This paper shows the importance of clustering at early stages of development, when clustering is still largely a rural phenomenon and may serve as a survival strategy. It argues, first, that dismally poor but clustered rural micro enterprises may have a seedbed function for industrial development, and, second, that clustering policy has brought about some success in Indonesia. Data on more than 4,000 rural clusters provide insights in the various forces behind cluster gestation, prosperity and dissolution. It is argued that social capital is crucial for the achievement of transaction cost reductions, which attract traders to the clustered enterprises. Reach advantages in marketing trigger clustering processes, but these advantages diminish with overcrowding. Further external economies arise from specialization and technical indivisibilities, but vary significantly by sub sector. Consequently, only specific clusters might benefit from public intervention in technology and organization.