930* and McCulloch (2011).

The components of ***X*** vary across specifications. In the baseline specification, I include only measures of secondary school enrollment in 2001 and a dummy variable capturing whether the regency is a city or not in 2001.[7,8] An extended specification includes additional controls for the local ethnic composition in 2000 (discussed below), logged per capita regency gross regional domestic product (GRDP) in 2001 (the year in which decentralization was implemented), and growth in GRDP from 2001 to 2007 (when the *EGI* data were collected). A second extended specification includes mining share of GRDP and logged regency GRDP in 2001 as well. Summary statistics and data sources for all dependent and independent variables are provided in Table S3.

The main results are provided in Model 1 in Table 4.

Two results stand out. First, as expected, the relationship between Chinese settlement in 1930 and *EGI* is positive and significant in each model. Second,

Table 4. Main Results.

Independent variables	Model 1	Model 2	Model 3	Model 4
Chinese per 1,000 citizens (1930)	0.85 (2.03)	1.03 (2.16)	1.34 (2.27)	
Other Foreign Easterners per 1,000 citizens (1930)	−0.51 (−2.87)	−0.57 (−2.67)	−0.59 (−2.58)	
Europeans per 1,000 citizens (1930)	0.02 (0.11)	0.003 (0.01)	0.04 (0.10)	
Secondary school enrollment rate (2001)	−4.56 (−3.29)	−3.72 (−2.40)	−4.34 (−2.76)	−2.04 (−1.45)
Urban	−1.53 (−1.90)	−1.96 (−2.20)	−4.57 (−3.46)	−1.81 (−2.56)
Other Foreign Easterners per 1,000 citizens (2000)		0.15 (0.98)	0.092 (0.52)	−0.011 (−0.080)
Foreigners per 1,000 citizens (2000)		0.039 (0.15)	0.11 (0.42)	0.019 (0.077)
Chinese per 1,000 citizens (2000)		−0.0061 (−0.027)	−0.042 (−0.16)	0.23 (1.12)
Ln GRDP per capita (2001)		−0.50 (−0.88)	1.12 (1.24)	−0.49 (−0.94)
Growth (2001-2007)		−25.9 (−1.31)	−17.4 (−0.62)	−24.2 (−1.22)
Ln GRDP (2001)			−1.26 (−2.59)	
Mining/GRDP (2001)			−0.40 (−0.06)	
Constant	−0.83 (−0.72)	6.93 (0.81)	18.9 (1.96)	8.01 (1.01)
Province fixed effects	Yes	Yes	Yes	Yes
Observations	98	98	89	98

Note. Each model is an ordinary least squares regression with bootstrapped standard errors. The dependent variable for each model is *EGI* (see the text for a description). The parentheses contain *Z* statistics. GRDP = gross regional domestic product; *EGI* = Economic Governance Index.

there is no positive relationship between other foreign Easterners in 1930 and *EGI*: The estimate is negative, and in fact statistically significant.[9]

Chinese Indonesians today continue to face similar kinds of social exclusion as they faced in the past. If regencies that were densely settled by Chinese in 1930 are also densely settled by Chinese in 2000, what matters is simply the presence of a large Chinese community, which may reflect something essential about overseas Chinese migrants. Using the 2000 Census of Indonesia (Badan Pusat Statistik, 2000), I create comparable measures of Chinese, other Easterner, and European population densities in 2000 (see Figure S3). Model 2 in Table 4 shows that the relationship between Chinese settlement in 1930 and contemporary governance holds even when controlling for Chinese (and other, and European) settlement in 2000—and the latter is far from significant at conventional levels. Model 4, moreover, shows that there is no relationship between migrant settlement in 2000 and contemporary governance even when omitting the 1930 settlement variables.

It might seem puzzling that social exclusion of Chinese migrant communities during the colonial period affects contemporary governance, but social exclusion today does not. Two factors explain this difference. First, migrant settlement in the late colonial period coincides with the development of modern market relations outside of Batavia, making it the foundational moment for modern local political economies in Java. Second, the mechanism linking social exclusion to elite linkages during the colonial period depends on the absence of any *formal* channel through which excluded minorities can affect politics, such as by running for office themselves. Today, ethnic Chinese can participate in contemporary Indonesian politics in ways that Chinese in the late colonial period never could.

Another complication of the argument lies in the different scales of Chinese migration to Java as compared with other foreign Easterners. The maximum ratio of Chinese to total regency population in 1930 is 125.9 per 1,000 residents, whereas other foreign Easterners never exceed 19.3 of 1,000 residents. This raises both theoretical and inferential challenges. Theoretically, it suggests that the *scale of migrant settlement* rather than *religion* differentiates Chinese from Arabs in Java. This is compatible with my argument about social exclusion insofar as Chinese migrants were socially excluded precisely because they were more of a demographic threat to indigenous majorities. Empirically, it raises the possibility that Chinese are clustering to a much larger degree in the most propitious local governance environments that are most accommodative to specifically Chinese interests.

To allay such concerns, I trim the analysis sample, comparing only regencies where Chinese and Arab settlements are on similar scales, with Chinese population shares less than the maximum other foreign Easterner population share of 19.3 per 1,000 residents. Doing so excludes nearly every administrative city in Java and preserves nearly every rural regency (see Table S4). I present the results of such an analysis in Table S5 (Models 1-4). As part of this exercise, I also show results in which I drop the secondary education variable, which is plausibly a posttreatment confounder (Models 4 and 8), and explore models where the estimates of the variables capturing Chinese, other foreign Easterner, and European settlement are not log transformed (Models 5-8). The substantive results for the migrant settlement variables are unchanged. Note however that the statistical significance of the negative relationship between other foreign Easterners in 1930 and contemporary governance declines markedly in Models 5 to 7.

Sensitivity

The differing results for Chinese and other foreign Easterners are inconsistent with the idea that settler minorities were concentrated in the regencies that were ex ante more accommodative. But it is still reasonable to wonder about unobserved selection processes that differentiate settlement choices by Chinese and other foreign Easterners. We can conceptualize this possible selection problem as an omitted variable—preexisting conditions—that (a) differentiates settlement choices between the two communities and (b) also drives governance today. In the supplemental appendix, I describe two types of sensitivity analyses that relax (in different ways) the assumptions of selection on observables that underlies the regressions above. Both analyses indicate that an unobserved selection process causing differential settlement by Chinese versus Arab migrants unlikely to be driving these results.

Falsification and Further Robustness

My argument in this article is purposefully narrow: If I am correct that Chinese followed the elite linkages strategy in the colonial era, then Chinese settlement should be associated with policies that are *accommodative*. I should not find that Chinese settlement explains other aspects of local economic governance that are more conceptually distant from accommodative local governance. This suggests a falsification test, also using the governance indicators from McCulloch (2011). A scree plot of the eigenvalues of the principle components (Figure S1) reveals a second component. Unlike *EGI*, there is no obvious logic to the components that load most strongly on this second component: They include firms' views of whether regents or mayors give solutions to business problems, the absence of collusion in the provision of licensing fees, views about individual mayors, and others. I define this second principal component as a new dependent variable, *EGI2*, and repeat the analysis. The results are provided in Table S8. As expected, there is no relationship between Chinese settlement in 1930 and this second, less conceptually relevant index of local economic governance.

Because my results depend heavily on the measure of economic governance that I use, I also extract the eight indicators—those listed in Table 3—that I identify as reflecting most closely the appropriate conceptualization of governance for my argument (and which also load most strongly onto *EGI*). Using these, I create one more dependent variable, *EGI-Short*, which is the first principal component of these eight indicators alone[10] and repeat the empirical analysis again. The results are provided in Table S9 and are further empirical support for my argument.

Evidence From Local Economies and Social Structure

An additional consideration is whether accommodative economic governance matters for real-world economic and social outcomes. To test this, I draw on a range of regional economic data compiled by Indonesia's Central Statistical Agency. I investigate eight outcomes of interest: expenditure, total development expenditure, development expenditure per capita, non-oil and gas manufacturing as a share of regency GRDP, agriculture as a share of regency GRDP, industrial value added, industrial investment, and the total number of firms. All variables, definitions, and sources are available in Table S10.

If accommodative economic governance emerges from Chinese settlement in the colonial era and actually affects firms' behavior, then we should observe that regencies that were densely settled by Chinese in 1930 have more firms, more investment, more industrial value added; a greater share of regency GRDP in manufacturing; and a lower share of GRDP in agriculture. We should observe no such relationships for regencies that were densely settled by Arabs in 1930. However, there is no reason why accommodative economic governance would predict higher levels of expenditure (raw or *per capita*).

In Table 5, I show "reduced-form" estimates of the effects of colonial social structure on these contemporary economic outcomes, following the baseline empirical specification in Table 4.

The results show that as expected, settlement by Chinese in 1930 predicts greater industrial and manufacturing activity, more firms, and more investment and value added in the post-Soeharto era. We observe no such relationship for Arab settlement, which is consistent with my argument that social exclusion is the mechanism explaining the long-run effects of colonial social structure on contemporary economic governance. Turning to expenditure per capita and total development expenditure, we observe higher levels of both in

Table 5. Economic Outcomes.

Independent variables	Annual per capita expenditure	Development expenditure	Development expenditure per capita	Non-oil and gas manufacturing/ GRDP	Agriculture/ GRDP	Value added	Investment	Number of firms
Chinese per 1,000 citizens (1930)	2.15 (2.45)	67.6 (3.71)	−51.0 (−2.07)	0.055 (1.95)	1−0.031 (−1.73)	3,989.4 (4.63)	1,048.0 (2.51)	112.7 (3.05)
Other Foreign Easterners per 1,000 citizens (1930)	0.43 (0.93)	−9.59 (−1.00)	3.19 (0.25)	0.015 (1.02)	−0.019 (−.96)	−225.6 (−0.49)	141.4 (0.64)	−9.72 (−0.49)
Europeans per 1,000 citizens (1930)	−0.59 (−1.15)	0.72 (0.067)	−7.19 (−0.49)	−0.025 (−1.52)	0.0021 (0.20)	−1,110.0 (−2.18)	−380.1 (−1.54)	15.8 (0.73)
Secondary school enrollment rate (2001)	19.1 (5.58)	−0.044 (−0.00059)	20.9 (0.21)	0.29 (2.70)	−0.32 (−4.67)	3,596.2 (1.07)	3,325.4 (2.05)	103.8 (0.72)
Urban	11.4 (6.13)	−124.1 (−3.18)	377.1 (7.13)	−0.041 (−0.69)	−0.12 (−3.16)	−3,075.4 (−1.69)	−1,443.5 (−1.64)	−253.8 (−3.24)
Constant	19.1 (6.88)	163.6 (2.61)	245.5 (2.90)	−0.030 (−0.34)	0.52 (9.28)	−6,376.0 (−2.35)	−2,875.9 (−2.19)	−111.3 (−0.96)
Province fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	105	98	97	105	105	105	105	105

Note. Each model is an ordinary least squares regression with *t* statistics in parentheses. Column heading contains dependent variables; see Table S10 for variable descriptions, sources, summary statistics, and units of measurement. GRDP = gross regional domestic product.

regencies that are densely settled by Chinese in 1930. Yet development expenditure per capita is actually significantly lower in these regencies. If we interpret development expenditure per capita as a measure of responsiveness to citizens' interests—rather than firms' interests—the data show that those regencies with large Chinese settlement in 1930 are actually less responsive to citizen interests.

One point of caution is in order. I have argued that Chinese and other foreign Easterners played comparable roles in Java's colonial economy, but Table 2 does indicate that of non-traders, relatively more Chinese were involved in industry than were other foreign Easterners. Could this difference explain why dense Chinese settlement predicts greater manufacturing share of GRDP? One piece of evidence to the contrary is the observation that among non-traders, relatively more Chinese were involved in farming than were other foreign Easterners. Yet, we still observe lower agricultural output as a share of GRDP in those regencies with dense Chinese settlement in 1930. This is inconsistent with an account in which the relatively limited differences in occupations among non-traders explain aggregate differences in contemporary economies.

As a final empirical exercise, I investigate whether colonial social exclusion shapes other real-world social outcomes at the regency level. If my narrow argument about the effects of colonial social exclusion on economic governance alone is correct, then we should not observe a relationship between Chinese settlement in 1930 and the observable consequences of other aspects of governance. In fact, we may even observe "worse" social outcomes, to the extent that Chinese settlement in 1930 induced social conflict between migrant and indigenous communities. I test these arguments using data from the 2008 Village Potential Survey, aggregated to the regency level. A list of eight indicators is provided in Table S11, and results are provided in Table S12. I find no evidence that colonial social exclusion explains contemporary governance, as measured by road quality or resilience to flash floods (two very important indicators of what citizens demand from local governments in contemporary Java). I also find evidence that settlement by Chinese is associated with higher levels of conflict: specifically mass violence, thievery, robbery, and a category of violence falling under the heading of "mistreatment."

Why, though, does settlement by Chinese in 1930 predict higher levels of social conflict today? My causal logic holds that accommodative economic governance emerges as a result of Chinese traders' needs for security and property rights. But as emphasized above, what persists is not protection of *all* citizens from *all* kinds of violence, but rather the accommodativeness of local governments of firms. While we lack comparable regency-level data on social violence in the late colonial era, it would be entirely consistent with my argument to find that those places with dense Chinese settlement both had higher levels of violence and more propitious economic governance environments. Such results accordingly both refine our understanding of the links between colonial social structure and contemporary governance and further help rule out the possibility that Chinese migrants were settling in precisely those regencies that featured more propitious governance environments ex ante. If Chinese migrants were deliberately settling in places that had more propitious conditions for reasons that are unobservable today, and those unobservable factors affect *economic* governance today, then we might expect that those unobservable factors also predict *other* aspects of contemporary governance. The finding that Chinese settlement does not predict other kinds of governance outcomes—and in the case of violence, that it predicts worse outcomes—makes it all the more difficult to imagine what kind of selection mechanism would be responsible for the observed association between Chinese settlement and contemporary economic governance.

Mechanisms in Action: A Case Vignette

I conclude this section by considering the mechanisms through which governance relations endure over time. Reconstructing governance at the local level over the course of nearly a century is difficult from afar. Social histories at the required level of granularity are rare for most regencies in Java. Comprehensive data to compare across regencies are simply unavailable. However, establishing the plausibility of mechanisms through which governance persists is critical for my argument that connects colonial migrant settlement to contemporary governance. Here, I consider the case of Kediri city, East Java. Kediri had one of the largest Chinese population shares in East Java in 1930, and today has one of the most accommodative governance environments in Java. This is, then, an "on-the-line" case, selected as a way to probe the mechanisms for the theoretical argument proposed above (see Lieberman, 2005).

Kediri city is also useful because it has been dominated for decades by a large and influential company, PT Gudang Garam Tbk. Gudang Garam manufactures clove cigarettes (*kretek*) and was for a period during the 1970s and 1980s Indonesia's largest tobacco firm. The firm's prominence means that there is a secondary literature about the origins and operations of the firm that contains insights into its relations with its local community. In addition, studying *kretek* firms is revealing because (a) the *kretek* manufacturing industry was centered elsewhere in Java, in the Central Javanese city of Kudus, until the final years of the colonial period, and (b) the *kretek* industry was not dominated by ethnic Chinese during the colonial period. In 1933, for example, Kediri had 18 Chinese-owned *kretek* companies, compared with 47 owned by Javanese (van der Reijden, 1936). This means that Gudang Garam is a firm that did not exist during the colonial period, in an industry not dominated by Chinese migrants during the colonial period, in a city where that industry had not flourished until the very end of the colonial period.

The founding history of Gudang Garam reveals the mechanics of how settlement patterns in the colonial era set in motion subsequent political and economic trajectories. Gudang Garam was founded in 1958 by Surya Wonowidjojo. Surya was born Tjoa Ing Hwie in Fujian, China in 1925, and had moved as a child to Madura, East Java. After the death of his father around 1950, Surya moved to Kediri and began to work for his uncle, Tjoa Kok Tjiang, who owned a small *kretek* company. In 1956, Surya left his uncle's firm to start Gudang Garam ("salt warehouse"), also in Kediri. Gudang Garam's national success dates to the late 1960s, after the firm had won a valuable national license for mechanizing *kretek* production (Young, 1993, p. 300). We do not know why Tjoa Kok Tjiang had originally settled in Kediri, but there was significant Chinese participation in Kediri's *kretek* industry by the 1950s (Young, 1993), so new migrants to Indonesia like Surya's uncle who settled there contributed to a growing Chinese presence in the city's tobacco industry. That Gudang Garam specifically among all of the *kretek* firms operating in Kediri became so large is a partial result of decisions made in Jakarta; however, Gudang Garam happened to be located in Kediri because of factors dating from the colonial era, and in turn, its success helped ensure that the incentives for accommodative economic governance persisted through later decades.

How did Chinese Indonesians fare during the upheaval of the mid-1960s? Details are hard to obtain, but one estimate from a Surabaya missionary holds that between November 4 and 9, 1965, 3,500 (alleged) members of the Indonesian Communist Party were killed in Kediri (Kompasiana, 2012), so it was a site of significant violence. The history of how Gudang Garam and other, smaller enterprises fared during these years has not been written. Yet "it is clear that Surya, living in a region where Chinese businesses were vulnerable to popular resentments, took considerable pains to build up good relations with the local community" (Young, 1993, p. 304), a statement that must have applied equally to those tumultuous years as to later years of growth and expansion. There is also evidence that the local Chinese community fared relatively well considering the tumult of the time. Local survey maps from 1977 reveal that two Chinese temples, known as *klenteng*, still stood at the center of the city, in the midst of areas marked by trade (Kota Kediri, 1977). Importantly, the maps label them as "*klenteng*" even though

New Order cultural policies encouraged Chinese communities to rename them *vihara* (Buddhist monastery).[11] Here, we have evidence, albeit indirect and circumstantial, of an environment in which threats to the local Chinese business community were less serious than they had been elsewhere.

What of the economic governance environment? A central government-sponsored study of provincial industrialization in the 1970s holds that "rather authoritarian" (*agak otoriter*) labor control mechanisms were necessary to "safeguard" (*mengamankan*) industrial efficiency (Fakultas Ekonomi, Universitas Airlangga, 1977, p. 20). This suppression of labor activism is consistent with what firms such as Gudang Garam favor. Beyond this, Gudang Garam required only a light regulatory touch. Writes Young (1993, p. 306), "Surya was careful to maintain a good reputation and image for Gudang Garam in Kediri by contributing funds widely to local welfare and educational organization—and presumably to key officials also" (see also Suryadinata, 2015, p. 384). It is easy to see in this discussion how firm and government incentives to maintain good relations are compatible. Firms invest in good relations with the local society and the local government, and this increases governments' incentives to maintain those accommodative governance relations. Today, writes one commentator, "no one in Kediri can imagine" what would happen if Gudang Garam were to close. "Especially the government" (Kurniawan Ilham, 2010, author's translation).

One implication of the argument about accommodative economic governance is that industrial employment should be larger in places such as Kediri during the New Order, reflecting industrial expansion where Chinese had settled during the colonial era. Table S13 demonstrates that in East Java as a whole, there is a positive relationship between Chinese settlement and industrial employment totals in 1985; this holds as well when controlling for urban status as well as total population.[12] Kediri city had the largest regional economy in 2002 of any city or regency outside of the provincial capital city of Surabaya (World Bank, 2003). And after democratization in 1999, the World Bank (2003) noted rapid development in Kediri, especially in the trade sector. This observation does not itself confirm the importance of accommodative economic governance, but it is consistent with the claims made in this article about how governance relations persist over time.

To summarize this case vignette, Gudang Garam in Kediri illustrates how a dense community of Chinese migrants in the late colonial era translates into more accommodative local economic governance today. It also helps allay concerns about potential confounding factors such as historical Chinese dominance of this particular economic sector, or the presence of firms that are themselves holdovers from the colonial era. Gudang Garam was founded in Kediri because Surya Wonowidjojo's uncle had established a small *kretek* firm there; his uncle lived in Kediri, we must assume, because Chinese traders like him were able to do business there. Gudang Garam flourished in Kediri because of the accommodativeness of local economic governance, which incentivized the firm to invest further in maintaining good relations with the community. Kediri's city government, in turn, is well aware of the importance of Gudang Garam in the local economy. The elimination of the local left and imposition of authoritarian labor control after 1965 was hardly "good governance," and Kediri's manufacturing sector was anything but diversified during Gudang Garam's heyday. But together, these accounts illustrate just why a small regional city densely settled with Chinese at the late colonial era has ended up with such accommodative economic governance decades later.

Conclusion

This article has presented a theory of social exclusion and economic governance, arguing that social exclusion of trading minorities during the colonial area generates distinct forms of local economic governance that persist over time. Applied to the case of Java, the theory provides a unique window into the powerful historical legacies of colonial migration and ethnic relations on contemporary political economies.

There are many directions in which future research may extend this framework. One is to examine the endogeneity of social distance to policy regimes. Chinese social exclusion in Java was not foreordained: Chinese migrants *did* assimilate more readily into local populations in both the Philippines and Thailand (Sidel, 2008; Skinner, 1996). In parts of Indonesia with larger non-Muslim indigenous populations, such as western Borneo and northern Sulawesi, the social distance between Chinese and indigenous peoples is lower.[13] The sharp predictions of the theory in this article become more complex if groups may strategically choose to assimilate or not, giving them a choice between elite linkage and in-group solidarity to sustain exchange. This possibility both defines the scope conditions of my theory and represents an area for further empirical work in other postcolonial contexts.

My argument also contributes to the contemporary literature on the political origins of long-run economic development, examining the everyday political economy of market relations under extractive institutions (Acemoglu & Robinson, 2012). I have argued that the strategy that supports exchange for socially excluded minorities has long-term consequences. Whether such relations promote local economic prosperity or widely shared economic development over the long run—or, alternatively, simply stability and economic security for local political and economic elites—remains an open question for future research, in Indonesia and elsewhere. As I have shown, the evidence from Java is mixed.

My conceptualization of governance also has implications for contemporary debates on good governance. The conceptual distinction between good and accommodative governance is critical: Socially excluded trading communities demand accommodation, not impartiality. I have shown that accommodative economic governance is what colonial social exclusion has produced across Java, and moreover, that the resulting local political economies feature more industrial and manufacturing activity, more firms, and more investment and value added in the post-Soeharto era. There is no evidence that the same processes have produced good governance in the form of developmentalist policymaking, public goods provision, or reduced social conflict. Greater precision in the conceptualization of economic governance and how it varies will produce more precise theoretical expectations about how historical fundamentals might shape the various facets of governance. Stripping away some of the normative concerns about what counts as "good" governance will also help produce better measurement of economic governance, allowing analysts to focus on how governance actually varies rather than cataloguing the distance between local conditions and a normative ideal.

Author's Note

Replication materials are available at http://tompepinsky.com/data/. All errors are my own.

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Notes

1. A minority of prominent Arab and Chinese traders in Java must have been involved primarily in "non-replicable" global trade. My theory predicts that they would not have faced the same degree of competition with indigenous communities. However, rigorous analysis of such communities is beyond the scope of this article.
2. This represents a change from earlier patterns of Chinese migration to Southeast Asia, when Chinese migrants to the region assimilated much more readily into local populations, forming syncretic—but specifically local—cultural identities like the Baba-Nyonya communities in the Straits Settlements and *peranakan* communities in the Indies. See Skinner (1996).
3. An Arab—or at least Hadrami—identity did exist (Mandal, 1994; Mobini-Kesheh, 1999), one nurtured by the legal and social distinctions between foreign Easterners and indigenous Indonesians maintained by the Dutch. However, it is instructive that the citizenship of Arab Indonesians was never questioned after Indonesian independence, as was the case for Chinese Indonesians, and also that during later instances of indigenous/non-indigenous conflicts, Indonesians of Arab ancestry are classified as indigenous.
4. The commercial affairs of Chinese and other foreign Easterners were legally governed under Dutch rather than indigenous law. Yet as Willmott explains, Chinese under colonial rule were loath to settle disputes in Dutch commercial courts and favored informal mechanisms to settle conflicts as well as the "mutual benefit" brought by Chinese–indigenous partnerships—a phenomenon that only increased after independence (Willmott, 1960, *passim*).
5. The Economic Governance Index data, therefore, do not include Jakarta or Banten provinces.
6. When urban areas are excluded from the scatterplot, there is a positive relationship between *EGI* and the difference in settlement patterns of Chinese and other foreign Easterners in West Java as well.
7. I include secondary school enrollment to capture contemporary human capital, which may independently affect local economic governance but is independent of migrant settlement in the 1930s. My results in the supplemental appendix allay any concerns that it is a posttreatment confounder.
8. The dummy variable *Urban* classifies a regency as a city if it is so classified under Indonesian administrative law. Administrative cities and regencies differ in that cities are comprised of *kelurahan* (roughly equivalent to a ward, and led by an appointed civil servant), while regencies are comprised of villages (in Java, termed *desa*, and led by an elected head). This classification dates 2007, but every regency that was an administrative city in 2007 was identifiably an urban area in 1930. The correlation coefficient for Chinese settlement and *Urban* is $\rho = .725$ ($p < .0001$). The correlation coefficient for Chinese settlement and total population is actually negative ($\rho = -.389$, $p < .0001$).
9. Contrary to my expectations, the coefficient on secondary enrollment is negative and significant. One possible explanation for this result is that those regencies

with better enrollment have more active civil societies, and these advocate against firm-favorable policies in favor of policies that are favored by the median voter (who is almost certainly not a firm owner). Nevertheless, this result is reassuring in dismissing the possibility that secondary education is a posttreatment confounder that is masking the effects of migrant settlement.

10. The eight indicators all load onto the first component, with little variance remaining.
11. Government efforts to force the conversion of *klenteng* to *vihara*, though, would not begin until the 1980s.
12. It is important to emphasize that the success of Gudang Garam itself was responsible for nearly all of the industrial employment in Kediri.
13. Studying the Chinese of West Kalimantan (Borneo), Heidhues (2003) notes that relations between Chinese and Dayak communities afforded a kind of alliance making between the two that was never possible in Java. Indeed, the plurality of Chinese in Borneo were employed as farmers in 1930 (Departement van Economische Zaken, 1935), not in trade, as in Java. At the same time, because of their common religion, Arabs in Kalimantan "acquired a kind of native status" and "were seen as natives" (Heidhues, 2003, p. 28). In a case study of Chinese entrepreneurs in the north Sulawesi city of Manado, Wee, Jacobsen, and Wong (2006) write that Chinese "regard themselves as totally assimilated to the indigenous Minahasa majority" (p. 369), based in part on a common religion (Christianity).

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