

A Nexus between Identity Awareness and Decolonization Process of Local Economy: Indonesian Experience

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Abstract

This paper will examine four significant economic events – namely, Indonesian government's measure to nationalize the existing foreign enterprises in 1950s; debate in between 1949-1957 in searching of an appropriate ideology to be adopted as framework in devising economic policies; the rise of Sharia-compliant bank in early 1990s; and the emergence of Islamic co-operative financial institution called Bay al-Mâl wa al-Tamwîl (BMT), in relation to the advancement of people awareness of their right identity. The finding says that reality stated that decolonization movement in Indonesia from bottom-up that is contrary from ideal studies, and it is always connected with real identity that the decolonized people are certain with. By then, identity awariness is the way to the decolonisation process that will impact to Islamization of economics in Indonesia.

Keywords: Identity; Awareness; Decolonization; economy; Indonesia; BMT

Introduction

It is universally true that all human beings – being religious or atheistic, part of a civilized community or isolated in a remote village, desire to be living nicely and independent from oppressions and subjugation of any kind. If their right to have decent life is deprived, undoubtedly they will do whatever it is in order to regain it even if the price is relatively expensive. Obvious example is the struggle of Third-World countries against ruthless colonizers who invaded into their colonies, exploited therein natural resources and abolished the existing social system of values.

Such endeavour in fighting back the colonizers means literally to do rebellion or decolonization. It mainly aims to reject colonial activity (*colonialism*) and, if possible, to remove all its

negative impacts (*coloniality*), or the colonial matrix of power in Mignolo's expression,¹ gradually brought in by the invaders and then to restore original preserved identity of that community existing prior to the colonialism. The agenda by all means takes time. However, it is interesting to note that even *colonialism* had been abolished sometimes ago, its impacts apparent in four interrelated spheres, *i.e.* political, economic, social and intellectual (subjectivity and knowledge) cannot totally be eradicated.²

The original 'identity' that the colonized people are willing to go back to, however, is still debatable, for it cannot be guaranteed that the people's identity existing before the colonization is very well-preserved. Therefore, it is not true destination to go. Sometimes even its conception differs as different individuals give different meaning to it. In the case of Indonesia, perhaps what they thought about their identity during Independence eve, forced by feeling of enmity towards their ex-colonizer, was the one based on commonsensical solidarity as a citizen of nascent state, who are *emotionally* bound up with experience of being colonized by foreign invaders. It is purely sentimental in nature, and therefore it is temporary.

Be that as it may, be provided that in the next couple of decades the political climate is relatively stable, the economic achievement is recorded and the basic needs of these people are sufficiently fulfilled, they will begin to inquire the deeper meaning of that identity and will start thinking what is true about this so-called identity.³ Since the quest for meaning of identity originates

¹See Madina V. Tlostanova and Walter D. Mignolo, "Global Coloniality and the Decolonial Option," in *Kult 6 – Special Issue Epistemologies of Transformation: The Latin American Decolonial Option and its Ramifications*, ed., Julia Suarez-Krabbe *et. all.* (Roskilde: Department of Culture and Identity, Roskilde University, 2009). It is likely that Mignolo is inspired by Anibal Quijano, the forerunner of the idea. See Anibal Quijano, "Colonialidad del poder, globalización y democracia," *Revista de Ciencias Sociales de la Universidad Autónoma de Nuevo León*, Año 4, Números 7 y 8, Septiembre 2001-Abril 2002.

²Torres, in agreement with Anibal Quijano, distinguishes *colonialism* and *coloniality*. He asserts that coloniality goes beyond colonialism, for coloniality, the effect of colonialism, remains alive in books, academic performance, in the self-image of people and so many other aspects of modern experience. See Nelson Maldonado-Torres, "On the Coloniality of Being: Contributions to the Development of a Concept," in *Globalization and the Decolonial Option*, ed., Walter D. Mignolo and Arturo Escobar. (New York: Taylor and Francis, 2010), 97.

³By thinking, I mean cognitive activity of the mind, by which human argues something using his rational faculty and logic. In order to be able to think properly, usually one is supposed to be educated in a systematic manner.

from within themselves, it means that they are pursuing it meticulously. Once the finding comes up, they will whole heartedly adhere it and defend it, and hence permanent.⁴ Finally, they know that identity might not be based solely on nationalistic emotion anymore.

It is known, as far as the existing studies on Indonesian economic decolonization are concerned, it would be said; that their scope is limited only to the government struggle and their practical measure in 1950s to regain its control on economic affair; that all conceive the decolonization as being the main player in the area concerned without any involvement of other races and ethnics in that particular sector; and that these studies end up saying that economic policies during that time was less successful. Finally, their studies state general conclusion implicitly that the economic aspect of decolonization has stopped by 1990s onward. In addition, some of them do speak of identity. But unfortunately, since the identity that they allude to is the temporary one, its influence on local economic affair is of no significant. It is no doubt then none of them touches on the influence of identity on local people technique in conducting economic activities.

For the sake of filling the gap, this paper will examine four significant economic events – namely, Indonesian government's measure to *nationalize* the existing foreign enterprises in 1950s; debate in between 1949-1957 in searching of an appropriate ideology to be adopted as framework in devising economic policies; the rise of Sharia-compliant bank in early 1990s; and the emergence of Islamic co-operative financial institution called *Bay al-Māl wa al-Tamwīl* (BMT), in relation to the advancement of people awareness of their right identity. This long process of maturing, I may call it the incessant process of Indonesian economic decolonization.

All arguments, expositions and analysis are spelled out here, thus, will support an assumption saying that the community's shift in understanding of their identity, will determine and shape the means (*i.e.* both in concept and technique) through which they obtain economic ends. In view of that statement, economic

⁴It is permanent because his understanding about identity is beyond cultural, racial or nationalistic sentiment. It transcends the particulars to the universal one, *i.e.* the understanding of identity based on true religion.

decolonization thus can be better defined as an action to invent any economic businesses and activities of a community whose pattern, mode and fashion are based on religious principles that they strongly hold. With this in mind, this paper would suggest that the emergence of Sharia-compliant bank and *BMT* in 1990s originates from the bottom, *i.e.* local community, who are certain in their identity as Muslim, and whose awareness of internalizing Islamic values and principles in one form of economic institution, marks an epoch of understanding shift from nationalistic-based decolonization agenda to that based on religion. Since the name of this religion is Islam, thereby that type of decolonization agenda is called *Islamization*.⁵

Preparing the Ground Following Indonesian Independence

As a new-born state, gaining its independence from a trading Dutch company (VOC), Indonesia inevitably was inherited more its serious detriment rather than benefit. The agreement between the newly government and ex-colonizer summarized in Round Table Conference (RTC)⁶ provisions as well as *Finec*,⁷ of which posed serious problem for the government yet secured the maximum possible economics and financial benefits for the Netherlands⁸ was the evidence of that disadvantage. In other words, although politically in its general sense it has become independent, it has no power pertaining to economic control. The handicap in turn provoked Indonesian government to design new economic policies restoring its supremacy in economic affair.

Among government's action to reclaim its power in the economic sphere are *inter alia*; to gradually nationalize institutions and companies which are deemed to be of direct public or national

⁵In the present work, I employ the framework of Islamization (as one type of decolonization agenda) that is interpreted and championed by Prof. Wan Mohd Nor Wan Daud. See Wan Mohd Nor Wan Daud, *Islamization of Contemporary Knowledge and the Role of the University in the Context of De-Westernization and Decolonization* (Johor Bahru: UTM Press, 2013), 46.

⁶A conference held in The Hague in the late 1949 where Dutch officially acknowledged the independence of Indonesia.

⁷*Financieel-Economische Overeenkomst*.

⁸Thee Kian Wie. "Indonesianization: Economic Aspects of Decolonization in the 1950s," in *Indonesia's Economy Since Independence*, ed., Thee Kian Wie, (Singapore: ISEAS Publishing, 2012), 6. Hereafter cited as *IEAD*.

interest such as the central bank (previously the Java Bank), the national carrier (domestic air transport),⁹ public utilities (electricity and gas companies)¹⁰, and public transport;¹¹ to motivate indigenous people to become business men by means of *Benteng Programme*;¹² and to set restriction for foreign entrepreneurs – be it Dutch or Chinese – on doing business in lucrative industries and several areas.¹³

All a fore mentioned actions are undeniably necessary steps to take, for it is instinctive apprehension that to manage a country means to have control over its people and their economic sources.¹⁴ Both can never be separated from one and another. Even as early as ancient Greek, this idea was already apprehended. No doubt then, at early stage of its development, apart from those measures and in order to strengthen its economy, the government stressed industrialisation in April 1951 under an Economic Urgency Plan often labelled the Sumitro Plan. This programme was intended to reduce Indonesia's extreme dependence on exports of primary products to the world market,¹⁵ hence balancing external potentialities with the local one.

The attempts to *indonesiasi* all economic factors are plainly initiated by government, whose command and instruction emerge normally from top to down. Construed from the mainstream political science, the government seemed to regain its economic autonomy. Yet, as a matter a fact, if we are to investigate it more closely, it is far from the ideal, and is nothing but the tiny initial step to decolonize (in its conventional understanding) Indonesian economic, judging from the fact that none of these made major inroads.¹⁶ However, colonial impacts on local economic

⁹D. H. Burger, *Sociologisch-Economische Geschiedenis van Indonesie: II. Indonesia in de 20e Eeuw* (Amsterdam: Royal Tropical Institute), 1975 quoted in Thee, *IEAD*, 10.

¹⁰*Ibid.*

¹¹J. Thomas Lindblad, "The Economic Decolonization of Indonesia: a Bird's-eye View," *Journal of Indonesian Social Sciences and Humanities* 4, (2011): 1-20. Hereafter cited as *TEDI*.

¹²Thee, *IEAD*, 15.

¹³*Ibid.*, 17 and 19.

¹⁴In fact, the early economic discourse in 18th century was best known as *political economy*, instead of mere 'economics' as it is currently taught nowadays.

¹⁵Lindblad, *TEDI*, 3.

¹⁶Bruce Glassburner, "Economic Policy-Making in Indonesia, 1950-57," *Journal of Economic Development and Cultural Change* 10, no. 2, (January 1962): 129. Hereafter cited as *EPMI*.

affair cannot fully be dismantled, obviously because the economy still retained its colonial pattern of ownership.¹⁷

In other words, the legacy of colonialism paralyzed the government.¹⁸ The decolonization of economy presupposes structural changes in society. Accordingly, social changes imply education. Two prominent technocrats: Hatta and Sjafruddin had persistently offered this solution, despite taking long time. Sadly enough, by that time the circumstances did not permit intellectual programme to be topmost importance as the government by that time was overwhelmingly concerned with devising policies that would maintain the integrity of the infant Republic¹⁹ and accelerate national economic growth. Despite being on second thought, there was quantitative explosion in the expansion of elementary, secondary and higher-education institution number between 1950s-1960s though was not matched with qualitative improvement.²⁰

Nevertheless, the incumbent government in 1950s was the elite, who mostly had contributed more or less to the realization of Indonesian independence, including those Western-educated who were later on responsible for everything pertaining to economic policies. Those who still attended elementary or secondary schools of course could not be hoped to occupy significant position in cabinet even for the next coming several years. Therefore, the programme that was formulated to some extent had the remnant of Western thinking.²¹ These elites with the policies they devised,

¹⁷Ibid., 130. To mention one clear example, in the case of a policy to replace the existing Dutch high administrative staffs, government saw neither many indigenous learned people were available to put in their places, nor new capital were there to build new state enterprises if the government was to start from its very beginning. Hence, vocational education and skill training congenial to Dutch enterprises interest.

¹⁸Ibid., 130.

¹⁹Despite the Dutch recognition in 1949 for Indonesia independence, the influence of the former over the latter remained overshadowing. For example, the Dutch enforcement on the creation of a Netherlands-Indonesian Union along the lines of the British Commonwealth that could possibly brake up the infant country into several small puppet states at any moment. See Thee, *IEAD*, 5.

²⁰Yudi Latif. *Indonesian Muslim Intelligentsia and Power* (Singapore: ISEAS Publishing, 2008), 256.

²¹By Western thinking, I mean thought that have weigh of Western civilisation. Here, I employ the concept of Western civilisation put forward by Prof. Syed Muhammad Naquib al-Attas. See Syed Muhammad Naquib al-Attas, *Prolegomena to the Metaphysics of Islam: An Exposition of the Fundamental Elements of The Worldview of Islam* (Kuala Lumpur: ISTAC, 1995), 85.

represented the Westernized Indonesian, in relation to its economic affair, in the early period following the independence eve.

Economic Think Tank and Debate of 1950s

The fact that a single country, be it newly-born or well-established, do not exist in vacuum; and that it has to prudently manage its potentialities based on either pure or mixed of the two opposite economic ideologies, *i.e.* capitalism and communism, is the reality made available to the newly Indonesian government. In fact, speaking of choosing what appropriate ideology to adopt presupposes the curiosity of its adopters-to-be about their identity. Perhaps, the indication of this might had been hinted several times during 1950s when the three main topics ever debated, *i.e.* whether or not to push the 'cooperative society', to suppress 'native capitalism' or to encourage foreign investment, took place.²²

Although the feature of economic policies in 1950s was short-run oriented, there were prominent technocrats who were loyal to a particular economic ideology, based on what they understood it, and who desired it to be adopted as a framework that would govern and shape national economic policies and affairs. Among the influential were Mohammad Hatta, Sjafruddin Prawiranegara and Sumitro Djojohadikusumo. The first two shared many similarities concerning economic problem and the approaches to handle it. Both were often marked as *conservative* or *solidarity makers* or *history-minded*. On the other hands, the last differed most in several matters from the first two. He was regarded as rather radical in implementing the policies and was often designated as *administrator* or *development-minded* or *economics-minded*.

Hatta was a leading icon famous with the idea of cooperative movement, and was often regarded as the symbol of moderation and stability²³, probably because he was less outspoken than Sjafruddin in criticizing the government policies. Yet his criticism against the government was severe despite in the writing forms. Hatta himself was a devoted Moslem and he had been close with Communist party during his ten-year education period in

²²Benjamin Higgins, "Thought and Action: Indonesian Economic Studies and Policies in the 1950s," *Bulletin of Indonesian Economic Studies* 26, (1990): 46.

²³Benjamin Higgins, "Hatta and Co-operatives: The Middle Way for Indonesia?" *The Annals of The American Academy of Political and Social Science* 318, (1958):56.

Rotterdam. Previously he thought of associating Indonesian Communists with Indonesian Nationalists, but then later on he changed his mind and was certain that neither communism nor capitalism was suitable for Indonesia.²⁴ Being given only two opposite economic ideologies not even in line with Islam, he thus created his own heterodox alternative to those termed as *cooperative movement*.

Similar to Hatta, Sjafruddin was also Western-educated. Only that the educational institution in which he earned his degree in law was based in Jakarta. Thus he never left Indonesia, and always tried to keep a relationship with all types of people. Apart from attending School of Law (*Rechshogeschool*), he had an Islamic Education too.²⁵ And I strongly am convinced that it is his framework of thinking, standing on solid religious belief that allowed him to be ballast for radical economic policies. It is reported that, being vigilant of the emergent of Communist ideology in the cabinet, in 1948 he boldly claimed:

“The ideology which is suitable to our society is Religious Socialism, an ideology which is in harmony with the Constitution. Religious Socialism does not abolish individualism, individual initiative, and individual responsibility...Competition arising out of private initiative as such is not bad, but the contrary, because competition increase production and improves the quality of goods...Only at a certain stage does this liberal economy not increase production and is there a tendency to limit production. At that stage the government must intervene by nationalising certain private enterprises or establishing enterprises itself.”²⁶

Sumitro Djojohadikusumo was distinguished economist as well, although he did not come with a banner of any economic ideology. He said that he would prefer to believe in ‘raw instinct’ instead of ideology. He studies economics at Rotterdam, a very industrial city, and it seems that his educational training, memories, experiences, and readings had influenced him to some extents in the way he see the reality while he said that ‘*economics taught me not*

²⁴Ibid., 51.

²⁵Sjafruddin Prawiranegara, “Recollection of My Career,” *Bulletin of Indonesian Economic Studies* 23, no. 3 (December 1987): 100.

²⁶Sjafruddin Prawiranegara. *Politiek dan Revolusi Kita* (Jogjakarta, 1948) quoted in George McTuman Kahin, *Nationalism and Revolution in Indonesia* (Ithaca: Cornell University Press, 1952), 310.

to be captive of my own emotions but rather to establish the facts about problem, and then apply the logical analysis'.²⁷ He also admittedly said that his approach to economics cannot be detached from the political environment in which he grew up and in which he still operate.²⁸

The pattern of economic policies in 1950s to some extent could result partly from the ideological clash (i.e. cooperative economy by Hatta, Religious socialism by Sjafruddin, and Sumitro's initiatives often interpreted as modern capitalistic) between three of them.²⁹ Hatta's and Sjafruddin's approach is theoretically speaking laden with normative Islamic nuance and principles, while Sumitro's method showed the result of modern teaching of positive political economics, regardless the circumstances and dilemmas that they faced those period. After perusing all materials pertaining to their rationale of their economic slogans, it is perhaps arguable to reckon that of all three technocrats, Sjafruddin was the most certain about his identity as both Muslim and Indonesian native citizen, and then come after him Hatta and Sumitro respectively.

To begin with, Sjafruddin confidently called Muslims to bring Islam back to its real function as a moral force to improve today's chaotic world. The fact that his slogan is termed *Religious socialism* shows that it is religion, i.e. Islam that qualifies the ideology (in this case socialism), not the other way around. It means the primacy of Islam over any ideology.³⁰ Thereby, he criticized those who have tenets of either capitalism or socialism should be applied dogmatically.³¹ Sjafruddin's confidence about his identity as Muslim is thus more eloquent as compared to that of Hatta, judging roughly from their own slogan.³²

²⁷Sumitro Djojohadikusumo, "Recollection of My Career," *Bulletin of Indonesian Economic Studies* 22, no.3 (December 1986): 29.

²⁸Ibid., 28.

²⁹A nice discussion of Sjafruddin's policies *vis a vis* that of Sumitro can be read at Thee Kian Wie, "The Debate on Economic Policy in Newly-independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusumo," *Itinerario* 34, (March 2010): 35-56.

³⁰See two chapters entitled 'Islam sebagai Faktor Penentu Jalannya Sejarah' and 'Agama Tidak Terpisahkan dalam Hidup Sehari-hari' in Ajib Rosidi. *Sjafruddin Prawiranegara Lebih Takut Kepada Allah Swt: Sebuah Biografi*. (Jakarta: Inti Idayu Press, 1986), 132-144 and 183-198. Hereafter cited as *Lebih Takut*.

³¹Prawiranegara, *Recollection*, 107.

³²Despite his religious identity being more eloquent, he has a problem with regard to the interpretation of basic Islamic Arabic term. For example, he disagrees with those who interpret *ribâ'* as interest. See Prawiranegara, *Recollection*, 107.

Another evidence that could strengthen that claim is Shafruddin's saying that there are two aspects with regard to meaning of poverty, and it can refer to both material and non-material. Explaining further, he asserts that "*you can be materially poor, but mentally or spiritually rich. Other can be materially rich but spiritually poor*".³³ From that quotation, one can infer that Sjafruddin made the material well-being secondary. But it does not mean that he rejected the idea of being wealthy at all, rather affluence should not override the spiritual one. This is undoubtedly inspired and derived from Islamic teaching.

With regard to Sjafruddin's favour to indigenous natives, it is apparent especially when he talks about Indonesian need of capital good and investment for industrial development. Here, Sjafruddin's view³⁴ matches with that of Hatta.³⁵ However, Sjafruddin adds, there is a set of terms and conditions for foreign investment to be permissible. In general, the market to which the product will be sold must be domestic market if the product is of basic needs, such as staple food etc., and whenever possible, the product must be exported³⁶ so much so that it can strengthen balance of payment, and most importantly the industry must be based on material resources within Indonesia, *i.e.* agriculture. This is because he saw that most of people were engaged in agriculture.³⁷

Similar to Sjafruddin, the philosophy of Hatta's economic slogan also has engrossed deeply in local community. The *cooperative movement*, with which he is famous, in fact can be associated with another slogan called *Sosialis Indonesia*. Both are like two sides of one coin. The former is practical side of the latter, which is the conceptual side. Being aware of Indonesian *gotong royong* culture and of Muslim majority in the country, Hatta created

³³Ibid., 105. It was his respond to the implementation of Benteng Programme by which the government strived in rush manner to motivate indigenous Indonesian enterprise without first educating them about management and technology.

³⁴In which Sjafruddin says, "*You can organize the economy in some fields according to cooperatives, but not everywhere. In some sectors you need intensive capital investment, and you can't get that from cooperatives*". See Prawiranegara, *Recollection*, 106.

³⁵In which Hatta says, "*Large-scale industries in Indonesia can be set up only by the government, with governmental capital or borrowed capital, or by foreign companies at their own risk*." See Mohammad Hatta. *The Co-operative Movement in Indonesia* (Ithaca: Cornell University Press, 1957), 81.

³⁶Prawiranegara, *Recollection*, 106.

³⁷Ibid., 105.

slogan that hopefully can marry both. Although, at a glance one may notice that Hatta stresses more on social unity in it, in fact it comes from religious point departure. He says:

“Karena etik agama, jang menghendaki adanya rasa persaudaraan dan tolong-menolong antara sesama manusia dalam pergaulan hidup. Melaksanakan bajangan Keradjaan Allah diatas dunia adalah tudjuannya.”³⁸

Since the *gotong royong* culture had already been strongly embedded in this archipelago from the time immemorial, Hatta’s slogan did find any difficulty to be accepted by native people especially the masses, with the exception of parliamentary and ministry level. As early as 1934 even the cooperative activities, such as Batik cooperative enterprise of Pekajangan and the Union of the Kretek Cigarette Manufacturer in Kudus, had been practiced by Muslim middle class.³⁹ It is not unsurprising then by 1956 there were about 12000 cooperative societies in this part of the world with a membership of just over two million.⁴⁰ The recent 2014 data shows a remarkable number of proliferations of active cooperative societies in Indonesia⁴¹ and it is continuously growing up until now.

It seems that Hatta’s *cooperative*, stressing more on social solidarity, is more practicable and easy to be understood even by the lowest class; that Sumitro’s economic method is more reasonable to be national economic guide for the incumbent government that period; and that Sjafruddin’s *Religious Socialism* is difficult to be apprehended, what is more, to be applied at both micro (individual) level or macro (national) level. Certainly the reason would be the fact that the subject that Sjafruddin wanted to address is a crisis, the cause of which is permeating in the heart of nearly all Indonesian people, in particular their leaders. He boldly asserts that:

³⁸Mohammad Hatta. *Persoalan Ekonomi Sosialis Indonesia* (Jakarta: Penerbit Djambatan, 1967), 1.

³⁹Lance Castles, *Tingkah Laku Agama, Politik dan Ekonomi di Jawa: Industri Rokok Kudus* (Jakarta: n.p., 1982) quoted in Kuntowidjojo, “The Indonesian Muslim Middle Class in Search of Identity, 1900-1950,” *Itinerario* 10, Issue 01 (March 1986): 182.

⁴⁰Higgins, *Hatta and Co-operatives*, 55. In fact, the history of cooperative movement in Indonesia can be traced back to 1895. See Remy Madinier. *Islam and Politics in Indonesia: The Masyumi Party between Democracy and Integralism*. (Singapore: NUS Press, 2015), 406.

⁴¹The data is retrieved from the Ministry of Cooperatives website. There were more than 209000 cooperative groups in Indonesia, comprising of both those which are still active [147000] and those which are non-active [62000].

“..economic crisis that is happening in Indonesia could not be fixed by mere economic analysis and tools. The plague suffered by our people now is basically psychological in nature and it can only be remedied by psychological tools as well...This economic and political crisis is truly crisis of trust and moral that can never be treated by any tools and methods save by return to God through religious norms and morals..”⁴²

If the cooperative movement, being the distinctive movement based on spirit of *gotong royong* peculiar to Indonesian culture and tradition, and whose solidarity is rooted in communal support, is still in need of education and training for it to be contribution to national economic development (NED), then the religious education and training for every Indonesian natives is even of most important.⁴³ The argument goes as follows. First, by assuming that cooperative movement is contributing to NED, it implies that only people involved in that movement will contribute to NED. Yet in fact, not all Indonesian citizens are involved in cooperative groups, hence the conclusion, that is, only some people who are involved in cooperative movement can contribute to NED. Nevertheless, conclusion is certainly in contrast with the reality. Thereby, the cooperative have some limits in it. Second, by assuming that all Indonesian people inherently possess the potential to become the source of economic and political crisis, and that the only way that can suppress it is to return to God, it follows logically that all Indonesian people are subject to return to God. This conclusion is more universal, and thus it is more reliable.

Considering the huge number of cooperative societies in 1950s, it seems that people’s awareness of their being Indonesian is well-established. Hatta’s dream to express nationalism and to eradicate the national inferiority complex through Co-operation is thus attained.⁴⁴ On the other hand, with regard to solemnity of their being Muslim, judging from Sjafruddin’s frequent admonitions and advices and his worries of corrupt government⁴⁵ in his contemporary representing the quality of Indonesian people, it shows that the

⁴²Rosidi, *Lebih Takut*, 191-195. (translation is mine). It was his speech delivered during Masyumi Symposium in December 1956.

⁴³Inferred from Sjafruddin’s statement above.

⁴⁴Higgins, *Hatta and Co-operatives*, 52-53.

⁴⁵Sjafruddin had identified the practice of ‘dagang sapi’ (*koe-handel*), i.e. corruption in government system as early as 1950. See Rosidi, *Lebih Takut*, 183-184.

poverty of religious understanding is widespread and religious teaching is not yet given its due. It is no wonder then that economic and political crisis follows after one another continuously.

Nationalism feeling is expressed through economic policies at the elite and government level, the occupant of which are Western-educated. On the contrary, it is expressed through cooperative movement at lower societies level. By assuming the rampant poverty of people's understanding about their religion, it is safe to say that even though people in majority embrace Islam as their system of belief, at the social and communal level it is still not yet actualized and internalized in economic affairs, activities and institutions. As a result, nationalism feeling overweighs Muslim as identity. They are not capable of portioning the commensurate degree of nationalism and Islamic values in economic activity nearly at all level. Because they do not have proper comprehensive intellectual training to answer the question '*what does it mean to be Muslim who live in Indonesia*'. The condition is even exacerbated by the new problem of subjectivity and knowledge brought in through Western education. It is evident, therefore, that there were three colours governing the subconscious mind of people living in this archipelago. Altogether they culminate in a Muslim person with poor understanding of their religion who live in Indonesia and was influenced by Western way of thinking to some degree.

The Rise of Sharia-compliant Bank in 1990s

One of most salient impact of Western culture and tradition brought in by Dutch colonialism, particularly in economic sphere, is banking system, an institution, either private or state-owned, that provides financial services with various rate of interest charged to its creditors. From the Islamic point of view, to charge interest is obviously prohibited. Thus, it is not astonishing that Muslim, represented by some social movements such as Muhammadiyah and *Nahdah al-'Ulamâ'*, had condemned it even as early as pre-Indonesian Independence.⁴⁶ Muslim community continuously demanded the alternative bank system that tolerates no interest.

⁴⁶Gemala Dwi. *Aspek-Aspek Hukum Dalam Perbankan & Perasuransian Syariah di Indonesia*. (Jakarta: Prenada Media, 2004), 60 quoted in Nurul Huda and Mohamad Heykal, *Lembaga Keuangan Islam: Tinjauan Teoritis dan Praktis*. (Jakarta: Kencana Prenada Media Group, 2010), 29.

Finally, through the banking deregulation package (known as Pakto 1988), Muslim's dream to establish an alternative bank with zero-interest comes true. The establishment of several Sharia-compliant (SC) rural banks in some cities⁴⁷ followed by setting up of the first SC commercial bank⁴⁸ four years later marked an epoch in the history of dual banking system in Indonesia.

SC bank, however, is still trapped within the Western secular economic system, even though interest has been abolished from SC bank and is replaced by profit-loss sharing.⁴⁹ It is precisely because of its operation under the regulation of Central Bank which imposes both SC or non-SC to abide fractional-reserve system (FRS). Every bank that abides FRS will inevitably construe money as commodity that can be sold, bought and accumulated as much as possible rather than as medium of exchange. The nature of business in banking sector therefore is inclined to be very much profit-oriented and can never be solution for social problem as long as SC banks are abide by Central Bank's FRS.

This new financial system, inherently embedded in it the Western-laden key concept governing current economic phenomena, is an outright violence against people's identity, both as native Indonesian and as Muslim, and it gradually will change people's perspective of work for earning livelihood, taste, money,

⁴⁷Such as Bank Perkreditan Rakyat Syariah (BPRS) Berkah Amal Sejahtera, BPRS Dana Mardhatillah and BPRS Amanah Rabaniah, which operate in Bandung, also BPRS Hareukat which bases in Aceh.

⁴⁸Bank Muamalat Indonesia was first operated in Mei 1992.

⁴⁹Many scholars have been regretful for the preoccupation of Muslim in studying Islamic finance, particularly in Islamic banking, while lacking in the study of theoretical aspects for Islamic Economics. See for example Monzer Kahf, "Islamic Economics; What Went Wrong," Paper presented at *Islamic Development Bank Roundtable on Islamic Economics: Current State of Knowledge and Development of the Discipline*, Jeddah May 26-27; Asad Zaman, "Crisis in Islamic Economics: Diadnosis and Prescriptions," Paper presented at *8th International Conference on Islamic Economics and Finance*; Muhammed Najatullah Siddiqi, "Obstacles of Research in Islamic Economics," *7th International Conference on Islamic Economics*, Islamic Economics Research Center, KAAU, Jeddah, April 1-3, 2008; Mohammad Omar Farooq, "The Challenge of Poverty and the Poverty of Islamic Economics," *Journal of Islamic Economics, Banking and Finance* 4, no.2 (2008): 35-58; Mehmet Asutay, "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System," *Kyoto Bulletin of Islamic Area Studies*, 1-2 (2007): 3-18; Syed Farid Alatas, "The Sacralization of the Social Sciences: A Critique of an Emerging Theme in Academic Discourse," *Archives de Sciences Sociales des Religions*, 40e Annee, No.91 (Jul-Sep, 1995): 89-111; Feisal Khan, "How Islamic is Islamic Banking?" *Journal of Economic Behavior & Organization* 76 (2010): 805-820.

content feeling, manifested in the change of people's way and manner in doing their daily economic activities. Even worse, it could endanger the nationalism and solidarity between people because it is not based on cooperative principles and hence it does not have the spirit of *gotong royong* culture. At the same time, it also will be harmful to Muslim due to its interest-based financial service. If such an institution that can provide financial services is badly needed in order to stimulate production in society, it would be nicer if that financial institution is initiated by the support of community and is not transgressing any Islamic moral principles.

The continuous rejection of interest-based financial system by Muslim from even before independence until recently shows the continuous decolonization ineconomic aspect. What is refused here is no longer the direct foreign dominance in economic affair but the alien values and principles, which are actualized and institutionalized in systematic manner, and which are reflecting the Western framework of knowledge brought in by its ex-colonizer. For the time being, it maybe difficult for Muslim Indonesian to reject *in toto* current banking system at its very philosophical foundation due to its linkage with political affairs and changes in social structure. Yet provided that the solid moral support given by some Islamic economists around the globe, the rejection of alien financial system along with its philosophical basis is not impossible in the future.

Religious Expression Through BMT

Growing without much support, systematic supervision or regulation from the government, BMT is regarded as social enterprise and institution.⁵⁰ It is established by individuals whose main motivations are to help the poor, in particular the micro and small-scale enterprises who are not eligible (in the eye of bank officer) in terms of reliability in legal formal matter, to have access to financial support,⁵¹ and to help small traders from the burden

⁵⁰Minako Sakai and Kacung Marijan, "Harnessing Islamic Microfinance," *Policy Briefs*, No.9. 2008. Unpublished report for the Australia Indonesia Governance Research Partnership, Crawford School of Economics and Government, ANU College of Asia and the Pacific, The Australian National University, Canberra.

⁵¹Besides a matter of eligibility, what makes bank reluctant to extend loan to micro-scale enterprises rather than to big-scale enterprises is the fact that the administration and supervision of the former is more costly than that of the latter, hence less profitable.

of high interest charged by private money-lender, and by and large to help government in reducing economic disparity.⁵² Therefore, profit maximization is not their chief goal. In some cases, due to its nature being too concerned with social problems, BMT often conduct social welfare programme, entrepreneurial training and even instruction to deepen their member knowledge about Islam.⁵³

Bayt al-Māl wa al-Tamwīl (BMT), whose principles are mainly inspired from Islamic teaching, combines some features from three existing different systems, namely banking, Cooperative group, and Islamic altruistic institution. BMT provides financial services such as saving and loan, but it is not authorized to 'create money' as banks are.⁵⁴ Moreover from legal aspect, BMT is regulated under the Ministry of Cooperatives while banks are under Central Bank.⁵⁵ Hence BMT and bank are slightly different.⁵⁶ With regard to characteristics derived from Cooperative group, BMT picks up the spirit of *gotong royong* and family cohesiveness.⁵⁷ And then as *bayt al-māl* it reflects the Islamic altruistic institution, BMT pools fundings – be it voluntary (either religious-based fund such as *ṣadaqah*, *infāq* and *waqf* for non-religious based like Corporate Social Responsibility (CSR) fund, donation, government aid) or

See Ascarya and Diana Yumanita, "The Profile of Micro, Small, and Medium Enterprises in Indonesia and the Strategy to Enhance Islamic Financial Services Through Baitul Maal wa Tamwiel," Paper presented at *Proceedings of the 2nd Islamic Conference 2007*, Kuala Lumpur, 17-19 July 2007.

⁵²Minako Sakai, "Establishing Social Justice Through Financial Inclusivity: Islamic Propagation by Islamic Saving and Credit Cooperatives in Indonesia," *Trans Regional and National Studies of Southeast Asia* 2. Issue 2 (July 2014): 201-222. Hereafter cited as *Financial Inclusivity*.

⁵³Minako Sakai, "Introduction" *Review of Indonesian and Malaysian Affairs* 46, (2012) :1-8. quoted in Sakai, *Financial Inclusivity*, 218.

⁵⁴By money creation, I mean to have privilege in providing credit and loan based on policy of Central Bank pertaining to bank's minimum reserve requirement.

⁵⁵Some institutions, despite difference in naming such as Lembaga Keuangan Mikro Syariah (LKMS), Koperasi Jasa Keuangan Syariah (KJKS), and Koperasi Simpan Pinjam Syariah (KSPS), share some similar characteristics with BMT.

⁵⁶The only business through which bank makes money is financial services that it offers to its customers. It has no real business because of Central Bank's restriction. Whereas BMT, being *bayt al-tamwīl*, is involved in real business in order to maintain its sustainability. Thus, it cannot be said that bank really shares risk and profit. It is unimaginable how can an institution that is not involved in real business implement profit-loss sharing system.

⁵⁷There are many types of Cooperative, and among them is saving and credit Cooperative. Considering its significant role in providing credit to micro entrepreneur, BMT is closer to this type.

compulsory (*zakāh*), and then distributes them to those who deserve it.

BMT in a sense realises Hatta's dream of cooperative society, but in fact it is not exactly the same with cooperative movement. Cooperative is built upon the philosophy of Pancasila,⁵⁸ while BMT is established upon the belief of its founder that returning to Islam can be an answer to any problems that human always encounter, including economic and social problems. It does not mean here that Pancasila is not in line with Islamic principles, but sometimes an idea can be infused with various meaning differently as different person interprets it. Therefore, it is better to be cautious, and that means the ascendancy of BMT over Cooperative.

A remarkable number of BMT surely indicates the growing awareness of Indonesian Muslim to internalize their religion in economic organization.⁵⁹ Although the number is relatively small as compared to the total number of cooperatives registered, it successfully shifts the common notion stating that Islamization agenda must be done by top-to-down approach like what had been dreamed and exerted by almost Islamic political parties. With regard to this, it is agreed with those who concede that a cultural and social articulation of Islamic values in the public sphere is another indicator for Islamization in Muslim countries.⁶⁰

At this stage, theoretically people's religious consciousness even overrides their feeling of nationalism. It is because, in the case of Islam, religious observance is lived daily regardless people's age and status, thus they are fully aware of it. Whereas nationalism feeling is hardly experienced especially in a community in which its people share similar memories, language and history. Nationalism can be aroused most of the time when it is offended directly or indirectly by foreign alien intrusion. Supposing there is a force to mingle with surrounding people and to interact with them kindly, in fact such a force is likely no longer based on nationalistic sentiment. Rather, its driving force is more based on feeling to serve

⁵⁸See Eddiwan, et.al. *Pengetahuan Perkoperasian* (Jakarta: Balai Pustaka, 1981), 33.

⁵⁹The number of BMT in 2004 accounts for 7 percent of total number of cooperatives (40639). See Appendix 5 in Hans Dieter Seibel, "Islamic Microfinance in Indonesia," *Research Report* by Federal Ministry for Economic Cooperation and Development. 2005.

⁶⁰Sakai, *Financial Inclusivity*, 218.

local community. Thereby, now it is understandable why almost studies do not extend the period of economic aspect of decolonization from 1950s up to current decade. Because perhaps they implicitly agree that people, after they gained political and economic independence, no longer bother with national identity so long as physically they are not oppressed like they were in the old days.

Conclusion

In the previous paragraphs, it can be concluded that contrary to available studies implicitly stated that decolonization movement ideally begins from top to down, otherwise it is asserted from bottom-up, and it is always connected with real identity that the decolonized people are certain with. The reason why Sjafruddin's *Religious Socialism* was not attracting and gaining enough support those days particularly at ministry level, and why religious consciousness is ostensibly actualized in socio-economic sphere at ground level by ordinary citizens, are probably clear by now. Thanks to the Muslim scholars, lecturers, educators and preachers who have been continuously educating the masses about religious knowledge and its role in human life.

This type of decolonization, better known as Islamization, is still on going. Its success in transforming socio-economic phenomena culminated in the growing number of BMT, for the time being at the level of lower people, should open the way to its greater objective, *i.e.* to fully islamize banking system, not merely at operational level dealing with *ḥalāl-ḥarām* law, but deeply at its very ethical and philosophical foundation, and it is plausible that the only mean by which such aim is achieved is education process.

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