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Beyond Political Skin

Convergent Paths to an Independent National Economy
in Indonesia and Vietnam

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Convergent Paths to an Independent National Economy
in Indonesia and Vietnam

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PREFACE AND ACKNOWLEDGEMENTS

The writing of this monograph has a long history. I began my career as lecturer in World History at the Faculty of History, Vietnam National University, Hanoi, with a special interest in the maritime history of Southeast Asia. Trading activities in the Straits of Melaka in the fifteenth century was the topic I intended to pursue when I applied to the Encompass (*Encountering a Common Past in Asia*) programme at the Faculty of History, Leiden University in the summer of 2006. In Leiden, I became fascinated with its distinguished tradition of Indonesian studies, and in next to no time I realized that I had better switch my attention to Indonesia. Under the supervision of Professor Leonard Blussé and Dr Alicia Schrikker, respectively director and co-ordinator of Encompass, I wrote my second BA thesis about the Dutch conquest of Makassar in 1666-1669. Makassar was a trading town south of Sulawesi in the eastern part of Indonesian Archipelago. I had then the chance to explore the western part of the Archipelago when I conducted my MPhil research on Dutch imperialist expansion in Sumatra in the nineteenth and the early twentieth century. In addition to the continuing supervision of Professor Leonard Blussé, I received guidance from Dr Thomas Lindblad.

Whether or not it was the intention of my supervisors, my studies at BA and MPhil levels were an excellent preparation for undertaking advanced research in Indonesian history. It provided me with the historical and geographical knowledge of Indonesia necessary to understand the country in more recent times. In my PhD project I have looked at Indonesia as a whole in the dramatic historical period which stretched from the late colonial era to immediate post-independence period. After having learned about the establishment of Dutch imperialism and colonialism in Indonesian Archipelago, in this new project I wanted to explore how decolonization took place and what alternative form of state the Indonesians sought to build after independence.

Comparison came to my mind only after I had discovered that the economic transition from colonialism to independence in Indonesia displayed many affinities with Vietnam. As we shall see, in comparison with other countries in Southeast Asia, the nationalist struggle for economic sovereignty in Indonesia and Vietnam culminated in very radical ends.

This research forms part of a larger research project, '*State and Economy in Modern Indonesia's Changes of Regimes*', financed by the Netherlands Organisation for Scientific Research (Nederlandse Organisatie voor Wetenschappelijk Onderzoek-NWO). The tradition of Leiden University does not allow a PhD candidate to thank his supervisors in the acknowledgements. Yet I think I may be permitted to point out that it was Dr Thomas Lindblad who selected me for his research project and who guided me from the initial stage of writing a research proposal right up to the final stage of completing the manuscript. His extensive knowledge of the economic history of Indonesia has been of the greatest help whenever I had any difficulty in understanding a historical fact or the data I had collected. As his assistant in organizing history classes and as co-organizer of an international conference, I was able to gain precious teaching and work experience. Professor Leonard Blussé offered valuable comments and advice during my research and helped to correct the final drafts. I also would like to thank my project-partner, Farabi Fakih, who shared the same office and often travelled with me to various conferences. I have learnt a lot from him because of his wide knowledge about Indonesia, not to mention his enthusiasm in teaching me his mother tongue, Bahasa Indonesia.

My gratitude goes to many other teachers, colleagues and staff at the Institute for History of Leiden University who have helped me in some way or another. The Academic Director of the Institute, Dr Leo Lucassen, and the Director of Research, Dr Peter Meel, have both been very helpful in providing administrative assistance and the support needed for my research. During my presentations at various seminars and conferences within the Institute, I received valuable comments and remarks from Professor Jos Gommans, Professor David Henley, Professor Marlou Schrover, Dr Jeroen Touwen, Dr

Alicia Schrikker, Dr Carolien Stolte and many others. I am grateful to all of them. Special thanks go to Ariel Lopez and Liesbeth Rosen Jacobson, PhD candidates at the Institute, for being my *paranymphs* at the defence ceremony. They have earned a place in my life for their moral support and cherished friendship.

Many scholars and experts outside the Institute have also offered me valuable comments and advice. I would like to thank Professor Peer Vries (Vienna University), Professor Ann Booth (SOAS), the late Professor Thee Kian Wie (LIPI), Professor Bambang Purwanto (UGM), Professor John Kleinen (VU), Professor Oscar Salemink (Copenhagen University), Professor Adam Fforde (University of Melbourne), Professor Anthony Reid (ANU), Professor Robert Cribb (ANU), Professor Gerry van Klinken (KITLV), Professor Ewout Frankema (Utrecht University), Dr Remco Raben (Utrecht University) and Dr Philippe Peycam (IIAS). Parts of this dissertation have been presented at various conferences in Amsterdam (Netherlands), Vienna (Austria), Brussels (Belgium), Glasgow (Scotland), Stellenbosch (South Africa), Mumbai (India), Singapore and Hanoi (Vietnam). I am grateful to all the participants in these conferences for their remarks and criticisms.

My research has required the use of many different languages. Therefore, I thank my language teachers, Ton Harmsen, Yolande Spaans and René Wezel, for teaching me Dutch. Their patience and the effort they put into the classes as well as into organizing social activities for me and other Encompass colleagues are memorable. My Indonesian was acquired from lessons with Suryadi and Aone van Engelenhoven at Leiden and teachers at the Indonesian Language Center, *Alam Bahasa*, in Yogyakarta, where I had a two-month intensive course in summer 2010. All of them made it possible for me to read and use Dutch and Indonesian archives.

My very special thanks to ‘tante’ Marijke van Wissen-van Staden, secretary of Encompass. She was always available when I needed help and she supported me without fail in all possible ways.

My seven-year stay in Leiden was made enjoyable thanks to the many friends and groups which became part of my life. It is not possible to name all of them here but some should be mentioned: Abdul Wahid, Andreas Weber, Anda Zara,Agus Suwignyo, Cynthia Viallé, Esther Zwinkels, F.X. Widiarso, Jajang Nurjaman, Johny Kusyairi, Julinta Hutagalung, Hying Jeenmai, Intan Ludwina, Li Wen, Lương Minh Ngọc, Manjusha Kuruppath, Monique Erkelens, Murari Jha, Nadeera Seneviratne, Nadia Fauziah, Ngo T.T. Lam, Nguyễn Bảo Trang, Prima Nurrahmi, Ravando Lie, Ratih Kamiso, Rennie Roos, Sanne Ravensbergen, Uji Nugroho, Widaratih Kamiso, Xu Xiaodong, Yedda Palemeq and Yudi Bachrioktora. I thank all of them and many others for their time and companionship.

I would like to express my heartfelt thanks to Rosemary Robson for her help in correcting and improving my English. She offered many wonderful suggestions to improve the quality of this dissertation. I am indebted to Marek Avé and Abdul Wahid for translating my summary into Dutch and Bahasa Indonesia.

I would like to acknowledge the assistance that I received from the authorities and staff of the archives and libraries I visited in the course of my research, including the National Archives and the Royal Library in The Hague, the *Arsip Nasional Republik Indonesia* (ANRI), the archive and library of Bank Indonesia in Jakarta, the National Library and the Vietnam National University Library in Hanoi, the *Koninklijk Instituut voor Taal-, Land- en Volkenkunde* (KITLV) and the University Library in Leiden. I owe a debt of gratitude to staff of these institutions for their promptness in providing the books and archives I requested for my research.

My study in the Netherlands received generous support from Vietnam. I am grateful to Professor Nguyễn Văn Kim and Dr Hoàng Anh Tuấn who introduced me to the Encompass scholarship and subsequently encouraged and supported me to continue to pursue a PhD in the Netherlands. I especially thank the Dean of the Faculty of History of the University of Social Sciences and Humanities, Vietnam National University, Hanoi, the late Professor Nguyễn

Hải Kế, who incessantly granted me permission to take a study leave for almost seven years. The then Dean of the Faculty, Professor Vũ Văn Quân, was also very kind in extending the permission. I am thankful to him and all other colleagues at the Faculty for their administrative and moral support during my study in the Netherlands.

Lastly, I would like to express my love and gratitude to my family. I am grateful to my parents, brother and sister who have supported me in all my pursuits. To my beloved wife, Trần Thị Nhung, I owe a huge debt of gratitude for her sacrifice, patience and all the work she shouldered during my long absence from home. I especially thank her for bringing me the wonderful gift, my little daughter, Phạm Hà Phương. Ever since they joined me in Leiden for the two final years of my PhD, I found more strength to complete my dissertation.

INTRODUCTION

'Political independence, without economic independence, is but an illusion.' -Kwame Nkrumah, President of Ghana

1. The Subject

Anyone surveying official documents relating to the historical connections between Indonesia and Vietnam comes across statements to the effect that Indonesia and Vietnam have shared a common historical background. References are repeatedly made to the fact that both countries suffered a similar form of colonial oppression and that their struggles for independence were analogous. On his visit to Indonesia in February and March 1959, for instance, the Vietnamese President Hồ Chí Minh called attention to the coincidental births of the Democratic Republic of Vietnam (DRV) and the Republic of Indonesia in their 'August Revolutions' of 1945. He compared the ongoing Indonesian struggle to liberate West Irian with the Vietnamese efforts to unify North and South Vietnam.[1] Likewise, when the Indonesian President, Soekarno, paid a return visit to Vietnam four months later, he reiterated the theme of the common struggle of the Vietnamese and Indonesian people against colonialism and imperialism. Soekarno considered the Vietnamese and Indonesians 'comrades-in-arms' (*kawan-kawan seperjuangan*) and stated that they would be found to be the same were one to remove their political skin.[2] Similar statements can also be found in the speech by Prime Minister Phạm Văn Đồng when he received President Soekarno in June 1959[3] or the addresses by the

[1] *Nhân dân* [The People], 28 February, 1-8 March 1959; *Quân đội nhân dân* [the People's Army] 3, 10, 14 March 1959; Soekarno and Hồ Chí Minh, *State visit to Indonesia of the President of the Democratic Republic of Vietnam, Dr. Hồ Chí Minh/ Speeches by President Soekarno and President Hồ Chí Minh* (Jakarta: Ministry of Information, R.I. 1959) 26.

[2] *Quân đội nhân dân* [the People's Army] 23-27 June 1959; *Soekarno*, *Presiden Repoeblik Indonesia di Vietnam, 24 Juni-29 Juni 1959* (Jakarta: Pemuda 1959).

[3] *Soekarno*, *Presiden Repoeblik Indonesia di Vietnam,* 27.

Vietnamese Minister of Defence, General Văn Tiến Dũng, Commander-in-Chief of the Armed Forces of Indonesia General Benny Moerdani and the Indonesian Minister of Foreign Affairs, Mochtar Kusumaatmadja, when they met in Hanoi in February 1984.[4]

Leaving aside the rhetoric which diplomacy often requires, no one would argue that there are not certain congruities in the history of Indonesia and Vietnam. Despite this consensus, so far scholarly writing has paid remarkably little attention to comparisons between Indonesian and Vietnamese history. Only a few authors can be mentioned. David Henley has written an article analysing the contrast between the nationalist movements in the pre-war Netherlands Indies and French Indochina.[5] Hans Antlöv and Stein Tønnesson have carried out a joint project comparing the immediate post-war years in Vietnam, Indonesia and Malaysia.[6] The efforts of Burhan Magenda and Colbert Evelyn, who have adopted a comparative approach in discussing the revolutions and decolonization in Indonesia and Vietnam, are among them.[7] While he bemoans the inadequate attention paid to comparative research on Indonesia and Vietnam, William Frederick offers a wide range of themes which can be applied in any comparison of the Indonesian and Vietnamese revolutions.[8] Other scholars engaging in research on Indonesia and Vietnam have principally been

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[4] For the speech of Phạm Văn Đồng see: *Soekarno, Presiden Repoeblik Indonesia di Vietnam,* the meeting between Văn Tiến Dũng, Moerdani and Mochtar in: *Kompas; Harian pagi untuk umum*, 18 February 1984.

[5] David E.F. Henley, 'Ethnogeographical integration and exclusion in anticolonial nationalism; Indonesia and Indochina', *Comparative Studies in Society and History* 37 (1995) 286-324.

[6] Stein Tønnesson, 'Filling the power vacuum; 1945 in French Indochina, The Netherlands East Indies and British Malaya' and Hans Antlöv, 'Rulers in imperial policy; Sultan Ibrahim, Emperor Bảo Đại and Sultan Hamengkubuwono IX' in Hans Antlöv and Stein Tønnesson (eds) *Imperial policy and Southeast Asian nationalism* (London: NIAS and Curzon Press, 1995) 110-143 and 227-260, respectively.

[7] Burhan D. Magenda 'The Indonesian and Vietnamese revolutions in comparison: An exploratory analysis, *Prisma* 9 (1978) 53-66; Colbert, Evelyn, 'Reconsideration; The road not taken; Decolonization and independence in Indonesia and Indochina', *Foreign Affairs* 51 (1973) 608-628.

[8] See: William H. Frederick, 'Brothers of a kind', 271-293.

concerned with the historical relations between the two countries, although comparisons do occasionally crop up as part of the analysis.[9]

In short, ample opportunities remain for comparative studies on Indonesia and Vietnam, the two first colonies in Southeast Asia to declare their independence, but afterwards they chose to follow rather different paths of decolonization and nation-building.[10] Previous comparisons have tended to focus on the nationalist movements and the political and military dimensions of the revolutions in both countries. This divergence of choice has narrowed the field of attention, tending to limit it to the nationalist struggles leading to the 1945 Proclamation of Independence in both countries, the revolutionary wars against the re-establishment of Dutch colonialism in Indonesia (1945-1949) and French colonialism in Vietnam (1945-1954) and a comparison between the unification of Vietnam (1975) and the incorporation of West Irian into Indonesia (1962). To this date, the accompanying nationalist struggles of the two countries to transform their colonial economies into national economies, free of the imperialist control by foreigners, have never been treated in a comparative framework.[11]

The absence of comparative research on the nationalist struggles to achieve economic independence in Indonesia and Vietnam can be attributed to

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[9] For discussions on Indonesia-Vietnam relations see the proceedings of the Second Indonesia-Vietnam Seminar held in Jakarta in February 1985, published on *Indonesian Quarterly* XIII (1985) 153-236. Some notable article are: The opening remarks delivered by Soedjono Hoemardani, Cao Xuân Phổ's *Vietnam-Indonesia concurrences; Past and Present*, and Hadi Soesastro's *Indonesia-Vietnam relations; Trade and beyond*. See also: Arnold C. Brackman, 'Indonesia and North Vietnam', *Asian Affairs* 1 (1973) 49-56; Leo Suryadinata, 'Indonesia-Vietnam relations under Soeharto', *Contemporary Southeast Asia*, 12 (1991) 331-346, and Trịnh Thị Ngọc Diệp, *Indonesia's foreign policy toward Vietnam* (PhD dissertation, University of Hawaii, Hawaii, 1995).

[10] Indonesia and Vietnam are actually important parts of Tường Vũ's systematic comparison of four Asian countries: South Korea, Vietnam, China and Indonesia. However, his book looks at the political aspects of state formation and their impacts on development, rather than economic decolonization and transformation. See: Tường Vũ, *Paths to development in Asia; South Korea, Vietnam, China, and Indonesia* (Cambridge: Cambridge University Press, 2010).

[11] There is one volume about the transition to national economies in Southeast Asia edited by Frank H. Golay, Ralph Anspach, M. Ruth Pfanner, and Eliezer B. Ayal. Nevertheless, the book discusses each country separately and only a brief section about South Vietnam is provided. See: Frank H. Golay, Ralph Anspach, M.Ruth Pfanner and Eliezer B. Ayal, *Underdevelopment and economic nationalism in Southeast Asia* (Ithaca: Cornell University Press, 1969).

the difficulties that any attempts to compare the two countries are bound to encounter.[12] Nevertheless, a more direct cause of frustration is the visible contrast in the development of these movements, a discrepancy which cannot be easily explained without an understanding of both the political and economic situation in the two countries. Indonesia remained under the economic domination by Dutch and other foreign multinational corporations even after the Transfer of Sovereignty in December 1949. It was not until the late 1950s and the early 1960s that these foreign-owned companies were either nationalized or expropriated by the Indonesian government. The opposite occurred with French businesses in Vietnam which were completely ruined in the North following the withdrawal of French army in 1954-1955. The Ngô Đình Diệm government of South Vietnam was also eager to eliminate the economic power of the French and the Chinese. Despite its efforts, South Vietnam allowed itself to become increasingly depend on economic aid and investment from the United States.

The intention of this study is to compare and contrast the struggles to attain independent national economies in Indonesia and Vietnam. This process involved two intertwined aspects: (1) dismantling the economic structure inherited from colonialism and (2) establishing an alternative form of economy which would be able to bring the people prosperity. Particular attention is paid to political and institutional factors which determined the process of economic policy making in the two countries. Four major comparative themes played a leading role: the composition of the leading political forces, linkages with changing ideologies about the national economy, discriminatory government policies against foreigners and the actual transformation of the economy in the direction of strengthening the dominant role of the state. The struggles in the economic fields cannot be discussed while ignoring the wider context of

[12] Writing of the revolutions in Indonesia and Vietnam, for instance, William H. Frederick points out four major difficulties which constrain scholars from making a comparison, namely: the different understanding of the concept of revolution in Indonesia and Vietnam, different kinds of revolution with different parties involved, the sort of questions to be asked and source materials requiring skills in several languages. See: William H. Frederick, Brothers of a kind; perspectives on comparing the Indonesian and Vietnamese revolutions' in: Taufik Abdullah (ed.), *The heartbeat of Indonesian revolution* (Jakarta:Gramedia Pustaka Utama, 1997) 274-276.

nationalist struggles for independence and unification in the two countries. This study covers the immediate post-war period, beginning with the 1945 Proclamations of Independence in both Indonesia and Vietnam and continues until the collapse of Guided Democracy in Indonesia in 1965 and the outbreak of the escalated Vietnam War in the early 1960s. The policies pursued by the governments of both North and South Vietnam in their efforts to reconstruct the economy were rudely interrupted by these events and were subordinated to their military concerns.

In my application of the comparative method, I shall deploy the 'test hypothesis' approach which has proved useful in cross-national historical research. This method has been designed to 'test out other national and cultural settings a proposition already validated in one settings'[13], or stated more elaborately 'when a historian attributes the appearance of phenomenon "b" in a society to condition or cause "a", he or she then can subsequently check this hypothesis by looking for societies, in which "b" appeared without "a", or "a" existed without leading to "b".'[14] The 'test hypothesis' is strongly recommended for paired comparisons, particularly asymmetrical paired comparisons. As Jürgen Kocka and Heinz-Gerhard Haupt have put it, '[f]requently, one looks into another country, another society or another culture in order to better understand one's own. One hopes to understand the peculiarities of one case by looking at others. Often the other case (cases) is (are) used for purposes of background only, while intensive investigation is reserved for the area or problem in the centre of attention.'[15] Interpreted in this sense, 'test hypothesis' resembles the 'counterpoint approach' which the Dutch sociologist W.F. Wertheim used in his comparative analysis of Indonesia and China.[16]

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[13] Stein Rokkan, 'Comparative cross-national research; the context of current efforts', Richard L. Merritt and Rokkan (eds), *Comparing nations; The use of quantitative date in cross-national research* (New Haven: Yale University press, 1966), 19-20.

[14] Heinz-Gerhard Haupt and Jürgen Kocka, *Comparative and transnational history; Central European approaches and new perspectives* (New York: Berghahn Books, 2009) 4.

[15] Heinz-Gerhard Haupt and Jürgen Kocka, *Comparative and transnational history*,5.

[16] The Counterpoint Approach is actually a central part of Wertheim's famous theory of emancipation, which argues for a two-way process, instead of a one-way process, from above only, in social evolution as is espoused by authors of modernization theories. However, he also used the Counterpoint Approach in his comparative research, for instance, in his analysis of the

Wertheim's 'counterpoint approach' was successfully adopted by his student Loes Schenk-Sandbergen in her PhD dissertation, which compared street sweepers in India and China. Her dissertation is structured on a long and elaborate discussion of India with a brief section on China for contrast.[17] Using Loes Schenk-Sandbergen's research as a methodological source of inspiration, I have concentrated my main attention on Indonesia, and Vietnam serves as a background or a counterpoint to which Indonesia is compared.

The central hypothesis of this thesis is that Indonesia adopted a new national economic system to replace the capitalist economic structure inherited from Dutch colonialism immediately after the Transfer of Sovereignty from the Netherlands in December 1949. This hypothesis is derived from a comparative observation of Vietnam, where the economic legacies of French colonialism were radically eliminated following the implementation of the Geneva Agreement on restoring peace in Indochina signed in July 1954. French and Chinese entrepreneurs immediately left North Vietnam, and it was not long before their productive assets in South Vietnam were taken over by Ngô Đình Diệm's government (1955-1963). A period of economic rehabilitation and transition to socialism followed in North Vietnam, characterized by radical land reform, the formation of massive agricultural and handicrafts co-operatives, growing state intervention in economic management and the extending state ownership, capped by mounting control of the means of production by the state and the Communist Party. Restructuring the economy in the South was carried out through the state procurement of French companies, institutionalized administrative restraints on the businesses of the Chinese, the establishment of new state-owned public enterprises and the encouragement of Vietnamese entrepreneurship. Elevating the position of the state to the commanding heights

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overpopulation problems in Java and China or the comparison of the Maoist revolution in China and the social revolutions in other Asian countries, mainly Indonesia and India. See: W.F. Wertheim, *Emancipation in Asia; Positive and negative lesions from China* (Rotterdam: Comparative Asian Studies Program, 1983) and W.F. Wertheim, *Evolution and revolution; the rising wave of emancipation* (Harmonsworth: Penguin, 1974).

[17] The dissertation is entitled '*Vuil werk, schone toekomst? Het leven van straatvegers en vuilruimers; een onderzoek in Bulsar (India) en verkenningen in Peking, Shanghai, Tientsin en Tangshan (China)*' defended at the University of Amsterdam in 1975.

of the economy became the kernel in the economic policy of the new regimes in both North and South Vietnam, at least prior to the radically intensified intervention of the Unites States in the economic planning of South Vietnam in the early 1960s.

By contrast, the Financial Economic Agreement (*Finec*) signed between the Netherlands and Indonesia at the Round Table Conference in The Hague in November 1949 entrenched the dominant position enjoyed by Dutch private capital in the Indonesian economy. It was estimated that before the Second World War, 52 per cent of the private capital in non-agricultural sectors was in the hands of the Dutch, with only 19 per cent held by indigenous Indonesians.[18] After the Transfer of Sovereignty, the situation did not change significantly as Dutch firms still dominated the most important sectors of the economy. In 1952, for instance, 50 per cent of consumer imports in Indonesia were handled by four leading Dutch firms, and 80 per cent of technical imports by five firms. Eight firms controlled 60 per cent of all exports, excluding copra, tin and cinchona.[19] The Dutch also had an important share in the higher levels of domestic wholesale trade. But it was the Chinese, the collectors of small-holder crops for sale and organizers of the distribution apparatus, who as peddlers and small shopkeepers provided the Indonesians with trade goods and credit.[20] The central bank of issue was a largely Dutch-owned corporation, controlled by Dutch directors. The bulk of private banking was in the hands of seven foreign banks, of which three were Dutch, three Chinese and one British-owned.[21] This

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[18] Nan G. Amstutz, *Development of indigenous importers in Indonesia, 1950-1955*, (PhD dissertation, Tufts University, Medford, 1958) 8; Hans O. Schmitt, 'Foreign capital and social conflict in Indonesia, 1950-1958', *Economic development and cultural change*, 3 (1962) 284-285.

[19] John P. Meek, *The government and economic development in Indonesia, 1950-1954* (PhD dissertation, University of Virginia, Charlottesville, 1956) 168; B. Higgins, *All the difference; A development economist's quest* (Montreal: McGrill-Queen's 1992) 168.

[20] *Penempatan semua perusahaan asing di Indonesia yang tidak bersifat domestic di bawah penguasaan pemerintah Republik Indonesia* (Penetapan Presiden Nomor 6 Tahun 1965 Tanggal 24 April 1965)', *Pedoman Kabinet Ampera disusun oleh Sekretariat Presidium Kabinet Ampera Republik Indonesia*, Vol. 1 (1967). Jakarta: Departemen Penerangan, 1967, pp.86-89.

[21] De Javasche Bank, *Laporan tahun pembukunan 1949-1950* (Jakarta: G. Kolff, 1950) 43-44, 160; Meek, *The government and economic development,* 164; Bruce Glassburner, 'Economic policy-making in Indonesia, 1950-1957', in: Bruce Glassburner, *The economy of Indonesia; Selected readings* (Ithaca: Cornell University Press, 1971) 79.

situation was only subject to radical change in December 1957, when most Dutch-owned companies were taken over by the Indonesian trade unions and the army. They were nationalized two years later. This step was followed in the late 1950s and the early 1960s by take-overs of Chinese, British and American enterprises. On 24 April 1965, President Soekarno issued a decree ordering that all foreign enterprises, regardless of nationality, be put under government control.[22] This Presidential Decree of 24 April 1965 marked the official climax of the Indonesian efforts since 1945. Later, during the early years of the New Order, a large number of British and American companies were returned to their former owners.

As did the Communist and Nationalist leaders of North and South Vietnam, Indonesian Nationalist leaders tended to continue to be sceptical about individualism and capitalism. Nevertheless, whereas the Vietnamese leadership seemed to be consistent and rigid in applying its ideologies in economic administration, the Indonesian approaches to anti-imperialism and anti-capitalism were more flexible and influenced by pragmatism. The Constitution adopted by the Republic of Indonesia in August 1945 laid strong emphasis on the importance of co-operatives and the controlling role of the state in the economy.[23] However, with the return of the Dutch to the Archipelago and their frequent military threats to the territories of the Republic in Sumatra and Java, economic targets took the backseat and were subordinated to political aspirations and achieving independence. The strategy adopted by the Indonesian government was to accept foreign control over large segments of the economy in order to secure political independence.[24] The Finec Agreement was signed at the expense of economic sovereignty of Indonesia. In the terms of the agreement, it was decided that Dutch firms could continue operations in Indonesia without hindrance. Any nationalization of Dutch firms would require

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[22] Willian A. Redfern, *Soekarno's Guided Democracy and the take-overs of foreign enterprises in Indonesia in the 1960s* (PhD dissertation, University of Michigan, Ann Arbor, 2010) 492.

[23] Department of Information RI, *Constitution of the Republic of Indonesia* (Jakarta: JAPENPA, 1945) see Article 33.

[24] J. Thomas Lindblad, *Bridges to new business, the economic decolonization of Indonesia* (Leiden: KITLV Press, 2008) 57.

mutual agreement, with compensation to be determined on the basis of the real value of the nationalized firms. There was also an obligation for the Indonesian government to consult with the Netherlands on any monetary and financial measures likely to have an impact on Dutch interests.[25] In addition, a substantial debt of 4.5 billion guilders of the Dutch colonial government, composed of 3 billion guilders of the internal debt and 1.5 billion guilders of the external debt, was transferred to the Indonesian government.As long as this debt was not fully paid off, the Dutch government retained the right to intervene in Indonesian economic policy.[26]

Undeniably, the period following the Transfer of Sovereignty was one in which the struggle for economic independence was given high priority. Unlike in Vietnam, where elements of the future national economies were intensively introduced immediately after the restoration of peace in late 1954, the transition to a national economy in Indonesia took place moderately and pragmatically. The provisions of the *Finec* Agreement were a factor restraining the process, but it was the pragmatic economic thinking of the Indonesian leadership which determined the course of Indonesian policy making in the early 1950s. Given the shortage of indigenous capital and trained personnel, leaders of the Indonesian government found they had no option but to retain the Dutch, who would provide training for Indonesian employees and supply the capital and technical expertise for government projects in the country. Consequently, the economic policies of the Indonesian government in the early 1950s were geared just as much to utilizing the advantages offered by the Dutch and other foreign firms in promoting the economic position of the country as to sustaining economic development. Nevertheless, the voluntary nationalization of Dutch enterprises was pushed through as in the case of the central bank, the Java Bank, and a few other public enterprises, and discriminatory actions against foreign business firms were certainly not unheard of. Some state-owned

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[25] H.W Dick, Vincent Houben, J. Thomas Lindblad, and Thee Kian Wie.*The emergence of a national economy; An economic history of Indonesia, 1800-2000* (Crows Nest, NSW: Allen&Unwin, 2002) 171.

[26] H. Meijer, *Den Haag-Djakarta; De Nederlands-Indonesische betrekkingen 1950-1962* (Utrecht: Het Spectrum 1994) 46-47, 356.

enterprises intended to provide competition for foreign corporations were also established.[27] Despite such actions, in the mid-1950s, Dutch control of vital parts of the Indonesian economy was still largely intact. As often recalled in Parliament at the time, the Indonesian economy in the early 1950s was organized on the principle of a 'half and half' economy-half guided and half liberal.[28]

Bruce Glassburner says that in the early 1950s, the Indonesian government was led by a group of 'pragmatic conservatives', whose plan was to live for the time being with the established economic structure while they set about designing a policy to improve its functioning. They were rivalled by a radically oriented group, who demanded for a 'completion of the revolution' in the economy and insisted on Indonesian control of economic institutions.[29] Although Glassburner does not label the latter, they have been referred to as 'history-minded' group by Benjamin Higgins[30] or the 'solidarity makers' by Herbert Feith.[31] The opposition group steadily gained political power and eventually defeated the pragmatic-conservative intellectuals in late 1956 and 1957.[32] Their victory can be extrapolated from various factors, including the resignation of a leading figure of the pragmatic group, Vice-President Hatta, in

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[27] Anne Booth, *The Indonesian economy in the nineteenth and twentieth centuries; A history of missed opportunities* (London: Macmilllan 1998) 173.

[28] J.O. Sutter, *Indonesianisasi: Politics in a changing economy 1940-1955* (Ithaca: Cornell University Press. 1959) 1124.

[29] Glassburner, 'Economic policy-making in Indonesia', 71, 73.

[30] Higgins has used the term 'history-minded' group to distinguish these from the 'economic-minded' or development-minded people. While the former group was essentially Western-oriented, the latter was a mixture of Communists and a larger number who were nationalist, conservative and isolationist. See: Benjamin Higgins, *Indonesia's economic stabilization and development* (New York: Institute of pacific Relations, 1957) 102-103.

[31] 'Solidarity makers' were those who acted as skilled mediators between such functional groups as the leaders of regional army, guerrilla troops and religious organizations, as well as political propagandists. They were locked in conflict with the 'administrator' group, who had the administrative, technical, legal and foreign language skills. Most of the administrators were those who had acted as leaders in the revolution. Herbert Feith, *The decline of constitutional democracy in Indonesia* (Ithaca, NY: Cornell University Press, 1962) 113-115.

[32] Herbert Feith and especially John Sutter state that the turning point in the shift in political leadership of Indonesia coincided with the fall of the Wilopo cabinet (April 1952-June 1953), marking the decline of 'the Masjoemi period' and the increasing ascendancy of 'the PNI period'. This distinction between antagonistic groups on the basis of party labels has been proved pretty fruitless. See, for instance, Glassburner, 'Economic policy-making in Indonesia', 71-72

December 1956, the introduction of Soekarno's new *konsepsi* in February 1957 and its immediate effect in the formation of the Djuanda's *Karya* cabinet and the National Council (*Dewan Nasional*), in April and July 1957 respectively, and the radical take-over of the Dutch-owned enterprises in December 1957. In July 1959, Soekarno's ideologies of Guided Democracy and Guided Economy were effectively implemented in conjunction with the restoration of the 1945 Constitution of the Republic of Indonesia. These measures were directly followed by the formation of a Presidential Cabinet placed directly under Soekarno's leadership. It was under Soekarno's authoritarian government that the Indonesian revolutionary struggle in the field of economy greatly accelerated. In April 1965, President Soekarno told the Provisional People's Consultative Assembly that the national democratic phase of the Indonesian revolution was almost over. 'We are now entering the next stage', he said, 'the stage of Indonesian socialism.'[33]

'*Socialism à la Indonesia*', however, was not the ultimate goal of the Indonesian revolution, President Soekarno believed. Indonesia should strive beyond becoming simply 'a just and prosperous society'; it must also be a self-reliant country, able to stand on its own feet (*berdiri diatas kaki sendiri*).[34] Hence, although the nationalist struggle for economic sovereignty in Indonesia was protracted and highly divisive, it culminated in a very radical end, at least in comparison to what happened in South Vietnam. The leaders of South Vietnam were determined to dismantle the French economic and military presence, but only to the point at which they presented no significant threat to Vietnamese independence. As long as the viability of the new state remained economically dependent, they accepted the necessity of having been involved in the difficult aid relationship with the United States.[35] Under Guided Democracy and Guided Economy in Indonesia, all economic institutions owned by foreigners had to be eradicated. The state would play a leading role in the

[33] Quoted from L.Castles, 'The fate of the private entrepreneur', in: T.K. Tan (ed.), *Soekarno's Guided Indonesia* (Melbourne: Jacaranda Press, 1976) 73.

[34] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari)*; Amanat politik* (Jakarta: B.P. Prapantja, 1965)

[35] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*,146.

economy, in terms of both ownership and guidance. Consequently, confiscated foreign firms were transformed into state-owned enterprises, placed under the direct control and management of the government and the armed forces.

2. Key Concepts

How can the transformation from a colonial to a national economy in Indonesia and Vietnam be explained? Frank Golay and his colleagues consider this process 'an aspect of the extension of political nationalism-the extension of the nationalist revolution-to the organization of the economy'.[36] Nevertheless, this argument, intended to apply to all Southeast Asian countries, does not seem to fit the case of Vietnam prior to 1954.[37] From the beginning of the revolutionary war, Hồ Chí Minh and the DRV government had adopted the view that resistance against French colonial forces and the task of nation-building were inseparable. The goals of political independence and economic construction were therefore simply two sides of the same coin.[38] During the escalation of the warfare, which commenced in December 1946, the economic task was generally interpreted in terms of economic resistance. Nationalist efforts to increase production to meet the needs of a war economy were undertaken alongside sabotage missions against both the economics of French rule and French businesses.[39] This was partly the reason French businessmen made a radical withdrawal from North Vietnam in the late 1940s and the early 1950s.

None the less, although the economic struggle in South Vietnam can still be regarded as an extension of political nationalism, but it was certainly not an offshoot of nationalist revolution. Although joining in the pursuit of independence for Vietnam, the leaders of South Vietnamese government did not participate in the revolutionary war. Their efforts to set the economy to rights in

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[36] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*,439.
[37] It is probably because of the basis for their ideas that they excluded North Vietnam from their extensive and systematic analysis of economic nationalism in Southeast Asia.
[38] Đặng Phong and Melanie Beresford, *Authority relations and economic decision-making in Vietnam; An historical perspective* (Copenhagen: Nordic Institute of Asian Studies, 1998) 16-17
[39] Đặng Phong, *Lịch sử kinh tế Việt Nam,1945-2000* [Economic History of Vietnam, 1945-2000] (Hanoi: Khoa học Xã hội Publishers, 2002) 235-240.

the late 1950s and the early 1960s have been explained largely in terms of *indigenism*. As in Indonesia and other Southeast Asian countries, the term *indigenism* refers to the structure of policies and institutions created to transform the racial dimension of the economy inherited from colonial times. It also refers to the process by which the control of wealth and sources of income is transferred to members of the national society.[40] In Indonesia, the pressures of *indigenism* were brought to bear on the Dutch, the British, the American and the Chinese, whereas in South Vietnam, the French and the Chinese were the principal targets of the discriminatory policies of the nationalist government. However, *indigenism* is only one aspect in this analysis, adopted to explain the transfer of economic power from foreign nationals to the indigenous people. The other side of the coin is the system of policies and institutions created to facilitate economic growth and welfare.

The distinction between the political and economic aspects of the nationalist revolution is best seen in the case of Indonesia. In December 1949, at the time of the Transfer of Sovereignty, a leading figure in the Indonesian nationalist movement, HajiAgus Salim, stated that the Indonesian revolution had not yet entered its economic phase.[41] This famous saying clearly distinguishes the economic process from the other aspects of the revolution, which Thomas Lindblad has condensed as political and economic decolonization.[42] Nevertheless, economic decolonization is the term that Thomas Lindblad and several other authors use to describe Indonesian efforts to emancipate the country from Dutch economic domination. Although economic decolonization began in colonial times, they suggest, it only came to a

[40] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*,9. Similar terms to *indigenism* include indigenization and *pribumisasi* both used widely in the case of Indonesia. See, for instance, Jasper van de Kerkhof, '"Colonial" enterprise and the indigenization of management in independent Indonesia and Malaysia', in: Thomas J. Lindblad and Peter Post (ed.), *Indonesian economic decolonization in regional and international perspective* (Leiden: KITLV Press, 2009) 175-196 and Ralph Anspach, *The problem of a plural economy and its effects on Indonesia's economic structure; a study in economic policy* (PhD dissertation, University of California, Berkeley

[41] Higgins, *Indonesia's stabilization and development*, 102.

[42] Lindblad, *Bridges to new business*,2.

conclusion in 1959 when the Dutch enterprises were nationalized.[43] Adopting the viewpoint that the businesses of the Chinese and Europeans in Indonesia were an integral part of the legacy of Dutch colonialism and that earlier efforts to curb their economic power were still actually being continued and intensified in the late 1950s and the early 1960s, this study will argue for the hypothesis of an extended economic decolonization of Indonesia. It was only after the eclipse of Soekarno's government that the main features of Dutch colonial economy were discarded.

A more popular and dynamic concept is *Indonesianisasi* (literally translated as Indonesianization), which was often featured in the political discourse of the economy in early independence period in Indonesia and has acquired a wide currency in the literature. The classic definition is given by an American political scientist John Sutter in his PhD dissertation defended at the University of Cornell in 1959. Sutter considers Indonesianisasi 'a conscious effort to increase the participation and elevate the role of the Indonesian - and more particularly the "indigenous" Indonesian - in the more complex sectors of the economy'. He identifies nine forms of Indonesianisasi: 1) the transfer of state economic enterprises established by the colonial government to the government of Indonesia; 2) the establishment of new state enterprises by the government of Indonesia; 3) the transfer of private foreign enterprises to the government of Indonesia; 4) increased governmental control of foreign businesses; 5) the transfer of private foreign enterprises to Indonesians and their organizations; 6) establishment of new enterprises in fields of the economy virtually closed to them in the past by Indonesians and their organizations; 7) increased Indonesian stock-ownership in corporations established by foreigners; 8) increased Indonesian participation in the executive and administrative staff of foreign companies; and 9) return of landholdings to the Indonesian community by foreign enterprises.[44]

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[43] Lindblad and Peter Post (ed.), *Indonesian economic decolonization*, 2.
[44] Sutter, *Indonesianisasi*, 2.

Sutter confined his research to the period between 1940 and 1955, when the economic transformation was taking place at a relatively slow pace. Most of the forms of *Indonesianisasi* identified by Sutter therefore tend to stress the voluntary nature of economic decolonization in Indonesia.[45] Hence, they are a stark contrast to the hostile take-over and nationalization of the Dutch and other foreign enterprises in the late 1950s and the early 1960s. Moreover, with the introduction of Guided Democracy and Guided Economy almost at the same time, it was obvious that the economic aim of the Indonesian revolution was not simply an elevation of the economic position of ethnic Indonesians, but more importantly according the state a guiding role in economic affairs. This development raises several questions which are addressed in this study: What did the Indonesian leaders actually think was the ideal system for national economy? What factors had a bearing on changing their ideas and economic policies? One step farther, in a comparative perspective with North Vietnam: Was it inevitable that as a newly independent state, Indonesia would end up with a socialist-type economy? If the answer to this is 'no', was the advent of Guided Economy the result of the failure of the democratic economic system pursued by successive governments in the late 1940s and the early 1950s to satisfy the Indonesian desire for economic nationalism?

Economic nationalism is a concept which pervades this thesis. As do the other concepts of *indigenism*, economic decolonization and *Indonesianisasi*, economic nationalism likewise refers to the transfer of economic power from foreign hands to those of the nationals. Pertinently, it stresses the role of the state in controlling the external economic relations of a country, guiding national economic development and mobilizing internal resources.[46] One famous definition of economic nationalism, often quoted in literature, is that made by Harry G. Johnson in his study of economic nationalism in new and developing states in which he defines economic nationalism as the national aspirations of 'having property owned by nationals and having economic

[45] Lindblad, *Bridges to new* business, 3.
[46] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 2-6.

functions performed by nationals'.[47] Three important methods which can be employed to attain the objectives of economic nationalism are: confiscation - that is, the forced transfer of property from foreign owners to nationals; investment of resources or purchase - that is, the use of wealth or savings to purchase material property or job opportunities for nationals and finally, the use of administrative measures - that is the tariffs, tax concessions, and special privileges to promote industries.[48]

In the first two methods, nationalization is considered to be of paramount importance as that it provides more jobs for nationals. The gains or losses from nationalization, Harry Johnson argues, do not result from the mere fact of nationalization itself, but from the changes in management methods and policies introduced after nationalization.[49] This statement will be especially valuable when we later examine the outcome of the Indonesian nationalization of Dutch-owned companies. At this point, it is important to note that the objectives of economic nationalism could potentially conflict with those of economic development. In attaining economic nationalism, increasing national income has to defer to gratifying the 'taste for discrimination', as Gary Becker puts it.[50] In other words, economic development is concerned with the size of the economy and disregards its racial dimension. Conversely economic nationalism pays attention to the racial distribution of economic interests rather than the size of the economy. Another conceptual clarification might be necessary when the concept of economic nationalism is applied to North Vietnam where the Communists were in power. The argument of this study is that the international philosophy of Communism was only a minor cog in the wheel of the economic transformation in Vietnam prior to the land reforms in 1953-1954. In fact, it was nationalism which helped the Communist Party to its

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47 Harry G. Johnson, 'The ideology of economic policy in the new state', in: Harry G. Johnson (ed.), *Economic nationalism in old and new states* (London: George Allen and Unwin, 1968) 127.
48 Harry G. Johnson, 'A theoretical model of economic nationalism in new and developing states', in: Johnson (ed.), *Economic nationalism*, 10-13.
49 Johnson, 'A theoretical model of economic nationalism', 12.
50 Gary S. Becker, *The economics of discrimination* (Chicago: University of Chicago press, 1957) 16-16.

success in mobilizing the support of the wider community in the war of resistance against French colonialism.

3. Sources and Structure

Unlike its political counterpart, economic nationalism in Indonesia and Vietnam has attracted surprisingly little attention. In the case of Vietnam, where the political and economic aspects of the revolution were intertwined, economic resistance is usually integrated into discussions on the general war of resistance against French colonial forces. Đặng Phong's two-volume monograph is perhaps the most extensive and carefully thought out work about the economic history of Vietnam and it provides plenty of fruitful information about economic resistance.[51] There are a few publications about the economic situation in South Vietnam immediately after 1954, but economic facts, not economic transformation are the focus of discussions.[52] As Thomas Lindblad has already pointed out, most studies of the decolonization of Indonesia tend to disregard economic ties, opting to concentrating on the political and military aspects of the process.[53] Therefore, Thomas Lindblad has chosen to devote the majority of his publications to analyzing economic decolonization. Although Sutter's *Indonesianisasi* is perhaps the most elaborate survey of the political economy in Indonesia during the 1940s and the early 1950s, the Achilles' heel of this narrative is its lack of analysis and of an overview of the macroeconomic structure of Indonesia. Sutter consulted very few Dutch sources and consequently has largely ignored Dutch reactions to the economic policies of the Indonesian government. The final flaw in the dissertation is that it excludes the crucial episode of the take-over and nationalization of foreign firms and the

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[51] Đặng Phong, *Lịch sử kinh tế Việt Nam,1945-2000* [Economic history of Vietnam, 1945-2000]Vol. I-II (Hanoi: Khoa học Xã hội Publishers, 2002)

[52] Đặng Phong, *Lịch sử kinh tế Việt Nam,1945-2000* [Economic history of Vietnam, 1945-2000]Vol. II (Hanoi: Khoa học Xã hội Publishers, 2002); Đặng Phong, Kinh tế miền Nam thời kỳ *1955-1975* [South Vietnam's economy, 1955-1975] (Hanoi: Khoa học Xã hội Publishers, 2004).

[53] J. Thomas Lindblad, 'Politieke economie en de dekolonisatie van Indonesië', in: J. Thomas Lindblad and Willem van der Molen (eds), *Macht en majesteit; Opstellen voor Cees Fasseur* (Leiden: Opleiding Talen en Culturen van Zuidoost-Azië en Oceanië, 2002) 132-146.

growing involvement of the Indonesian state in the management of the economy in the late 1950s and the early 1960s.[54]

As other studies about the post-independence period of Indonesia and Vietnam, this thesis is based on a variety of sources and materials. The most important sources are the official documents issued by the relevant governments and their agents, including letters, decrees, edicts, reports, political writings and so forth. Some of the documents have been published in booklets and newspapers, others are kept in the archives. Personal letters and appeals to governments and the programmes of the various political parties and organizations have also been consulted. Publications by foreign economic specialists who worked in Indonesia in the 1950s are particularly important. The main archival sources are *Kabinet Presiden RI* (KP) preserved in the National Archive of Indonesia (*Arsip Nasional Republik Indonesia*, ANRI) in Jakarta, *Ministerie van Economische Zaken; Directoraat-Generaal voor de Buitenlandse Economische Betrekkingen* kept at the National Archive (*Nationaal Archief*, NA) of the Netherlands in The Hague and the private collection of the Oei Tiong Ham Concern kept in the Kong Koan Archive(*Kong Koan-archief*, KKA), University of Leiden. For the chapter on Vietnam, I have tended to consult secondary sources and Vietnamese newspapers.

The following chapter is a discussion of the main features of the colonial economies of Indonesia and Vietnam up to 1945. It examines the extent to which Indonesia and Vietnam experienced a similar form of colonial exploitation and oppression. Special attention is paid to the disadvantageous economic position of indigenous Indonesians and Vietnamese compared to that of foreign nationals, especially the Chinese and metropolitan capitalists, namely the Dutch in Indonesia and the French in Vietnam. The different modes of colonial rule deployed by the Japanese army in Indonesia and Vietnam during the occupation and their impacts on the post-war period are also discussed. This chapter argues that it was within this short period of time that the Indonesians took the opportunity to acquire considerable knowledge and experience in

[54] Sutter, *Indonesianisasi*.

economic administration and practical business affairs, both of which were to be absolutely essential to them in the economic-planning of their country after independence.

The second chapter of the thesis deals with the Vietnamese struggle to dismantle the economic system of French colonialism and to build up alternative forms of national economy in the two parts of the country. Besides looking into their technical experience in running an economy, it examines the personal and political background of the leaders of Vietnam. The organization of a war economy by the Việt Minh government, characterized by a dual emphasis on the construction of and resistance against French businesses is treated in detail. The land reform of 1953-1956 is shown to have been a turning-point in the orientation of economic policy towards Socialism in Vietnam. In North Vietnam this was strengthened forcefully after 1956. Special attention is paid to the growing withdrawal of French and Chinese entrepreneurs from North Vietnam which commenced in the early 1950s and to the policies of the Ngô Đình Diệm government to seize their remaining assets. From the viewpoint of the problem of comparative methodology, this chapter serves as a mirror or a counterpoint in which discussions about Indonesia in the following chapters can be reflected.

The third chapter discusses the initial attempts to establish economic nationalism made by the Republican government in Indonesia during the revolutionary period between 1945-1949. It describes the smooth transformation from the economic institutions of the Japanese administration to a national system immediately after independence. However, with the return of the Dutch colonial forces to the Archipelago, the Indonesian leadership showed ambivalence in its ideologies and approaches to the economic system it desired. This chapter also analyzes the changes in economic policy made by the Republican government in its efforts to bolster its diplomatic negotiations for political independence. Without downgrading the importance of the interventions by the United States, it will be argued that the economic concessions made by the Indonesian delegations at the Round Table Conference were an important factor in making the Netherlands finally agree to a Transfer of Sovereignty to Indonesia in November 1949.

The theme of the fourth chapter is the period in the Indonesian historiography between 1950 and 1957 labelled Parliamentary Democracy. It reveals the predominance of the pragmatic ideas about the running of the economy held by conservative political leaders over the increasingly powerful group advocating a more radical orientation. The moderate measures adopted by the Indonesian government to promote Indonesian entrepreneurship and strengthen the state control and supervision of the economic activities through the *Sumitro* Plan, the *Benteng* Programme and various fiscal policies are examined in some detail. This chapter concludes with a discussion of the failure of *Indonesianisasi* as a direct consequence of public tensions aroused by the economic domination by Dutch and other foreign capital in the mid-1950s.

The last chapter of the thesis examines the final episode in the economic nationalism of the Old Order (*Orde Lama*) in Indonesia. If the moderate measures of *Indonesianisasi* failed to produce a satisfactory result in economic nationalism, what alternative measures were resorted to? The chapter describes the take-over and nationalization of Dutch companies in 1957-1959 and the subsequent expropriation of the Chinese, British and American businesses. There is also a discussion of the dynamics of the Guided Economy in relationship to the initial aspirations held by the Indonesians to build up a national economy as set out in the 1945 Constitution. The strong involvement of the state in its support of the armed forces in the management of former foreign productive assets receives a special point of interest.

The conclusion offers some final remarks about the process of transformation to an independent national economy in Indonesia and Vietnam, identifying their similarities and differences, as well as pointing out the relationship between the two.

CHAPTER ONE

INDONESIA AND VIETNAM: PRE-WAR ECONOMIC CONDITIONS

> *'Within a sound colonial system, colonial production must be limited to suppling the mother country with raw materials or with non-competitive products'.* - Méline, the Director of the Association of French Industry and Agriculture.

Introduction

Comparisons between Indonesia and Vietnam invariably begin in the darkest period in the histories of the two countries when they were still subject to Western colonialism and later to the Japanese military occupation.[1] A number of studies have pointed out the similarities and differences in the models of colonial rule and administration implemented by the Dutch in Indonesia, the French in Vietnam, and later by the Japanese in both countries. Social orders and political culture have sometimes been used in an attempt to explain the dynamics of nationalism and the process of decolonization in the two countries.[2] What I found important, and still missing in literature, is a comparative analysis

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[1] This does not include the article by Cao Xuân Phổ, who claims that the victories of Daiviet and Java against the Mongol invasion in the thirteenth century were the first historical coincidence of the two nations. Cao Xuân Phổ, 'Vietnam-Indonesia concurrences', 154.

[2] See, for instance, Stein Tønnesson, 'Filling the power vacuum', 110-114; Magenda 'The Indonesian and Vietnamese revolutions', 53-66; William H. Frederick, 'Brothers of a kind', 277-280.

of the economic systems implemented by the colonial and fascist powers in Indonesia and Vietnam. The ways in which the imperialist powers exploited their colonies certainly had a strong impact on the paths taken by the nationalist movements and on the process of economic decolonization. This chapter sketches the main features of the colonial economies of Indonesia and Vietnam and examines the impact of the Japanese rule on economic structure and future development of economic nationalism in the two countries.

1. The Colonial Period

The best description of the economy of colonial Indonesia is a 'plural economy'. This concept was coined by the British colonial official J.S. Furnivall in his attempt to define the socio-economic structure of tropical and temperate regions, using the Netherlands Indies as an example. Furnivall argued that the term plural economy signified the economic aspects of a 'plural society', comprised of 'two or more elements or social orders, which live side by side, yet without mingling, in one political unit.' The mutual relationship between these social orders 'tends to be governed solely by the economic process with the production of material goods as the prime end of social life.'[3] The consequences of the emphasis on production rather than social ends were a sectional division of labour and conflicts of economic interests between racial groups. The organization of economy of the Netherlands Indies is depicted as a pyramid with the top layer dominated by Western private enterprises, and the Indonesian indigenous people relegated to forming the basis. The Chinese and Arab minorities acted as intermediaries between the two.[4]

Furnivall's plural economy was developed from the famous theory of economic dualism, first expounded by J.H. Boeke in his 1910 Leiden University dissertation. Boeke believed that Western economic theories could not be applied validly in the tropical colonies. Therefore, he suggested 'a double, or

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3 J.S.Furnivall, *Netherlands India; A study of plural economy* (Cambridge: Cambridge University Press 1939) 446, 450-451.

4 Lindblad, *Bridges to new business,* 15; Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 116-117.

even threefold theory: one theory for the Western part, one for the oriental part and one theory with a combined basis for the phenomena, which appear in the contact between the two parts.' There was a radical division between the Western and the Eastern sectors. The former, governed by European law and by Europeans, was modern, dynamic and capitalistic, whereas the latter, administered under a mixture of modern and customary law through indirect rule, was traditional, backward and stagnant.[5] After his examination of the active participation of the Chinese and Javanese in various businesses in the Netherlands Indies, Furnivall cast doubt on Boeke's emphasis on an unbridgeable separation between the Western and Asian sectors and the economic passivity of the local community. Furnivall argued instead that in a plural society, any social elements were organized for economic purposes rather than social ends.[6]

1.1. Racial Dimension

In 1930, the population of the Netherlands Indies was 61 million, with indigenous Indonesians accounted for more than 97 per cent. The Chinese formed the largest non-indigenous ethnic minority, accounting for almost 1.2 million (2 per cent), alongside only 240,000 Europeans (0.4 per cent) and 115,000 other Foreign Asiatics (*anderevreemde Oosterlingen*) (0.2 per cent) (Table 1). The total registered labour force in 1930 was 20.8 million, of whom 20.3 million were indigenous people and fewer than 100,000 were Europeans. More than 60 per cent of the indigenous workers were engaged in agriculture, whereas only 5 per cent took part in trade and scarcely more than 1 per cent in transport and professional services. This is in sharp contrast to the Chinese the majority of whom, 37 per cent, worked in the single most profitable sector, commerce and 30 per cent of Chinese workers were employed in the industrial

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[5] J.H. Boeke, 'De economische theorie der dualistische samenleving', *De Economist* 1 (1935) 800-801; J. H.Boeke, *The structure of Netherlands Indian economy* (New York: Institute of Pacific Relations, 1949) 3-13.

[6] Furnivall, *Netherlands* India, 456-460.

sector and mining and only 12 per cent in agriculture.[7] About 27 per cent of the Europeans in Java and 23 per cent in the Outer Islands were employed in the public sector.[8] Despite being a tiny minority, the combined 1.5 million of non-indigenous population dominated the economic and political life of colonial Indonesia.

Table 1: Population composition of the Netherlands Indies in 1930

	Total population	**Indonesians**	**Europeans**	**Chinese**	**Other Asians**
Netherlands-Indies	60,727,233 (100%)	59,138,067 (97.4%)	240,417 (0.4%)	1,233,214 (2%)	115,535 (0.2%)
Java and Madoera	41,718,364 (100%)	40,891,093 (98%)	192,571 (0.5%)	582,431 (1.4%)	52,269 (0.1%)
Outer Islands	19,008,869 (100%)	18,246,974 (96%)	47,846 (0.3%)	650,783 (3.4%)	63,266 (0.3%)

Source: Patrica Tjiook-Liem, *De rechtspositie der Chinezen in Nederlands-Indië 1848-1942* (PhD dissertation, Leiden University, Leiden, 2009) p. 19; Ong Eng Die, *Chineezen in Nederlandsch-Indië; Sociografie van een Indonesische bevolkingsgroep* (Assen: Van Gorcum, 1943) pp. 14-15.

The contrast was much greater in the distribution of national income. J.J. Polak says that in the interwar period (1921-1939) indigenous Indonesians received 70 per cent of total national income compared to 20 per cent for Europeans and 10 per cent for residents of Chinese or Arab origin. Taking into account the difference in the size of the population groups, this estimate translates into average per capita incomes where one European earned as much as eight Chinese or forty-five indigenous Indonesians.[9] Angust Maddison gives

7 George L.Hicks (ed.), *Overseas Chinese remittances from Southeast Asia 1910-1940* (Singapore: Select Books, 1993) 135.

8 Van der Eng, *The 'colonial drain' from Indonesia,* 15-17.

9 J.J. Polak, 'The national income of the Netherlands Indies 1921-1939'in: P.Creutzberg (ed.), *Changing economy in Indonesia;* Vol. V. *National income* (The Hague: Nijhoff, 1979) 27-101; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 141-142.

an even wider gap. In 1929, for instance, a European had a real income of 4,017 guilders, 13 times higher than the 301 guilders of an Asiatic and 68 times the 58.7 guilders of an Indonesian.[10] A recent estimate prepared by Jan Luiten van Zanden, using data on the income of different ethnic groups of households, suggests a more moderate picture of the unequal distribution of income. In 1925, the average income of 7,114,000 Indonesian households was 201 guilders, while 129,000 Foreign Asiatics households averaged 1,179 guilders and each of 63,000 European households had 6,150 guilders. The Indonesian share in the national income declined from 88 per cent in 1880 to 72 per cent in 1925, whereas the share of the Chinese and other Foreign Asiatics increased from 5 per cent to 8 per cent. The share of the tiny European community rose from 6 per cent in 1880 to 20 per cent in 1925. With five persons to a household on average a European had an income 5 times as high as an Asiatic and 29 times that of an Indonesian.[11]

The situation in Indonesia leads to the question of to what extent can the concept of 'plural society' be applied in the case of colonial Vietnam? The population of Vietnam fluctuated between 16 and 23 million between 1921 and 1945.[12] Of this number, the Viet (the ethnic Kinh) made up about 87 per cent. The Europeans were a small minority, numbering 30,000 in 1930 and 35,000 in 1937, accounting for about 0.7 per cent of the total population (Table 2). Half of the European community was in the age group 20-40 years, hence in the labour force group, with 53 per cent serving in army and navy and 19 per cent employed as government officials. The rest of the French community were employees of big French companies in Indochina, notably in trade (7.4 per

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[10] Angus Maddison, 'Dutch income in and from Indonesia, 1700-1938', in: Angus Maddison and Gé Prince, *Economic growth in Indonesia, 1820-1940* (Dordrecht: Foris Publicans Holland, 1989) 35.

[11] Jan Luiten van Zanden and Daan Marks, *An economic history of Indonesia, 1800-2010* (New York: Routledge, 2012) 117-118.

[12] Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* [Socio-economic structure of colonial Vietnam 1858-1945] (Hanoi: Đại học Quốc gia, 2004) 137, Lê Mạnh Hùng, *The impact of World War II on the economy of Vietnam, 1939-1945* (Singapore: Eastern Universities Press, 2004) 61.

cent), mining and industry (5.7 per cent) and transportation (2 per cent).[13] The number of the Chinese in Vietnam was estimated at 195,000 in 1921 and 267,000 in 1931.[14] In 1937, there were 217,000 ethnic Chinese in Vietnam, accounting for 4.3 per cent of the total population, of whom three-thirds lived in Cochin China (South Vietnam) (Table 2)[15], where they concentrated in large cities, such as Cholon, Saigon, Hanoi, Hải Phòng and Nam Định.[16] Their major business was commerce (56 per cent), but some of them were employed in the French factories (28 per cent). Only a small number of the Chinese (16 per cent) was engaged in irrigating rice farms and fishing in the Mekong delta provinces, such as Trà Vinh, Sóc Trăng and Hà Tiên.[17] In 1920, there were 289 Chinese employees in agricultural projects in the whole of Tonkin, and 3,779 in the mines there, against a total of 1,906 in commercial and industrial firms.[18] The French were unable to recruit the Chinese for their plantations. The Việt from the deltas of the North and Javanese coolies made up the majority of labour in European plantations in Tonkin and Central Vietnam.[19] Apart from those who found employment on European plantations and in mining and construction, the majority of the Vietnamese community was engaged in the traditional sectors of agriculture and handicrafts.

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[13] Charles Robequain, *Economic development of French Indo-China* (Oxford: Oxford University Press, 1944) 21, 27, 29.

[14] Kỳ Lương Như, *The Chinese in Vietnam; A study of Vietnamese-Chinese relations with special attention to the period 1862-1961* (PhD dissertation, University of Michigan, Ann Arbor, 1963) 42; Trần Khánh, *The ethnic Chinese and economic development in Vietnam* (Singapore: Institute of Southeast Asian Studies, 1993) 25.

[15] Under the French politics of 'divide and rule', unified Vietnam was divided into three parts with different regimes. Tonkin (North Vietnam) and Annam (Central Vietnam) were French 'protectorates', whereas Cochin China (South Vietnam) was a colony proper. These three regions were incorporated with Laos and Cambodia when the French Indochina Federation was formed

[16] In 1931, for instance, there were 100,000 Chinese residents in Saigon and Cholon, 19,000 in Hải Phòng, 5,000 in Hanoi. See: Victor Purcell, *The position of the Chinese in Southeast Asia* (New York: Institute of Pacific Relations, 1950) 31; Tran, *The ethnic Chinese*, 25.

[17] Hicks (ed) *Overseas Chinese remittances*,135.

[18] Alain G. Marsot, *The Chinese community in Vietnam under the French* (Lewiston: The Edwin Mellen Press, 1993) 142.

[19] Tạ Thị Thúy, *Đồn điền của người Pháp ở Bắc Kỳ 1884-1918* [French plantations in Tonkin 1884-1918] (Hanoi: Thế giới Publishers, 1996) 233; Tạ Thị Thúy, *Việc nhượng đất khẩn hoang ở Bắc Kỳ từ 1919 đến 1945* [Land concessions in Tonkin from 1919 to 1945] (Hanoi: Thế giới Publishers, 2001) 233-234.

Table 2: Population of colonial Vietnam by nationality in 1937

	Total population	**Europeans (1)**	**Chinese**
Vietnam	18,972 (100%)	39,272 (0.7%)	217,000 (4.3%)
Tonkin	8,700,000 (100%)	18,171 (0.21%)	35,000 (0.4%)
Annam	5,656,000 (100%)	4,982 (0.09%)	11,000 (0.19%)
Cochin China	4,616,000 (100%)	16,084 (0.35%)	171,000 (3.7%)

Source: Charles Robequain, *Economic development of French Indo-China* (Oxford: Oxford University Press, 1944) pp. 21,34

(1) This includes both Europeans and 'assimilés', the latter were people who enjoyed the legal status of Europeans, although they were not necessarily of European origin, for instance, the Japanese.

In 1937, the GDP of the whole of Indochina was estimated at 1,128 million piastres, equivalent to an income per capita of 48.6 piastres. Compared to the Netherlands Indies, the distribution of the income among the ethnic groups in Indochina was far more unequal. In 1931, at a time when the French population and the richer Chinese and Vietnamese enjoyed an income of about 5,000 to 6,000 piastres per annum, the income of a manual worker was only 44 piastres per year in Tonkin, 47 piastres in Annam and 55 piastres in Cochin China. The peasants earned even less. The average budget of a poor peasant family of five persons in Cochin China in 1931 was 154 piastres, which corresponded to 30.8 piastres per person.[20] The peasants barely subsisted on their small plots of land and could hope to provide only for their most immediate needs. When hit by bad years or caught by an unpredictable expense such as illness or accidents, poor peasants were forced to borrow from richer landowners at an usurious rate

[20] Lê Mạnh Hùng, *The impact of World War II*, 41, 56.

of more than 100 per cent.[21] Since many failed to redeem their debts, eventually they had to relinquish the ownership of their land to their rich creditors. They became tenants or sharecroppers on what once had been their own land. This discriminatory situation eventually fuelled the inherent class conflict between Vietnamese peasants and Vietnamese landlords, which simmered alongside the national conflict between the Vietnamese community and foreign powers.

1.2. Economic Structure

It was not 'the lack of economic motive', in the words of Boeke, but the policies of the colonial authorities which restrained the local community from participation in the modern sectors of economy. In French Indochina, the economic theories of the colonial government were dominated by the view that, 'within a sound colonial system, colonial production must be limited to supplying the mother country with raw materials or with non-competitive products'. Moreover, the metropolis deemed that the colonies needed to be reserved as 'an exclusively French market'.[22] As a result, the whole structure of the economy of French Indochina was geared towards primary production rather than manufacturing. The bulk of French private investment was poured into agriculture and mining, leaving the internal trade largely dominated by the Chinese.

An investigation ordered by the French government in 1943 revealed that, from 1896 to 1940, total French private investment in Indochina was 38.5 billion francs at 1940 value.[23] Including the preceding period since 1859, total investment amounted to 52 billion francs, of which private capital accounted for 73.9 per cent.[24] Figure 1 presents the distribution of French investment in Indochina by sector from the first year of colonization until the arrival of the Japanese in 1940. Before the First World War, two-thirds of French investment

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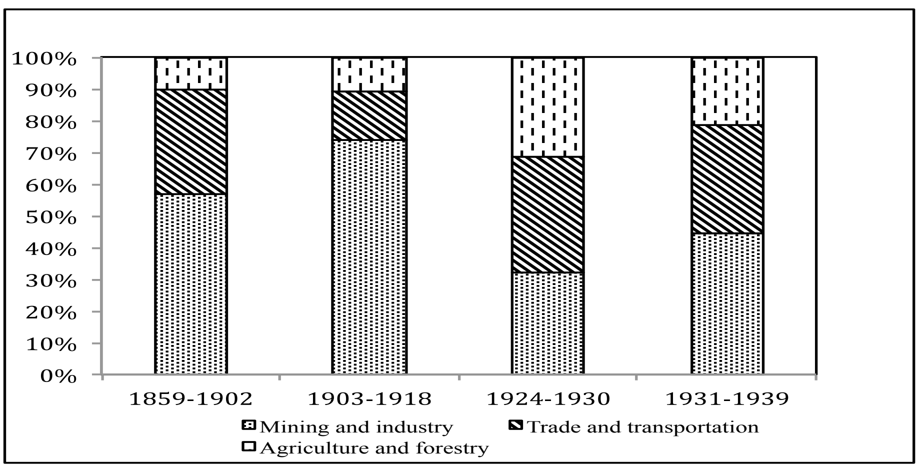
[21] Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante au Vietnam (1945-1965)* (Hanoi: Éditions en Langues Étrangeres, 1966) 34.
[22] Quoted from Robequain, *Economic development*, 129.
[23] Lê Mạnh Hùng, *The impact of World War II*,46.
[24] Văn Tạo, 'Công cuộc khai thác thuộc địa của thực dân Pháp ở Việt Nam và sự phát triển của giai cấp công nhân Việt nam' [The French colonial exploitation in Vietnam and the development of the worker class in Vietnam], *Nghiên cứu Lịch sử* 11 (1955) 56.

went into mining and industry. After the war, the priorities of French companies shifted to agriculture, which then took up one-third of total investment. Between 1924 and 1930, investment in agriculture was 1,272 million francs, corresponding to the combined capital of mining and industry, each about 600 million francs.[25] Although mining did continue to receive more investment, manufacturing remained largely static. Only a few projects in heavy and chemical industry launched by the colonial government in the late 1930s, including the construction of ammunitions factories in preparation for the impending war with Japan. The Japanese occupation frustrated any further French efforts to industrialize. By the end of 1940, the economy of Indochina was still largely based on primary production. In 1937, for instance, the traditional sectors, namely agriculture, forestry and handicrafts, made up 66.6 per cent of GDP. Trade, transport and other services accounted for 13.5 per cent and mining and industry for 19.6 per cent.[26]

Figure 1: Distribution of French capital in Indochina by sector, 1858 -1939 (percentage)



Source: Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* (Hanoi: Đại học Quốc gia, 2004) p. 80.

[25] Martin J. Murray, *The development of capitalism in colonial Indochina (1870-1940)* (Berkeley: University of California Press, 1980) 125.

[26] Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam*, 169; Jean Pierre Aumiphin, *Sự hiện diện tài chính và kinh tế của Pháp ở Đông Dương 1895-1939* [The financial and economic presence of the French in Indochina 1895-1939] (Hanoi: Hội Khoa học Lịch sử Việt Nam, 1994) 63.

French investment in agriculture was concentrated on plantation and export crops, particularly rice. In 1900, the area covered by French estate plantations had reached 322,000 hectares, 78,000 in South Vietnam and 98,000 in North Vietnam. In 1907, North Vietnam alone had 476 French plantations, 150 of them small-scale (fewer than 50 hectares) and 312 large, accounting for 99.4 per cent of a total of 417,650 hectares.[27] The area under plantations expanded greatly after the First World War, reaching more than one million hectares in 1930, half of these in South Vietnam.[28] Although tea, coffee and corn were all cultivated on French plantations, rice and rubber were the leading export crops (Table 3). By 1941, the total area under rubber cultivation in Indochina had increased to 325,000 acres or 130,010 hectares (one-tenth compared to the area in the Netherlands Indies), producing 76,000 tons of rubber per year.[29] The export of agricultural products accounted for two-thirds of export value of Indochina, with rice representing 65 per cent up to 1931. Each year Indochina exported around 1.5 million tons of rice and rice products.[30] Corn accounted for 2.9 per cent of the total export value between 1913-1917, but increased to 14 per cent between 1932 and 1936, whereas rubber amounted 8.4 per cent. Dried fish, pepper and raw untanned hides represented 8 per cent.[31]

The majority of the investment in mining went into the extraction of coal, tin and zinc in the northeast regions of Tonkin (Cao Bằng, Thái Nguyên, Bắc Cạn, Quảng Ninh and Ninh Bình) and gold in southern Annam (Quảng Nam). Coal was the key mining product in Indochina, accounting for 89 per cent in 1932 and 63 per cent in 1937 of the total mining output.[32] The production of coal rose from 500,000 tons in 1913 to 1,972,000 tons in 1929

[27] Tạ Thị Thúy, *Đồn điền của người Pháp ở Bắc Kỳ,* 100-101; Tạ Thị Thúy, *Việc nhượng đất khẩn hoang ở Bắc Kỳ*, 84.
[28] André Touzet, *L'économie Indochinoise et la grande crise universelle* (Paris: Giard, 1934) 3.
[29] Andrew McFadyan (ed.) *The history of rubber regulation 1934-1943* (London: George Allen&Unwin, 1944) 224.
[30] Nguyễn Văn Lợi, *L'économie commercial du riz en Indochine* (Paris: Les éditions Domat-Montchrestien, 1938) 27; Touzet, *L'économie Indochinoise*, 10.
[31] Robequain, *Economic development*, 308-309, Nguyễn Văn Khánh, Cơ cấu kinh tế xã hội Việt Nam,116.
[32] Robequain, *Economic development*, 252.

and 2,615,000 tons in the peak year of 1939.[33] The bulk of the mining output was used for export, most going to France, China and Hong Kong. Between 1930 and 1945, Indochina exported 28,154,000 tons of coal, 598,000 tons of iron ore, 760,000 tons of zinc and 533,000 tons of tin, lead and phosphate.[34] The share of mining products in total exports increased from 1.3 per cent (1899-1903) and 3.5 per cent (1913-1917) to 7 per cent in the total 1937 exports. Of this 7 per cent, coal alone represented 5.6 per cent.[35] It is important to note that almost 50 per cent of the export products from Indochina were reserved for France.Other important destinations included Hong Kong, Singapore, China and the United States.[36]

Table 3: Distribution of plantations in Indochina in 1930 (in hectares)

	Total	**Rice**	**Tea**	**Coffee**	**Rubber**
Tonkin	134,400	30,300	200	4,150	-
Annam	168,400	2,500	3,510	5,900	1,874
Cochin China	606,500	253,400	-	650	97,804
Cambodia	113,500	12,960	-	-	26,729
Laos	2,800	40	-	50	-
Total	**1,025,600**	**289,900**	**3,710**	**10,750**	**126,407**

Source: Nguyễn Văn Khánh, *Cơ cấu kinh tế xã hội Việt Nam thời thuộc địa 1858-1945* (Hanoi: Đại học Quốc gia, 2004) p. 87.

During the first two decades of the twentieth century, about 50 per cent of imports in Indochina originated from France and other French colonies. In 1937, this proportion rose to 60 per cent.[37] The principal imports consisted of

[33] Cao Văn Biền, *Công nghiệp than Việt Nam thời kỳ 1888-1945* [Coal mining in Vietnam, 1888-1945] (Hanoi: Khoa học Xã hội Publishers, 1998) 136-137; Murray, *The development of capitalism*,324.

[34] Viện Kinh tế, *Kinh tế Việt Nam từ cách mạng tháng Tám đến kháng chiến thắng lợi, 1945-1954* [Vietnam's economy from the August Revolution to the end of the second Indochina War, 1945-1954] (Hanoi: Khoa học Xã hội Publishers, 1996) 15.

[35] Robequain, *Economic* development, 318; Murray, *The development of capitalism,* 329.

[36] Nguyễn Văn Khánh, *Cơ cấu kinh tế Xã hội*, 106, 117-120.

[37] Nguyễn Văn Khánh, *Cơ cấu kinh tế Xã hội*, 117-120; Touzet, *L'économie Indochinoise*,114-115.

manufactured products, accounting for 62 per cent of the total in 1937.[38] These commodities included cars, petrol, cotton fabrics, paper and various food products, including milk, canned fruits and beverages. Machinery and metal products made up only a small proportion, 1.5 per cent in 1915, and reached a peak in 1931 at 8.8 per cent.[39] In 1938, the value of imported industrial equipment was 6.4 per cent of the total imports. Industrial raw materials amounted to 6.5 per cent of total imports qua value in 1938. The principal imported goods in that year were raw cotton representing 4 per cent and chemical products together 2.5 per cent of total imports. Cars, oil and kerosene took up another 9.8 per cent of total imports.[40] Most import-export activities were controlled by the French, but the Chinese also had a hand in them, albeit a smaller one. The Vietnamese served as contractors or middlemen for foreign companies. In the years 1923-1927, there were 449 Vietnamese contractors in Tonkin with a combined capital of 4.4 million piastres. By comparison 155 Western firms had assets worth 1.9 million piastres.[41]

As it intended to keep the Indochina market exclusively for French manufactured goods, the French colonial government did not encourage the development of industry in Vietnam. In Cochin China, the dynamic economic centre of Indochina, for instance, in 1906 there were no more than thirty-six European industrial enterprises.[42] The most important industry was mining, dominated by two French companies, *Société des Charbonnage du Tonkin* and the *Société des Charbonnage du Dong Trieu*, both specializing in coal extraction. The *Société des Ciments Portland Artificiels de l'Indochine*, founded in 1899 when a factory was opened in Hải Phòng, was the most important company in the field of manufacturing and processing industries. Textile manufacturing was controlled by the *Société Cotonnière de l'Indochine,* which

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[38] Robequain, *Economic* development, 319.
[39] Viện Kinh tế, *Kinh tế Việt Nam*, 24.
[40] Lê Mạnh Hùng, *The impact of World War II*, 37.
[41] Tạ Thị Thúy, *Sự biến chuyển của các giai cấp trong xã hội Việt Nam những năm 20 của thế kỷ XX* [The social classes' transformation in Vietnam in the early 1920s (Hanoi: Advanced Political thesis, Hồ Chí Minh Academy, 2007) 45.
[42] Pierre Brocheux, Daniel Hémery (eds), *Indochina; An ambiguous colonization, 1858-1954* (Berkeley: Univesity of California Press, 2009) 118.

had mills in Hanoi, Nam Định, Hải Phòng and Saigon. The production and distribution of alcohol were monopolized by the *Société Francaise de Distilleries de l'Indochine.* There were a few small sugar refineries, rubber processing mills and tobacco processing factories. Only in the agricultural processing industries were there concerns not dominated by French interests. In 1932, although the two largest were French owned, seventy-three of the seventy-five rice-processing mills in Cholon were Chinese owned.[43] There were also numerous small rice-mills installed by the Vietnamese in the countryside. Modern industries such as power, transportation and chemicals were exclusively in the hands of French companies.

The structure of the economy of colonial Indonesia was also highly traditional in which priority was placed on primary production. The colony was opened up to private capital investment in the 1870s, but it was only at the beginning of the twentieth century that foreign investment in Indonesia could be said to have reached a significant volume. In 1900, the total foreign investment in Indonesia was estimated at 750 million guilders. It increased to 1.7 billion guilders in 1914, culminating in 4 billion guilders in 1930 and subsequently hovered around 3 billion during the 1930s. About two-thirds of the foreign capital invested in colonial Indonesia was of Dutch origin, with British and American investors ranking second and third, respectively. As was French investment in Indochina, a large part of Dutch investment in the Netherlands Indies went into primary production. Nevertheless, unlike their counterparts in Indochina, Dutch investors concentrated more on agriculture than on mining, with a portion of the total investment of 45 and 20 per cent, respectively. The remainder went into services and manufacturing. The Dutch firms occupied a dominant position in sugar, tin and transport, but British and American firms were more firmly in the saddle in tobacco, rubber and oil. The bulk of the extraction and production of oil was in the hands of the Royal Dutch Shell, an alliance between Royal Dutch (*Koninklijke*) and British-owned Shell.[44] By and

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[43] Murray, *The development of* capitalism, 451.

[44] Jean Bush Aden, *Oil and politics in Indonesia, 1945 to 1980* (PhD dissertation, Cornell University, Ithaca, NY, 1988) 25-32; J. Thomas Lindblad, 'The economic relationship between

large, about 48 per cent of firms in the Netherlands Indies were engaged in estate agriculture, compared to 35 per cent in trade and 17 per cent in mining and industry. West and East Java were the most populous locations for the business operations of modern Western firms, whose main offices were often located in Batavia, Surabaya or Semarang.[45]

The total number of foreign corporations operating in the Netherlands Indies was about 2,800 in 1914. This figure increased to 3700 in 1920, and then declined to 3,300 in 1925, 2,800 in 1930, and a bare 2,155 in 1940.[46] These companies can be divided into four categories. The largest category was composed of Netherlands Indies firms, accounting for 51 per cent of the total number in 1914, 43 per cent in 1930 and 44 per cent in 1940. These companies were operated by permanent Dutch residents in the colony. The second group consisted of genuinely Dutch firms whose headquarters were in the Netherlands, with a share rising from 23 per cent in 1930 to 29 per cent in 1940. Truly foreign firms, run by investors from third countries, ranked third. The final category was made up of Asian but non-Indonesian firms, the largest number owned by ethnic Chinese. The Asian firms were generally small as were the many Netherlands Indies firms. In fact, the companies run from outside the colony were larger and hence less susceptible to short-run movements of business cycles. In 1930, for instance, genuinely Dutch companies claimed more than 70 per cent of the total registered equity against 14 per cent for Netherlands Indies firms and only 4 per cent for Chinese firms, whereas British-owned enterprises alone occupied 10 per cent of the total equity. In the corporate network of the colony a small number of large firms managed from abroad operated alongside a large number of small firms with a strong local entrenchment.[47]

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the Netherlands and colonial Indonesia, 1870-1940', in: Jan Luiten van Zanden (ed.) *The economic development of The Netherlands since 1870* (Cheltenham: Elgar, 1996) 114.

[45] J. Thomas Lindblad, 'Foreign investment in late-colonial and post-colonial Indonesia', *Economic and Social History in the Netherlands* 3 (1991) 189-190.

[46] J. Thomas Lindblad, *Foreign investment in Southeast Asia in the twentieth century* (London: Macmillan, 1998) 72-79; Lindblad, *Bridges to new* business, 22.

[47] Lindblad, *Foreign investment in Southeast Asia,* 72-73; Lindblad, 'The economic relationship', 115.

One example of a large firm owned by an ethnic Chinese is the Oei Tiong Ham Concern (OTHC), a sugar-based conglomerate founded by a *peranakan* Chinese named Oei Tiong Ham.[48] It was the parent company of numerous firms based in Semarang and Surabaya on the north coast of Java. The Handel-Maatschappij Kian Gwan (Kian Gwan Trading Company) was a sugar-centred international trading company, founded in 1863 by Oei Tiong Ham's father, Oei Tjie Sien. It had agents in various parts of the world, including Calcutta, Bombay, Karachi, Shanghai, Hong Kong, Amoy, Singapore, London, New York, San Francisco, Rotterdam, Hamburg and Sydney. The General Development Company of Oei Tiong Ham Sugar Factories (Algemeene Maatschappij tot Exploitatie der Oei Tiong Ham Suikerfabrieken) focused on sugar manufacture, operating five plantations and mills in Java. Besides sugar, the company also owned a rubber estate and the Krebet Tapioca Factory in Malang in East Java. Other important companies under the control of the OTHC included the Heap Eng Moh Steamship Co. Ltd, the Bank Vereeniging Oei Tiong Ham, the Bouw-Maatschappij Randoesarie and the Midden-Java Veem.[49] As a consequence of its involvement in diversified businesses, OTHC became one of the largest commercial enterprises in the Netherlands Indies and was probably one of the largest privately owned companies in the world during the first decades of the twentieth century.

In 1929 about 2 billion guilders were invested in the plantation industry, three-quarters of which were Dutch.[50] Since tobacco was steadily losing ground, foreign investment diversified into other export crops, notably rubber, sugar, coffee and palm oil. The number of tobacco plantations in the East Coast of

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[48] All the information about the Oei Tiong Ham Concern (OTHC) in this study is based on the personal recollections of Oei Tjong Tjay, one of the heirs to OTHC. His recollections are kept at the library of the Sinological Institute at Leiden University. I am grateful to Professor Leonard Blussé for allowing me to use the recollections.

[49] KKA, *The story of Krebet*, published by Handel Maatschappij Kian Gwan in 1932.*The Oei Tiong Ham-Concern; A short survey of its development and progress*, published by Handel Maatschappij Kian Gwan in 1934. OTHC, inventory number 14.

[50] P. Creutzberg (ed.), *Changing economy in Indonesia; A selection of statistical source material from the early 19th century up to 1940*, Vol. III. *Expenditure on fixed assets* (The Hague: Nijhoff, 1977) 25.

Sumatra fell from 114 in 1904 to only forty-five in 1940.[51] The total planted area of tobacco in 1940 was 195,000 hectares. As tobacco floundered, the rubber estates expanded enormously from 110,000 hectares in 1910 to 1.4 million hectares in 1940, more than 1 million hectares of which were in Sumatra. In 1938, there were 207 rubber plantations in the East Coast of Sumatra. Sugar dominated Java when it covered an area of 149,000 hectares in 1910, rising to 200,000 hectares in 1930. Thereafter it declined to about 100,000 hectares in the late 1930s. The total number of sugar plantations in Java remained steady at about 180-190 between 1910 and 1930. The combined coffee and tea estates covered 400,000 hectares in 1910 and 500,000 hectares in 1940. Other important perennial crops included palm oil (110,000 hectares) and coconuts (1.5 million hectares). Land reserved for such food crops as rice, maize and cassava amounted to 5 million hectares in 1910 or 7 million hectares in 1940. These calculations included both the large plantations owned by the Europeans and lands held by Indonesian smallholders.[52]

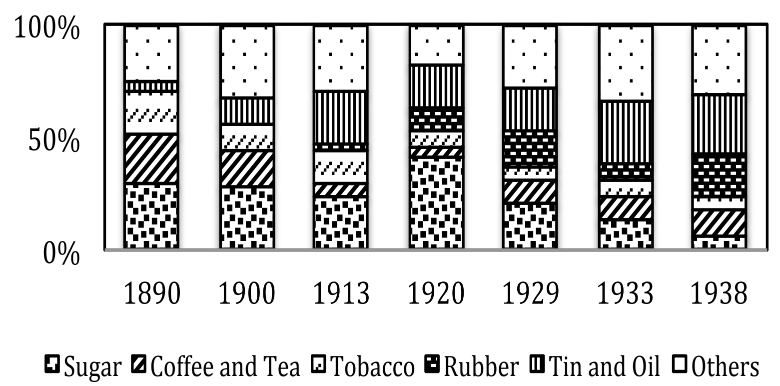
Figure 2 shows the composition of export production in colonial Indonesia from the end of the nineteenth century to the late 1930s. Agricultural commodities accounted for more than 70 per cent of total export earnings. Sugar was the most profitable export crops, occupying almost 30 per cent in 1900, reaching a peak at 47 per cent in 1920. Rubber had also commenced its steady climb by the second decade of the twentieth century and had even replaced sugar by the end of the 1930s. Tobacco, coffee and tea, which had been principal export crops in the Archipelago in the late nineteenth century, underwent a gradual decline in the total export earnings in the next century. Among the various other products, copra and cinchona shared about 10 per cent. Beside these agricultural products, the Netherlands Indies introduced new products that were generally termed industrial materials. Tin was mined on

[51] Karl J. Pelzer, *Planter and peasant; Colonial policy and the colonial struggle in East Sumatra 1863-1942* (Leiden: KITLV, 1978) 52.

[52] William J.O'Malley, 'Plantations 1830-1940; an overview', in: Anne Booth W.J. O'Malley and Anna Weidemann (eds), *Indonesian economic history in the Dutch colonial era* (New Haven, Yale University Press, 1990) 136-170; Colin Barlow, 'A comparison of factor influencing agricultural development in Malaya and Indonesia, 1870-1940', in: Maddison and Prince (eds), *Economic growth in Indonesia*, 250.

Bangka and Billiton, coal was extracted from mines in West Sumatra (Ombilin), South Sumatra (Bukit Asam) and Kalimantan (Pulu Laut), and oil was found in North and South Sumatra and East Kalimantan. The share of mining in total export values rose enormously after 1910. Less than one-third of Indonesian exports went to the Netherlands, whereas Asia, including Singapore, received over 40 per cent. By 1925, these percentages were 15 and 50, respectively. The share of the United States in Indonesian exports increased remarkably, keeping pace with the expansion of rubber and oil production in Indonesia in the late 1930s.[53]

Figure 2. Share of main products in Indonesian exports, 1890-1938 (in percentage)



Source: G.H.A. Prince and H. Baudet, 'Economie en beleid in vooroorlogs Nederlands-Indië', in: H. Baudet, M. Fennema et al., *Het Nederlands belang bij Indië* (Utrecht: Spectrum, 1983) p. 33.

Late colonial Indonesia was also becoming less dependent on imports from the Netherlands. In 1910, the proportion of imports from the Netherlands was 32 per cent. This figure declined sharply to 20 per cent in 1925, dropping to only 13 per cent in 1935. Most other imports were received either directly from

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[53] Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann (eds), *Indonesian economic history*,278; Booth, *The Indonesian economy*, 208-211.

other European countries or through Singapore. The European share remained at about 50 per cent of all imports in the first two decades of the twentieth century, but declined dramatically to only 36 per cent by 1935. Japan ranked second after Singapore as the most important trading partner of colonial Indonesia in Asia, and by 1935, the Japanese share in Indonesian imports had surpassed Singapore, accounting for 32 per cent of total import value. Most Japanese exports to Indonesia consisted of cheap consumer goods, including cotton cloth, household utensils and bicycles.[54] The American share rose remarkably after the First World War, touching 8 per cent in 1935. This was a partial reflection of the improved trans-Pacific shipping routes, but undeniably income growth and industrial development in Indonesia were also stimulating a growing demand for both capital and consumer goods produced by the United States.[55]

The growth of trade, above all the economic expansion of colonial Indonesia, in the early twentieth century was attributed to the liberal economic policy pursued by the Netherlands Indies government from the 1870s. Free trade fostered a climate favourable to foreign investment, maximizing the scope for the expansion of export products. Initially, this liberalism was intended to safeguard market outlets for Dutch manufacturing at home, particularly the textile industry. Nevertheless, as the Archipelago was increasingly integrated into the world economy, the true beneficiaries of the colonial liberal trade policy were third-country exporters. Not the Netherlands, but Great Britain and Japan emerged as the leading suppliers of various manufactured products in Indonesia, particularly textiles. On the home front, free trade also exposed embryonic efforts at domestic manufacturing to international competition.

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[54] Peter Post, *Japanse bedrijvigheid in Indonesië 1868-1942; Structurele elementen van Japan's economische expansie in Zuidoost Azië* (PhD dissertation, Amsterdam Free University 1991) 20.

[55] Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann, *Indonesian economic history*,278, Booth, *The Indonesian economy*, 208-211

However, in the face of fierce competition, manufacturers, whether indigenous Indonesians, Chinese or Dutch, found themselves at a disadvantage.[56]

As an export-led country, colonial Indonesia was among those hardest hit by the worldwide Depression in the 1930s as prices of primary products collapsed. As an instrument to deal with the offensive led by Japanese manufacturers of low-price products, liberalism was no longer an appropriate policy. In 1933, the Dutch colonial authorities introduced the Crisis Import Ordinance (Crisisinvoerordonnantie), a step which marked their switch to protectionism. Quotas were introduced as a regulatory instrument to curb foreign imports, especially from Japan.[57] Protection against Japanese imports benefited not only the more expensive imports from the Netherlands but, unintentionally, also domestic production set up to promote import substitution. The restrictive trade policy coincided with unprecedented initiatives launched by the colonial government to promote manufacturing industries and agricultural production. Such small-scale industries as textile, sugar processing, confectionary, the manufacture of rubber sandals, coconut oil and margarine developed rapidly in Java, especially in West Java, in the late 1930s. The number of weaving mills rose from about twenty in 1930 to almost 2,000 in 1938. The number of modern handlooms rose a thousand-fold during the 1930s, reaching 50,000 looms by the end of 1941, taking their place alongside with 10,000 mechanical looms.[58] In Kudus, Central Java, indigenous and Chinese producers competed with one another in the booming *kretek* cigarette industry. Nor were foreign firms left behind in this accelerating industrialization. Philips had a light bulb factory in Surabaya, General Motors opened an assembly line for motor cars in Batavia, Goodyear established Indonesia's first tyre factory, Bata began producing shoes for the local market, and Unilever introduced locally produced margarine into Indonesian households.[59] The best evidence of

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[56] Lindblad, *Bridges to new business,* 25-26.

[57] A. Taselaar, *De Nederlandse koloniale lobby; Ondernemers en de Indische politiek*, 1914-1940 (Leiden: Research School CNWS, 1998) 462.

[58] P.H.W. Sitsen, *Industrial development of the Netherlands Indies* (New York: Institute of Pacific Relations, 1943) 33.

[59] Lindblad, *Bridges to new business*, 26.

emerging industrialization is that the manufacturing share of GDP jumped from 8 per cent to 12 per cent between 1931 and 1939.[60] By 1938 the Netherlands Indies was almost self-sufficient in cigarettes, frying pans, paint, toiletries, beer, shoes and confectionery and the local production of biscuits, margarine, batteries and bicycles was not insignificant.[61] After 1936 the emphasis shifted from light industry and consumer goods to heavy industry and the production of industrial goods. In early 1940, the colonial government announced an industrialization programme which would favour heavy industry. By the time of the Japanese invasion in 1942, the Dutch authorities had already established some of these planned heavy industries, notably for the production of metals, machinery and chemicals.[62]

1.3. Colonial Drain

Post-independence discourses on the economic effects of colonialism have been dominated by the theory of colonial drain. This theory is based on the fact that many colonies generated a trade surplus. The extent to which the value of exports in merchandise exceeded that of imports is regarded as a loss to the colonies and a gain for colonizers.[63] 'Colonial drain' is also the preferred argument by which to explain the poverty in and underdevelopment of post-colonial economies.[64] Historians in Indonesia have assumed that fabulous riches from the colony poured into the Dutch economy.[65] In Vietnamese historiography, the process of French colonization is described in terms of two

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60 Booth, *The Indonesian economy*, 41, 88.

61 Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 160-161.

62 H.Baudet and R.C. Carriere, 'Het Nederlandse bedrijfsleven in Nederlands-Indie/Indonesie, 1945-1958', *Oost-West: tijdschrift ter voorlichting over de Oost-West verhouding* 9 (1970) 65-70.

63 F.H.Golay, 'Southeast Asia; The 'colonial drain' revisited', in: C.D.Cowan and O.W.Wolters (eds), *Southeast Asian history and historiography; Essays presented to D.G.E. Hall* (Ithaca: Cornell University Press, 1976) 368-387; Van der Eng, *The 'colonial drain' from Indonesia,* 3.

64 See, for instance, Rama Dev Roy, 'Some aspects of the economic drain from India during the British rule', *Social Scientist* 3 (1987) 39-47; T.Mukerjee, 'The theory of economic drain; The impact of British rule on the Indian economy, 1840-1900', in K.E. Boulding and T.Mukerjee (eds), *Economic imperialism; Abook of readings* (Ann Arbour: Michigan University Press, 1972) 195-212.

65 This view was strongly supported by Maddison, who assumed that the trade surplus in the Indonesian merchandise could be equated to the 'drain' of funds from Indonesia to the Netherlands. A. Maddison, 'Dutch income', 645-670; Maddison, 'Dutch colonialism in Indonesia', 322-35.

phases of colonial exploitation: the first phase from 1897 to 1914 and the second from 1919-1929. Notwithstanding the essential fallacy which identifies colonial profits with trade surplus without deducting the services provided by foreign capital and labour[66] and the profits reinvested in the colony,[67] the 'drain' theory did substantiate the arguments for an immediate abolition of the colonial system of economy after independence. Fear of a continued 'economic drain' by Dutch colonialism was the main ideological basis behind the nationalist justifications for a radical nationalization of 'alien giant capital' in Indonesian in the early 1950s.[68]

Although the balance of trade of colonial Indonesia did change over time, throughout the entire late colonial period, the Netherlands Indies experienced a trade surplus of 38 per cent,[69] which rose as high as 75 per cent between 1913 and 1938.[70] The surplus of exports over imports was converted into a substantial surplus on the current account of the balance of payments, and this in turn financed the outflow of profits, interest and dividends. In the 1920s, the surplus on the current account amounted to 5 per cent of the estimated national income of the Indonesian Archipelago.[71] The bulk of the profits were remitted to the Netherlands, where they contributed about 9 per cent of the Dutch net domestic product (NDP),[72] that is as high as 14 per cent of the national income of the Netherlands.[73]

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[66] Van der Eng, *Economic benefits from colonial assets; the case of the Netherlands and Indonesia 1870-1958*. Groningen: Research Memorandum, Groningen Growth and Development Centre, 1998, 2; Van der Eng, *The 'colonial drain' from Indonesia*; P. van der Eng, 'Exploring exploitation; the Netherlands and colonial Indonesia 1870-1940', *Revista de Historia Económica* 16 (1998) 291-321.

[67] Golay, 'Southeast Asia', 371-372; P.J.Drake, 'Natural resources versus foreign borrowing in economic development', *Economic Journal* (82 (1972) 953-954 (951-962)

[68] Sutter, *Indonesianisasi,* 1124.

[69] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 143.

[70] Maddison, 'Dutch colonialism in Indonesia', 326.

[71] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 143.

[72] Maddison estimates that the total benefits remitted from abroad contributed 8.8 per cent of the Dutch NDP in 1911-1915, 10.9 per cent in 1926-1930, and 8.6 per cent in 1921-1938. A. Maddion, 'Dutch income', 645-670.

[73] J.B.D. Derksen and J. Tinbergen 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', *Maandschrift van het Centraal Bureau voor de Statistiek* 40 (1945), 210-216; S.L. van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen, 1945-1950*, Vol. VIII (The Hague: Martinus Nijhoff, 1979) 52.

In the reciprocal trade between colonial Indonesia and the Netherlands, the mother country always showed an important trade deficit and Indonesia a considerable surplus. The share of Indonesia in Dutch imports amounted to 14.5 per cent by the end of the First World War but dropped to 5.5 per cent during the 1920s and the 1930s, whereas exports to the colony from the Netherlands constituted only 3.5 per cent in the first decade of the twentieth century, reaching a peak at 9.5 per cent in the second decade, but falling to 7 per cent in the third decade. The share of the Netherlands in the total of Indonesian exports ranged from 16.5 to 32 per cent between 1900 and 1939. Imports from the Netherlands to Indonesia accounted for about 26.5 per cent between 1900 and 1930 and 17 per cent in the 1930s.[74] By 1914 Dutch imports from colonial Indonesia approached 200 million guilders, while the reverse flow of trade amounted to 150 million. In the five-year period 1915-1919, over 150 million guilders worth of merchandise flowed to the Netherlands, but Dutch exports to Indonesia were valued at only 80 million guilders. Even during the short period of Dutch trade expansion in the early 1920s, the surplus of the westbound flow of capital over the eastbound exceeded 20 million guilders.[75]

The commodity trade surplus of Indochina was much smaller. Between 1913 and 1938, the surplus of exports over imports was 23 per cent compared to the 75 per cent of the Netherlands Indies. Until 1913, the trade balance of Indochina was often in deficit, or displayed only a small surplus. By the end of the first period of colonial exploitation, the surplus was 31 million francs. This was on account of the large inflows of capital to Indochina in the late nineteenth and early twentieth century on both government and private accounts for the purpose of developing infrastructure and supporting the growing French bureaucratic presence. During the First World War the surplus increased fourfold, amounting to 86 million francs.[76] The most remarkable period of export expansion was between 1933 and 1937 when the surplus accumulated to

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[74] Van der Eng, *Economic benefits from colonial* assets, 6.
[75] Lindblad, ‘The economic relationship’, 110-11.
[76] Nguyễn Văn Khánh, *Cơ cấu kinh tế xãhội*, 56.

49 million piastres or 490 million francs (in the 1930s, the official rate was 1 piastre to 10 francs).[77] As noted above, about 50 per cent of exports from and 60 per cent of imports into Indochina originated from France. However, exports from Indochina accounted for only 4.1 per cent of the total French imports in 1938. In the same year, Indochina purchased 3.1 per cent of the total exports of the mother country.[78] The dependence of Indochina on the mother country was far greater than in the case of the Netherlands Indies.

The Chinese share in the 'drain' is difficult to calculate because of the long-standing Chinese settlement in Southeast Asia and hence a considerable part of the profits accruing from their businesses was ploughed back into them. Nevertheless, based on the remittances which the overseas Chinese sent to their families in China, a rough estimate can be made of the Chinese 'drain' on colonial Indonesia and French Indochina. By the Pacific War, the total investment of the Chinese in the Netherlands Indies and Indochina was respectively 5,600 million yen and 1,800 million yen, out of a total of 14,500 million yen for the whole of Southeast Asia.[79] In 1930 the Chinese remittances from Indonesia were estimated to be about 25 million guilders or 5.8 per cent of foreign Asian income in Indonesia.[80] In 1937, the overseas Fukienese in the Netherlands Indies and Annam (Central Vietnam) sent home remittances worth 5.5 million Yuan and 1.1 million Yuan, respectively. The next year, the amount increased to 10.8 million Yuan and 687,000 Yuan. The amount of the Amoy Chinese remittances was similar, those from the Netherlands Indies amounting to 8.7 million Yuan in 1936, 5.3 million Yuan in 1937 and 8.5 million Yuan in 1938. In contrast, the Amoy Chinese remittances from Annam were much smaller, reaching 331,000 Yuan in 1936, 133,000 Yuan in 1937 and 23,000 Yuan in 1938. The Bank of China, which had branches and agencies in Saigon, Hanoi, Batavia and other major cities in Southeast Asia, showed the greatest

[77] Nguyễn Văn Khánh, *Cơ cấu kinh tế xãhội*, 114; Robequain, *Economic development*, 306.
[78] Robequain, *Economic development*, 340.
[79] Hicks (ed), *Overseas Chinese remittances*, 190.
[80] Maddison, 'Dutch colonialism in Indonesia', 333.

absorption of the overseas Fukienese remittances. In 1936, for instance, the Bank of China received 5 billion Yuan from the Netherlands Indies and 632 million Yuan from Saigon.[81], Jean-Pascal Bassino argues that outward-bound remittances from the Chinese were an important factor in producing a large current account surplus for Indochina in the years 1936-1944.[82] The Chinese overseas remittances added to the massive amount of capital flows accruing to Europe creates the impression of a 'double drain', thwarting opportunities for economic growth in the colonies in the early twentieth century. Had more of these funds been retained in the colonies for investment in productive infrastructure and in education, the economic positions of Indonesia and Vietnam at independence might have been very different.[83]

2. The Japanese Occupation

Even before the Japanese attack on the Pearl Harbor on 7 December 1941, signalling the beginning of the Pacific War, the balance of imperial power in Southeast Asia had already changed. In September 1940, the Japanese army invaded the northern parts of Vietnam. This disruption was soon followed by an agreement with the French which allowed the Japanese to station troops in Indochina. The Japanese invasion of the Netherlands Indies took place in early 1942, despite desperate sporadic efforts to resist them by the Dutch colonial army. The Japanese deployed different strategies to govern the occupied territories. The French colonial administration was retained under Japanese command until March 1945,[84] whereas in the Netherlands Indies, Dutch

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[81]Hicks (ed), *Overseas Chinese remittances*, 287-288, 303-304.

[82] Bassino, Jean-Pascal, 'Public Finance in Vietnam under French rule, 1895-1954'in: Bassino, Jean-Dominique Giacometti and K.Odaka (eds), *Quantitative economic history of Vietnam, 1900-1990* (Tokyo: Hitotsubashi University, Institute of Economic Research, 2000) 335.

[83] The idea of 'double drain' is presented by Maddison and Anna Booth in the case of colonial Indonesia. This concept and their assumption of the future development of the colony without suffering colonial drainage are also appropriate to French Indochina. See: Anna Booth, 'Foreign trade and domestic development in the colonial economy', in: Booth, O'Malley and Weidemann (eds), *Indonesian economic history*, 284; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 151.

[84] Various factors explain the Japanese decision to retain French authorities in Indochina. The fall of France to Nazi Germany in May 1940 resulted in the establishment a French government in Vichy which collaborated with the Axis powers of Germany and Japan. Because the French colonial authorities in Indochina recognized the Vichy government, the Japanese authorities

officials were replaced by Japanese administrators or by Indonesians in some posts. During the short period of occupation, the Indonesian entrepreneurs were given the chance to participate in the economy which had hitherto been almost exclusively dominated by foreign nationals. The situation was different but it does not mean that in comparison to Vietnam, Indonesia suffered less during the Japanese occupation. Under the Japanese war economy, the strategic natural resources of all colonies were exploited to meet military needs. The economic exploitation by the Japanese worsened economic conditions in Vietnam and Indonesia. Compounded by the severe damage wreaked by warfare, this placed both Indonesia and Vietnam in an appalling economic condition at the time of independence.

2.1. Vietnam

Japan had already established diplomatic and commercial relations with the feudal regimes of Vietnam long before the intrusion of French colonialism in the late nineteenth century. During the colonial period, relations between Japan and Vietnam were hampered by the protectionist policy of the French colonial authorities. The upshot was that the economic activities of the Japanese in Vietnam and the trade between the two countries were both fairly insignificant. In the 1930s, there were only about 300 Japanese in Indochina, most of them were engaged in trade and transportation.[85] Coal, rubber, salt and occasionally rice were the principal Japanese imports from Vietnam, whereas only a small quantity of the Japanese industrial goods was exported to Vietnam. In 1939,

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were able to apply diplomatic pressure in both France and Indochina. Once the agreements allowing the Japanese to station troops in Indochina had been made, the Japanese saw no need to change the basis of their occupation even after December 1941. By then they were preoccupied with establishing their presence in other areas. Consequently, the Japanese continued to recognize the French administration and maintain diplomatic relations with it, as long as diplomatic pressure was sufficient to ensure that Japanese military needs were fully met. This situation lasted until March 1945, even after the fall of the Vichy government in August 1944.

[85] Murakami Sachiko, *Japan's thrust into French Indochina 1940-1945* (PhD dissertation, New York University, New York, 1981) 41.

Indochina accounted for only 0.1 per cent of Japanese exports and 0.9 per cent of imports.[86]

Vietnam became a country of strategic importance to Japan during the Second Sino-Japanese war, which broke out in 1937. Most war materials were supplied to China through Vietnam by two routes, the Haiphong-Yunnan railway and the Hanoi-Đồng Đăng railway. Repeated demands by the Japanese to close the transit of military supplies to China were rejected by the French authorities. Fighting eventually broke out when the Japanese attacked the French garrisons in Đồng Đăng and Lạng Sơn on 22 September 1940. Fighting lasted several days before the French Vichy government signed an agreement allowing Japanese troops to be stationed in northern Vietnam. The Japanese advance into southern Vietnam was carried out in mid-1941, resulting in another agreement, recognizing the occupation of Japanese troops of southern Vietnam. Finally, in December 1941, the French Vichy colonial government in Hanoi signed a new agreement with the Japanese on a common defence of Indochina. Accordingly, the Japanese forces were given the right to use all the facilities of the French forces throughout Indochina in their operations, maintenance and installations. The French forces would take all possible steps to co-operate with the Japanese forces for the defence of Indochina. Specifically, the French forces took charge of the defence of northern Indochina, while the defence of southern Indochina was the responsibility of the Japanese forces.[87] The headquarters of the Southern Region Army, commanded by General Terauchi Hisaichi, was based in Saigon. Although the French maintained the sovereignty in Indochina, the agreement of December 1941 guaranteed that the country was now under control of the Japanese army. Forthwith, the existing administrative system of French colonialism in

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[86] Andrew Roth, *Japan strikes South; The story behind French Indochina's change of masters* (New York: Institute of Pacific Relations, 1941) 108.
[87] Sachiko, *Japan's thrust into French Indochina*, 366.

Indochina had to be tailored to satisfy all Japanese demands, whether military or economic.[88]

Before its occupation of the northern parts of Vietnam, Japan had already drawn up a plan for the exploitation of Indochina resources. The 'Outline of Economic Counter-Plans for the Southern Region', issued by the Japanese government on 6 August 1940, stressed the necessity of achieving a self-sufficient Greater East Asia Co-Prosperity Sphere led by Japan. Indochina was considered part of the 'vital zone', in which Japan endeavoured to use local capital and materials as far as possible to acquire goods and materials. By and large, the Japanese economic policy in Indochina was twofold. The principal aim of Japan was to obtain essential foodstuffs and such raw materials as rubber, coal and other strategic materials in exchange for the Japanese manufactured products with which it was then overstocked because of the trade embargo on it imposed by the United States and Great Britain. No less importantly, Japan also wanted to establish a strong economic foothold in Indochina in preparation for the realization of its dream: the autarkic Greater East Asia Co-prosperity Sphere.[89] The role of Indochina in the Greater East Asia Co-prosperity Sphere was clarified in a document entitled 'Policy Measures for Economic Expansion in French Indochina', issued on 3 September 1940. It called for a guarantee of Indochinese exports of rice, coal, apatite, manganese, industrial salt, tin rubber, zinc and silica, which would allow it to achieve independence in resources from the United States and Britain. To secure financing for the import of these goods, Japan persuaded the Bank of Indochina to offer credit on advantageous terms.[90]

[88] For a detailed process of the Japanese occupation of Indochina, see: Sachiko, *Japan's thrust into French Indochina*; John E. Dreifort, 'Japan's advance into Indochina, 1940; The French response', *Journal of Southeast Asian Studies* 2 (1982) 279-295.

[89] Sachiko, *Japan's thrust into French Indochina*, 386-387; Yukichika Tabuchi, 'Indochina's role in Japan's Greater East Asia Co-prosperity Sphere'; A food-procurement strategy', in: Motoo Furuta, Takashi Shiraishi (ed.) *Indochina in the 1940s and 1950s* (Ithaca:Cornell University Press, 1992) 87-103.

[90] Lê Mạnh Hùng, *The impact of World War* II, 107.

One of the first things the Japanese did after entering Vietnam was to confiscate those Chinese businesses which had been trading with China.[91] The Japanese pressured the French authorities to allocate a portion of local revenue to support the Japanese forces in Indochina, an extraction which had accumulated to 723 million piastres by March 1945.[92] In May 1941, a series of documents was signed which gave Japan a most favoured nation status, both as a customer for Indochinese products and as a supplier of goods into Indochina.[93] The French agreed to export 700,000 tons of rice and 15,000 tons of rubber to Japan in 1941, the payment to be offset by exports from Japan to Indochina.[94] A group of 150 Japanese technicians was sent to Vietnam charged with the mission of reorganizing agricultural, forestry, mining and hydroelectric power enterprises and investigating the possibility of the construction of a railway between Saigon and Rangoon.[95] The outbreak of the Pacific war obliged Japan to modify its economic policy towards Vietnam. Self-reliance was emphasized with the exception of the trade with Japan. Measures were taken to restrict and control consumption, as well as to encourage import substitution to offset the consequences in the Allied embargo. All imports and products manufactured from imports were placed under tight government control.

By May 1942, after the successive surrenders of the Americans in the Philippines, the British in Malaya and Burma, and the Dutch in the Netherlands Indies, the Japanese had essentially gained control of all of Southeast Asia. Many of the natural resources of Vietnam, including rubber, tin and zinc could now be obtained more easily and cheaply from Malaya and the Netherlands Indies. Rice continued to be the principal products Japan required from Vietnam, supplemented by a number of other products unavailable in other

[91] Later, when the Japanese moved to southern Vietnam, many Chinese firms there were also taken over by the Japanese army. It was reported that thousands of Chinese residents in Saigon left for Singapore and Taiwan in late 1941 to escape the Japanese anti-Chinese actions. Virginia Thompson, 'Japan in Indochina', *Far Eastern Survey* 10 (1941) 271-272.

[92] David G. Marr, 'World War II and the Vietnamese revolution', in: Alfred W.McCoy (ed.) *Southeast Asia under Japanese occupation* (New Haven: Yale University Press, 1980) 133.

[93] Sachiko, *Japan's thrust into French Indochina*, 223.

[94] The total production of rubber in 1941 was estimated at 60,000 tons. Le, *The impact of World War II*, 109; Sachiko, *Japan's thrust into French Indochina*, 221-222.

[95] Marr, 'World War II and the Vietnamese revolution', 133.

colonies. Moreover, in preparation for the realization of an autarkic Greater East Asia Co-Prosperity Sphere, the Japanese government tightened its control over the occupied territories. In December 1942, the Japanese signed a new agreement with the French authorities, which allowed the Japanese to become more directly involved in the exploitation of Vietnamese economic resources.[96] Japanese firms were encouraged to invest in Vietnam.

Significant amounts of investment by the Japanese in Vietnam began in 1941 with a total capital of 49 million piastres for the whole of Indochina compared to 12.5 million piastres in the previous year. This amount was reduced to 6.5 million piastres in 1942 as a consequence of the isolation of the country because of the escalation in hostilities, but rose again to 43 million piastres in 1943, which accounted for one-quarter of the total investment in Indochina in that year.[97] The number of Japanese firms operating in Indochina increased from fourteen by 1940 to twenty-four in August 1941, and thirty-six at the beginning of 1942. The largest company was probably Mitsui Bussan Kaisha, strongly linked to the Japanese Navy, which was given the monopoly on rice imports to Japan and was engaged in various manufacturing activities, including timber, shipbuilding and foundry.[98]

The purpose of the majority of the manufacturing activities launched by the Japanese in Vietnam was to supply the needs of the Japanese armed forces. Timber-getting was given the highest priority, as the Japanese needed wood to construct ships, bridges, buildings and railway links. In May 1941, six Japanese companies, including Mitsui, Mitsubishi, Sanko, Ataka, Taitaku and Nakamura, formed a consortium to invest in the timber industry, bringing total timber production to 3 million cubic metres in 1941. Production increased to 3.5 million cubic metres in 1942, but declined to around 1 million cubic metres in 1943 and 1944, supplemented by about 4,000 tons of pine resin.[99] Timber and pine resin were principally used in shipbuilding, an industry which the Japanese

[96] Lê Mạnh Hùng, *The impact of World War II*, 183.
[97] Sachiko, *Japan's thrust into French Indochina*, 404.
[98] Lê Mạnh Hùng, *The impact of World War II*, 187-188.
[99] Lê Mạnh Hùng, *The impact of World War II*, 128, 232.

government was trying to stimulate in order to replace the ships lost to enemy action. In 1943, the Japanese government drew up a shipbuilding programme for Vietnam, stating that ships were to be constructed as sailing vessels of 250 tons with an auxiliary power. Another programme was implemented in early 1944 and involved four companies, Ataka, Misubishi, Mitsui and Koan Docks. It planned to construct 165 ships with a total capacity of 27,200 tons. The sites chosen to build these ships were Haiphong, Vinh and Saigon. However, because of the shortage of capital investment only a small number of ships had been completed by the end of 1944.[100]

Apart from the timber industry, Japanese companies invested in little else in the manufacturing sector in Vietnam. In April 1943, the Japanese government did draw up a programme for the expansion of the cotton industry in Indochina. It was designed to make the army and the people of Indochina 50 per cent self-sufficient in clothing. Japan decided to supply Indochina with 80,000 Japanese spinning machines and 3,000 looms. Apparently it languished as by the end of 1943 only one Japanese spinning-mill and one weaving-mill had been built in Saigon and Tonkin respectively. More Japanese investment went instead to the manufacture of the jute bags required for the transportation of rice. The rubber industry also attracted some attention from the Japanese. In May 1944, three Japanese companies, Mitsui, Mitsubishi and Nomura, prepared plans to produce tyres. Other factories founded by the Japanese included a steelworks in Saigon established by Mitsui to produce parts for the Japanese Navy in 1943.[101] In a few instances, the Japanese co-operated with the French and the Vietnamese in the setting up of small manufacturing concerns and retail shops to compete with the Chinese.

Unsurprisingly, given their war machine, the Japanese were particularly interested in mining. Nevertheless, they only took over those enterprises in which production was still below par for their requirements, including the extraction of phosphate, manganese, chromite and apatite. The old-established

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[100] Lê Mạnh Hùng, *The impact of World War II*, 209-210.
[101] Lê Mạnh Hùng, *The impact of World War II*, 206, 212.

minerals, such as coal, zinc and tin were left in French hands.[102] Generally, the Japanese were content to co-operate with the existing French mining companies. For instance, in 1941, the *Compagnie Indochinoise de Commerce et d'Industrie* co-operated with the French companies in establishing three joint ventures, namely the *Compagnie de Chrome de l'Indochine* (CHROMIC), the *Compagnie Indochinoise d'industrie minière* (CIM) and the *Société d'exploitation des phosphates de l'Indochine* (SIPI). These companies concentrated on exploiting such strategic minerals as chromium, manganese and iron ore, as well as some phosphate to export to Japan. Other Japanese enterprises active in the mining sector included the South Seas Fertilizer, Great Japan Phosphate and the Taiwan Fertilizer Companies.[103] The production of iron ore rose from 53,300 tons in 1941 to 82,000 tons in 1943, and the mining of phosphate rock reached a high point of 98,8000 tons by the end of 1942.[104]

Nevertheless, the prime source of interest for the Japanese in Vietnam was rice. The Mitsui Bussan Kaisha collected about 1 million tons of rice annually from Indochina. The grain was exported not only to Japan, but also to other parts of Greater East Asia. In fact, Vietnam was the largest supplier of rice to Japan, accounting for 37 per cent of Japanese rice imports in 1942 and 56 per cent in 1943.[105] In 1942, the Japanese companies began to increase their investment in the cultivation of such fibre-yielding plants as cotton, jute and flax. The area under cultivation with cotton increased from 20,000 hectares in 1942 to 52,000 hectares in 1944.[106] To encourage the cultivation of jute, which was indispensable to the transportation of rice, a Japanese Jute Cultivation Association was established in early 1943 with twenty-two associated Japanese companies under the direction of the Japanese embassy in Hanoi. The Association was said to have cultivated about 10,000 hectares in 1943. This area was expanded to 15,000 hectares in 1944. The Japanese also forced Vietnamese

[102] Sachiko, *Japan's thrust into French Indochina*, 391.
[103] Lê Mạnh Hùng, *The impact of World War II*, 187.
[104] Lê Mạnh Hùng, *The impact of World War II*, 193, 233.
[105] Bùi Minh Dũng, 'Japan's role in the Vietnamese starvation of 1944-1945', *Modern Asian Studies* 29 (1995) 597.
[106] Bùi Minh Dũng, 'Japan's role', 591.

peasants to grow jute at the expense of their maize and rice crops, arousing resentment among the indigenous population. Turning to hemp and flax, Japanese production in 1943 was said to be about 6,000 tons from about 2,210 hectares. The area was expected to expand to 3,300 hectares in 1944.[107] To obtain vegetable oils, Japanese companies also invested in such oil-yielding plants as the castor beans, sesame plants and peanuts. The two largest companies cultivating oleaginous plants were the Taiwan Takushoku and Mitsubishi. The area under the cultivation with peanuts, castor beans and sesame plants grew rapidly from 33,000 hectares in 1940 to 65,000 hectares in 1942, reaching 85,000 hectares by the end of 1944.[108] The increasing cultivation of fibrous and oleaginous plants at the expense of rice and maize fields, rising demands for rice by the Japanese authorities, aggravated by bad weather, were the main reasons for the shortage of rice in Vietnam in 1944 and 1945. The terrible famine in North and Central Vietnam in early 1945 cost the lives of about 2 million people.[109]

This summary leaves no doubt that Japan had become the foremost trading partner of Indochina. In 1942 and 1943, it bought about 95 per cent of all Indochinese exports and provided about 77 per cent of all imports into Indochina. The total value of exports to Japan jumped 25 per cent between 1941 and 1943, from 160 million piastres to 200 million, while imports from Japan in the same period increased almost fourfold from 34 million piastres to 126 million. From late 1943, Indochinese trade with Japan declined steeply, dropping to only 79 million piastres of export value and 34 million of import value in 1944.[110] Apart from Japan, Indochina pursued only a little trade with Thailand and China. Trade with France had been completely halted since late 1941 as the result of intensified embargo by the Allies.

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[107] Sachiko, *Japan's thrust into French Indochina,*189.
[108] Bùi Minh Dũng, 'Japan's role', 459.
[109] There are different reports about the total number of deaths caused by the starvation in Vietnam in 1944 and 1945. Some indicate 2 million people, others estimate the total to be fewer than 1 million victims. See the discussion on the 1945 famine in Vietnam in: Bui, 'Japan's role', 573-618.
[110] Lê Mạnh Hùng, *The impact of World War II*, 193-194, 239-241.

Except for the take-overs of the Haiphong Cement Factory and two distilleries in Saigon-Cholon in early 1944, the Japanese did not try to control French businesses during the occupation. Nevertheless, because of the isolation of the country, the economic activities of the French in Indochina depended entirely on trade with Japan. Furthermore, the lack of imported materials and equipment forced the French companies to switch to the production of import substitutions, especially industrial alcohol as a replacement for petrol. Alcohol production jumped from 5,000 tons before the war to 15,500 tons in 1942.[111] Other products attracting the French investment included coal, charcoal, zinc, salt, gypsum, soda and other chemicals used in manufacturing soap and matches. Under such conditions the handicraft sector grew significantly and developed rapidly. Indigenous handicraft activities concentrated on textile fabrics and such small consumer objects as stationery, pens, and ink and oil lamps. The intensive Allied bombing of North and South Vietnam in 1944-1945 caused not only a great loss of life, but also severe damage to economic establishments and a disruption of the communication system. By February 1945, the Vietnamese economy was in a state of imminent collapse.[112]

On 9 March 1945, the Japanese army staged a *coup de force*, overthrowing the French in Indochina. Two days later, on 11 March, the Japanese asked Bảo Đại, the Emperor of Annam, to declare the independence of Vietnam. By this action, Vietnam formally became independent, but in reality the Japanese retained the old French political structure essentially intact, simply replacing all of the top French officials with the Japanese. Middle-and lower-ranking French officials, especially in technical services, were allowed to keep their positions until July 1945.[113] Even after its formation in April 1945, the Trần Trọng Kim government initially controlled only Annam. North Vietnam was not returned to the Vietnamese government until May and South Vietnam

[111] Marr, 'World War II', 134.
[112] Lê Mạnh Hùng, *The impact of World War II*,227.
[113] More information about the Trần Trọng Kim government see Phạm Hồng Tung, *Nội các Trần Trọng Kim; Bản chất, vai trò và vị trí lịch sử* [Trần Trọn Kim's cabinet: Its nature and historical role] (Hanoi: Chính trị Quốc gia Publishers, 2009); Phạm Hồng Tung, *Lịch sử cuộc cách mạng Tháng Tám năm 1945 ở Việt Nam* [A History of the August Revolution of 1945 in Vietnam] (Hanoi: Đại học Quốc gia, 2013) 146-153.

remained under direct Japanese rule until August 1945. Control of the economy remained in the hands of the Japanese, a fact clearly underlined when the Bank of Indochina was taken over by the Yokohama Specie Bank. All principal French industrial concerns were put under Japanese supervision with directives to convert all available equipment to satisfy the production of material of use to the Japanese forces.[114]

2.2. Indonesia

In contrast to the situation in French Indochina, Japan had enjoyed a close economic relationship with the Netherlands Indies during the colonial period. The evidence for this is the large share of Japan in the external trade of the Netherlands Indies cited above, as well as the important position of colonial Indonesia in the Japanese economy. By 1926, there were thirteen Japanese firms operating in the Archipelago with a total capital of 1.2 million yen or 1.4 million guilders. Indonesia accounted for 10.7 per cent of the total export value of Japanese textiles, 9.8 per cent of ceramics and 7.2 per cent of knitted articles. Japanese imports of sugar and oil depended heavily on the supply from the Netherlands Indies. In 1926, 82.8 per cent of Japanese imports of sugar, 55.1 per cent of petroleum and benzine and 23.4 per cent of kerosene came from Indonesia.[115] Although the protectionist policy adopted by the Dutch colonial government in the 1930s did diminish the volume of imports from Japan,[116] the Japanese economic activities in the Netherlands Indies appeared to be little affected. The total number of the Japanese spread over the Archipelago was 6,800 in 1930 and 6,500 in 1939.[117] Japanese exports to the Netherlands Indies

[114] Ralph B. Smith, 'The Japanese period in Indochina and the Coup of 9 March 1945', *Journal of Southeast Asian studies* 2 (1978) 285.
[115] Post, *Japanse bedrijvigheid in Indonesië*, 116, 312-313.
[116] For example, the cement imports from Japan to Indonesia between 1932 and 1936 fell from 96.5 per cent to 58 per cent and cambric imports from 81 per cent to 42.5 per cent. Japanese sarongs were almost shut out of the market. By 1937, the Japanese share of imports in the Netherlands Indies had been cut from 31.9 per cent to 15 per cent. Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 158-159.
[117] Post, *Japanse bedrijvigheid in Indonesië*, 112, 250.

still exceeded 6 million guilders in 1939 and the reverse flow of trade amounted to 1.2 million guilders.[118]

Raw materials, especially oil, bauxite and rubber became increasingly vital for the Japanese war efforts. At the outbreak of the Pacific War, it was estimated that Japan would require 7.9 million tons of oil per year in order to wage a war with the Allied forces. However, by 1941, Japan had a reserve of only 9.4 million tons of oil, barely enough for one year.[119] In preparation for a protracted war against the Allies, Japan wanted to raise the level of its oil reserves by demanding a bigger share in the oil export of the Netherlands Indies. Following the German occupation of the Netherlands in Europe, in September and again in December 1940, Japan sent missions to negotiate this matter in Batavia. Not only did the Dutch colonial government not acquiesce in the demands, it threatened sever trading ties with Japan. In July 1941, Japan decided to continue its expansion to the south. South Indochina immediately came under Japanese occupation, and the Japanese pressed on. The Netherlands Indies, rich in strategic materials, was the main target on which the Japanese military had set its sights.[120] It should surprise nobody that the oil installations at Tarakan and Balikpapan in Kalimantan and Palembang in South Sumatra were the first locations in the Netherlands Indies captured by the Japanese in January and February 1941. The Japanese landings in Java took place on 1 March 1942 after their triumph over the Allied Navy in the Battle of the Java Sea on 27 February 1942. The armed resistances by the Royal Netherlands Indies Army (Koninklijk Nederlandsch-Indisch Leger, KNIL) lasted ten days before the Dutch Commander-in-Chief, Lieutenant-General H.ter Poorten surrendered to the Japanese army on 9 March 1942.[121] With the exception of some sporadic guerrilla activities by soldiers of the Dutch colonial army, by the

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[118] BI, *Het handelsverkeer tussen Nederland en Japan*, inventory number 1587.

[119] L.de Jong, *The collapse of a colonial society; The Dutch in Indonesia during the Second World War* (Leiden: KITLV Press, 2002) 29.

[120] H.J.van Mook, *Nederlandsch-Indie onder de Japansche bezetting;Zeven toespraken gehouden over Radio Oranje in den zomer van 1944* (London: The Netherlands Publishing Company, 1944) 16-17.

[121] De Jong, *The collapse of a colonial society*, 39.

end of 1942 the Japanese the Japanese had by and large completed their conquest of the Netherlands Indies.[122]

The administration of the Netherlands Indies was entrusted to three Japanese military organizations, the 16th Army in Java and Madura, the 25th Army in Sumatra, and the Navy in Kalimantan and the Great East (Sulawesi, Maluku, the Lesser Sunda Islands and West New Guinea).[123] Following the strategy set out in such official documents as the 'Outline of Economic Counter-Plans for the Southern Region' and the 'Principles for the Administration of the Occupied Areas', the general task facing these occupation forces was to facilitate the acquisition of resources vital to the prosecution of the war and to establish an autarkic Greater East Asia Co-Prosperity Sphere.[124] Everything had been prepared for the administration of the economy in the newly occupied areas. An Instruction entitled 'Principles of the Disposition of Military Administration in the Occupied Areas' dated 14 March 1942, laid down that enemy property, namely that belonging to Americans, British and Dutch, was to be impounded and taken into custody. Enemy property was identified as businesses, services and investments owned by public bodies, nationals of the enemy states, including those of mixed blood, namely Eurasians, and legal bodies with head offices based in the enemy countries. The control of enemy property in Java and Sumatra was entrusted to an administrative organization, the Military Administrator's Department or *Gunseikanbu*. This Department was organized along the lines of the sectors of the economy, including finance, industry, agriculture and transportation. In the Navy-controlled areas, the Navy co-operated with the *zaibatsu* (Japanese state-led conglomerates) in its efforts to deal with matters impinging on production and trade.[125] There were 333 *zaibatsu* out of the total of 726 companies

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[122] De Jong, *The collapse of a colonial society*, 29.
[123] De Jong, *The collapse of a colonial society*, 80.
[124] Shigeru Sato, *War, nationalism and peasant; Java under the Japanese occupation 1942-1945* (London: Allen&Unwin, 1994) 11.
[125] Peter Post, William H.Frederik, Iris Heidebrink, and Shigeru Sato (eds), *The encyclopedia of Indonesia in the pacific War* (Leiden: Brill, 2010) 222.

operating in the Navy areas, in comparison with 266 *zaibatsu* and another 263 companies of various kinds in the Army areas.[126]

The sector most immediately affected by the Japanese policy was oil. All oil installations in the Netherlands Indies were placed under the direct management of the armed forces. Attempts were made to resume oil production by summoning people who had been employed at the oil installations back to work. Some Dutch and other European engineers were even temporarily released from internment.[127] In April 1942, the Japanese government sent 4,600 technicians to the oil-fields in the Netherlands Indies to repair the damages caused by the Dutch scorched-earth tactics. Within a few weeks, the Japanese authorities were able to resume the operations at the oil installations in Tarakan, Balikpapan and Palembang. Oil production between April 1942 and March 1943 amounted to 4 million tons, of which 40 per cent were exported to Japan. From April 1943 to March 1944, the Japanese produced 7 million tons of oil, almost reaching the pre-war level of 7.9 million tons. Over 30 per cent of this amount was shipped to Japan. The remaining oil, plus 5.5 million tons produced in the period April 1944-March 1945, failed to reach Japan on account of the intensification of the oil held back to supply the Japanese administration and armed forces in the Netherlands Indies, as well as in other occupied territories.[128]

Although oil production was exclusively controlled by the Army and Navy, private Japanese companies were encouraged to invest in other mining industries. Mitsubishi ran the tin-mines on Bangka and Belitung, Mitsui was involved in coal and bauxite mining, and Sumitomo was assigned the nickel-mines in Sulawesi. Diamond cutting in Martapura, South Kalimantan, was controlled by Nomura, which had been present in the region for several years.[129] Bauxite, the bulk of which was produced on the islands belonging to Riau and

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[126] Hikita Yasuyuki, 'Japanese companies' inroads into Indonesia under Japanese military domination', in: Peter Post and Elly Touwen-Bouwsma (eds), *Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 160-161.

[127] They were interned again in early 1944 after the arrival of Japanese officials and the course of the war had turned clearly against Japan.

[128] De Jong, *The collapse of a colonial society*, 236.

[129] Lindblad, *Bridges to new business,* 52.

Johor was vital to the Japanese aluminium industry. During the occupation, Mitsui produced 1.4 million tons of ore, most of which was shipped to Japan.[130] Both the Ombilin and Bukit Asam coal-mines were placed under control of Mitsui. Nevertheless, owing to the shortage of manpower, the output of these mines was very low. In 1942, the Ombilin mine produced 228,724 tons of coal, but its production dropped drastically to 92,878 tons in 1943, 72,780 tons in 1944, and only 50,324 tons in 1945.[131] A substantial quantity of the coal produced in Sumatra was exported to Java and Malaya, mainly for the use in gasworks and on the railways.[132] As coal was vitally important to the war economy, the Japanese authorities made vigorous attempts to recruit engineers in Japan, as well as finding European internees and indigenous labourers to work in the coal-mines. Many machines in Bangka tin-mines were transferred to coal- mines.

On 11 April 1942, the military administration closed all financial institutions owned by foreign nationals in Java. These included four Dutch banks (De Javasche Bank, Nederlandsch-Indische Handelsbank, Nederlandsch-Indische Escomptobank and Nederlandsche Handel-Maatschappij), two British-owned banks (the Chartered Bank and the Hongkong & Shanghai Banking Corporation) and three Chinese owned banks (Bank of China, Overseas Chinese Banking Corporation and Bank of Batavia. Their assets and activities were taken over by the Yokohama Specie Bank, the Taiwan Bank, Mitsui Bank and the Kanan Bank.[133] The Algemeene Volkscredietbank (People's Credit Bank) and the Post Office Savings Bank were allowed to do business, albeit under a Japanese name, the Syomin Ginkō and Chokin Ginkō, respectively. Both the Yokohama Specie Bank and the Taiwan Bank acted as agents for the Nanpo Kaihatsu Kinko (Southern Development Bank), which had been founded in March 1942 and served as the central bank in the Greater East Asia Co-prosperity Sphere. In August 1943, the Yokohama Specie Bank was

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[130] De Jong, *The collapse of a colonial society*, 236.
[131] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 263-266.
[132] Miyamoto Shizou, 'Economic and military mobilization in Java, 1944-1945', in: Anthony Reid and Oki Akira (eds), *The Japanese experience in Indonesia, 1942-1945* (Athens: Ohio University Press, 1986) 238.
[133] BI, Report of the liquidation production of enemy banks in Java, inventory number 2977.

commissioned as the bank of issue in Java and Sumatra, the Taiwan Bank provided the same service in the Navy-occupied areas.[134]

The Japanese applied different strategies to manage agricultural estates. Because rubber industry had a vital military function, initially the military administration kept its direct management in its own hands. In July 1942, the management was handed over to the Agricultural Estates Management Corporation (Saibai Kigyô Kanri Kôdan, SKKK), an organization responsible for the supervision of all plantations, except sugar. Nevertheless, the army continued to exercise tight control over rubber production. The tapping of rubber trees was prohibited unless it had been ordered by the local military commanders.[135] It was only in May 1944 that the army granted control of rubber and other agricultural estates under the supervision of the SKKK to private Japanese enterprises.[136] The small number of Dutch managers, who had been retained to supervise day-to-day operations of rubber estates, were now completely replaced by the Japanese.[137] The poor management of the Japanese military authorities and the professional ignorance of the Japanese about the rubber industry were the main reasons for a sharp decline in rubber production in Indonesia, falling from 99,000 tons in 1940 to only 24,000 ton in 1944.[138]

Since sugar played a less direct role in the war economy, the Japanese army exercised less direct control over its production. Initially, sugar estates were managed by the Federation of the Sugar Industry Corporation (Tōgyō Rengōkai, TRK). In November 1942, the TRK transferred the control of all sixteen former Dutch sugar estates in Java to six Japanese corporations.[139] These six companies, in conjunction with the Oei Tiong Ham and two other Indonesian sugar estates, controlled the entire production of sugar in Java.[140] As

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[134] Shibata Yoshimasa, 'The monetary policy in the Netherlands East indies under the Japanese administration', in: Peter Post and Elly Touwen-Bouwsma (eds), *Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 117-202.

[135] Lindblad, *Bridges to new business*, 49.

[136] Peter Keppy, *Sporen van vernieling; oorlogsschade, roof en rechtscherstel in Indonesië, 1940-1957* (Amsterdam: Boom, 2006) 140-141; Post, Frederik, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 225.

[137] Peter Keppy, *Sporen van vernieling,*142.

[138] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 227.

[139] Peter Keppy, *Sporen van vernieling*, 142.

[140] The share of sugar production in Java was as follow: Dai Nippon Seito Kaisha (31.52 per cent), Taiwan Seito Kaisha (21.41 per cent), Meiji Seito Kaisha (17.81 per cent), Ensuiko Seito

on rubber estates, Dutch supervisors were ordered to remain and continue running the sugar estates until new managers arrived from Japan. As the transfer of management could be achieved very quickly, by August 1943, all Dutch employees on sugar estates had been interned.[141] Under the management of the Japanese companies, sugar production declined dramatically, from 1.3 million tons in 1942 to 680,000 tons in 1943, 500,000 tons in 1944 and a paltry 30,000 tons in 1945.[142] Many sugar refineries were converted so that they could produce butyl alcohol from sugar-cane. This substance was mixed with petrol to power aeroplane engines. The Japanese also converted land previously used for growing sugar-cane to plant food crops and cotton. Tobacco fields were switched to the cultivation of hemp, needed to manufacture jute bags. These efforts corresponded with the general policy of the Japanese military authorities which was to encourage self-sufficiency at each level of administration.[143]

Japanese investment in manufacturing served no purposes other than to achieve self-sufficiency and to meet the needs of the armed forces.[144] The manufacture of textiles was especially important as the local production of cloth could reduce imports from Japan. After the pacification of Java, the *Gunseikanbu* took over all four textile factories and entrusted their management to Japanese companies. The *Gunseikanbu* also tried to expand these factories by introducing machines and experts from Japan, and to raise textile production by concentrating on plain manufactured textiles and by encouraging the cultivation of cotton. Military requirements had number one priority and what was left was used to meet civilian needs.[145] As the import of materials from Japan gradually became impossible, the Japanese authorities were forced to release stockpiled

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Kaisha (12.32 per cent), Nanyo Kohatsu Kaisha (7.29 per cent), and Okinawa Seito Kaisha (2.92 per cent), Oei Tiong Ham Concern (3.14 per cent), Mangkoenergaran (2.94 per cent) and Tjandi (0.65 per cent). T.F.H.Postma, J.W.d'Hane and J.V. Von Meijenfeldt, *De Javasuikerindustrie gedurende de Japansche bezetting* (Batavia: Departement van Economische zaken in Nederlandsch-Indië, 1946) 16.

141 Postma, d'Hane and Meijenfeldt, *De Javasuikerindustrie*, 10.

142 Postma, d'Hane and Meijenfeldt, *De Javasuikerindustrie*, 14.

143 Lindblad, *Bridges to new business,* 48.

144 Hikita Yasuyuki, 'Japanese companies' inroads into Indonesia under Japanese military domination', in: Peter Post and Elly Touwen-Bouwsma*, Japan, Indonesia and the war; Myths and realities* (Leiden: KITLV Press, 1997) 139.

145 W.H. Frederick, *Visions and heat; The making of the Indonesian revolution* (Athens: Ohio University Press, 1989) 127-128.

reserves. Since virtually none of the existing stock remained in the hands of indigenous people, the textile shortage reached a point at which the population had to utilize gunny sacks for clothes.[146] As the economic situation was so bad, looting and robbery were not uncommon during the Japanese occupation. It was reported that in 1944, the factories in West Java were deprived of thousands of handlooms.[147] The rice-mills and shops owned by the Chinese were also the frequent targets of Indonesian attacks.[148]

The Japanese authorities desperately needed wooden ships both for the transportation of military supplies and raw materials to Japan and for carrying supplies within the Archipelago. The plan was to construct 700 ships in Java, 130 ships in Sumatra and eighty ships in Northern Kalimantan whose total tonnage would add up to 138,000 by 1944. Factories to produce engines for the ships were also built in Java and 215 engineers from Japan were recruited to come to Java to work in them. However, because of the shortage of engines for the ships and the dearth of skilled labourers, by June 1944, only twenty-four ships had been completely finished, 282 launched and 106 were still under construction.[149] Other Japanese investments in manufacturing in Indonesia included a small steel works in Kalimantan, a number of printing houses and beverage factories in Java and, importantly, enlarged investment in the cement factory in Padang, West Sumatra.[150]

The war economic policy of the Japanese at war undoubtedly struck a fatal blow at the heart of the Netherlands Indies economy, which had hitherto depended heavily on the world market. The traditional export markets in Europe and North America were cut off and Japan could only absorb a small proportion of Indonesian output. The reverse trade suffered even more damage since Japan was in no position to provide machines and spare parts, or indeed any

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146 Shizou, 'Economic and military mobilization', 248.
147 Lindblad, *Bridges to new business,* 51.
148 Sato, *War, nationalism and peasant*, 115; Mary Somers Heidhues, 'Anti-Chinese violence in Java during the Indonesian revolution, 1945-1949', *Journal of Genocide Research*, 3-4 (2012) 383.
149 Shizou, 'Economic and military mobilization', 241.
150 Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 242.

intermediate materials, such as chemical products, to help develop manufacturing. Textiles and clothing were the main products imported from Japan to the Netherlands Indies with 57 per cent of total imports in 1942 and 40 per cent in 1943. The second biggest group consisted of guns, vehicles and metal production, accounting for 19 per cent in 1942 and 26 per cent in 1943. Trade was far more intensive the other way around. Oil occupied 67 per cent of Japanese imports from the Netherlands Indies in 1942 and 47 per cent in 1943. Bauxite and metallic ores accounted for about 16 per cent of exports from the Netherlands Indies to Japan in 1943. In that year, Japan obtained 80 per cent of the trade surplus of the Netherlands Indies. Trade between the two countries became difficult in 1944 and had ground to a virtual halt by 1945.[151]

The seeds of the destruction of the colonial economy were also present in the enforced crop conversion. As the market outlets for perennial crops dried up, many tea, coffee, rubber, sugar and other plantations in Java, Sumatra and Borneo were converted to cultivate food crops or to grow the ramie, hemp and castor beans required by the Japanese. The acreage of land used for cultivating tobacco shrank by three-quarters.[152] By comparing with the years 1937-1941, Burger summarizes the collapse of production in the Netherlands Indies as a result of the Japanese occupation as follows: 'Commercial agriculture came to a virtual halt. Tree crops were severely affected by years of neglect, although rubber was an exception because the trees benefited from not be tapped. Of all the cash crops grown by the local population, 75 per cent of the pepper was lost on South Sumatra and 99 per cent on Bangka. […] Of the kapok trees planted, 30 per cent were felled and the rest deteriorated. On South Celebes half of the coffee was lost through neglect. The Western agricultural concerns were practically all closed down. The cultivation of annual crops, such as sugar, was almost entirely halted. […] Many commercial plantings of perennial crops were lost because they were cut down by the local people so that the land could be used for growing food. The worst affected were the tea and coffee plantings, of

[151] Post, Frederick, Heidebrink, and Sato (eds), *The encyclopedia of Indonesia,* 238.
[152] De Jong, *The collapse of a colonial society*, 229.

which 30 per cent and 25 per cent were lost, respectively. In the case of oil palm and rubber plantings, 14 per cent and 10 per cent were felled respectively. Livestock decreased by about one half during the war years. The fishing fleet declined by 30 per cent.'[153]

The living conditions of the Indonesian people during the Japanese occupation were extraordinarily bad. The policy of self-sufficiency did not help to increase food production, and textiles and clothing were already in very short supply. Indeed, during the Japanese occupation, rice production fell by one-third, the output of cassava by more than one-half and that of maize by two-thirds, whereas sweet potatoes production declined by one-quarter.[154] Farmers were forced to surrender a substantial part of their rice production to the Japanese authorities. In Kediri, for instance, farmers cultivating land with an area of up to 2 hectares were assessed at 20 per cent, between 2 and 5 hectares at 50 per cent and over 5 hectares at 70 per cent of their production. In 1945, the quota for farmers operating in Bogor cultivating up to 1 hectares was 40 per cent, between 1 and 3 hectares 50 per cent, between 3 and 5 hectares 60 per cent and over 5 hectares 75 per cent. In some provinces, such as Semarang, the purchase of paddy was fixed according to the estimated yields per sub-district.[155] The Japanese authorities controlled both the supply and price of rice. All rice producers were obliged to sell part of their paddy to the Chinese brokers or deliver it to the government mills. The local distribution system of rice collapsed into a dysfunctional nightmare. The price of rice on the black market in the cities was often two or three time higher than the price in the black markets in rural areas.[156] The food shortage caused the average daily intake of calories of Indonesians to fall from 2,000 kcal in 1940-1943 to 1,500 kcal in 1944-1945. In early 1945, there were signs of impending famine. The

[153] Quoted from de Jong, *The collapse of a colonial society*, 232. See also: D.H.Burger, *Sociologisch-economische geschiedenis van Indonesia*, Vol. 2: *Indonesia in de 20^e^ eeuw* (Leiden: KITLV, 1975) 160-161.
[154] D.H.Burger, *Sociologish-economische geschiedenis van Indonesia*, Vol. 2: *Indonesia in de 20^e^ eeuw* (Leiden: KITLV, 1975) 160-161; Lindblad, *Bridges to new business*,53.
[155] Van de Eng, P. *Food supply in Java during war and decolonization, 1940-1950* (Hull: University of Hull, 2008) 10-13.
[156] Sato, *War, nationalism and peasant*, 116-119.

subsequent high inflation was reinforced by a steady, irresponsible expansion the money supply, during which the number of bank notes allegedly rose sevenfold between 1942 and 1945.[157]

Conclusion

During the colonial period, Indonesia and Vietnam experienced different types of colonial rule. The vast Archipelago was integrated into one unit, the Netherlands Indies, whereas unified Vietnam was divided into three separate parts, each with a different administrative system and these were incorporated with Laos and Cambodia in the creation of a French Indochina. In the wake of the liberal policy pursued by the Netherlands Indies government after 1870, colonial Indonesia developed into a typical plural society, with a multi-ethnic composition, in which each ethnic group occupied a different political and economic position. The tiny Dutch and other Western community were at the top of the pyramid, and the indigenous Indonesian people formed the base. The Chinese and Arab minorities served as intermediaries between the two. Although relations between the Netherlands and the colony were relatively strong, late colonial Indonesia gradually began to depend more heavily on the world market. This was the logical outcome of the Dutch colonial policy of expanding the capacity of the Archipelago to produce export commodities. Tobacco, sugar, rubber, tea, coffee and palm oil were the main agricultural export crops. The mining sector contributed such minerals as oil, tin and coal. Very little investment was made in manufacturing and imports were regulated by a free trade policy. The lack of government protection in the fray of fierce international competition led to the stagnation of indigenous manufacturing.

The composition of the population of colonial Vietnam was less diverse than that of the Netherlands Indies. Nevertheless, the proportion of foreigners, namely the French and Chinese, and their economic superiority over the indigenous population were far higher. The unequal distribution of income

[157] Lindblad, *Bridges to new business*, 53.

between the French and the rich Chinese and Vietnamese manual workers and peasants could be as high as 100 and 150 times, respectively. Just as the Dutch, French private investors were not interested in manufacturing, preserving the colony as an exclusive market for French industrial products. The primary French concerns were mining, including coal, tin and zinc. In the 1920s, the French companies began to invest in plantations and export crops, particularly rubber and rice. In comparison with the European plantations in the Netherlands Indies, French commercial plantations were much larger and there was a higher concentration of lands in the hands of a few companies.[158] Another major difference had to do with the over-dependence of colonial Vietnam on the French economy. This led to the assumption that, whereas the Netherlands Indies benefited the world economy, Vietnam served France exclusively.

The Japanese occupation brought fundamental changes in the economic systems of the Netherlands Indies and Indochina. First, there was a shift in economic power away from Western companies and the Chinese to the Japanese, albeit in different degrees. The French companies continued to operate in Vietnam under Japanese command after 1940. In contrast, the operation of Dutch enterprises in the Netherlands Indies was immediately taken over by the Japanese military authorities. Second, in pursuing their dream of an autarkic Greater East Asia Co-Prosperity Sphere, the Japanese adopted different strategies in Indochina and the Netherlands Indies. Rice was the main product they required from Vietnam, although there was also quite an interest in textiles and vegetable oils. The products of overriding interest to the Japanese in the Archipelago were raw materials, notably oil, bauxite and rubber. Third, the embargo by the Allies and the Japanese self-sufficiency policy stimulated development of new industries and local handicrafts and the cultivation of new crops in Vietnam. Nevertheless, for an export-led country, as colonial Indonesia

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[158] In 1937, for instance, 68 per cent of the cultivated land belonged to twenty-seven companies, controlled by French holdings. Three large financial and industrial groups controlled close to two-thirds of the production in 1944: the Rivaud-Hallet groups (31 per cent), the Michelin group (11 per cent) and the group of Banque de L'Indochine (29.6 per cent); Hémery (eds), *Indochina,* 127.

was, the conversion to self-sufficiency entailed the almost complete disruption of the economic system.

Irrevocably, the transformation towards a national economy in Indonesia, for better or worse, began during the Japanese period. The shift away from perennial export crops to the cultivation of cotton and food crops made the country less dependent on the world market. The economic role of the Chinese was significantly diminished, except for those enterprises such as the Oei Tiong Ham concern in Semarang, which enjoyed a good relationship with the Japanese authorities. Much more important was the elevation of indigenous Indonesians into higher positions in the economy. As the European managers were detained by the Japanese, many Indonesian senior staff were appointed to manage companies. This trend was also followed in the state administration. As will be discussed in the next chapters, a relatively large number of Indonesians were given responsibility in economic administration during the Japanese occupation. These officials, with the legacy of the practical experience they had built up, would become the principal leaders of the Republic of Indonesia.

CHAPTER TWO

VIETNAMESE NATIONALISM AND SOCIALISM

'*Resistance and nation-building are two sides of the same coin*'. - Hồ Chí Minh

Introduction

Before Bảo Đại's declaration of the independence of Vietnam and his subsequent appointment of Trần Trọng Kim to form the pro-Japanese government in March-April 1945, Vietnamese Nationalist and Communist organizations had made repeated attempts to attain national independence. The most influential was the Indochinese Communist Party (Đảng Cộng sản Đông Dương), which had been founded by Nguyễn Ái Quốc (later Hồ Chí Minh) in February 1930 and had taken the lead in the 1930-1931 Nghệ Tĩnh Soviet Uprising and in the 1936-1939 Democratic Movement. In 1941, the Indochinese Communist Party co-operated with a number of Vietnamese political organizations to form the League for the Independence of Vietnam (Việt Nam Độc Lập Đồng Minh Hội, or Việt Minh).[1] The primary goal of the Việt Minh was to unite all Vietnamese Communist and Nationalist forces in a common liberation front against the French and Japanese fascists.[2] Seizing the opportunities created by the surrender of Japan to the Allies on 14 August 1945,

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[1] The political organizations which participated in the formation of the Việt Minh included the New Vietnam Party (Đảng Việt Nam mới), factions of the Vietnam Nationalist Party (Việt Nam Quốc Dân Đảng) and various National Salvation organizations (Hội Cứu Quốc).

[2] Bernard Fall, *The Viet-Minh regime; Government and administration in the Democratic Republic of Vietnam* (Westport: Greenwood Press, 1956) 1; Philippe Devillers, *Histoire du Viet-Nam de 1940 à 1952* (Paris: Editions du Seuil, 1952) 97.

the Việt Minh staged the 'August Revolution', which led to Hồ Chí Minh's Proclamation of Independence of the Democratic Republic of Vietnam on 2 September 1945.

A new, independent government was established in Vietnam on 16 August 1945, soon followed by the voluntary dissolution of the Trần Trọng Kim government on 23 August but the DRV government was not recognized by the Allies. In September 1945, Allied troops, whose task was to disarm the Japanese army, were dispatched to Vietnam.[3] Eager to re-establish their former colonial rule, the French returned backed up by Allied assistance. Their arrival initiated a protracted period of armed conflicts. The initial skirmishes were between returning French colonial forces and the Việt Minh, but they gradually escalated into part of the globalized Cold War with the involvement of the United States, the People's Republic of China and the Soviet Union. The Geneva Agreement of 1954 restored peace in Vietnam, but divided the country into two parts, along the 17th parallel.[4] In its wake, North Vietnam was gradually transformed into a socialist country under the leadership of Hồ Chí Minh, whereas an anti-Communist state was constructed in South Vietnam under Ngô Đình Diệm.

The withdrawal of French troops in 1954-1955 was followed by a rapid liquidation of French businesses in Vietnam, a process, which had begun in the late 1940s and the early 1950s. French entrepreneurs and a large number of the Chinese and Vietnamese Roman Catholics deserted North Vietnam for the South. Hence the Diệm government was actually taking measures to wrest the remaining assets of the French and the Chinese in South Vietnam. In a nutshell,

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[3] Under the terms of the Allied agreements signed at the Potsdam Conference (17 July-2 August 1945), the British forces would land in South Vietnam to accept the surrender of the Japanese forces. The task of disarming the Japanese northwards from the 16th parallel was assigned to the Chinese Kuomintang army. On 14 August 1945, 200,000 Chinese troops entered North Vietnam. Nearly a month later, on 13 September 1945, British troops landed in Saigon. Harold R. Isaacs, *No peace for Asia* (Cambridge: The MIT Press, 1967) 166-168.

[4] Lê Mậu Hãn, Trần Bá Đệ, and Nguyễn Văn Thư, *Đại cương lịch sử Việt Nam* [A concise history of Vietnam], Vol. 3. (Hanoi: Giáo dục Publishing House, 2002) 125-126; Philippe Devillers and Jean Lacouture, *End of a war, Indochina, 1954* (New York: Prederick A. Praeger,1969) 304;Mitchell K. Hall, *The Vietnam war* (*New* York: Longman, 2007) 9.

the economic reconstruction in both North and South Vietnam in the period immediately after the Geneva Agreement was marked by a concentration of economic power in the hands of the state. But the form it took was different. North Vietnam adopted a socialist economic model based on state ownership, whereas in South Vietnam, the Diệm government took control of public utilities, vital industries, mines and rice plantations. By the time of the fall of the Diệm regime in late 1963, almost all foreign companies associated with French colonialism had been placed under control of the Vietnamese authorities.

Although the partition of the country after 1954 did cause a short delay, it did not put a stop to the transfer of the economic power of foreign nationals to Vietnamese hands. This chapter offers an examination of the struggle for economic independence in Vietnam from 1945 to the early 1960s. Its main points of focus will be those policies and practices of the Vietnamese governments which affected the French economic decolonization and the elimination of Chinese businesses from Vietnam. Unquestionably, the protracted war of resistance organized by the Việt Minh was the main factor prompting the economic withdrawal of both French and Chinese businesses from Vietnam. The discussion of how the economic systems were established in North and South Vietnam to replace their colonial precursors will constitute an important part of this chapter, if only to identify the ultimate objectives in the economic policies of both the Vietnamese Nationalist and Communist leaders. Consequently, although the chapter contains an extensive account on economic policies of the DRV and transformation to socialism in North Vietnam, a brief section is devoted to the achievement of economic nationalism in South Vietnam.

1. The DRV Government

As economic nationalism deals specifically with policies and institutions, the structure and the composition of government, particularly of its economic management apparatus, is an absolute prerequisite as this what inevitably determines both the orientation and the effective operation of the economy. The composition of the DRV government in the initial years after independence reflects its fairly democratic character, as its members were elected from different political parties and from among non-party members, although the Việt Minh was unquestionably the leading forces. Half of the fourteen members of the Provisional Government established at Tân Trào in Thái Nguyên province on 16 August 1946 were neither Communist Party nor Việt Minh members.[5] In a reshuffle on 28 August, many members of the former Trần Trọng Kim government, including Bảo Đại, were invited to join the Provisional Government.[6] In January 1946, the Provisional Government was reorganized into a Provisional Coalition Government. The Việt Nam Quốc Dân Đảng (Việt Quốc) and the Việt Nam Cách Mệnh Đồng Minh Hội (Việt Cách), two major Vietnamese anti-Communist parties, were offered three ministerial posts and the vice-presidency, plus seventy seats in the future National Assembly (Quốc hội) without even having participated in the ongoing elections.[7] The democratic composition of the DRV government was officially sanctioned by the First National Assembly at its initial session on 2 March 1946. Ten over eighteen members of a newly elected government did not belong to the Indochinese Communist Party. The name of the government was changed to the Government of Union and Resistance or the Coalition Government. Hồ Chí Minh was appointed President and its Vice President was Nguyễn Hải Thần, leader of the Việt Cách.[8]

The National Assembly elected a Standing Committee (Ban Thường Trực), to function as a liaising body operating between the government and the

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[5] The non-Việt Minh faction included members of the Indochina branch of the French Socialist Party, a brother-in-law of a French Communist member of parliament, one Roman Catholic, one doctor, one member of the Việt Quốc, one lawyer, one engineer and one man-of-letters. *Công báo* [Official Gazette], 21 December 1945.

[6] Bảo Đại reverted to being a common citizen, taking the name Nguyễn Vĩnh Thụy. He served as Supreme Adviser to the Hồ Chí Minh government.

[7] Members of the anti-Communist parties included Vice-President Nguyễn Hải Thần (Việt Cách), Deputy Minister of National Economy Nguyễn Tườnng Long (Việt Quốc), Minister of Health Trương Đình Tri (Việt Cách). Bernard B. Fall, *The two Viet-Nams*; A political and military analysis (London: Pall Mall Press, 1963) 10; Phạm Hồng Tung, *Lịch sử Bộ nội vụ* [The history of the Ministry of the Interior] (Hanoi: Chính trị Quốc gia Publisher, 2005) 44-45.

[8] Thông Tấn Xã Việt Nam, *Chính phủ Việt Nam,* 1945-2000 [The Vietnamese government] (Hanoi: Chính trị Quốc gia Publishers, 2000) 36-38.

National Assembly.[9] The division of the country in three regions remained, and these all had Vietnamese names, Bắc Bộ (Tonkin), Trung Bộ (Annam) and Nam Bộ (Cochin China). Each 'Bộ' was divided into provinces, cities, prefectures, villages and hamlets. An Administrative Committee (Ủy Ban Hành Chính) was established at all regional level, to be the executive branch of local government but also to carry out the orders issued by higher authorities. Members of the Administrative Committee were elected by the People's Council (Hội Đồng Nhân Dân), which represented the local population.[10] When the war escalated in 1947-1948 and many areas fell into French hands, a Committee for Resistance and Administration (Ủy Ban Kháng Chiến Hành Chính), which absorbed the Administrative Committees, was established at every levels.[11] The DRV government also created a new system of administrative units which were to be integrated into the military commands. Adjoining provinces or towns were organized into 'zones' (khu) and a group of adjoining 'zones' constituted 'inter-zones' (liên khu). The number of 'zones' and 'inter-zones' varied according to the fortunes of war, fluctuating between nine zones in 1945 to fourteen zones in 1947 and six 'inter-zones' in 1948. As an administrative unit, the *Bộ* construction seems to have been abandoned in favour of 'khu' and 'liên khu'.[12]

The Coalition Government consisted of twelve ministries, four of which were directly responsible for the management of the economy, namely: the Ministry of the National Economy, the Ministry of Finance, the Ministry of Communications and Public Works and the Ministry of Agriculture and Irrigation. Parts of the Ministry of Labour and Ministry of Social Affairs also had a say in economic affairs. The most important of these bodies was the

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[9] Gareth Porter, *Vietnam; The politics of bureaucratic socialism* (Ithaca: Cornel University Press, 1993) 17.

[10] Lê Mậu Hãn, Trần Bá Đệ, Nguyễn Anh Thư, *Đại cương lịch sử Việt Nam*, 22-23; George Ginsburgs, 'Local government and administration under the Việt Minh, 1954-1954', in: P.J. Honey (ed.), *North Vietnam today* (New York: Praeger, 1962) 137-149.

[11] Vũ Văn Hoan, 'Local organs of state power', in: *An outline of institutions of the Democratic Republic of Vietnam* (Hanoi: Foreign Languages Publishing House, 1974) 65-66; Phạm Hồng Tung, *Lịch sử Bộ nội vụ*, 77.

[12] Bộ Quốc Phòng, *Từ điển bách khoa quân sự Việt Nam* [Encyclopedia of the Vietnamese military] (Hanoi: Quân đội Nhân dân, 2004), 567-609; Ginsburgs, 'Local government and administration', 152-156; Fall, *The two Viet-Nams*, 135.

Ministry of National Economy which maintained a network of bureaus at all regional, provincial, and district levels.[13] In January 1946, Hồ Chí Minh established an Investigatory Committee for Constructing the Nation (Ủy Ban Nghiên Cứu Kế Hoạch Kiến Thiết). The Committee consisted of forty members, most of whom were either Vietnamese Nationalist intellectuals or had been senior officials under the French colonial authority or in Trần Trọng Kim's government.[14] Apart from changes in the leadership of the central government and among the heads of each regional level, the personnel apparatus of the former colonial authority remained by and large intact. A government decree on 17 December 1945 laid down that 'pending new orders, all staff in the government services over the whole Vietnam were to keep in their positions'.[15]

The first Minister of National Economy in the Democratic Republic of Vietnam was a non-party member, Nguyễn Mạnh Hà, who had graduated from the *Institut des Scciences Politiques* in Paris and held a doctorate in law. After returning to Vietnam in 1937, Nguyễn Mạnh Hà served in the labour office of the Hải Phòng Municipal Council and was promoted to Director of the Office of the Tonkinese Economy during the Japanese occupation. In the August Revolution, he was active in the Roman Catholic Youth movement and maintained close contacts with the Việt Minh.[16] In January 1946, Nguyễn Mạnh Hà moved to become head of the Ministry of Social Assistance, but still kept a position in the Ministry of National Economy as Deputy Minister. The new Minister was Nguyễn Tường Long, a lawyer and writer, who had been jailed by the French authorities for his anti-French activities. Nguyễn Tườnng Long was a key member of the Việt Quốc, as was Chu Bá Phượng, who replaced him in the Coalition Government. Both Nguyễn Tường Long and Chu Bá Phượng had a wide knowledge of economics. In the colonial era, they had been the owners

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[13] Đặng Phong and Beresford, *Authority relations*, 19.

[14] The list of forty members of the Investigatory Committee for Constructing the Nation is provided in Đặng Phong, *Lịch sử kinh tế Việt Nam*, Vol. I, 174-175.

[15] *Công báo*, 19 December 1945.

[16] Ellen J. Hammer, *The struggle for Indochina, 1940-1955* (Stanford: Stanford University Press, 1966) 166; David G. Marr, *Vietnam; State, war, revolution, 1945-1946* (Berkeley, University of California Press, 2013) 317; Vũ Ngư Chiêu, 'The other side of the August Revolution; The empire of Vietnam (March-August 1945)', *Journal of Asian Studies* 45(1986) 306.

and editors of a number of newspapers. More importantly, they had achieved great popularity and influence among Vietnamese intellectuals.[17]

The Minister of Finance in the first two governments was a senior leader of the Communist Party and the Việt Minh named Phạm Văn Đồng. As far as his professional experience in the pre-war era went, he had been best known as a history teacher. In 1926, at the age of nineteen, Phạm Văn Đồng joined the Vietnam Revolutionary Youth Association (Việt Nam Thanh Niên Cách Mạng Đồng Chí Hội), the predecessor of the Indochinese Communist Party. In 1929, he was arrested by the French colonial authorities and sentenced for ten years in prison. After being released in 1936, Phạm Văn Đồng continued to take part in the activities of the Communist Party led by Hồ Chí Minh. Phạm Văn Đồng was among the few members of the Việt Minh who organized the People's National Congress at Tân Trào, which ultimately led to the establishment of the first government of Vietnam.[18] In March 1946, Phạm Văn Đồng relinquished his post to Lê Văn Hiến, who had been Minister of Labour in the Provisional Government. Lê Văn Hiến was also a member of the Việt Minh and the Indochinese Communist Party and had various practical experiences to do with the economy. He had managed a publishing house and a factory producing wine and woodwork in Đà Nẵng. Lê Văn Hiến kept his post until 1958.[19]

The portfolio of Ministry of Communications and Public Works was given to the engineer Đào Trọng Kim, a former member of the Trần Trọng Kim government. In March 1946, Đào Trọng Kim was replaced by Trần Đăng Khoa, an irrigation engineer. Trần Đăng Khoa had obtained his engineering degree at the *Eyrolles École* in Paris. During the colonial era, he served as a civil engineer, and had participated in the construction of many irrigation projects in the Central and South Vietnam. Trần Đăng Khoa's name is also known as one

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[17] Khu Hà Linh, *Anh em Nguyễn Tường Tam-Nhất Linh; Anh sáng và bóng tối* [Nguyễn Tường Tam-Nhất Linh and his brothers; Light and shade] (Hanoi: Trẻ Publishing House, 2008) 70-71.

[18] L.A. Patti, *Why Vietnam? Prelude to America's albatross* (Berkeley: University of California Press, 1980) 481.

[19] Lê Văn Hiến, *Nhật ký của một bộ trưởng* [A diary of a minister] (Đà Nẵng: Đà Nẵng Publishing House, 1950) 12.

of the founders of the Vietnam Democratic Party.[20] The first head of the Ministry of Agriculture and Irrigation was Bồ Xuân Luật, a senior member of the Việt Minh. In April 1946, Bồ Xuân Luật relinquished his post to Huỳnh Thiên Lộc, an irrigation engineer from the South.[21] As Trần Đăng Khoa had been, Huỳnh Thiên Lộc was also educated in France. After returning to Vietnam he became a businessman, managing rice-milling factories in Saigon. During the Japanese occupation, he was appointed to the Committee of Economic and Financial Matters of Indochina, but returned to the South to join the revolutionary movement after a few months. The Ministry of Social Affairs and the Ministry of Health and Labour were both headed by Trương Đình Tri, who had served on the Administrative Committee of Tonkin during the Japanese occupation.[22]

The strategy behind the formation of the Coalition Government was to create national solidarity in a common struggle for the independence in the best interests of the nation. Nevertheless, the unsolved conflicts between the Communist-led Việt Minh and anti-Communist Việt Quốc and Việt Cách led to a political purge in late 1946 and the subsequent departure to China of many members of the Việt Quốc and the Việt Cách, who had held important positions in the government.[23] In November 1946, this led to a major reshuffle in the government and in the aftermath the Việt Minh took over most of the important positions. Hồ Chí Minh remained President *ad interim* Prime Minister and Minister of Foreign Affairs.[24] Phạm Văn Đồng, who also served as Deputy-

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[20] The Vietnam Democratic Party was found in Hanoi in June 1945 by patriotic intellectuals, students, and clerical workers in the colonial administration. Members of the party rapidly sought and gained affiliation with the Việt Minh Front.

[21] Bồ Xuân Luật continued to serve in the Ministry of Agriculture and Irrigation as Deputy Minister. In November 1946, he was appointed Minister of State in the Coalition Government.

[22] Arthur, J. Dommen, *The Indochinese experience of the French and the Americans, nationalism and communism in Cambodia, Laos and Vietnam* (Bloomington: Indiana University Press, 2001) 185.

[23] Hoàng Văn Đào, *Việt Nam Quốc Dân Đảng; Lịch sử đấu tranh cận đại, 1927-1954* [Việt Nam Quốc Dân Đảng; A contemporary history of a national struggle, 1927-1954] (Saigon: Tân Dan Publishing House, 1970) 278-279; Võ Nguyên Giáp, *Unforgettable days*, (Hanoi: Ngoại Văn Publishing House, 1975) 286-291.

[24] In April 1947, Hồ Chí Minh transferred the post of Minister of Foreign Affairs to Hoàng Minh Giám, the founder of the Vietnamese Socialist Party, who had helped Hồ Chí Minh in the

Minister of National Economy, was Deputy Prime Minister. The Minister of the National Economy was Ngô Tấn Nhơn, who also held the portfolio of the Ministry of Agriculture and Irrigation. Ngô Tấn Nhơn was an agronomist by training and for two years had been employed in the Indochinese Rice Management Office under the French colonial authority.[25] Trần Đăng Khoa continued to head the Ministry of Communications, while the Ministry of Labour was given to Nguyễn Văn Tạo, a journalist and an active member of both the French Communist Party and of the Labour Union.

The nineteenth of December 1946 was the official date of the outbreak of the war of independence. After two months of armed resistance in Hanoi, in February 1947 the Coalition Government withdrew to the Việt Bắc base in the northernmost part of Vietnam. Although there were a few changes in personnel rearrangements during the period when the government was in Việt Bắc, most of the existing governmental organs in the territories controlled by the DRV underwent few changes before 1954. One notable change was that Phan Anh moved from the Ministry of Defence to the Ministry of National Economy in May 1951, when this ministry was renamed the Ministry of Industry and Trade. Phan Anh was a lawyer, who had defended for several Việt Minh prisioners in the colonial era. He had participated in Trần Trọng Kim's government as Minister of Youth, but when the August Revolution broke out, he joined pro-Việt Minh youth movements against the Japanese.[26] Ngô Tấn Nhơn remained the post in the Ministry of Agriculture and Irrigation. In May 1951, the National Bank of Vietnam was established the direction of Nguyễn Lương Bằng, who handed over the post to Lê Viết Lượng a year later. Both Nguyễn Lương Bằng and Lê Viết Lượng were senior members of the Communist Party and the Việt Minh.[27]

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former's negotiations with the French to set up the 6 March Accord of 1946. Hoàng Minh Giám held the post until April 1954.

[25] In 1940, Ngô Tấn Nhơn was sentenced to five years in Côn Đảo Prison, inducted for his involvement in the anti-French movement. After his release from prison, he joined the Communist Party and was among the few leaders of the Việt Minh who led the youth movement in its seizure of power in Saigon in the August Revolution of 1945.

[26] L.A.Patti, *Why Vietnam?*, 478.

[27] Thông Tấn Xã Việt Nam, *Chính phủ Việt Nam,* 57.

The period immediately after the Geneva Agreement was one in which the transition to a one party-state in North Vietnam accelerated. The administration of the French-controlled areas was rapidly transferred to the Committees of Resistance and Administration, which had continued to work underground after the arrival of French occupying forces. In November 1954, the DRV Government returned to Hanoi. Việt Minh officials and the regular troops in South Vietnam moved to the North honouring the terms of the Geneva Agreement, although parts of the army regulars (chủ lực) and the Communist Party's cadres (cán bộ) remained behind.[28] As the government found its feet it needed to expand by adding new ministries and department and there were several reshuffles between 1955 and 1960. In these five years, the Vietnam Workers' Party (Đảng Lao Động), the successor to the Indochinese Communist Party since 1951, gradually took over the key positions in the government. The important reorganization of 20 September 1955 separated the prime ministerial post from the office of the President and Phạm Văn Đồng was appointed the first Prime Minister of the DRV. In answer to needs as they emerged, several ministries were split along functional lines. The Ministry of Industry and Commerce became the Ministry of Trade and the Ministry of Industry. Phan Anh remained in charge at the Ministry of Trade, and the Ministry of Industry was given to Lê Thanh Nghị, a senior member of the Party who had worked as a technician in many French factories. The Ministry of Communications and Public Works was also split into two. Trần Đăng Khoa continued in his post at the Ministry of Posts and Communications. The new department created from it, the Ministry of Water Resources and Architecture, was headed by Nguyễn Văn Tân, another member of the Vietnam Worker's Party.

The reshuffle in April 1958 was an even more important event, in which senior leaders of the Vietnam Worker's Party seized top positions in the government. The former Secretary-General of the Party Trường Chinh and the Secretary of the Party's Central Committee, Phạm Hùng, were appointed to the

[28] Bernard B. Fall, 'Indochina Since Geneva', *Pacific Affairs*, 28 (1955) 14; Lê Mậu Hãn, Trần Bá Đệ, and Nguyễn Văn Thư, *Đại cương lịch sử Việt Nam,* 161.

new deputy-premierships. Important posts in the economic management apparatus were also handed out to members of the Central Committee of the Party. Đỗ Mười held the portfolio of the Ministry of Home Trade, hived off from the Ministry of Trade. Bùi Quang Tạo was Minister of Architecture, in the new ministry calved from the Ministry of Water Resources and Architecture. Hoàng Anh replaced Lê Văn Hiến as Minister of Finance. The reorganizations continued in late 1958 and 1959 and only stopped when the second National Assembly elected a new government in July 1960.[29] Although delegates from the Socialist and Democratic parties still survived in North Vietnam, in any attempts to modify the picture of total Communist control of the government their hands were tied.

In summary nutshell, three important observations emerge from this survey of the structure and composition of the economic management apparatus of the DRV. In the first instance, it draws a sketch of all the basic economic institutions of DRV operating in the DRV between 1945 and 1960. In the process, the organization of the economic management apparatus was gradually transformed from a simplified structure of the war of resistance to a broadened and more specialized system after 1954. Second, the survey reflects the changing leadership in the DRV as the Party steadily gained more important positions in the economic machinery. In the early period after independence, Hồ Chí Minh appealed for the participation of all talented people and influential personalities in the government, regardless of their political backgrounds and affiliations. This was a considered political strategy gauged to win international recognition and alleviate the pressures being exerted by the *Kuomintang* authority.[30] Members of the Trần Trọng Kim Government and such non-Communist parties as the Vietnam Democratic Party, the Việt Quốc and the Việt Cách, were invited join the Coalition Government. In November 1945, the Indochinese Communist Party even went as far to dissolve itself. Thereafter the

[29] Thông Tấn Xã Việt Nam, *60 năm chính phủ Việt Nam, 1945-2005* [60 years of the Vietnamese government] (Hanoi: Thông Tấn Xã Việt Nam, 2005) 101-103.

[30] Huỳnh Kim Khánh, *Vietnamese Communism, 1925-1945* (Ithaca: Cornell University Press, 1982) 16; Fall, *The Viet-minh regime*, 6.

Communist influence was channelled through the Marxist Study Association, the Việt Minh and a Communist group in the government. It was only in 1951 when the Indochinese Communist Party was restored under the name of the Vietnam Workers' Party, that the Communists attained more direct influence in the economic administrative system. Although a number of non-Communist Party members who returned from the South after 1954 had again been recruited to the government, by 1960 most of the important positions of the machine had fallen into the hands of senior leaders of the Communist Party. Thirdly, the DRV was suffering an acute shortage of capable, experienced economic experts. Only a few members of the government, among them Nguyễn Mạnh Hà,[31] Trần Đăng Khoa, Ngô Tấn Nhơn and Lê Văn Hiến had some technical and economic knowledge. Most of the others were revolutionary leaders and intellectuals who had no administrative experience because French policies had prevented the Vietnamese from acquiring any positions of real responsibility in the colonial administration.[32] During his years in exile, Hồ Chí Minh had spent most of his time studying the organization of state machinery and national administration, but had no personal, practical experience of how these worked until the revolution.[33]

2. From Nationalism to Communism

In his Proclamation of Independence on 2 September 1945, Hồ Chí Minh accused the French of the economic exploitation of Vietnam in these words: 'For more than eighty years […] they have fleeced us to the backbone, impoverished our people and devastated our land. They have pillaged our rice-fields, our mines, our forests and our raw materials. They have monopolized the issuing of banknotes and the export trade.' Turning to the thorny issue of taxes, he alleged: 'They have imposed numerous unjustifiable taxes and reduced our people, especially our peasantry and small businessman, to a state of extreme

[31] Nguyễn Mạnh Hà refused to evacuate to Việt Bắc in early 1947. He remained in Hanoi but continued to assist the DRV government. On account of his support of the Việt Minh, in 1953 Nguyễn Mạnh Hà was exiled to France with his French wife.
[32] Vũ Ngư Chiêu, 'The other side of the 1945 Vietnamese revolution', 304.
[33] Đặng Phong and Beresford, *Authority relations*, 17.

poverty. They have stood in the way of the prospering of our national bourgeoisie; they have mercilessly exploited our workers.' With their capitulation to the Japanese in 1940 and again in March 1945, Hồ Chí Minh stated that the French had 'twice sold our country to the Japanese'. Besides pointing out the fact that Vietnam 'have wrested independence from the Japanese, not the French', Hồ Chí Minh declared, 'from now on, we, the members of the Provisional Government, shall break off all relations of a colonial nature with France. We repeal all the international obligations to which the French has so far subscribed on behalf of Vietnam and we abrogate all the special rights the French have unlawfully acquired in our fatherland.'[34]

The form of the Vietnamese state, read the Proclamation of Independence, was to be a democratic republic. Its democratic nature was reaffirmed in the First Constitution of the DRV adopted by the National Assembly in November 1946. Article 1 of the Constitution stressed that all power in the country belonged to the people of Vietnam without distinction of race, class, creed, wealth or gender. As will be discussed in the following chapter, the First Constitution of Vietnam gives the impression of being much more liberal and democratic than the First Constitution of Indonesia adopted in August 1945. The 1946 Vietnam Constitution did not deal in economic theories and dispensed with the stereotypical Marxist phrases, such as state control, co-operative or social welfare, which were liberally scattered throughout the Indonesian constitution. The 1946 Constitution of Vietnam contains only two passages which referred to the economy. Article 12 guaranteed the property rights of Vietnamese citizens, and Article 6 stipulated their equal rights in the fields of politics, culture and the economy.[35]

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[34] Hồ Chí Minh, *Toàn tập* [Complete works by Hồ Chí Minh] Vol.3 (Hanoi: Chính trị Quốc gia, 2000), 9-12; Hồ Chí Minh, 'Tuyên ngôn độc lập' [Independence Proclaimation], in: Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập* [Full collection of Party's documents] Vol. 7 (Hanoi, Chinh tri Quoc gia, 2000) 434-440.

[35] 'Hiến pháp nước Việt Nam dân chủ công hòa năm 1946' [the Constitution of 1946 of the Democratic Republic of Vietnam], in: Hoàng Trung Hiếu, Hoàng Hoa, *Tìm hiểu hiến pháp Việt Nam* [A study of the Vietnamese constitutions] (Dong Nai: Dong Nai Publishing House, 2000) 196-210.

As Stein Tønnesson has pointed out, the first Constitution did not actually reflect the political realities in the DRV. The most powerful organization in the DRV was the Việt Minh, whose Central Committee (*Tổng Bộ*) was completely dominated by leading members of the Communist Party. Nevertheless, neither the Việt Minh nor the Communist Party had a place in the Constitution.[36] This 'weakness' in the Constitution was conformed with the pragmatic thinking of President Hồ Chí Minh and other Vietnamese Nationalist Communist leaders. By November 1946, Vietnam was in the difficult situation, as it was being simultaneously challenged by three dangerous enemies: hunger, ignorance and foreign aggressors (*giặc đói, giặc dốt, giặc ngoại xâm*). French troops had landed in the North and the southern territory was still under foreign control. A coalition of all progressive and anti-colonial forces able to tackle the challenges facing the nation obviously had to take precedence over political prejudices and ideological conflicts. Under such circumstances, the Việt Minh and the Communist Party should be treated as any other political forces, at least as far as the public was concerned.

The chief concern of the political parties in Vietnam was the independence of the country. None of the parties, with the exception of the Indochinese Communist Party, had concrete plans for post-war economic reconstruction. The Việt Quốc and the Việt Cách followed the political philosophy of the leader of the Chinese revolution Sun Yat-sen, known as the Three Principles of the People: Nationalism, Democracy and the People's Livelihood.[37] Although the People's Livelihood had a heavily socialist oriented in its emphasis on the role of the government in the regulation of capital and distribution of land,[38] these nationalist parties made no real effort to translate

[36] Stein Tønnesson, 'Hồ Chí Minh's first constitution (1946)', *paper presented to the International Conference on Vietnamese Studies and the Enhancement of International Co-operation* (Hanoi, July 1998) 11.

[37] Hoàng Văn Đào, *Việt Nam Quốc Dân Đảng*, 9-10; Nguyễn Văn Khánh, *Việt Nam quốc dân Đảng trong lịch sử các mạng Việt Nam* [Việt Nam Quốc Dân Đảng in the history of Vietnamese revolution] (Hanoi: Thế giới Publishers, 2012) 73-75.

[38] See an elaboration of Sun Yat-sen's Three Principles in: Sun Yat-sen & Chiang Kai-shek;*The three principles of the People*. Translated into English by Frank W. Price (Taipei: China Publishing Company, 1972).

this idea into specific programmes. There is no question that the Vietnam Democratic Party and the Socialist Party of Vietnam were under the influence of the Communist Party and that members of these two parties also associated with the Việt Minh.[39] The economic objectives of the Việt Minh as laid down in its political programme announced in October 1941 consisted of seven points. It hoped to achieve a moderate and fair tax system to replace the excessive taxes imposed by the French and the Japanese authorities. It planned to confiscate French and Japanese banks by the establishment of national banks. Its idea was to develop a sound national economy by promoting industries and handicrafts. Agriculture was to burgeon overhauling and renewing the irrigation system, opening up new land and building new infrastructure.[40] Apart in its plans banking sector, the Việt Minh programme did not indicate any particular policy towards the position of foreign capital in a future Vietnamese economy.

At this point in time, although the Việt Minh was dominated by members of the Indochinese Communist Party, its programme did not necessarily reflect a Communist ideology. In fact, the Communist Party held far more extreme views about anti-imperialism and anti-feudalism. In 1930, the first document published by the Party demanded the confiscation of all estates and plantations owned by the French and by Vietnamese counter-revolutionary landlords. The government would retain the landownership but redistribute the land to poor peasants. The colonial taxation would also be abolished and a new law of establishing eight-hour work day would be implemented. The ultimate aims of the Vietnamese revolution were to eradicate French colonialism, Vietnamese feudalism and counter-revolutionary capitalists and this would be achieved by creating a Socialist and Communist Vietnam.[41] A resolution issued by the Central Committee of the Indochinese Communist Party in November

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[39] For the formation and ideological background of the Vietnam Democratic Party and the Vietnam Socialist Party see: Marr, *Vietnam*, 478-489.

[40] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập*, Vol. 7, 148.

[41] These documents included the Party's Summary Political Programme, the Appeal, and the Party's Summary Strategies, which were all drafted by Hồ Chí Minh and were announced at the unity conference of the Vietnamese Communist Party on 3 February 1930. In October 1930, the Party adopted the Political Theses drafted by its first Secretary- General, Trần Phú, and changed its name to the Indochinese Communist Party.

1939 set out more specific economic objectives to be attained by the Indochinese revolution. It demanded the nationalization of banks, transportation and communication services, arsenals, land, water and other natural resources. Enterprises owned by foreign capital and French colonialists, as well as the estates of Vietnamese 'traitors', were to be seized and nationalized. Factories would be transferred to the working class. Land owned by French colonialists, Roman Catholic churches and Vietnamese 'traitors' was to be seized and redistributed to poor peasants although the the government would retain ownership of the land. Large plantations would be organized into *Sovkhoze* or state-run farms. Colonial taxation and loan contracts would be abolished. New regulations covering working conditions, wages, unemployment and pensions would be prescribed.[42]

To what extent did the Communist Party influence the economic policy making of the DRV? As said above, the main post-Independence political force in the DRV was the Việt Minh, whose predominant concern was directed towards Nationalist rather than Communist aims.[43] Any aims it might have had were also hampered by the fact that, in November 1945, the Indochinese Communist Party had actually been dissolved, an act followed by a public declaration by Hồ Chí Minh that he was an adherent of only one party, the fictional Vietnam Party.[44] At the time not Communism but Nationalism was the driving force behind the policy making of the DRV. Indeed, the economic policies of the DRV government prior to the restoration of the Party in 1951 tended to ignore the principles of anti-feudalism and the class struggle, as these had initially been the catchwords of the Indochinese Communist Party. The primary concern of the government after independence was famine which was ravaging North and Central Vietnam. Measures to encourage production were taken along with the appeals for the voluntary contribution from the

[42] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập,* Vol. 6, 518-521.
[43] Adam Fforde and Suzanne H. Paine, *The limits of national liberation; Problem of economic management in the Democratic Republic of Vietnam, with a Statistical Appendix* (New York: Croom Helm, 1987) 36.
[44] Hồ Chí Minh, *Toàn tập*, Vol.4, 268.

population.[45] The DRV government also solicited investments from France, the United States, Russia and China.[46] Hồ Chí Minh issued repeated declarations stating that the DRV would protect the property of French and other foreign nationals if they respected Vietnamese independence. If the foreign enterprises were essential to the national economy, Hồ Chí Minh asserted, the DRV government would purchase them offering a fair compensation.[47] Chinese nationals were asked to co-operate with the Vietnamese revolutionary authority in a common struggle against the French colonialism.[48]

As in the case of Indonesia discussed in the next chapter, ambivalence between the aspirations of economic nationalism and the demands for independence of the nation haunted the thinking of the Vietnamese leadership. In negotiations for independence with the French at the Dalat and Fontainebleau Conferences in April-May and July-September 1946 respectively, Vietnamese delegation, led by Trịnh Văn Bình and later by Phạm Văn Đồng consistently rejected the French demand for an economic hegemony in Vietnam.[49] Nevertheless, they were eventually forced to make concessions and on 14 September 1946, Hồ Chí Minh and the French Minister of Colonies, Marius Moutet, signed a Modus Vivendi, granting the French with tremendous

[45] The contribution of the population was organized through the 'Gold Week' (*Tuần lễ vàng*) Fund, 'Sharing Rice and Cloths' (*nhường cơm sẻ ảo*) Fund and 'A Rice-saving Jar' (hũ gạo tiết kiệm) Fund. During the 'Gold Week' (second week of September 1945), patriotic citizens and well-to-do families were asked to contribute gold to the government to purchase arms from abroad. To raise the 'Sharing Rice and Cloths' and ' A Rice-saving Jar' funds, people were urged to deposit a spoonful of rice in a jar at each meal and to skip one meal every ten days. The rice saved would be distributed to poor people. Ho, *Toan tap*, Vol.4, 7-9, 39-40.

[46] Hồ Chí Minh, *Toàn tập,* Vol.4, 81-82.

[47] Hồ Chí Minh, *Toàn tập*, Vol.4, 53-54; 75-76; 81-82.

[48] *Cứu Quốc* [National Salvation], 12 December 1945; Hồ Chí Minh, *Toàn tập*, Vol.4, 13-14;

[49] At the Dalat Conference, the French delegation demanded that Vietnam circulate the same monetary units as the other countries in the Indochinese Federation, to be issued by Bank of Indochina. The French authorities continued to control taxation, hence the French commodities would not be considered imports, but domestic products within the French Union. French enterprises in Vietnam would enjoy special privileges in taxation, employment of labour and estates, imports and exports, as well as the consumption of French goods on the Vietnamese market. At the Fontainebleau Conference, the French demanded equal right of the French in Vietnam and Vietnam agreed to respect the property rights of the French and return all seized property, the Indochinese piastre was tied to the francs, and there was to be free trade between the countries in Indochinese Federation. France also demanded compensation for the damages incurred since Japanese coup in March 1945. Marr, *Vietnam*, 220, 230.

privileges in Vietnam in exchange for a general cease-fire. French nationals would enjoy the same rights and freedoms in business, education and work as Vietnamese nationals. All French property, which had been requisitioned by the Vietnamese government, would be returned to its owners. Whenever Vietnam needed the services of advisors, technicians or experts, French nationals would be given priority. The Modus Vivendi also recognized the French-controlled Indochinese piastre as the sole currency for all of Indochina. Since Vietnam had become part of the Indochinese Federation under the 6 March Accord of 1946,[50] in the Modus Vivendi it was agreed that co-ordinating committees would be established to run customs, foreign trade, currency and communications throughout the whole of Indochina.[51] Stein Tønnesson says that these provisions reflect the degree to which Hồ Chí Minh was prepared to compromise on Vietnamese independence.[52] However, despite Hồ Chí Minh's concessions, in November 1946, French troops still occupied Hải Phòng. G. Chaffard thinks that this action was 'an obvious sign that France had decided to employ a policy of violence'.[53]

The DRV attitude towards the French changed radically after the outbreak of the First Indochina War in December 1946. The task of 'nation-building' (*kiến quốc*) under the slogan 'resistance and nation-building' (kháng chiến, kiến quốc) launched by the Indochinese Communist Party in November 1945, now conveyed connotations of both economic construction and the sabotaging of French economic potential. The principal aim of 'sabotage was to thwart the enemy and construction was to combat the enemy' (phá hoại để ngăn địch, kiến thiết để đánh địch), said Hồ Chí Minh.[54] Besides the scorched-earth tactics implemented in the areas under the French occupation, the Việt Minh

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[50] In the 6 March Accord, France recognized Vietnam as a free state within the Indochinese Federation with its own government, Parliament and Army. The Indochinese Federation would be a part of the French Union. In return, Vietnam agreed to the landing of 15,000 French troops in North Vietnam where they would take over from the Chinese army. These troops would be gradually withdrawn within five years. *Cứu quốc*, 8 March 1946.

[51] Stein Tønnesson, *Vietnam 1946; How the war began* (Berkely: University of California Press, 2010) 84.

[52] Tønnesson, *Vietnam 1946*, 84.

[53] George Chaffard, *Les deux guerres au Vietnam* (Paris: La Table Ronde, 1969) 36.

[54] Hồ Chí Minh, *Toàn tập*, Vol. 4, 432-434.

government also called on the population to adopt the policy of non-co-operation with the French. The most popular slogan during this time was: 'Do not join the French army; do not pay tax to the French; do not sell provisions to the French; do not buy French goods.'[55] In the large cities and towns, the principal targets for sabotages were munitions factories, mining companies, food warehouses, post offices, bridges and railways. The Việt Minh even set up a committee to oversee the destruction French plantations. In fact, its main objective was to destroy the rubber plantations in the southern areas. The upshot of the Việt Minh sabotage was that it forced the French authorities to maintain considerable number of troops simply to guard their factories, mines and plantations.[56]

The agrarian policy of the government decreed that only lands and plantations owned by the French capitalists and Vietnamese 'traitors' and absentee landlords would be seized and redistributed to the poor peasants. Stepping up agricultural production was the chief priority, not severe disruption. The government threw its weight behind the peasants by building dykes, repairing irrigation works and reducing taxes in regions suffering difficulties or hit by natural calamities. In the private sector, the government encouraged Vietnamese small capitalists to invest in the production of such basic consumer goods as paper, ink, textiles, soap and cigarettes. The state only retained direct management of the defence industries and of a number of enterprises manufacturing basic necessities for the state apparatus, including paper, office equipment, machinery, soap, ink and garments.[57]

By 1951, the Communist Party showed little inclination to interfere in economic policy making of the DRV. At the Second Congress of the Indochinese Communist Party, at which it was renamed the Vietnam Workers' Party, in February 1951 the Party acknowledged that it did not have any explicit programme of economic policies. Party members had not paid serious attention

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[55] Đặng Phong, *Lich su Kinh te Viet Nam,* Vol.I, 470.
[56] Đặng Phong, *Lich su Kinh te Viet Nam,* Vol.I, 240, 471.
[57] Đặng Phong and Beresford, *Authority relations*,20.

to economic matters and consequently economic management had been entirely entrusted to the government or 'specialized' personalities. The matter of anti-feudalism had been put on a back-burner.[58] Indeed, Hồ Chí Minh's government hitherto maintained a neutral attitude towards peasants and landlords. In November 1945, the government issued a decree stipulating that land rent be reduced by 25 per cent, but prohibited any evasion of rent payment and protecting the property rights of landowners.[59] The situation began to change in 1950, following the diplomatic recognition of the DRV by the People's Republic of China and the Soviet Union. Military aid and advisors from the Socialist bloc, particularly China, in the fields of party organization, economics and defence were sent to Vietnam.[60] Their arrival coincided with the restoration of the Indochinese Communist Party and its decision henceforth to operate in the open. A far more important decision adopted at the 1951 Congress was that from then on the Party would take direct charge of the economy; every aspect of economic and financial policy would be determined by the Party. The Party would strengthen its control of economic institutions from central to local levels.[61] A new political programme was adopted for the Vietnam Workers' Party, which gave priority to state ownership and the development of co-operatives, and the private sectors would be placed under the guidance of the Party.[62]

The 1951 Congress provided the essential conditions for a 'partification' of the state in terms of both leadership and ideology. Although this model developed fully in North Vietnam after 1960 and the whole Vietnam after 1975, a process of integration of the Party guidelines in state policies had actually been emerging since the early 1950s. Slowly but surely, the

[58] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập,* Vol. 12, 310-347.
[59] Văn Phòng Đảng,*Lich sử Đảng Cộng sản Việt Nam* [The history of the Vienamese Communist Party].Vol.1 (Hanoi: Sự thật Publishing House, 1980) 445; Andrew Vickerman, *The fate of the peasantry; Premature 'Transition to Socialism' in the Democratic Republic of Vietnam* (New Haven: Yale University Southeast Asia Studies, 1986) 50; Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante*, 38.
[60] Qiang Zhai, *China and the Vietnam Wars, 1950-1975* (Chapel Hill: University of North Carolina Press, 2000) 63.
[61] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập,* Vol. 12, 310-347.
[62] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập*, Vol. 12, 429-443.

government apparatus was deprived of its independence and discussions about government policies were held at the Party plenums. One of the essential components of the 'partification' of the state was the growing involvement of the state in the economic life. The National Bank of Vietnam was established in May 1951. It was granted full jurisdiction in issuing money, managing the treasury, mobilizing capital for production and controlling foreign currency.[63] Trade between the resistance and the French-occupied zones, hitherto forbidden, was now opened, but under the control of the state-run trade.[64] The government assisted the population to produce export products and private traders were provided with money to import vital goods from the occupied-zones. In the resistance zones, the state-run trade controlled the principal commodities and provided goods wholesale to private traders. Retail trade was left to the private sector. Foreign trade, mostly with China, was completely monopolized by the state.[65] In March 1951, the colonial taxation system was officially abolished and replaced by a new tax system which was much more lenient, consisting of only seven brackets.[66] The state also took direct control of the French mines and factories, which had either been seized by the Việt Minh troops during the military expansion in the early 1950s or abandoned by their owners after 1954. The efforts of the Party to orchestrate the socialist industrialization in North Vietnam in the late 1950s transformed former French-owned industrial establishments into state enterprises.

The most drastic policy of the Party, which had a far-reaching impact on the changing structure of the Vietnamese economy, was land reform. As discussed above, because the task of national liberation had been accorded the highest priority and a broad united front of all progressive and anti-colonial

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[63] Võ Nhân Trí, *Croissance économique de la République démocratique du Vietnam (1945-1965)* (Hanoi: Éditions en Langues Étrangères, 1967) 161; Đặng Phong, *Lịch sử Kinh tế Việt Nam,* Vol.I, 389.

[64] Đào Văn Tập (ed.) *45 năm kinh tế Viet Nam, 1945-1990* [45 years of Vietnam's economy] (Hanoi: Khoa học Xã hội Publishers, 1990) 195.

[65] Đặng Phong, *Lịch sử Kinh tế Việt Nam,* Vol.I, 352.

[66] New taxation covered agriculture, trade and industry, commodities, import and export duties, slaughter, registration fee, and stamp duty. Đặng Phong, *Lịch sử Kinh tế Việt Nam,* Vol.I, 375; Vickerman, *The fate of the peasantry*, 50-51.

forces was essential to the war of resistance, Hồ Chi Minh's government had initially adopted a relatively moderate land policy. Its result can be found in the report made by Secretary-General Trường Chinh at the First National Conference of the Vietnam Workers' Party in November 1953: over 70 per cent of all cultivated land in the country was still in the hands of the French, Vietnamese landlords or the Roman Catholic church, who made up less than 10 per cent of the population. In contrast, the peasant, almost 90 per cent of the population, owned less than 30 per cent of land.[67] It was only during the early 1950s, when independence had become more or less assured, that the Party began to shift its attention to the socialist reform of agriculture. It was thought that radical land reform would enable the government to solve the internecine conflict in the countryside between the peasants and landlords and, more importantly, to mobilize a larger labour force recruited from the peasants for a decisive battle at Điện Biên Phủ. According to the tenets of the Marxist theory and the Chinese model, land reform would represent the effective confirmation of the commitment Vietnam to the Socialist bloc, in return for which it could continue to receive the military assistance and aid it needed in the ongoing resistance.[68] In the eyes of Trường Chinh, and many other leaders, fulfilling the tasks of national independence and 'land to the tillers' were primary conditions if the advance to socialism were to be achieved.[69]

At the First National Conference, the Vietnam Workers' Party set up a platform of land reform. The platform was then transposed into the Land Reform Law, approved by the National Assembly and ratified by President Hồ Chí Minh on 19 December 1953. Among its other aims and its emphasis on the ideological significance of land reform, the Law stresses the need for the abolition of ownership of the land by French colonialists, imperialist aggressors

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[67] Trường Chinh, *Cách mạng dân tộc dân chủ nhân dân Việt Nam* [The national and People's democratic revolution of Vietnam], Vol.II (Hanoi: Su that, 1975) 307-401; Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante*, 34.

[68] Edwin E. Moise, *Land reform in China and North Vietnam; Consolidating the revolution at the village level* (Chapel Hill: University of North Carolina Press, 1983) 234-236.

[69] Trường Chinh, 'On the Vietnamese revolution', (report to the Second National Congress of the Party, February 1951), in Trường Chinh, *Selected Writings*, (Hanoi: Foreign Languages Publishing House, 1977) 294, 335.

and Vietnamese feudal landowners to create a regime under which ownership of the land would be vested in the peasants. The Law distinguishes various categories of land which would be subject to confiscation, requisition or expropriation. First and foremost, all land and property belonging to the French colonialists and imperialist aggressors were liable to confiscate. On the other hand, Vietnamese 'traitors', reactionaries and recalcitrant bullies would be allowed to keep some of their land and livestock, but these non-confiscated properties would always be liable to requisition, for which compensation would be paid by the government. Democratic, resistance and non-reactionary landowners also had to surrender their land and farming implements to the government in which case they would receive payments based on local price of their property or in the form of government bonds. The government also confiscated some of the land belonging to religious and professional organizations, waste land and public land. All land and property seized would be redistributed to landless and poor peasants, refugees, and those who had contributed to the resistance. The state would retain the ownership of factories, perennial crops plantations, mines and public utilities. A Committee on Land Reform would be established in the central, 'zone' and at provincial levels to supervise the implementation of the reforms.[70] Chairman of the Central Committee would be Trường Chinh, Secretary General of the Vietnam Workers' Party.

In the final analysis, land reform was never really designed to make an equitable distribution of land among the population. Instead it was an essential prerequisite for collectivization, which began in earnest in 1958. Directly after the reforms, the peasants were organized into the mutual aid teams, in which they were encouraged to assist each other during peak labour period. At this early stage, the peasants still retained ownership of their land and control of their crops. When the land reform was finally concluded in July 1956, the process of combining the mutual aid teams into agricultural production co-operatives began. Peasants were obliged to perform collective labour, for which

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[70] Đảng Cộng Sản Việt Nam, *Văn kiện Đảng toàn tập*, Vol. 14, 499-503.

they would receive work-points. Each work-point was worth a portion the net harvest of their co-operative. In the collectivized system, the state took direct control of the agricultural output of the *c*o-operatives and its distribution. Land was also consolidated in the hands of the state. Each co-operative was allowed to reserve only 5 per cent of its arable land to be distributed to individual households. Notwithstanding its smallness, this plot became the main source of income of households.[71] The land collectivization was accelerated in the early 1960s when it was made the economic basis of socialist reform in future Vietnam.

In short, by 1960 the tendency towards socialism in economic transformation had become established in North Vietnam. The 'premature transition' began in 1951 after a period of pragmatic nationalism, in which national independence was accorded the highest priority. In this early period, only a few of radical ideologies of the Communist Party had any effect on the economic policy making of the DRV. After its restoration in February 1951, the Communist Party was in a position in which it could gradually exert more influence and its growing power led directly the land reform in North Vietnam in 1953-1956. During the first years of economic rehabilitation after 1954, the Party still acknowledged private initiatives in the economy but after late 1958, the Party concentrated its efforts on either the transformation or the complete abolition of capitalist and private industry and trade and a free market. The economic model of the DRV gradually took shape in a transition to socialism. The overhaul of the whole state, ultimately transforming it into a socialist nation, was confirmed in the new Constitution adopted on 31 December 1959. Article 9 unequivocally states that economic aims of the DRV were gradually progressing from these of a regime of a people's democracy towards those of socialism.[72]

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[71] Vickerman, *The fate of the peasantry,* 164-165; Edwin E. Moise, 'Land reform and land reform errors in North Vietnam', *Pacific Affairs* 49 (1976) 88-89.

[72] The 1960 Constitution recognized the right to own private property. However, it forbade the use of private property to be used as a tool to sabotage the state economic plan. The state reserved itself the right to buy or requisition all private property if necessary. 'Hien Phap cua

3. Economic Transformation

The seeds of the economic transformation in which the traditional structure of French colonialism would be irrefutably left behind, were sown in the period of the Japanese occupation. As the French unable to repatriate their capital to France, they concentrated their investments in a variety of businesses and manufacturing industries in Vietnam. By its introduction of new crops and industries and its encouragement of indigenous handicrafts the Japanese war efforts unintentionally diversified the primary sectors based economy of colonial Vietnam. A radical shift in economic power occurred in March 1945, when the Japanese seized the productive assets of the French and set up the puppet Trần Trọng Kim government. Between April and August 1945, while the Trần Trọng Kim government preoccupied itself with constitutional matters as well as trying to deal with attacks by opposition groups and tackling the famine, the Japanese intensified the capacity of the French concerns to satisfy their own needs.[73] In the next stage, as the August Revolution made itself felt, economic administrative power was transferred from the Japanese to the new Vietnamese government. Since increasing production and achieving economic stability were the main priorities, the strategy adopted by the DRV was to allow foreign companies already established in the country to carry on their businesses. Strenuous efforts were thrown into rehabilitating the mines and reconstructing the factories and infrastructure, which had been destroyed by the war or being abandoned by Japanese and French owners.

Foreign companies operating in Vietnam were told they had to comply with new regulations laid down by the DRV government[74] and major French

nuoc Viet Nam dan chu cong hoa nam 1959', in: Hoàng Trung Hiếu, Hoàng Hoa, *Tìm hiểu hiến pháp*, 166-195.

[73] For instance, the Japanese used the Banque de L'Indochine to issue banknotes freely to meet their needs. From March to August 1945, the Japanese issued 787 million yen (about 800 million piastres), more than the total amount transferred to them as occupation expenses by the French between late 1940 and February 1945 (720 million piastres), and up to one-third of the 500-piastre bill in circulation. Vũ Ngư Chiêu, 'The other side of the August Revolution', 307.

[74] Besides these legitimate measures, the protests of Vietnamese employees in foreign companies proved an effective measure should the owners not comply with the law. These actions consisted of reducing production, raising the prices of their products or dismissing employees without good grounds.

companies carried on business as usual. The French controlled such important businesses as the water and electricity supplies in the cities, mines (Hòn Gai and Cẩm Phả), textiles (Nam Định), cement (Hải Phòng), tiles (Đáp Cầu), and workshops in Hanoi and Hải Phòng.[75] The Banque de L'Indochine began issuing banknotes for the independent government.[76] The government took direct control of the mines and those factories, seized by the Japanese in March 1935 or left behind by the French before the August Revolution. These included the Đáp Cầu Paper Company, the Trường Thi Locomotive Repairing Workshop, the Tĩnh Túc Tin-mine, and several coal-mines in Tân Trào (Tuyên Quang), Làng Cẩm and Phấn Mễ (Thái Nguyên) and Quyết Thắng (Ninh Bình). In May 1946, the government opened new state-owned mines in Đông Triều, Thái Nguyên, Trà My, Nông Sơn, Nghê An and Hà Tĩnh. These mines fell under the aegis of the Bureau of Industry and Mining, a section of the Ministry of National Economy.[77] The DRV government only confiscated those enterprises considered vital to the population and the functioning of the government, which included railway services, the post and radio-telegraphy. The Hanoi Water Company and the Hanoi Metal Company were also confiscated. At this juncture, a number of privately-owned Vietnamese enterprises were also actually established with government assistance. The majority had to do with banking and trade and included the Việt Thương Company, the Vietnam Commercial Bank, the South Asia Banking Corporation, the Pacific Trading Company and the Việt Bắc Company.[78] Although these companies had little capital and their operations were limited, their presence had one important implication. It affirmed the willingness of the new government to support Vietnamese private business thereby strengthening the trust of the Vietnamese Nationalist bourgeoisie in the new regime, and winning their supports in the war of resistance against the returning French colonial forces.

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[75] Viện Kinh tế, *Kinh tế Việt Nam,* 61.

[76] The Banque de L'Indochine stopped providing the DRV government with banknotes on 23 October 1945, after French forces had occupied many parts of South Vietnam. By this date, the Banque de L'Indochine had transferred a total of 22 million piastres to the Vietnamese government. Dang, *Lich su Kinh te Viet Nam,* Vol.I, 143-144.

[77] Đào Huy Tập (ed.) *45 năm kinh tế,* 65; Viện Kinh tế; *Kinh tế Việt Nam*, 63.

[78] Đặng Phong, *Lịch sử Kinh tế Việt Nam,* Vol.I, 160.

After the return of the French forces, the Việt Minh government gradually lost control of large parts of the country. On 22 September 1945, French troops occupied Saigon. From there, in early 1946, the French gradually expanded the territories they occupied to the provinces in South Vietnam and the south central coast of Vietnam. In late 1946, they extended their control to the highlands in Central Vietnam. By the summer of 1947, the French had control of almost entire South Vietnam and the southern parts of Central Vietnam, with the exception of some scattered resistance bases controlled by the Việt Minh. In Central Vietnam, the French were in the saddle Huế and the coastal areas. After these positions were consolidated, French troops landed in North Vietnam in November 1946. The terms of the Franco-Chinese treaty of February 1946 allowed the French forces take the place of the Kuomintang army in occupying North Vietnam.[79] Lạng Sơn, Lai Châu, Hòn Gai and Hải Phòng were the first areas to come under French occupation. In late November 1946, French troops began to surround Hanoi, the seat of the DRV Government. On 19 December, Hồ Chí Minh made a radio appeal across the country, urging for a national war of resistance against the French colonialists. This is generally acknowledged to make the beginning of the First Indochina War. Hồ Chí Minh and his revolutionary government apparatus subsequently retreated to Việt Bắc and, between late 1947 and 1950, the French organized several military offensives against the Việt Minh's headquarters in Việt Bắc. Although French troops repeatedly failed to capture the leaders of the Việt Minh Government, the area of the French-controlled territories expanded greatly, covering most of the plains, midlands and the north-western part of North Vietnam, as well as the border with China.[80]

All the areas under French control were significant Vietnamese economic centres of Vietnam including the major cities, ports, industrial and mining areas, plantations and two largest plains in both the North and the South. As they carried on military operations in their efforts to wipe out the Việt Minh

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[79] *Cứu quốc*, 27 February 1946.
[80] Davidson B. Phillip, *Vietnam at war; the history, 1945-1975* (New York: Oxford University Press. 1986) 49.

army, from early 1946 the French had been intensively prepared a plan for the economic reconstruction of post-war Vietnam. After two years of preparations, in January 1948 a massive plan was published under the name *Plan de Modernisation et d' Equipement de L'Indochine*. This plan was drafted by a commission of economic specialists chaired by Jean Bourgoin, President of Indochina Sub-Commission, generally referred to as the Bourgoin Plan. The French government ratified the Bourgoin Plan on 18 September 1948.[81]

The Bourgoin Plan was a ten-year plan designed to change the structure of the Indochinese economy. It was motivated by the fact that, up to that time, the economy of Indochina had been based purely on the exploitation of mining and the cultivation of agricultural products for export, a construction which meant that it continued to be backward and stagnant. To step up production and productivity as well as to reduce the dependence of the economy on the world markets, the plan stressed the need for the modernization and industrialization of Indochina. Bourgoin was convinced that the modernization process should begin in the agricultural sector. Although new land would be cleared, a fertilizer policy was essential if agricultural output was to be boosted. Bourgoin proposed building factories for the production of phosphates and nitrogenous fertilizers. Other chemical industries included those making sulphuric acid, soda, chlorine and glycerines, substances important to manufacturing. Heavy industries like iron, steel and aluminum would also need to be developed, because the production of metal goods was 'indispensable to Indochina's economic independence'. As the key to the development of industries was energy, the plan made provision for two main projects for energy production, the Mạo Khê Thermoelectric Plant, using energy generated by fuel from the Hòn Gai Coal-mine, would provide the main industrial centres in the North, including Hanoi, Hải Phòng, Hải Dương and Nam Định with power. In the South, the Dàlat-Đa

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[81] Andrew Hardy , 'The economics of French rule in Indochina; A biography of Paul Bernard (1892-1960)', *Modern Asian Studies* 1998) 825; Hugues Tertrais, 'France and the Associated States of Indochina, 1945-1955', in: Marc Frey, Ronald W. Pruessen and Tan Tai Yong, (eds), *The transformation of Southeast Asia international perspectives on decolonization* (Armonk: M.E.Sharpe. 2003) 74.

Nhim Hydro-electric Plant was intended to supply power to the port of Cam Ranh and the Saigon-Cho Lon areas.[82]

The total cost of the Bourgoin Plan was estimated to be 3,198 million piastres, of which 795 million would be allotted to agriculture, 140 million to mining, 175 million to energy, and 430 million to industry. The substantial amount of 1.4 million piastres was allocated to infrastructure. In its first five years (1949-1953), the plan would require an investment of 1,879 million piastres, a sum well beyond the means of Indochina.[83] Although some of the expenditure was to be provided by investment funds in France, the major part would have to be self-financed by Indochina itself. The French contribution would pay for the initial setting up of industries, whose profits would be redirected by the state into further development by the state. Industrial production would be oriented towards the local market; the role of exports was not ruled out, but the driving force behind economic growth would be internal. It was expected that within ten years the output values in Indochina, as well as the average per capita income of the Indochinese people would be doubled.[84]

Besides the looming financial difficulties, another serious threat to the implementation of the Bourgoin Plan was the determined efforts to sabotage it by the Việt Minh forces. The upshot of this the Việt Minh Government vandalism policy was that French businesses in Vietnam were badly damaged. Within a few months of the landing of French troops in the South in September 1945, 138 French factories in Saigon-Chợ Lớn had been destroyed. Rubber plantations in the South and the southern part of Central Vietnam were also under serious attack. More than 5 million rubber trees were destroyed and only half of the French rubber plantations were still up and running. The area under rubber cultivation dropped sharply from 108,394 hectares in 1944 to 72,466

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[82] See a summary of Bourgoin Plan in: Andrew Hardy , 'The economics of French rule in Indochina', 824-428; Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I, 462-467.

[83] The cost was estimated at 1939 values. The value of the piastres in 1947 was 13.57 times higher than it had been in 1939. Therefore, the real cost for the first five years would have been around 25,498 million piastres (according to the 1947 values). Meanwhile, the total budget of Indochina was only 249 million piastres in 1946, 883 million in 1947, 1,250 million in 1948 and 1,788 million in 1949. Viện Kinh tế, *Kinh tế Việt Nam*, 422.

[84] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I, 466.

hectares in 1946.[85] Rubber production was correspondingly reduced from 52,000 tons 1942 to only 13,000 tons in 1946, and it remained at 27,000 tons in 1947-1949. The Hải Phòng Cement Company used to produce 250-300,000 tons annually, but in 1947 the production dropped to a meagre 40,000 tons. The Hòn Gai Coal-mine Company extracted 26,000 tons in 1947, whereas the annual average in the previous years had been around 145,000 tons.[86]

In the early 1950s, the Việt Minh-controlled territories expanded greatly. This meant that a considerable number of economic installations previously controlled by the French fell into the Việt Minh hands. The Đáp Cầu Paper Factory, the Tĩnh Túc Tin-mine, the Chợ Diền Zinc-mine, the Lĩnh Nham Iron-mine, the Lào Cai Apatite-mine and various coal-mines in Ninh Bình, Thái Nguyên and Tuyên Quang were gradually taken over by the Việt Minh Government.[87] The only cola-mine the French were able to keep under their control until 1954 was the Hòn Gai Coal-mine. Throughout this period, industrial installations in the cities and on plantations were under constant attack. Economic figures show a sharp decline in the economy of Vietnam in the early 1950s compared to pre-war levels. In 1939 Vietnam produced 2.6 million tons of coal, whereas the coal output of 1953 was only 887,000 tons. Telling the same story, salt production reduced from 208,000 tons to 106,000 tons, sugar from 54,000 tons to 3,300 tons and textile production from 16,300 tons to 67,000 tons. Agricultural production experienced a similar decline with rice falling from 7 million tons to 2.5 million tons, corn from 214,000 tons to 20,000 tons, coffee from 2,5 million tons to 1,176 million tons and tea from 11 million tons to 2.1 million tons. The only sectors benefiting from the modernization programme run by the French authorities were rubber, cement and cigarettes. Despite the continuing reduction in the areas under rubber cultivation areas to about 62,000 hectares in the early 1950s, the rubber output of 1953 reached 53,3 million tons, 1 million tons higher than the 1942 level. The comparable figure of the cement output in the same period was between

[85] Viện Kinh tế, *Kinh tế Việt Nam*, 429.
[86] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I, 240.
[87] Võ Nhân Trí, *Croissance économique*, 143-144.

270,000 tons and 291,000 tons, and cigarette production was between 5,000 tons and 7,200 tons.[88] The increase in rubber production and a number of manufacturing industries in the early 1950s had also been stimulated by growing United States investment in Vietnam.

The escalation in the warfare situation frustrated the French investment in Vietnam. Therefore, instead of investing more in Vietnam as they had been asked to do under the Bourgoin Plan, after 1948 French companies began to withdraw their capital from the country. The Á-Đông Phosphate Company, the Indochina Paper Company, and theBanque de L'Indochinewere the first to take the lead in shifting their operations away from Vietnam.[89]In 1948,theBanque de L'Indochine established new branches in the Arab countries, San Fransisco, Africa and Vanuatu, a French colony in the South Pacific Ocean. By September 1950, only one-eighth of the value of the dealings of Banque de L'Indochine was still being transacted in China, Indochina, and Southeast Asia, a sharp contrast to before the Second World War, when the ratio was 40 to 47 per cent. The process of the French economic decolonization in Vietnam was hastened in the early 1950s when the prospects for the French forces during the war in Vietnam turned bleaker. In 1951, the Indochina Civil Engineering Enterprise began transferring its capital to Senegal. The Indochina Forest et des Allumettes Company transferred 30 million francs to buy stock in a similar forestry and match company in Africa.In 1951, the Banque France-Chinoise pour le Commerce et L'Industrie (BFCCI) established branches in Madagascar. After the French defeat in 1954, the BFCCI closed its offices in North Vietnam once and for all.[90]

A more typical example of the attitudes prevailing in French businesses in Vietnam in the 1950s was the French Colonial and Finance Company (Société Financière Française et Coloniale-SFFC). Founded in 1920, the SFFC

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[88] Viện Kinh tế, *Kinh tế Việt Nam,* 439.

[89] The Á-Đông Phosphate Company was established in 1946. It had investment in phosphate-mines in Lao Cai. The Indochina Paper Company was the main shareholder in the Dap Cau Paper Mill.

[90] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I, 476; Viện Kinh tế, *Kinh tế Việt Nam,* 424-425.

soon developed into a powerful finance house participating in more than thirty colonial enterprises. In 1931, nineteen of these were in Indochina. The SFFC was in the forefront of the Indochina rubber boom in the late 1920s, and it had interests in the production of tea, sugar, paper and textiles, as well as in property and banking. During the Japanese occupation, the SFFC suffered considerably. Some of its subsidiaries, such as the Société Nouvelle des Phosphates du Tonkin, Société Indochinoise des Cultures Tropicales, and the Société des Caoutchoucs d'Extrême Orient were almost paralysed after the Japanese *coup d'état*. The majority of SFFC companies were located in Hanoi and Hải Phòng, but after 1945, especially in the 1950s, their operations were gradually shifted southwards to Saigon, before being removed from Vietnam altogether. By 1953, only 23 per cent of the value of the SFFC dealings was still in Indochina, 42.5 per cent in Africa and 34.5 per cent in France.[91]

The decline in manufacturing meant that French consumption in Vietnam was heavily dependent on goods imported under the American aid and on subsidies from the French government.[92] The value of American aid to the French authorities in Indochina in 1952 was 280 billion francs. The sum was increased to 292 billion francs in 1953 and reached a peak of 475 billion francs in 1954.[93] In an attempt to promote production, the French government made desperate pleas for the private investment. In Many 1953, besides reducing the tax on foreign investment the French government devalued the piastre from 17 to 10 francs.[94] A forlorn hope because after 1950, French entrepreneurs were no

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[91] Andrew Hardy , 'The economics of French rule in Indochina', 834-836.

[92] Đào Huy Tập (ed.) *45 năm kinh tế Việt Nam,* 402. Indochina accounted for 10 and 12 per cent of France exports in 1953 and 1954, whereas the reverse trade was 57 per cent in 1947 and 78 per cent in 1951 and 1953. Laurent Cesari, 'The declining value of Indochina; France and the economics of empire, 1950-1955', in: Mark Atwood Lawrence and Fredrik Logewall, *The first Vietnam War; Colonial conflict and cold war crisis* (Massachusetts: Harvard University Press, 2007) 177.

[93] The contribution of American aid to the total expenditure of the French in Indochina increased correspondingly from 50 per cent in 1950 to almost 80 per cent in 1954. Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I, 478-179. Georges Chaffard states that between 1950-1954 the American contribution was $ 2 million, constituting of 78.2 per cent of total military expenditure. Chaffard, *Les deux guerres du Vietnam*,184.

[94] Although the exchange rate of the piastre was fixed at the high level of 17 francs, on the black market, the piastre was devalued to 7 or 8.5 francs. The upshot was twofold: the repatriation of currency from Vietnam to France and speculative trafficking in piastres. The situation

longer interested in the manufacturing sector. Most of the French companies remaining in Vietnam at that time were import firms. Following the withdrawal of the French army after the fall of Điện Biên Phủ in May 1954 and the subsequent conclusion of the Geneva Agreement, the remaining French firms in the North moved to South Vietnam.[95]

As the French withdrew from Vietnam, the Americans set about strengthening their presence there. While military aid and official technical and economic commissions were sent to Vietnam, from 1951, American private companies began infiltrating local businesses. The Americans had an undefined share in Vietnam Air, a joint venture founded in June 1951 by the Republic of Vietnam and Air France. In 1952, they bought 65 per cent of the equity in the Société des Plantations et Pneumatiques Michelin, a French tyre company which owned the largest rubber plantation in Vietnam. In the same year, the US Rubber Company bought two-thirds of the shares of the Compagnie des Plantations aux Hauts Plateau Indochinois, which owned a large rubber plantation at Buôn Mê Thuật, in south-central Vietnam. Goodrich provided the Hòn Gai Coal-mine with $ 3.8 million in capital goods and simultaneously made a deal with the De Rivaud to buy rubber plantations in Cambodia and Lao. In 1953, the Pan American Airways established an air route connecting the United States-Saigon-Hanoi, and Civil Air Transport installed an office in Saigon. The Laza Brothers bought 10 per cent of the Banque de L'Indochine.[96] Vietnam markets began to be flooded with American products and at the same time almost all the rubber and 70 per cent of coal produced in Vietnam were being exported to the United States.[97] From the early 1950s, the Americans gradually replaced the French in Vietnam in both military and economic spheres.

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eventually undermined incentives for investment. Andrew Hardy , 'The economics of French rule in Indochina', 843.

[95] Fall, *The Viet-minh regime*, 65-66.

[96] Viện Kinh tế, *Kinh tế Việt Nam*, 434; Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.I,501.

[97] In 1948, the American share in rubber exports from Vietnam was 12.7 per cent, while France retained 62.7 per cent. The import of American consumer goods to Vietnam increased 2.5 times each year during the period 1951-1954. Đào Huy Tập (ed.) *45 năm kinh tế Viet Nam,* 404.

The economic position of the Chinese and other foreign groups in Vietnam during the First Indochinese War did not change very much from what it had been in the colonial times. Initially, by virtue of Allied agreement the Chinese benefited enormously from their occupation of North Vietnam. The Kuomintang Army took over the stocks and supplies left behind by Japanese firms, seized local resources and facilities and dominated the trade between North Vietnam and China.[98] Under the terms of the Franco-Chinese Treaty, the Kuomintang authorities had control of the Yunnan-Hanoi railway and a free zone in the port of Hai Phong, in which goods destined for China were exempted from import duty. The French also promised to improve the status of the local Chinese in Vietnam.[99] It could not last. After the evacuation of the Kuomintang troops in June 1946, the economic interests of the Chinese in Vietnam were seriously threatened by both the Vietnamese government and the returning French authorities. The DRV Government quickly abolished the former privileges the Chinese enjoyed in foreign trade. In November 1946, the French attacked the Chinese quarter in Hai Phong, an action which resulted in the deaths of more than 500 Chinese and left several hundred wounded. The extensive loss of property was estimated at 40 million piastres.[100]

The position of the Chinese in Vietnam grew even more precarious after the outbreak of the full-scale war in December 1946. Chinese property in Hanoi and Hải Phòng was again destroyed. Many Chinese became refugees; some even fled to China. This situation is certainly one explanation of the rapid diminishment in the number of Chinese residents in North Vietnam, which fell from 59,000 in 1951 to 52,000 in 1953.[101] Initially, the Chinese sought protection from the French, but as time went by, after the Communists won the war in China and the coherent relationship was established between the newly founded People's Republic of China and the Viêt Minh Government, more and

[98] Marsot, *The Chinese community in Vietnam*, 168-169.
[99] *Cứu quốc*, 27 February 1946, Lin Hua, *Chiang Kai-shek, de Gaulle contre Hồ Chí Minh; Vietnam 1945-1946* (Paris: L'Harmattan,1994) 139-150; Marsot, *The Chinese community in Vietnam,*67.
[100] King C. Chen, *Vietnam and China, 1938-1954* (Princeton: Princeton University Press, 1969) 171.
[101] Throughout the whole of Vietnam, the number of the Chinese diminished from 731,000 in 1951 to 606,000 in 1953. See: Marsot, *The Chinese community in Vietnam*, 76; Trấn Khánh, *The ethnic Chinese,* 24.

more Chinese in Vietnam sided with the Việt Minh.[102] Worries about Chinese supports for the Việt Minh might have been the reason behind the French policy of concentrating the Chinese and other foreign nationals in a few cities, where they were easier to control. The Chinese in North Vietnam were given aid to help them move to the South and Saigon-Cholon was rapidly overcrowded with Chinese residents. In 1951, the Chinese population of Saigon-Cholon reached 583,000, several times more than the figure in the colonial era (Chapter One).[103] In 1952, the Chinese population in Saigon-Cholon constituted about 34 per cent of the total population of the city, whereas their proportion in Hanoi and Hả Phòng was 4 and 15 per cent, respectively.[104] When the partition of the country became a fact in 1954, a few thousand Chinese followed in the steps of a large number of Roman Catholics and the French deserted North for South Vietnam.[105] Subsequently, the number of the Chinese in South Vietnam swelled from 657,000 in 1951 to about 800,000 in 1956.[106]

Besides the obvious political and religious reasons, the large-scale evacuation of the Chinese and Vietnamese Roman Catholics to South Vietnam in the early 1950s was closely related to the nature of their professional activities. The major business of the Chinese community in Vietnam was in the field of commerce and the operations associated to it, including such jobs as moneylenders, bankers, contractors and middlemen between the Europeans and the local Vietnamese. By and large, the Chinese was much wealthier than the ordinary Vietnamese. Their prosperity was often believed by the indigenous people to have been the fruit of their collaboration with the French colonial authorities and their exploitation of the local resources. This misconception stirred up latent hostilities towards the Chinese among the indigenous population. It would not have taken any great stretch of the imagination for sensible Chinese traders to envisage that given time the Vietnamese authorities

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[102] Fall, *The Viet-minh regime*, 66.
[103] Victor Purcell, *The Chinese in Southeast Asia* (London: Oxford University Press, 1965) 169.
[104] Trần Khánh, *The ethnic Chinese,* 23.
[105] According to various sources, the total number of refugees from North Vietnam to the South was between 850,000 to 1 million persons, of whom 600,000 were Roman Catholics, accounting for 65 per cent of the total Roman Catholic population in the North. See a discussion on the statistic number of the refugees in Joseph Buttinger, *Vietnam; A dragon embattled*, Vol.II (London: Pall Mail Press, 1967) 900, 1116-1117.
[106] Trần Khánh, *The ethnic Chinese*, 24; Purcell, *The Chinese in Southeast Asia*,169.

would only pile more pressure on them once the war was over. Moving to the South, where there was a stronger French protection and a larger Chinese community, seemed to some Chinese to present the most realistic solution, although eventually they did not escape discrimination by the Southern Vietnamese authorities either. A more direct impetus for the Chinese immigration to the South was the rapid growth of the Communism in North Vietnam in the early 1950s. The entrepreneurial Chinese, who formed a highly commercial and capitalistic community in Vietnam, were by nature hostile to the Communist regime and vice-versa. The anxiety about putative Communist repression especially applied to the Vietnamese Roman Catholics, many of whom had been civil servants of the French colonial administration. Undoubtedly, religious and psychological incentives played the central role in their flight to South Vietnam after 1954.[107]

Economically, the land reform was a success. It broke the ties of feudalism and colonialism in the Vietnamese countryside. Between 1953 and 1956, six waves of land reform were carried out, covering 3,314 villages in seventeen provinces in North Vietnam. Besides these land reforms, there were eight waves of rent reduction in the overlapping regions, covering 1,875 villages with a population of about 7.8 million. By the end of the land reforms in July 1956, over 700,000 hectares of land, 1.8 million farm implements and 107,000 draft animals had been distributed to 1.5 million peasant families. Over 50 per cent of the cultivated area in villages had been involved in the land reform.[108] The dramatic change in the landownership in the countryside in North Vietnam before and after the land reform can be seen in Table 4. The consolidation of land in state hands was strengthened after 1955. By August 1955, 31,657 mutual aid teams, representing some 10 per cent of peasant families, had been formed in 447 villages. This number had risen to 153,000 at the beginning of 1956, 195,000 in September 1957, accounting 50 per cent of peasant families.[109] The number of co-operatives rapidly increased from 4,722

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[107] Fall, *The two Viet-Nams*, 153-154; B.S.N. Murti, *Vietnam divided; The unfinished struggle* (London: Asia Publishing House, 1964) 83.
[108] Trần Phương (ed.), *Cách mạng ruộng đất ở Việt Nam* [Land reforms in Vietnam] (Hanoi, Khoa học Xã hội, 1968) 70; Fall, *The two Viet-Nams*, 159. Moise, *Land reform in China and North Vietnam,* 190-203; Vickerman, *The fate of the peasantry*, 75, 104.
[109] Vickerman, *The fate of the peasantry*, 126-127

in 1958, 28,775 at the end of 1959 to 41,401 at the end of 1960, embracing 86 per cent of all farming families. By the end of 1961, 99 per cent of the total value of agricultural production came from the co-operatives.[110]

Table 4: Land ownership before and after land reforms, 1945-1957 (square metres per capita)

	1945	**1953**	**1957**
Landlords	10,093	6,393	738
Rich peasants	3,975	3,345	1,547
Middle peasants	1,372	1,257	1,610
Poor peasants	431	490	1,437
Landless Peasants	124	262	1,413

Source: Andrew Vickerman, *The fate of the Peasantry; Premature 'Transition to Socialism' in the Democratic Republic of Vietnam* (New Haven: Yale University Southeast Asia Studies, 1986) p. 107.

The reorganization of trade and industry after 1954 followed a rather different path. The DRV found it had suddenly inherited the vast industrial establishments abandoned by the French in North Vietnam. The most notable businesses were the textile mills in Nam Định, the cement factories in Hải Phòng, the Hòn Gai and Đông Triều Coal-mines and power stations in big cities. However, the picture was slightly less rosy as many factories had either been destroyed by the war or paralysed because their erstwhile French owners had removed vital equipment when they moved to the South.[111] As a result, the first priority in the economic reconstruction plans of the DRV was to ensure that former French factories were made operational again as quickly as possible, for which technical assistance and financial aid from the Socialist Bloc were essential.[112] Since there was an extreme shortage of Vietnamese engineers, in

[110] Fforde and Paine, *The limits of national liberation*,46, 188; Fall, *The two Viet-Nams*, 161; Vo Nhan Tri, *Croissance économique*, 284.

[111] Võ Nhân Trí, *Croissance économique*,220-221.

[112] Foreign aid to North Vietnam between 1955 and 1960 was mainly in the form of outright grants. Aid and credits from socialist countries accounted for a substantial portion of North

some production plants, such as the Hòn Gai Coal-mine and the power stations in Hanoi, the supervising French engineers were asked to stay on for two years.[113] Former French companies were grouped into the state enterprises. The number of state-owned enterprises grew from forty-one in 1954 to fifty-six in 1955, 11 in 1956 and 151 in 1957. By the end of 1957, the plans for the reconstruction of trade and industry had been completed and production in much of the industrial sector had again reached the pre-war level of 1939.[114]

Initially, the DRV Government encouraged Vietnamese private capital to invest in industry and commerce. In 1955, the number of privately-owned enterprises was 3,065, of which 957 in industry, 1,794 in commerce and services and 314 in transportation.[115] In late 1957, the government changed its tack and concentrated its efforts on developing state enterprises, allocating 42 per cent of total investment to them. Private enterprises were encouraged to co-operate with state enterprises in the formation of joint enterprises with government or industrial co-operatives. By the end of 1957, 60 per cent of private enterprises had signed contracts with state trading companies.[116] In 1958, the government established an Office for the Conversion of Privately-Owned Enterprises chaired by Đỗ Mười. Between 1958 and 1960, there were no fewer than five waves of conversion of commerce, five in industry and handicrafts, and three in transportation. The result was extraordinary. In total 729 private enterprises were reorganized into 661 joint enterprises and sixty-eight into industrial co-operatives. In Hanoi, no fewer than 499 private industrial installations were converted into joint enterprises, and forty-nine other installations became industrial co-operatives, accounting for 77 per cent of total privately-owned enterprises in the city.[117] The number of state enterprises

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Vietnamese revenues, about 25.7 per cent in 1958 and about 17.5 per cent in 1959-1960. This increased to 20.3 per cent in 1962. Jan S.Prybyla, 'Soviet and Chinese economic aid to North Vietnam', The China Quarterly 27 (1966) 90.

[113] Fall, *The two Viet-Nams*, 139. According to Dang Phong, after 1954, there were only 23 Vietnamese engineers in North Vietnam. Dang, *Lich su Kinh te Viet Nam,* Vol.II, 182.

[114] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.II, 182-184; Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante au Vietnam,* 102.

[115] Võ Nhân Trí, *Croissance économique*,222-223.

[116] Võ Nhân Trí, *Croissance économique*, 224.

[117] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.II, 204-209.

increased from forty-one in 1954 to 281 in 1958 and 1,012 in 1960. The share of state enterprises in the total industrial output correspondently increased from 34.4 per cent in 1958 to 57 per cent in 1960. The share of the state-run trade in the wholesale trade increased from 28 per cent in 1955 to 53 per cent in 1957 and 94 per cent in 1960, and their share in retail trade corresponded 10 per cent in 1954, 40 per cent in 1957 and 91 per cent in 1960.[118] The only area in which socialist-inspired transformation was still an issue was that composed of the artisanal and small-scale sectors. By 1960, only 80 per cent of registered artisans had joint collectives.[119]

By 1960, the Socialist transformation in North Vietnam had largely drawn to a close with the state taking control of the means of production. French factories, mines and public utilities which had once operated in the areas North of the 17th parallel were rapidly taken over by the DRV government and subsequently developed into state enterprises. Privately-owned Vietnamese firms were reorganized into either industrial co-operatives or joint state-private enterprises. French and Chinese trading firms sold their businesses to their Vietnamese counterparts before moving to the South during the late 1940s and the early 1950s. A more radical transformation changed the face of agriculture. The colonial system of landownership was completely dismantled and reorganized in the form of collectives. Collectivization was also introduced into the handicrafts and individual sectors, though there were still a small number of artisans who had not joint in co-operatives. Economic reorganization in the part south of the 17th parallel helped accomplish the economic decolonization of the French in Vietnam and consolidate the economic strength in the government of South Vietnam, albeit to a lesser degree than this had been achieved in North Vietnam.

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[118] Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol.II, 182, 192; Đoàn Trọng Truyền and Phạm Thành Vinh, *L'édification d'une économie nationale indépendante au Vietnam,* 113; Vickerman, *The fate of the peasantry*, 120; Đặng Phong, *Lịch sử kinh tế Việt Nam,* Vol. II, 382, 397.

[119] Fforde and Paine, *The limits of national liberation*, 46; Viện sử học, *Việt Nam những sự kiện 1945-1975* [Vietnam; historical events] (Hanoi: Giáo dục Publishing House, 1975) 191.

4. Diệm's Nationalism

While the Geneva Conference was underway in the wake of the collapse of Điện Biên Phủ[120] on 4 June 1954, the French signed treaties with Bảo Đại, recognizing the 'full independence' of Vietnam.[121] Bảo Đại then appointed the Roman Catholic Ngô Đình Diệm to form a new government for the State of Vietnam.[122] On 7 July 1954, Diệm's first cabinet with himself as Prime Minister was announced.[123] The Geneva Agreement, concluded on 21 July 1954, stipulated that the control of Vietnam south of the 17th parallel would be in the hands of the French forces. However, the French, already in earnest about withdrawing from Vietnam had transferred various parts of their administrative tasks to the Bảo Đại Government in the early 1950s.[124]Diệm's government took over control of financial, customs and monetary institutions as of 1 January 1955, the same date that the United States began dispatching direct aid to South Vietnam, bypassing the French.[125] At long last the French control of economic

[120] The Geneva Conference was opened on 8 May 1954 one day after the French surrender at Điện Biên Phủ.

[121] Bảo Đại acted as Supreme Advisor to the Hồ Chí Minh Government until early 1947, when he and his family decided to flee to Hong Kong and remain there. In 1948, in an attempt to form an anti-Việt Minh government the French approached Bảo Đại. The State of Vietnam was erected in July 1949 with Bảo Đại as head of state. It was given the status of 'an associated state', a component of the French Union. Although Bảo Đại had no power and he chose to spend most of his time in France, his government received wide international recognition. The United States and Britain recognized the Bảo Đại government on 7 February 1950, seven days after the USSR had recognized the DRV. In late 1951, the French gradually began to transfer the administration to the 'State of Vietnam' but the Bảo Đại government failed to win broad popularity and depended entirely on French support for its day-to-day survival. Mark Atwood Lawrence and Fredrik Logewall, *The first Vietnam War*, 8; Buttinger, *Vietnam*, 667-734.

[122] In fact, before the French adopted the 'Bảo Đại solution', they had asked Ngô Đình Diệm to form a Vietnamese government. Diệm refused because he felt the concessions made by France was not far-reaching enough for him to commit himself to their implementation. It was only after France promised to grant complete independence for Vietnam that Diệm decided to accept the position offered by Bảo Đại. Fall, *The two Viet-Nams*, 241-244.

[123] The 'Double Seven' (seventh day of the seventh month) anniversary of Diệm's rise to power was made a holiday in South Vietnam.

[124] The number of French civil servants in Indochina shrank from 27,050 in 1939 to 2,574 by April 1952 and kept on decreasingly rapidly until it dropped to fewer than 1,700 at the time of ceasefire in 1954. Fall, *The two Viet-Nams*, 219.

[125] Kathryn C. Statler. After Geneva; The French presence in Vietnam, 1954-1963, in: Mark Atwood Lawrence and Fredrik Logewall, *The first Vietnam War*, 271; Devillers, *Histoire du Viet-Nam*, 381; Buttinger, *Vietnam*, 864.

affairs in South Vietnam was replaced by that of the Diệm Government and of the Americans.

The Geneva Agreement required general elections throughout all of Vietnam in order to establish a unified country. However, since Diệm had not signed the agreement, he later declared that South Vietnam was not bounded by the Geneva Agreement and would not take part in the elections.[126] Instead, in October 1955 Diệm organized a plebiscite, dethroning Bảo Đại and establishing a Republican regime in South Vietnam.[127] On 29 October, the first government of the Republic of Vietnam was announced with Ngô Đình Diệm as President. Ministers in charge of the economy included Minister of Finance Trần Hữu Phương, Minister of Economic Affairs, Transportation and Public Works Trần Văn Mẹo, Minister of Land and Land Reform Nguyễn Văn Thoại, Minister Agriculture Nguyễn Công Viện and Minister of Labour Affairs Huỳnh Văn Nghĩa.[128] As were other members of the cabinet, these ministers were French-educated intellectuals, many of whom had served in the French colonial administration. Under Diệm's despotic regime, they had little chance to participate in the decision making in the country. Most powers were vested in the hands of members of Diệm's family and his close personnel friends.[129] Diệm himself retained the 'full civilian and military powers' formerly granted by Bảo Đại. His power was reaffirmed in the Constitution of the Republic of Vietnam promulgated on 26 October 1956.[130]Although Diệm's presidential term was set

[126] The elections were scheduled to take place in July 1956. However, as many observers did, Diệm realized that participating in the elections would mean handling over control of South Vietnam to Hồ Chí Minh. Fall, *The two Viet-Nams*, 233.

[127] The result of the campaign was that 98.2 per cent voted for a Republic. It was reported that this rate had been made up by the Diệm government. Anthony Trawick Bouscaren, *The last of the Mandarins; Diệm of Vietnam* (Duquesne University Press, 1965) 54.

[128] *Biên niên sự kiện lịch sử Nam Bộ kháng chiến, 1945-1975* [Chronicle of the resistance in South Vietnam] (Hanoi: Chính trị Quốc gia Publishers, 2011) 524-525.

[129] Members of the Ngô family in the cabinet included Ngô Đình Nhu (political advisor to the President), Ngô Đình Thục (the Roman Catholic archbishop of Huế), Ngô Đình Luyện (ambassador to Britain) and Ngô Đình Cẩn (in charge of Central Vietnam), and Trần Trung Dũng (son-in-law of Diệm's sister, serving as Deputy-Minister of Defence).

[130]Article 98 of the Constitution of the Republic of Vietnam stated that 'during the first legislative term, the president of the Republic may decree a temporary suspension of virtually all civil rights to meet the legitimate demands of public security and order and of national defence. See: Bouscaren, *The last of the Mandarins*, 54.

for a period of five years, it was repeatedly renewed until he was assassinated on 2 November 1963.

During the first nine years of its existence, South Vietnam was under Diệm's authoritarian regime, with sporadic American interventions through their aid policy. The structure of the economic goals and policies of South Vietnam were therefore marked by Diệm's political philosophy. First, he was a mandarin, strongly influenced by Confucianism, who believed in the paternalistic leadership of the society by an intellectual elite. Second, he adopted personalism (nhân vị) as the official philosophy of his regime. Diệm's personalism emphasizes the value of humanism in society, which was in stark contrast to the conceptualization of the human being under Communism as a sub-component of the masses. Nevertheless, his ideology was not like Western democracy, with its stress on capitalist individualism. Diệm agreed that every citizen was entitled to own basic amount of property, such as a house and a piece of land, but this was as far as it went. Citizens were expected to contribute their remaining assets to the government so that it could build up national industries, co-operatives and social welfare programmes.[131] Consequently, while maintaining a skeptical attitude towards Western individualism and capitalist institutions, Diệm did not reject the ideas of land reform, state industries and the maintenance of administrative restraints on the economic activities. Many American observers thought the economic philosophy of South Vietnam was akin to the socialist ideology of Communist North Vietnam, the exception being its attitude toward the ownership of rubber plantations.[132]

The most decisive factor affecting the policy of the South Vietnam government on foreign investment was Diệm's nationalist outlook. He enjoyed a tried and tested reputation as a fervent nationalist, who had several times refused to accept a position in either pro-Japanese government of Trần Trọng

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[131] John C. Donnell, 'Personalism in Vietnam', in: Wesley R.Fishel; Joseph Buttinger, *Problem of freedom; South Vietnam since independence* (New York: The Free Press, 1961) 46-47; K.W.Taylor, *A history of the Vietnamese* (Cambridge, NY: Cambridge University Press, 2013) 556-557.

[132] Fall, *The two Viet-Nams*, 250.

Kim or in the Bảo Đại puppet government, objecting to their limited authority. He was single-minded in determination to protect independence and autonomy of the Republic of Vietnam. Diệm recognized that economic independence was an essential component of sovereignty, and he was articulate in his insistence on the need to oppose foreign economic influence in both government and in private business.[133] Moreover, just as the Việt Minh preached anti-Westernism, Diệm's government was also periodically engaged in anti-Western, including anti-American, campaigns.[134]

As other newly independent regimes, the first attempts made by Diệm's government to establish economic nationalism were to seize control of financial affairs. Within a few months in power, on 31 December 1954, Diệm abolished the right of issue of the Bank of Indochina. The government-owned National Bank of Vietnam (not to be confused with the National Bank of Vietnam of the DRV established by in 1951 and renamed the State Bank of Vietnam in 1960) was established to take over this task. The banknotes in circulation were replaced by new Vietnamese banknotes.[135] The National Bank had supervisory power over private banks, eleven in all, eight of them branches of foreign banks, concentrated mostly in the area of Saigon-Cho Lon. Every month private banks were requested to send the National Bank all useful documents relating to their activities so that these could be checked and follow-up processes set in motion if this was deemed necessary. If such an occasion arose, the National Bank would send its agent to make an audit and give advice. The bulk of the activities of the National Bank were almost entirely devoted to financing foreign trade and managing reserves obtained through foreign aid. It also had the jurisdiction to approve of and award import licences (Table 5). Besides the Central Bank, Diệm's government created a number of loan funds, including the National

[133] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 401.
[134] Fall, *The two Viet-Nams*, 249.
[135]The banknotes withdrawn amounted to 9 billions piastres of which 6 billion were notes issued by the defunct Bank of Indochina and 3 billion were notes printed by the Institue d'Emission. Republic of Vietnam, *7 years of the Ngô Đình Diệm administration 1954-1961* (published on the 6th anniversary of the Republic of Vietnam (Saigon: 1961) 307. Harvey H.Smith (eds), *Area handbook for South-Vietnam* (Washington D.C.: US Government Printing office, 1967) 309.

Investment Fund and the Commercial Credit, whose aims were to provide Vietnamese businessmen with loans and assistance.[136]

Table 5: Number and value of import licences approved and settled by the National Bank of South Vietnam, 1955-1960

	Number of licences	Value in thousand US dollars
1955	17,251	139,252
1956	22,390	230,595
1957	23,194	243,231
1958	18,061	159,547
1959	27,363	175,954
1960	22,025	150,967

Source: Republic of Vietnam, *7 years of the Ngô Đình Diệm administration 1954-1961* (published on the 6th anniversary of the Republic of Vietnam (Saigon: 1961) p. 313.

Under the French colonial policy, economic functions of Vietnam had been geographically divided: extractive industries and manufacturing were concentrated in the North and the economy of South Vietnam was largely based on agriculture, with rice and rubber taking pride of place as the principal export crops (Table 6). Manufacturing consisted mostly of processing plants and factories producing consumer goods under the control of the French and Chinese.[137] The efforts to gain control of industrial sector were set in motion by bringing restrained administrative pressures to bear on foreign enterprises, typically by raising fees and taxes and placing restrictions on the transfer of profits to abroad. What happened was only to be expected. Major French firms were progressively sold off to Vietnamese. In 1956, the major French-owned urban transportation company in Saigon sold out to the government for 5 million piastres after having asked for 100 million piastres the year before. In the meantime, however, the government presented the company with a 20

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[136] Lloyd D. Musolf, 'Public enterprises and development perspectives in South Vietnam', *Asian Survey* 3 (1963) 363.

[137] Smith (eds), *Area handbook for South-Vietnam*, 307; Musolf, 'Public enterprises', 358.

million piastres bill for overdue taxes, traffic fines and for the refunding of excessive fares. The same year, the French electric utility company serving Saigon proposed various schemes for selling itself out as it found itself squeezed between rising costs and the persistent refusal of the government to approve rate increases.[138]

In another move, the government established new state-owned companies to buy out existing foreign enterprises. In 1957, for instance, the government established the Sugar Company of Vietnam to take the Hiệp Hoà Sugar Mill over from French interests, and a year later, the Tân Mai Saw-mill administration was established to purchase the French-owned Bien Hoa Saw-mill. The move made by the government in 1959 to increase its share in the joint ownership of Air Vietnam with Air France to 75 per cent was another such action.[139] By the end of 1959, 110 in the total of 229 French industrial firms, in addition to 102 trading firms in South Vietnam had been closed down or sold to the Vietnamese authorities. The remaining enterprises operated half-heartedly with limited production.[140]

The foreign investment policy of the Diệm government was based on the principle that the state would hold over 51 per cent of the stock in certain enterprises of vital importance to the welfare and security of the country.[141] Wary of Diệm's bias towards state ownership, very few foreign companies invested in South Vietnam, apart from some limited investments in the form of joint enterprises with the local government. Foreign companies started investing in South Vietnam since 1957 and by 1964, the total foreign investment was estimated at $ 4.6 million.[142] By 1960, only two paper-mills and a glass factory had been established with the minority participation of Italian, French and American private capital. The Đồng Nai Paper and Chemical Products

[138] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 402.
[139] Musolf, 'Public enterprises', 364.
[140] Viện Khoa học Xã hội, *Tình hình kinh tế miền Nam 1955-1975; Qua các chỉ tiêu thống kê* [The Econmic situation in South Vietnam, 1955-1975; statistic data (Hochiminh City: 1979) 58.
[141] Smith (ed.), *Area handbook for South-Vietnam*,345; Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 409
[142] Viện Khoa học Xã hội, *Tình hình kinh tế miền Nam 1955-1975*, 57.

Company was capitalized at 150 million piastres with 30 per cent coming from Sindicato Cellulosa Pomilio of Italy. The Paper Industry Company of Vietnam was capitalized at 180 million piastres with 19 per cent provided by the Parsons and Whittemore of the United States. The Glass Works Company of Vietnam was capitalized at 100 million piastres with 44.5 per cent coming from the French beverage firm Brasseries des Glacieres de l'Indochine and 4.5 per cent from the Société Indochinoise de Pyrotechnie.[143] The largest joint enterprise in South Vietnam was the 16 million dollar oil refinery established in April 1962. Two Western oil companies, Esso and Shell, held 50 per cent of the shares, and the South Vietnam Government owned 40 per cent, with another 10 per cent belonging to Vietnamese private investors.[144]

The major French rice plantations were transferred to Vietnamese ownership in the Land Reform Bill promulgated in October 1956. The Law on Land Reform stipulated that no landlord could own more than 100 hectares applied equally to rice- fields. Land in excess of 100 hectares would be purchased by the government for resale to the peasants in plots equivalent to between 2.5 and 5 hectares. The government would pay the expropriated landlords 10 per cent of the value of the land in cash and the remainder in non-transferable government bonds, yielding 3 per cent interest.[145] If they so wished, bond-holders could use them as shares in industrial and agricultural firms established by the government.[146] All in all, the land reform in South Vietnam involved 2,033 Vietnamese landlords and 430 landlords with French citizenship. The total amount of land subject to transfer was 733,800 hectares, of which 245,000 were French owned. Approximately, one-third of all the

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[143] Musolf, 'Public enterprises', 364.
[144] Fall, *The two Viet-Nams*, 304. Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 410.
[145] Smith (eds), *Area handbook for South-Vietnam,*322, C. Stuart*, The Land-to-the-Tiller program and rural resource mobilization in the Mekong Delta of South Vietnam* (Ohio: Ohio University Press, 1974) 43.
[146] Musolf, 'Public enterprises and development', 362.

tenanted land in South Vietnam was affected by the land reform programme of the Diệm Government.[147]

The land reforms in South Vietnam were financed by foreign aid. The French government agreed to allocate the South's Vietnamese government 1,490 million francs ($ 2.9 million US$) for the purchase of all the French rice-fields, plus an additional 473 million francs to buy agricultural equipment and to improve the irrigation system in the Mekong Delta. Most of the administrative costs incurred by the land transfer programme, $ 2.2 million in total, were covered by the US aid funds.[148] The transfer of the land from its French owners to the South Vietnamese Government was commenced in early 1960. By September, approximately 200,000 out of a total of 245,000 hectares had been formally transferred to the South Vietnamese Government. The remainder was to follow suit by the end of the year.[149] By the end of 1962, when President Diệm declared the land reform programme completed, 246,000 hectares had been distributed to 115,381 farmers. Subsequently, about 364,000 hectares were allocated, but over 400,000 hectares remained government owned.[150]

Peasants were encouraged to participate in co-operatives. In February 1959, the Commissariat General for Co-operatives and Agricultural Credit was established. This organization was assigned the task of promoting the co-operative movement by the expedient of providing finance, technical assistance, personnel and training. In June 1960, the Commissariat was supervising 266 co-operatives, consisting of 120 in agricultural production, three in forestry, two in animal husbandry, seventy-six in fishery, fifty-seven in handicrafts, six in the

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[147] Đặng Phong, *Kinh tế Miền Nam Việt Nam, thời ky 1955-1975* [South Vietnam's econmy, 1955-1975] (Hanoi: Khoa học Xã hội publishers, 2004); 247; Wolf Ladejinsky, 'Agrarian reform in the republic of Vietnam', in: Fishel, Buttinger, *Problem of freedom*, 170.

[148] Viện Khoa học Xã hội, *Tình hình kinh tế miền Nam 1955*-1975, 23; Smith (eds), *Area handbook for South-Vietnam*, 323.

[149] Wolf Ladejinsky, 'Agrarian reform in the Republic of Vietnam', in: Wesley R.Fishel; Joseph Buttinger, *Problem of freedom; South Vietnam since independence* (New York: The Free Press, 1961) 170.

[150] Smith (ed.), *Area handbook for South-Vietnam*, 323.

manufacture of consumer and two others.[151] By the end of 1961, the number of co-operatives had increased to 348, scattered throughout all the provinces with 79,000 members and a capital of $ 10 million.[152] Unlike the collectivization in Communist North Vietnam, the co-operative movement in South Vietnam was carried out on a more voluntary basis. The role of the government was limited to providing assistance and guidance. It refrained from any strong intervention in the internal affairs of co-operatives.

The large plantations in the upland areas, which covered about 75,000 hectares in 1956, remained undisturbed under the land reform programme of the Republic of Vietnam.[153] Initially, the Diệm regime did take steps to eliminate foreign investment and technical skills from rubber production. Nevertheless, owing to the growing importance of rubber to the value of Vietnamese exports (Table 6) and the shortage of funds from which to compensate their owners, the government was forced to retain rubber plantations in the hands of foreigners, most of them French nationals.[154] Showing some foresight, the government did establish funds to provide loans to Vietnamese owners of rubber plantations in an attempt to expand the output of their plantations. A Rubber Office was set up to complete with a Technical Guidance Committee to provide rubber planters with guidance and assistance. The results were satisfactory as rubber plantation areas increased to 100,000 hectares in 1960 and 150,000 hectares by the end of 1963.[155] The subsequent military operations against the Communist insurgents by the US and South Vietnamese forces seriously damaged the rubber plantations and some were forced to close down.[156]

[151] Smith (ed.), *Area handbook for South-Vietnam*, 333.
[152] Trần Ngọc Liên, 'The growth of agricultural credit and co-operatives in Vietnam', in: Fishel, Buttinger, *Problem of freedom*, 187.
[153] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 407.
[154] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 403
[155] Republic of Vietnam, *7 years of the Ngô Đình Diệm*, 323-324; Smith (ed.), *Area handbook for South-Vietnam*, 320.
[156] Smith (ed.), *Area handbook for South-Vietnam*, 308.

Table 6: The share of rubber and rice in the value of South Vietnamese exports (in percentages)

	1939	1956	1957	1958	1960	1961	1962	1964
Rubber	27.4	87.1	60.9	64.0	58.6	62.5	87.6	67.9
Rice	36.0	0.0	24.8	25.5	31.4	20.3	3.6	11.5
Total	63.4	87.1	85.7	89.5	90	82.7	91.2	89.4

Source: Bernard B. Fall, *The two Viet-Nams; A political and military analysis* (London: Pall Mall Press, 1963) p. 297

The unrelenting pressures being exerted on the French business interests caused a steady contraction in the size of the French minority. By the end of 1956, the number of French in South Vietnam was estimated to be only 20,000. The official estimate of the population of South Vietnam in December 1959 showed that the number of Westerners in Vietnam was 13,663, of whom 11,762 were French and 1,028 Americans.[157] By mid-1962, the number of the French had fallen to 10,000.[158] Although the pressures on the French economic interests began to moderate after the fall of Diệm regime, the French had permanently lost the position as they had enjoyed during the colonial times.

The drive to curb the economic influence of the Chinese was launched with Government Ordinance 21 August 1956. The Ordinance decreed the granting of Vietnamese citizenship to all Chinese born in Vietnam. Chinese born in Vietnam could either accept Vietnamese citizenship or seek repatriation to Taiwan. Less than a month later, on 6 September 1956, the Department of National Economy promulgated another ordinance barring foreign nationals from eleven professions known to be largely in Chinese hands. The Chinese were given six months to a year to liquidate their businesses.[159] As will be

[157] Republic of Vietnam, *Viet-Nam niên giám thống kê* [Annual Statistics of Vietnam] (Saigon: Viện Thống Kê, 1962) 46.

[158] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 405.

[159] These trades were fishmongers and butchers, retailers of general commodities, coal and firewood merchants; dealers in petroleum products, secondhand goods, scrap metals and cereals; merchants in textiles and silks selling less than 10,000 metres annually; people involved in the transportation of persons or goods by 'surface vehicle' or boat; rice-millers or processors, and commission agencies. Joseph Buttinger, The ethnic minorities in the Republic of Vietnam, in: Fishel, Buttinger, *Problem of freedom*, 110, 121.

shown later in Chapter 5, these policies were analogous to the anti-Chinese measures implemented by the Indonesian government in the late 1950s and the early 1960s.

When push came to shove, the number of Chinese eligible for Vietnamese citizenship chose to move to Taiwan was small; most of the Chinese complied with the registration regulations. By 9 May 1957, the deadline set for the newly designated citizens to pick up their identification cards, about 3,000 out of an estimated 600,000 Chinese born in Vietnam had complied with the stipulations laid down in the citizenship law.[160] As a result of police intervention, from late 1957 more and more the Chinese decided to comply with the new law. By July 1959, about 230,000 had decided in favour of Vietnamese citizenship, against some 3,000 who went to Taiwan, and fewer than 5,000, who registered as foreigners.[161] In the official estimate of December 1959, only 17,299 Chinese remained in South Vietnam.[162] Since many Chinese had Vietnamese wives, the former procedure they preferred was to transfer ownership of parts of their businesses to their wives and children born in Vietnam.[163]

The transfer of the control of foreign trade from the Chinese to Vietnamese hands was heightened by the discriminatory government policy on the issuing import licences in favour of Vietnamese participants, a similar measure to the *benteng* policy of the Indonesian government to be discussed in Chapter 4. Between December 1954 and mid-1956, the number of importers rose from fewer than one hundred to about 20,000. It was not all smooth sailing as delays in licensing coupled with the fragmentation of licence allocations to assist Vietnamese importers prompted widespread criticism, alleging that the complicated management of the controls was hampering the military effort. Voices which claimed that the favoured Vietnamese were not doing the

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[160] Joseph Buttinger, 'The ethnic minorities in the Republic of Vietnam', in: Fishel, Buttinger, *Problem of freedom*, 111.
[161] Joseph Buttinger, 'The ethnic minorities', 119. Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 406.
[162] Republic of Vietnam, *Viet-Nam niên giám thống kê,* 46.
[163] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 406-407 .

importing themselves, but were selling their licences to foreign importers were raised. The government subsequently took steps to rationalize the policy by limiting the number of categories of goods a firm might import. The importers were also required to make substantial piastre deposits for each import category. As the result of these government screening measures, the number of licensed importers rapidly declined to only 1,400 by October 1956. Another 1961 regulation stipulated that an importer had to possess a legitimate place of business, furnish proof of access to adequate warehousing facilities. He also was supposed to have been engaged in importing on a substantial level during the twenty-seven months after September 1957.[164] At the end of 1961, when it was announced that no further increase in the number of the registered importers would be allowed, there were 777 registered importers, 584 of whom were Vietnamese nationals. The foreign importers included thirty-six Chinese, seventy-four French, sixty-four Indians, six American and thirteen other foreign nationals.[165]

Inevitably Diệm's efforts to achieve a form of economic nationalism conflicted with the aid policy of the United State, whose goal was to promote private entrepreneurial development.[166] Because he was convinced that there was a dearth of acceptable private initiative, Diệm concentrated his limited financial resources accrued from foreign aid and foreign exchange earnings from the export of agricultural products, on developing state enterprises and the purchase of existing foreign companies. The pressure American could bring to bear on the situation proved to be insufficient to bring about a radical change in the economic policies of the Diệm government. In the early 1960s, the government-owned companies controlled most of important businesses in South Vietnam. Whenever he sought to seize control of foreign firms, Diệm remained

[164] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 414-416.
[165] Republic of Vietnam, *7 years of the Ngô Đình Diệm,* 242;
[166] Between 1955 and 1960, gross US economic aid to South Vietnam was on average $ 220 million per year accounting about 22 per cent of the South Vietnam GNP. From 1960 there was a substantial reduction in the amount of economic aid, which dropped to $ 159 million on average per year in 1961-1964. At the same time, military aid rose from $ 73 million in 1960 to $191 million in 1964. Doulas C.Dacy, *Foreign aid, war, and economic development; South Vietnam, 1955-1975* (Cambridge: Cambridge University Press, 1986) 3, 8.

extremely flexible in his definition of what were 'vital enterprises'. In early 1963, his government even acquired the majority ownership in a paper-mill, owned jointly with an American firm.[167] Besides its substantial reduction in economic aid to the Diệm government, the US government found it necessary to intervene more directly in South Vietnamese politics. The increasing military pressures from North Vietnam which threatened the viability of an anti-Communist state in Vietnam prompted the US government to send armed troops to South Vietnam. As he was thoroughly committed to maintaining independence Diệm was opposed to the presence of American troops in South Vietnam.[168] The anticipated consequence was a *coup d'état* led by the army under American auspice in November 1963, which ended the Ngô family's rule of South Vietnam.

Conclusion

Vietnamese historiography always treats the year 1954 as a watershed which separated the country into two antagonist regimes, Communist North Vietnam and the anti-Communist Republic in the South. However, from the perspective of economic decolonization, the distinction becomes rather blurred. The French began transferring their businesses away from Vietnam in the late 1940s and the early 1950s. The Geneva Agreement in 1954 brought the French presence to an end and caused the considerable reduction in the number of the Chinese residents in North Vietnam. The business activities of their compatriots in the southern part of the country were also radically eliminated in the next few years, with the exception of a small number of French-owned rubber plantations. This study argues that there was a continuity in the process of decolonization of

[167] Frank H. Golay, Ralph Anspach, M.Ruth Pfanner, and Eliezer B. Ayal, *Underdevelopment and* Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 409.

[168] Ellen J. Hammer, *A death in November; America in Vietnam, 1963* (New York: Oxford University Press, 1988) 27.

economic interests of both the French and the Chinese in Vietnam which ended in the late 1950s.

The principal drive behind the liquidation of the French businesses was generated by the policy of economic resistance organized by the Việt Minh Government during the Vietnamese war of resistance. The scorched-earth tactics of the Việt Minh, deliberately planned to destroy French economic installations and public facilities, coupled with the non-co-operation of the population caused severe damage to and heaped difficulties on the economic activities of the French and the Chinese. The failures of the French army against the Việt Minh and its eventual withdrawal from North Vietnam undermined the French hopes of the revival of their economic hegemony in Vietnam. In South Vietnam the picture was not much rosier for non-Vietnamese. The eagerness of Ngô Đình Diệm curb foreign economic influence set in motion the rapid liquidation of any French and Chinese business assets which still remained. As a result of its unwavering nationalism, it was the Diệm Government, which rounded off the protracted Vietnamese struggles for economic independence from the French, although eventually it was to fail to protect the Republic from falling into American hands.

Diệm's economic philosophy which was heavily biased towards state ownership but without the elimination of private participation did not diverge greatly from the economic policies pursued in the initial years after independence and the three years of economic reconstruction after the ceasefire in 1954. Where the difference lay was in the historical conditions in which these relatively moderate economic approaches were implemented, Diệm was eager to consolidate political and economic power in his own hands, but American pressures forced him to liberalize the economy. In the North, the necessity of forging broad national unity in war of resistance against the French prompted the DRV Government advisedly to arouse and play on nationalist sentiments, rather than to harping socialist dogma. Progressive and anti-French forces, regardless of their political affiliation and social status, were encouraged to participate in both government and business. Likewise, the economic difficulties which set in after 1954 as the result of the protracted warfare required a substantial contribution from the private and capitalist sectors to rehabilitate the dislocated economy.

The economic transformation in the direction of the socialist model in the North began in the early 1950s. Once it was in motion, it was characterized by growing intervention by the Communist Party in both the system of economic management and the economic life of the DRV. The agrarian reforms of 1953-1956 achieved collectivization in agriculture whereas the socialist transformation in industry, handicrafts and trade was achieved by converting private and individual sectors into state-owned enterprises or joint ventures with the government. By the end of 1960, the socialist transformation in North Vietnam had by and large succeeded and the Communist Party-state had taken control of the means of production and distribution.

CHAPTER THREE

THE INDONESIAN STRUGGLE FOR SURVIVAL, 1945-1949

'*Since most of the world is capitalist and Indonesia lacks the means of engineering the collapse of capitalism, the country is forced to avoid alienating itself from the capitalist world*'. – Sutan Sjahrir

Introduction

Soon after the installation of the Trần Trọng Kim government in Vietnam on 29 April 1945, the Japanese set up an Investigatory Committee for the Preparation of Independence of Indonesia (Badan Penyelidik Usaha Persiapan Kemerdekaan Indonesia-BPUPKI). On 7 August 1945, the Japanese replaced BPUPKI by a Preparatory Committee for Indonesian Independence (Panitia Persiapan Kemerdekaan Indonesia, PPKI). Two days later, the leaders of the PPKI, Soekarno, Mohammad Hatta, and Radjiman were summoned to Dalat in Southern Vietnam, where Field Marshal Terauchi Hisaichi, the Commander of the Japanese Southern Army, told them that Indonesian independence was now in their hands. While preparations for the transfer of sovereignty were still being made, Japan surrendered to the Allies. After some hesitation, on 17 August 1945 Soekarno and Hatta proclaimed the independence of the Republic of Indonesia. A central Republican Government was established in Jakarta with Soekarno as President and Hatta as Vice-President. However, this government was recognized neither by the Netherlands nor by Allied countries, preparing to enter Indonesia. The Japanese were supposed to maintain the *status quo* in the Indonesian Archipelago until the arrival of Allied troops.[1]

The landing of Allied troops in Indonesia in which combined forces of Australian, British and Indian troops, followed later by the Dutch, took place at the end of September 1945. The eastern parts, including Kalimantan, Sulawesi and the Lesser Sunda Islands were occupied by the Australian Army. In July 1946, the Australians handed over the control of these islands to Dutch personnel of the Netherlands Indies Civil Administration (NICA).[2] British-Indian troops landed in Java and Sumatra, but their lack of fighting men and the fierce resistance they met from the Republicans confined their occupation to the coastal areas of Surabaya, Semarang and Jakarta (now again known as Batavia) in Java and Padang, Medan and Palembang in Sumatra.[3] In December 1946, the British withdrew from Indonesia leaving the jurisdiction over the Archipelago to the returning Dutch colonial authorities.[4] Indonesia thenceforth entered a period of alternating military confrontation and diplomatic negotiations with the Dutch, both highly susceptible to the machinations of international politics. The conflicts only ceased in November 1949 with the conclusion of the Round Table Conference Agreement, by which the Netherlands finally acknowledged the sovereignty of Indonesia.

Inevitably, the political economy of Indonesia between 1945 and 1949 developed in the framework of a national struggle to secure the newly proclaimed independence. This chapter examines the initial attempts of the Indonesians to steer the former system of a colonial economy towards that of a

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[1] Anthony Reid, *The Indonesian national revolution 1945-1950* (Melbourne: Longman, 1974) 36; Rajendra Singh, *Post-war Occupation Forces, Japan and Southeast Asia* (Kanpur, 1945) 253-6; Ricklefs, M.C.*A History of Modern Indonesia since c.1200* (Stanford, Stanford University press, 1993) 209-211.

[2] M. George, *Australia and the Indonesian Revolution* (Melbourne: Melbourne University Press, 1980) 61; Audrey R. Kahin (ed.), *Regional dynamics of Indonesian revolution; Unity from diversity* (Honolulu: University of Hawaii Press, 1985) 8.

[3] George McT. Kahin, *Nationalism and revolution in Indonesia* (Ithaca: Cornell University Press, 1952) 141.

[4] Richard McMillan, *The British occupation of Indonesia, 1945-1946; Britain, the Netherlands and the Indonesian revolution* (London: Routledge, 2005) 181.

national one. It commences by looking at the transformation in the apparatus of economic management laying with special emphasis on the organization of personnel. Particular attention is paid to the ambivalence shown towards the economic thinking and policy of the Indonesian leadership, caught in a cleft stick between the aspirations of economic nationalism and the demands for independence of the nation. The transfer of economic power from Japanese to Indonesian hands and the gradual restoration of Dutch businesses in the Archipelago will be analysed in some detail. The substantial concessions made at the Round Table Conference by the Indonesian delegation to the Netherlands are a good reflection of the prevailing tendency towards pragmatism in Indonesian politics in the late 1940s, a trend which continued to develop in the early 1950s.

1. Economic Institutions

Unlike Vietnam, where independence was proclaimed after most of the administrative apparatus had been transferred to the Provisional Government, Java and the greater part of the Outer Islands of the Indonesian Archipelago remained under Japanese military administration after 17 August 1945. Therefore most urgent task facing the Indonesian Nationalist leaders immediately after independence was to secure the administrative power from the Japanese by setting up their own administrative system of government.[5] On 18 August, the Republican Government was established according to the provisions of the new Constitution of the Republic of Indonesia (Oendang-Oendang Dasar Negara Republik Indonesia). The next day, PPKI changed its name to the Indonesian National Committee (Komite Nasional Indonesia-KNI), which obliquely implied that PPKI was no longer a Japanese product.[6] Finally,

[5] The following discussion about the economic institutions of the Republic is largely taken from Phạm Văn Thủy, 'The political framework of economic decision-making in Indonesia and Vietnam, 1945-1950', *Lembaran Sejarah* 1 (2013) 32-35.

[6] Nevertheless, in diplomatic relations with the Japanese, the name PPKI was still largely in use. Vice- President Hatta explained this inconsistency by saying, at a meeting of PPKI-KNI on 19 August 1945, that 'we tell the Japanese that this is a meeting of the PPKI, while we guarantee to the people that this is the meeting of the Komité Nasional Indonesia'. Benedict R. O'G. Anderson, *Java in the time of Revolution; Occupation and Resistance, 1944-1946* (Ithaca, Cornell University Press, 1972) 86.

on 29 August, President Soekarno dissolved KNI and established the Central Indonesian National Committee (Komité Nasional Indonesia Poesat-KNIP) in its place. Primarily acting as no more than an advisory organ to the President, on 16 October 1946, KNIP was granted legislative power. This meant that henceforward all legislation had to be approved by KNIP and by the President. KNIP was authorized to establish a Working Committee (Badan Pekerja) to do the day-to-day work.[7] The territory of the former Netherlands Indies was divided into eight provinces, each headed by a governor appointed by the central government and assisted by a regional Komité Nasional.[8] In Java, the Republican Government communicated its directives to the regions by radio and telegraph. In other parts of the Archipelago, in which the Nationalists had seized power, the local leaders took the initiative and gave substance to the general guidelines emanating from Jakarta.[9]

The first cabinet of independent Indonesia was established on 31 August 1945 under President Soekarno's leadership. This cabinet was dissolved on 11 November 1945 in response to the demand from the junior members of KNIP that legislative power should be transferred from the President to KNIP. On 14 November, Sutan Sjahrir, chairman of the KNIP Working Committee, was asked by the President to form a new cabinet. The formation of the Sjahrir Cabinet marked a fundamental change in the constitutional system of the Republic, a shift from a presidential to a parliamentary system. Although the form of a presidential cabinet was resurrected in January 1948 under Vice-President Hatta's leadership, the new cabinet held itself accountable to KNIP.[10] Besides the three Presidential Cabinets (one led by President Soekarno and two others by Vice-President Hatta), between 1945 and 1950 there were other five ministerial cabinets (three under the leadership of Sutan Sjahrir and two under Amir Sjarifoedin). That was not to mention the emergency government formed

[7] P.J.Drooglever, 'The Komite Nasional Indonesia Pusat and internal politics in the Republic of Indonesia', in: Abdulla (ed.) *The heartbeat of Indonesian revolution,* 151-152;*Berita Repoeblik Indonesia,* 17 November 1945.

[8] These eight provinces were West Java, Central Java, East Java, Sumatra, Kalimantan (Borneo), Sulawesi (Celebes), Maluku (the Moluccas) and Sunda-Ketjil (the Lesser Sunda Islands).

[9] Kahin (ed.), *Regional dynamics of Indonesian revolution*,7.

[10] Kahin, *Nationalism and revolution in Indonesia,* 232.

by Sjafruddin Prawiranegara between December 1948 and July 1949, after most members of the Republican Government had been arrested by the Dutch.

Despite the frequent change-over of cabinets, the basic structure of the Republican Government remained unaltered since it had first been shaped by President Soekarno on 31 August 1945. The Presidential Cabinet consisted of twelve ministries, four of whose primary task were concerned with the economy of the country. The Ministry of Finance was in charge of the national budget, taxation, customs and the circulation of money.The Ministry of Welfare was to supervise agriculture, industry and handicrafts, animal husbandry and fishing, commerce, mining, co-operatives, foodstuffs and essential consumer goods. The Ministry of Communications was responsible for transport, the postal, telephone and telegraph services. The Ministry of Public Works administered irrigation and public construction. One section of the Ministry of Social Affairs was also concerned with the economy as it had jurisdiction over labour affairs. The Ministry of Welfare was the largest ministry in the economic sphere as it exercised control over all Indonesian business activities and the resumption of Japanese assets.[11]

Ministries were assisted by various government departments which followed the pattern set by previous administrations, but now bore the Indonesian names and operated under Indonesian management. At the provincial level, the ministers delegated power to the Residents, who also set up various departments to assist them in carrying out their responsibilities. In January 1947, the Indonesian Government set up an Economic Planning Board consisting of representatives from Ministries of Finance, Social Affairs and Public Works. The purpose of the Planning Board was to draft either a three-or five-year economic plan for the reconstruction and development of the economy of the country.[12] In April 1947, the Planning Board was expanded into a

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[11] *Asia Raya*, 19 August 1945, *Berita Repoeblik Indonesia*, 15 February 1946; Sutter, *Indonesianisasi,* 310.

[12] *Indonesische pers*, 9 January 1947; *Berita Repoeklik Indonesia*, 17 November 1945; Mestika Zed, 'Indonesian economy in the revolutionary era; The struggle to find financial resources to fund the revolution, 1945-1950'; in: Abdulla (ed.) *The heartbeat of Indonesian revolution*, 182.

Committee of Planners for Economic Strategy (Panitia Pemikir Siasat Ekonomi) headed by Vice-President Hatta. The Committee consisted of eighty specialists and was divided into eight sections devoted to general economic problems, estate affairs, industry, mining and oil, foreign property, financial matters, electricity, railways and trams, labour affairs and problems in the Dutch occupied areas. Instead of coming up with a three- or five-year economic plan, in April 1947 the Planning Board proposed a ten-year reconstruction plan.[13] In June 1948, it introduced yet another programme. This was designed a 'national programme' and contained twelve points stressing the emancipation of the national economy from the colonial order and underlining government control of the economy.[14]

On account of the hasty transfer of authority from the Japanese and the acute shortage of alternative trained personnel, most of the members of these early Indonesian governments were former civil servants, who had worked for the Dutch colonial authorities and the Japanese military administration. Many of them had been trained in economics and subsequently served in the sections related to economy. The chairman of KNIP, Kasman Singodimedjo, had obtained a law degree at the Djakarta Law School (Djakarta Rechtshogeschool) where he had majored in a major in socio-economic studies. He had served as chief of the Agricultural Information and Inland Fisheries Section in the Bureau of the Agriculture Department of the Netherlands Indies Government. During the Japanese occupation, he had joined the Homeland Defence Force (Pembela Tanah Air-Peta) and had risen to become a senior officer in the Jakarta area.[15] The Secretary of KNIP was the Deputy-Mayor of Jakarta, R. Soewirjo, whose background included a variety of economic experience. Before the Second

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[13] Panitia Pemikir Siasat Ekonomi, 'Rantjangan Sementara', *Mimbar Indonesia*; *Madjallah merdeka diselenggarakan untuk pembangunan, politik, ekonomi, social dan kebudjaan* 1 (November 1947) 40; *Merdeka*, 23 April 1947; Mestika Zed, 'Indonesian economy in the revolutionary era; The struggle to find financial resources to fund the revolution, 1945-1950', in: Abdullah (ed.) *The heartbeat of Indonesian revolution,* 182.
[14] *Merdeka*, 17 May 1948.
[15] T.B. Simatupang, *Report from Banaran; Experiences during the People's War* (Jakarta: Equinox, 2010) 104.

World War, he had worked in the Central Office of Statistics and was afterwards employed in a building and loan association.[16]

Of the seventeen members of the Working Committee, Sjafroedin Prawiranegara, R.M. Sunaria Kalapaking, Jusuf Wibisono and Pardi had extensive economic experience. Sjafroedin Prawiranegara had worked as an assistant-inspector in the Department of Finance of the Dutch colonial government. He was promoted to chief of the Tax Office, first in Kediri, then Bandung, after the Japanese occupation.[17] Sunaria Kalapaking had studied law in Leiden and, when he returned to the Netherlands Indies in 1933, he had worked as an official in the General Municipal Credit Bank (Algemene Volkscredietbank) in Batavia. During the Japanese occupation, he was manager-in-charge of the Mangkunegaran enterprises and went on to become head of the Office of the National Economy in Jakarta.[18] Wibisono had worked in the Industrial Division and Central Office of Statistics in the Dutch period. During the occupation, he had served as an economic prosecutor.[19] Significantly, most of the members of the KNIP Working Committee would thereafter hold portfolio positions in successive cabinets. Many of them played a key role in the economic policy making of the Republic.

The leaders of the first Presidential Cabinet were two principal Nationalist foremen of Indonesia, President Soekarno and Vice-President Hatta. Whereas Soekarno was an architect by training, Hatta had obtained a doctoral degree in economics at the Rotterdam School of Commerce (Rotterdam Handelshogeschool). During his time in the Netherlands (1921-1932), he served as chairman of the Indonesian Union (Perhimpunan Indonesia), a Nationalist association set up by the young Indonesian students attending universities in the Netherlands. Hatta had published several articles in the Union magazine, *Indonesia Merdeka,* in which he discussed the economic relations between Indonesia and the Netherlands. During the Japanese occupation, Hatta was

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[16] *Asia Raya*, 24,25, 30 August 1945.
[17] Thee, *Recollections,* 75.
[18] *Merdeka*; *Soeara Rakjat Repeblik Indonesia,* 17 November 1945.
[19] *Indonesian review* 1 (1951) 171.

Soekarno's deputy in the Java Service Association (Hōkōkai).[20] With his profound knowledge of economics and political influence, it is understandable that Hatta would later become one of the architects of the Indonesian economy. His economic ideas were influential among Indonesian intellectuals.

The Minister of Finance in the first Presidential Cabinet was Samsi Sastrawidagda, who had been appointed an advisor in the Department of Finance under the Japanese administration. When Samsi resigned on the health grounds in September 1945, A. Maramis took over his position. Maramis was in turn replaced in the first Sjahrir cabinet (November 1945-February 1946) by Sunaria Kalapaking. Shortly after his appointment, Sunaria fell ill and his position was transferred to Soerachman Tjokroadisoerjo, a teacher in economics at the Djakarta Islamic College. Soerachman had served as director of Department of the National Economy during the Japanese occupation and as Minister of Welfare in the Soekarno Cabinet.[21] He continued to hold his post in the second Sjahrir Cabinet (March-June 1946), but in the third Sjahrir Cabinet (October 1946-June 1947), he lost his portfolio to Sjafroedin Prawiranegara. In the Amir Sjarifuddin Cabinet (July1947-January 1948), Maramis was again appointed Minister of Finance and retained his position during the first Hatta Cabinet (January 1948-August 1949). When he departed on a mission to India in July 1948 Hatta took over his portfolio. In the second Hatta Cabinet (August-December 1949), Hatta handed over the Finance Portfolio to Lukman Hakim, a lawyer, who had worked in the government tax office in Jakarta during the Japanese occupation.[22]

As mentioned above, the Minister of Welfare in the first Presidential cabinet was Soerachmam. When he was appointed Minister of Finance in the first Sjahrir Cabinet, his portfolio was transferred to Darmawan Mangoenkoesoemo who had worked in the Department of Economic Affairs in the Dutch period and had been an economic advisor under the Japanese

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[20] Mavis Rose, *Indonesia Free; A Political Biography of Mohammad Hatta* (Singapore: Equinox, 1987) 13, 92, 172.

[21] *OrangIndonesia jang terkemoeka di Djawa* (Jakarta: Gunseikanboe, 1944) 208; Anderson, *Java in the time of Revolution,* 450.

[22] Anderson, *Java in the time of Revolution*,426.

administration.[23] In March 1946, the Ministry of Welfare was split into a Ministry of Trade and Industry and a Ministry of Agriculture and Supplies. Darmawan continued to hold the post of Minister of Industry and Trade, and Baginda Zainuddin Rasad, a graduate in agricultural science, was appointed head of the Ministry of Agriculture and Supplies.[24] In June 1946, the Ministry of Trade and Industry and the Ministry of Agriculture and Supplies were remerged to become the Ministry of Welfare; Darmawan returned head it as minister. In the third Sjahrir Cabinet, Adnan Kapau Gani was appointed the new Minister of Welfare. Gani was a businessman from South Sumatra and one of the founders of the largest pre-war Indonesian party, the Indonesian National Party (Partai Nasional Indonesia, PNI).[25] Gani was also the first chairman of the Economic Planning Board before being replaced by Hatta in April 1947.[26] Sjafroedin was reinstalled to be Minister of Welfare in the Hatta Cabinets.

In the President Soekarno Cabinet, R. Abikoesno Tjokrosoejoso, who had been an advisor in the Bureau of Public Works during the occupation, held the portfolios of both the Ministry of Communications and the Ministry of Public Works.[27] In the first Sjahrir Cabinet, the Minister of Communications was Abdul Karim, who was an engineering graduate and had worked as chief of the Jakarta Municipal Public Works during the occupation. Both the Minister and the Deputy-Minister of Public Works were engineers. Martinus Putuhena had experience in the administration of private estates and Herling Laoh in irrigation.[28] In October 1946, Abdul Karim was replaced by his deputy, Djuanda. Djuanda had graduated from the Technical College at Bandung in 1933 and had afterwards been employed as an engineer at the West Java Provincial Waterworks. He continued his work in the Department of Communications and Waterworks during the Japanese occupation.[29] In the

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[23] *Ensiklopedia Indonesia* (Bandung: Van Hoeve, 1954-1955) 372.
[24] P.N.H.Simanjuntak, *Kabinet-Kabinet Republik Indonesia; Dari awal kemerdekaan sampai reformasi* (Jakarta: Penerbit Djambatan, 2003) 31.
[25] Robert Cribb and Audrey Kahin, *Historical dictionary of Indonesia* (Lanham: Scarecrow Press, 2004) 54.
[26] Vice chairman of the Economic Planning Board was Soerachman.
[27] *Orang Indonesia jang terkemoeka,* 470.
[28] *Ensiklopedia Indonesia*,1150.
[29] *Indonesian Review* 1 (1951) 171.

Hatta Cabinets, H. Laoh was also entrusted with the Ministry of Public Works. A new ministry to deal with a vital part of the economy was established in the Hatta Cabinet; the Ministry of National Food Supply. Joeseph Kasimo, a Deputy-Minister in the Sjarifuddin Cabinet was promoted to head this ministry until the Transfer of Sovereignty, which took place on 27 December 1949.

In brief, within half a month of the day Indonesian Independence had been proclaimed, the new Republic had established a system of government which had all basic institutions required to plan and operate the economy. In contrast to the revolutionary leaders and intellectuals in the Democratic Republic of Vietnam, the majority of the leaders of the Republican Government were senior Indonesian officials who had had experience of economic affairs in the Dutch colonial Government and the Japanese administration. In view of this fact, it might be inferred that in comparison with Vietnam, post-war Indonesia was far more richly endowed with experts experienced in economics. Perhaps this was so but for a country the size of Indonesia, such persons were in very short supply, especially among the lower ranks. Furthermore, under the constant military threats against the Republican territories in Java and Sumatra posed by returning Dutch forces, the Indonesian economic leaders had had little chance to demonstrate or put their skills to good use.

2. The Preferred Economic System

The primary concepts of Indonesian Nationalist leaders in which they envisaged the future system of the economy were first set down in the Constitution of the Republic of Indonesia. The Constitution was drafted by PPKI before the Japanese capitulation and was officially ratified on 18 August 1945. The most important sections in the Constitution which relate to the economy are contained in Article 27 and Article 33. Article 33 states that, 'the economy shall be organized co-operatively; branches of production, which are important to the State and which affect the life of most people, shall be controlled by the State; and land and water and the natural riches therein shall be controlled by the State and shall be exploited for the greatest welfare of the people.' Section 2 of

Article 27 lays down that 'every citizen has the right to work and to a livelihood befitting a human being.'[30]

Although Article 33 contains the most important passages in the Constitution regarding the economy, its text was open to a wide variation of interpretations. The original Indonesian term for 'co-operative' was *kekeloeargaan*, which literally means 'family principle'. As explained by one of the key drafters of the Constitution, Vice-President Hatta, the basis of *kekeloeargaan* was *kooperasi*. The relationship among the members in a co-operative or with the members of other co-operatives should be a reflection of the relationship in brotherhoods and between family members.[31] Another central term which was widely used by the political parties in their social and economic programmes was *gotong-rojong* (mutual assistance). The spirit of *gotong-rojong* was said to express the essence of Soekarno's *Pantja Sila* (Five Principles).[32] Soekarno saw a future Indonesia as a *gotong-rojong* state. *Gotong-rojong*, said Soekarno, meant toiling hard together, sweating hard profusely together in a mutual struggle to help one another.[33] Although *kekeloeargaan* was the term ratified in the Constitution, Indonesian politicians later interpreted it as part of the concepts of *kooperasi* and *gotong-rojong*. A separate issue concerned the way the term *mengoeasai* (control) should be understood; should significant enterprises be owned by the state or controlled by other means, including co-operatives and joint ventures?

In post-independence discourse in Indonesia, Articles 27 and 33 have often been referred to as the foundations of the national economy. If the spirit of Article 33 were to be adhered to the economy would be organized on a co-

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[30] Translation from *The Voice of Free Indonesia*, October 1945. See the original text in *Berita Repoeblik Indonesia*, 15 February 1946.

[31] Mohammad Hatta, *Penjabaran pasal 33 Undang-Undang Dasar 1945* (Jakarta: Mutiara, 1947) 27.

[32] The five principles proposed were: *Kebangsaan* (nationalism), *Perikemanusiaan* (Internationalism or Humanitarianism), *Kerakyatan* (Democracy or Representation), *Kesejahteraan Sosial (*Social Welfare), and *Ketuhanan* (Belief in God). All of which Soekarno believed could be reduced to the one term *gotong-rojong.*

[33] Herbert Feith and Lance Castles (eds), *Indonesian political thinking, 1945-1965* (Ithaca: Cornell University Press, 1970) 49; Kahin, *Nationalism and revolution in Indonesia*, 126.

operative basis. The most important enterprises should be under state control. Although the right to work of every citizen was recognized, the drafters of the Constitution openly opposed the individual economic sectors. In the Elucidation to the Constitution, it was laid down that only insignificant enterprises might be in the hands of private individuals. As it had been drafted at a time when Indonesians were assured of independence by the Japanese, the Constitution represented the primary aspirations of the most senior Indonesian leaders for their independent country.

After the Proclamation of Independence, the Republic had only one nation-wide party, the Indonesian National Party (Partai Nasional Indonesia-PNI). In conjunction with KNIP, PNI was designed to assist the President and his Cabinet. Nevertheless, in November 1945, Vice-President Hatta issued a Government degree which officially permitted the formation of political parties. Within months, the political parties in Indonesia had 'sprouted out like mushrooms after rain', in the words of Sutter.[34] The political parties whose economic views had a strong influence on the public and the government were PNI, the Socialist Party (Partai Sosialis-PS), the Council of Indonesian Muslim Association (Madjelis Sjoero Moeslimin Indonesia-Masjoemi), the Indonesian Communist Party (Partai Komunis Indonesia-PKI) and the Indonesian Workers' Party (Partai Boeroeh Indonesia-PBI). In the first two cabinets under Sjahrir's leadership, the Indonesian government was largely dominated by the PS. From the third Sjahrir Cabinet and thereafter, more and more members of the PNI, the Masjoemi, the PBI and non-party members joined the government. In contrast to the Communist Party in the Democratic Republic of Vietnam, which was the leading political force in the government, PKI held no important positions in the Republican Government.[35] The Communist influence was only strong in the mass organizations and in Parliament. Of the 222 seats in the KNIP designated for the political parties by January 1947, sixty were allotted to the Masjoemi,

[34] Sutter, *Indonesianisasi,* 341.
[35] There were a few pro-Communist politicians in the cabinets, as among them Minister of Defence Amir Sjarifoeddin, Tan Ling Djie, a member of the Working Committee and State Minister Wikana. However, none of them was officially affiliated with the PKI.

forty-five to the PNI, eight to the Indonesian Christen Party (Partai Kristen Indonesia, Parkindo) and four to the Indonesian Catholic Party (Partai Katholic Republik Indonesia, PKKI), whereas the PKI, the PS and the PBI each had thirty-five seats.[36] An examination of the economic programmes of the major political parties give some more insights into the principal ideas among Indonesians about the future economy, as well as their attitude towards foreign capital.

PNI, the Indonesian state party, was established on 22 August 1945 on the instructions of President Soekarno. After absorbing a number of smaller Nationalist parties and organizations, it was reorganized in January 1946. Within five months of its formation, PNI had 40,000 members, spread throughout most segments of the Indonesian society, attracting both civil servants and businessmen.[37] The PNI ideology was based on the principles of nationalism, democracy and socialism. By and large, the economic objectives of the Party stuck fairly closely to the spirit of Article 33 of the Constitution. In its Urgency Programme, PNI called for the socialization of all branches of production important for sustaining the people and for provisioning the state. The state should take responsibility for the supervision of the distribution of those commodities important to sustaining the people. Labour and farmers organizations would become an important force in the building of a socialist community. This socialist economy was the primary goal of the PNI, although in its later policies the party tended to shift its emphasis to nationalism and democracy.[38]

Those not as great as that of PNI, PS also exerted a marked influence on the Indonesian government in the early years of independence. This party was established in December 1945 by the merging of two political parties, Amir Sjarifuddin's Indonesian Socialist Party (Partai Sosialis Indonesia, Parsi) and Sutan Sjahrir's Socialist People's Party (Partai Rakjat Sosialis, Paras). PS

[36] *Indonesische pers*, 2 January 1947.
[37] *Indonesische pers*, 29 July 1946.
[38] Sutter, *Indonesianisasi,* 330.

adopted many of the Parsi views on anti-capitalism and anti-feudalism. In its economic programme, PS called for a collectivist economy based on co-operatives, with all basic industries, banks and public utilities securely in state hands. The government should also have control of natural resources and use these as far as possible to promote the people's well-being. PS stressed the urgent need for transmigration, industrialization and the rationalization of agricultural production.[39] On account of its socialist views and radical anti-imperialism, PS retained a dominant position among the left-wing parties, but this is not to say that all leaders of the PS acquiesced in the party programme. Divisions within PS led to Sjahrir's withdrawal of his Paras faction from the party and his subsequent formation of the Socialist Party of Indonesia (Partai Sosialis Indonesia-PSI) in February 1948. In September, Amir Sjarifuddin led the remainder of PS in joining PKI in organizing the Madiun Uprising against the Republican Government. In the aftermath of its suppression by the Republican Army, several leaders of the revolt were executed, including Amir Sjarifuddin. This blow caused the collapse of PS and heralded the serious decline of PKI.[40]

As elsewhere, the Communists in Indonesia held the most radical views on anti-foreign influence and support of state control. In its Fighting Programme announced at its foundation on 21 October 1945, PKI urged the government to immediately nationalize all important enterprises in the fields of production, distribution and finance immediately. It also demanded the nationalization of all land and the confiscation of all private estates and large-scale landholdings. Such landholding and estates should be transferred to the peasantry who would have been organized into soviets composed of people's representatives.[41] Similarly, PBI, which was founded in November 1945 and later merged with PKI in 1948, also called for the nationalization of foreign enterprises and it that such enterprises should be declared state property. It

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[39] Anderson, *Java in the time of Revolution,* 202-210.
[40] Kahin, *Nationalism and revolution in Indonesia*, 291-294.
[41] *Berita Indonesia*, 6 November1945, 13 November 1945; *The voice of free Indonesia*, 21 September 1946; Anderson, *Java in the time of Revolution,* 217.

insisted that distribution of food and clothing should be in the hands of PBI and run on socialist lines. A Labour Bank was to be established in which the capital of all enterprises could be deposited. This move would ensure that the distribution of capital could be effected as widely and fairly as possible.[42] Unlike other Indonesian left-wing parties, PKI and PBI considered themselves genuine adherents of Marxist-Leninist ideology.

In November 1946, PKI and PBI announced the formation of the Central Organization of all Indonesia Trade Unions (Sentral Organisasi Boeroeh Seloeroeh Indonesia-SOBSI). SOBSI included nearly all the labour unions in Java and Sumatra and had a membership of 1,500,000 Indonesian workers, covering both labour unions of the government-controlled factories and estates and of private enterprises.[43] At its first congress held at Malang in May 1947, SOBSI voted to join the World Federation of Trade Unions.[44] The political and economic views of SOBSI were very much in line with those of PKI and PBI. It urged for the nationalization of banks, mines, transport, electricity and the other public utilities. The state should mobilize all its economic strength to set itself on the path of industrialization, so that in the future it would be able to fulfill its own requirements and raise the standard of living of the people. SOBSI proposed the establishment of a central planning board, composing of representatives of workers and farmers to run the economy of the country, it would taken an especial interest in industry and agriculture. Foreign investment, SOBSI asserted, should be accepted only if sufficient safeguards were set up to prevent capitalist exploitation.[45]

In the multi-party system of immediate post-war Indonesia, only one major party, the Masjoemi, took a relatively liberal, democratic position on economic matters. The party was established in November 1945 as a new

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[42] *Merdeka*, 1,2, 9,12 November 1945; Sutter, *Indonesianisasi,* 320.
[43] *The voice of free Indonesia*, 15 March 1947.
[44] John E.Moes, 'Trade unionism in Indonesia', *Far Eastern Survey*, 2 (1959) 19.
[45] *The voice of free Indonesia*, 15 March 1947; *Merdeka*, 3 December 1946; E.D.Hawkins, 'Labour in developing countries; Indonesia', Glassburner (ed.), *The economy of Indonesia*, 196-250; Virginia Thompson*, Labour Problems in Southeast Asia* (New Haven: Yale University Press, 1947) 257-258.

organization separated from the Masjoemi party formed in the Japanese period. In its Struggle Program, the Masjoemi made no reference to socialism or state control of the economy. It was in favour of an economy for the people established on a *gotong-rojong* basis. The primary responsibility of the Indonesian government was to create opportunities for its citizens to work. Although it opposed the capitalist system on the grounds it contained elements of pure selfishness, the Masjoemi did acknowledge the right to own private property, curtailed only by the religious stipulations of Islam.[46] In this respect, the Masjoemi differed from the other major parties which saw only one alternative to the colonial and capitalist system, namely ownership and operation by the state. The Masjoemi recognized the virtue of individual initiative and therefore sought to protect private ownership.

Although PNI, PS, PKI, PBI, and the Masjoemi were the major political forces in Indonesia in the early stages of the Revolution, their views did not necessarily reflect the entire spectrum of the political thought of the Indonesian leadership. A number of Indonesian leaders and influential politicians did not actually belong to any political party. Furthermore, within the same party a diversity of opinions on the economy was still rife. In order to comprehend the Indonesian views about the most desirable economic system, this examination should not be limited to the programmes of the parties, as Sutter has notably done.[47] To paint a proper picture, it is absolutely essential to survey the economic views of prominent leaders and politicians. At this point it is worth recalling the inherent ambiguity in Article 33 of the Constitution, which helped to perpetuate the controversies in economic ideology.

Heavily influenced by Communist ideology, but choosing not to belong to any major political party, was Tan Malaka. His views on anti-imperialism and anti-capitalism were more drastic and more radical than those of any other Indonesian Nationalists. In December 1945, Tan Malaka organized a Popular

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[46] Sutter, *Indonesianisasi,* 326-327.

[47] Sutter divided Indonesian economic views during the revolution into two groups. The religious parties, including Masjoemi were moderate in their economic outlook, and most other parties were socialist and hence advocated a socialist economy. Sutter, *Indonesianisasi,* 342.

Front (Volksfront), calling for the solidarity of all socialists, religious people and Nationalists to join the political groups to form a Fighting Union (Persetoean Perdjoeangan). His appeal was warmly received. At the second meeting of the *Volksfront* at Surakarta on 15 and 16 January 1946, it was reported that the *Persetoean Perdjoeangan* had managed to gather members from 141 organizations, including all the important political parties and military organizations.[48] The strategic objective of the Fighting Union was Tan Malaka's seven-point *Minimum Program*, which centered on '100 percent Independence' (Merdeka 100%).[49] Points Six and Seven of the programme called for the seizure and confiscation of estates and industrial installations of enemies, namely the Dutch and the Japanese.[50]

To secure the future Indonesia economy, Tan Malaka demanded that foreign capital be barred from Indonesia. Never again were foreigners to be allowed to rent land and control Indonesian raw materials. The economy should be organized efficiently by the state. Tan Malaka saw a need for industrialization and urged the people to work hard to achieve the setting-up of heavy industries in Indonesia, which would then be in a position to produce machinery and war materials. To achieve this goal, Tan Malaka suggested drawing on experiences from countries, which harboured no imperialist designs against Indonesia, such as Germany, the United States, Sweden and Switzerland. Tan Malaka remained emphatic on the point of one-hundred per cent independence, alleging that, because the Dutch domestic economy was weak it stood to reason that the Dutch would 'suck the blood of Indonesia even more than before the war' in order to rehabilitate their country. Tan Malaka proposed to the formation of a Federation of Aslia, encompassing Southeast Asia and Australia. Its leading 'centre of heavy industry' would lie along the Bondjol (a town in West Sumatra)-Malacca axis. Indonesia would become a socialist state, from which all private ownership and individualism were to be

[48] *Merdeka*, 10, 30 January 1946.
[49] *Merdeka*, 10 January 1946.
[50] *Merdeka*, 30 January 1946; Anderson, *Java in the time of Revolution*, 290; Sutter, *Indonesianisasi,* 332.

eliminated.[51] Later, in October 1948, when he founded the small Proletariat Party (Murba party)[52], Tan Malaka insisted on 'real independence', as well as on a socialist society for the Indonesian people. In its programme, the Murba Party stressed on the nationalization and collectivization of all vital enterprises, and urged for the development of heavy industries in Indonesia.[53]

The demands for immediate confiscation of foreign assets insisted on by Tan Malaka and the Communist-inspired organizations were challenged by Sjahrir, who was then in charge of the government. Sjahrir was also the leader of the moderate group in the PS. In his famous pamphlet, Perdjoeangan Kita (Our Struggle) published in November 1945, Sjahrir himself urged labour to unite on an international scale in order to strive to build a socialist world. Nevertheless, Sjahrir cautioned that since most of the world was capitalist and Indonesia lacked the means of engineering the collapse of capitalism, the country would be forced to avoid alienating itself from the capitalist world. For the time being, Sjahrir stated, Indonesia had to remain open as far as this was possible to foreign investment. Foreigners were free to enter as long as they did nothing to undermine the welfare of the people.[54] In February 1947, Sjahrir further explained the reason Indonesia should allow foreign investment in more detail: 'We shall be doing this not to please foreign capitalists, but because we need them for our own economic development […]. We need foreign capital to make the speedy development of our country possible.'[55] Although socialism was Sjahrir's ultimate goal, for pragmatic reasons and by way of a short-term strategy he found it was necessary to retain the continuing operation of foreign companies, including Dutch firms, in the country.

The economic views of Vice-President Hatta probably offer a better illustration of the original ideas of Indonesian Nationalist leaders about the sort of economic system desired and their changing attitude towards foreign capital.

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51 *Merdeka*, 19 Januar 1946, Tan Malaka, *Madilog, Materialisme-Dialektika-Logika* (Jjakarta: Widjaya, 1946) 395-409; Sutter, *Indonesianisasi*, 331.
52 Murba stands for Musjawarah Ra'jat Banjak, meaning the deliberation of the masses.
53 Kahin, *Nationalism and revolution in Indonesia*, 313-319.
54 Soetan Sjahrir, *Perdjoangan Kita* (Koetaradja: Ghazali Yunus, 1946)
55 *Aneta News Buletin*, 20 February 1947.

Hatta was the key drafter of the Constitution and it was said that Article 33 was his own clause.[56] Indeed, it was Hatta, who often explained and conveyed the spirit of Article 33 to the attention of the public. At the first economic conference of the Republic held at Yogyakarta on 3 February 1946, Hatta presented article paper entitled *Ekonomi Indonesia di masa datang* (Indonesia's Economy in the Future).[57] The paper begins with an elucidation of Article 33 of the Constitution, which, as he emphasized, formed the foundation of the Indonesian Government's economic policy. Hatta believed that in the future the Indonesian economy should abandon the principles of individualism in favour of collectivism and public welfare in which case the structure of the economy must be based on co-operatives or the *tolong-menolong* principle.[58] Each Indonesian village (desa) was to be organized as a co-operative. Large enterprises, especially industrial undertakings and estates, should also be transformed into co-operatives. These co-operatives should operate under the supervision and regulation of the government. The larger the enterprise, the larger the government participation had to be; they were to become public corporations.

Above all, those enterprises which were in a position to exert a palpable effect on other enterprises or the welfare of the society should be operated directly by the state. Mining enterprises should be state enterprises. Other vital enterprises, including public utilities, railways, electric power companies and industries producing essential materials would also be managed by the state. If the state were unable to undertake this challenge, Hatta stated, it might transfer the existing operation to organizations directly answerable to the government. The government would ensure these organizations and the co-operatives had the financial aid and training they needed to function optimally. Workers could also buy shares in their co-operatives through a system of wage deductions. In as far

[56] Rose, *Indonesia Free*, 275.
[57] The article was included later in his textbook, *Beberapa fasal ekonomi*. Jakarta: Dinas Penerbitan Balai Pustaka, 1950. It was also published on several magazines, *Api Rakjat*, 11,13, 20 February 1946, *Ma'moer*, I (1946), 207-220.
[58] In his book *Ekonomi Kita* published in 1947, Hatta explained that *tolong-menolong* means collectivism. Moh. Hatta, *Ekonomi Kita* (Siantar: Djabatan Penerangan Soematera Timoer, 1947) 5.

as he touched on private sector, Hatta referred only to the rights of the *tukang* (tradesmen), vendors and shopkeepers, because, as he observed, their work did not control the lives of others.

Following the example of Prime Minister Sjahrir, Vice-President Hatta rejected the idea of the confiscation of Dutch and other foreign property. He stated that were nationalization to be introduced, this would be done according to the law and the rights of the state, but that the owner would be compensated. Foreign capital would have the chance to co-operate with the government in the establishment of joint ventures or co-operatives under government supervision. He gave the assurance that the management of such enterprises should be in expert hands, regardless of the nationality of the expert. While acknowledging that the development of the Indonesian economy should be in step with that of the world, Hatta asserted it should avoid becoming an export economy as it had been in colonial times. The objective of the national economy was to provide the basis needs to the people. Only products which the country was not able to produce could be imported. Exports were to be seen as a means for paying for imports.[59]

Largely inspired by Hatta's speech at the Yogyakarta economic conference, in June 1949, Soejono Hadinoto wrote a booklet, *Dari ekonomi colonial ke ekonomi nasional* (From a Colonial to National Economy), which conveyed his views as of one of the most liberal economic thinkers in post-independent Indonesia. Soejono Hadinoto had studied law and graduated from the Law College in Batavia. Under the Dutch colonial administration, he had been superintendent of the state enterprises of the Mangkunegaran in Solo. After independence, Soejono Hadinoto was appointed Chief of the Regional Department of Economic Affairs in Yogyakarta, where he was the founding father of the Sovereignty of the People Party (Partai Kedaulatan Rakjat).[60] The party later merged with the PNI, of which he was subsequently elected chairman. As he acknowledged himself, in the completion of his book Soejono Hadinoto owned much to S. Mangunsarkor, Minister of Education and Culture,

[59] Hatta, *Ekonomi Kita*, 3-4.
[60] *Indonesian review* 1 (1951) 171.

and H. Lao. The work itself was dedicated to Hatta, 'the economic warrior of Indonesia'. In his introduction to the book, Djuanda supported Soejono Hadinoto's ideas and hoped that the book would provide readers with a broader view of and a greater depth in some of the basic problems of the orientation of the Indonesian economy.[61] Indeed, the phrase *dari ekonomi colonial ke ekonomi nasional* drawn from the book became a catchphrase in Indonesian political discourse on the economy in the early 1950s.

The book begins with a survey of the economy before independence, in which the author does not spare his criticism of the system of modern economic exploitation adopted by the Dutch colonial authorities. On many points this system tallied with those in operation under modern imperialism and capitalism, which, he stated, would be unacceptable in the Indonesia of the future. His preferred system for running the economy was that elucidated in 1945 Constitution, which favoured a democratic economic system, and eschewed capitalist, fascist, Communist, or Marxist-socialist variations. The spirit of Article 33 allowed for three economic sectors: government or state, collective and individual. The state sector was the most important and the state could exercise its control over the economy by three means, by operating enterprises directly, participating in joint enterprises and supervising enterprises. Enterprises which controlled the basic necessities of the common people and might exert a major influence on the welfare of the people, which included public utilities and the bank of circulation, should most certainly be operated directly by the state. In joint enterprises, the state should participate alongside private Indonesian and foreign capital. Co-operatives, which Soejono Hadinoto believed to be the economic form most suitable to the Indonesian economy, were proposed for the collective sector in agriculture, trade, handicrafts and industry. Private enterprises could be developed but without any great fuss being made about them.[62]

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[61] Hadinoto Soejono, *Ekonomi Indonesia; Dari ekonomi kolonial ke ekonomi nasional*, (Jakarta: Jajasan Pembangunan, 1949) 8.

[62] Hadinoto, *Ekonomi Indonesia;* 27-34; For a more detailed elaboration of the book, see: Sutter, *Indonesianisasi,* 638-645.

Soejono Hadinoto believed that the continued operation of foreign enterprises in the country was still vital to the health of the economy. He stated that, although large foreign enterprises might have an injurious effect on the welfare of the people, at that point in time it would be politically and economically unwise to confiscate them. Given that even the 'New Economic Policy' of Socialist Russia contained capitalist features and Mao Tse Tung's China had not turned its back investment from abroad, even from the capitalist United State of America, Indonesia should follow their example and not put restrictions on foreign investment. The economic development of the country would require a huge amount of capital. The most efficacious way foreign capital could be invested in Indonesia would be by opening new factories, providing loans to the government or participating in the joint enterprises. Soejono Hadinoto says, as far as he was concerned, joint enterprises were the most suitable way in which foreign capital could be invested in Indonesia. Workers in joint enterprises would participate as shareholders. The top executive management of any company had to include Indonesians.[63]

At variance with Hatta's reluctance to co-operate with the Dutch,[64] Soejono Hadinoto's work reveals that he realized how important it was to take initiatives to restore the damaged relationship with the Netherlands. He suggests that the shortage of technicians, teachers and administrators in Indonesia could be largely overcome by offering these sorts of jobs to the Dutch. Capital goods, Soejono Hadinoto argues, could be also ordered from the Netherlands, as well as from other countries. In his eyes, independence and sovereignty were only one set of the goals Indonesia would strive to achieve; another, more intangible goal was to create a satisfied society, which would provide the people with prosperity and social welfare.[65]

In short, apart from the moderate stance on the economy adopted by the religious Masjoemi, the other major political parties in immediate post-war

[63] Hadinoto, *Ekonomi Indonesia*, 44-47.
[64] In his speech at the Yogyakarta economic conference, Hatta rejected the Dutch slogan 'working together in the economy'. By applying this slogan, Hatta predicted, Indonesia would again become an economic appendage of the Netherlands. Hatta, *Ekonomi Kita*, 4.
[65] Hadinoto, *Ekonomi Indonesia*, 48-50.

Indonesia were bent on creating an economic system in which the state would hold a controlling interest in the important sectors. Natural resources, finance, public utilities and other vital enterprises were to be under state control in order to allow the state to attain the welfare of the people. The debate revolved around what form this state control should take, the position of the private sector in the economy and above all, the government attitude towards foreign investment. The Communists and radical Nationalists insisted on the immediate nationalization of foreign estates and enterprises and the introduction of restrictions on any new foreign investment. Foreign enterprises would be declared state property or be managed by socialist unions. This proved a stumbling block as members of the pragmatic group disagreed on the issue of the confiscation of foreign property. Although the ultimate goal of some of them was indeed socialism, for the time being, from a practical point of view, they considered it essential to retain the operation of foreign enterprises in the country. As Indonesia was acutely short of capital for economic development, investment from abroad, including the Netherlands, should be welcomed. Nevertheless, they cautioned that foreign investment in Indonesian private businesses must be placed under the supervision of the Indonesian government. Co-operatives and joint enterprises were the types of business most favoured by the pragmatic group during the period of transition. It is important to note that it was these pragmatic Nationalist politicians who dominated the Indonesian Government in the late 1940s and in the years immediately after the Transfer of Sovereignty.

3. Economic Concessions

In their explanations of their decision not to confiscate the Dutch and other foreign-owned property in the country, pragmatic Indonesian Nationalist leaders emphasized how essential foreign capital was to any future economic development. One important, if not indeed the most crucial factor, was still largely missing in the economic discourses: the military situation. The increasing military pressures exerted by returning Dutch forces were threatening the sustainability of the newly independent state. Choosing the same path as the Democratic Republic of Vietnam and displaying the moderate nature of its economic policy, the strategy of the Republican Government was to win the recognition of the Netherlands and other foreign powers. Whereas the Vietnamese attempts to achieve the same goals were doomed from the outset, the Indonesian Nationalist leaders did eventually obtain their objective of defending the independence of their country by diplomatic negotiations.

One week after the Proclamation of Independence, on 24 August 1945, the Dutch and the British concluded a Civil Affairs Agreement in which they divided the scope of their responsibility over the post-war Indonesian Archipelago. As a contingent of Allied forces, British troops would enter Indonesia to disarm the Japanese and repatriate Allied internees. The Dutch personnel of the Netherlands Indies Civil Administration (NICA) would follow hard on their heels to fill the vacuum created by the Japanese withdrawal. The *de facto* authority in the former Netherlands Indies would be temporarily taken over by the British. As soon as the military situation was considered sufficiently secure, the British would transfer administrative powers to the Netherlands Indies Government.[66] No part of the Allied plan paid any attention to the Indonesian Nationalist movements or the Republican Government which had already taken office. In fact, it was not until the initial arrival of a British cruiser in Jakarta on 15 September 1945 that it dawned on the British that various parts of the Archipelago were actually under the administration of the newly established Republican Government.[67]

Disappointed by the tardiness of foreign countries to recognize it, the top priority in the diplomatic policy of the Republic was to ensure that it obtained international recognition, particularly from the Allies and the Netherlands. This was not an easy task, as said by President Soekarno on 23 August, 'especially under conditions like the present, where the Japanese Government is still obliged by the international *status quo* to remain in this

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[66] Peter Dennis, *Troubled days of peace: Mountbatten and South East Asia command, 1945-46* (Manchester: Manchester University Press, 1987) 79-80; Reid, *The Indonesian national revolution,* 43.

[67] Reid, *The Indonesian national revolution,* 48

country to run the administration and maintain public order'.[68] Doing everything within their power to avoid armed confrontations with Allied troops, the Republican leaders assiduously sought to win international recognition through diplomatic negotiations. Their efforts were constantly thwarted by a growing Dutch military presence.

Historically speaking, the Dutch had enormous economic interests in the Indonesian Archipelago. One important objective behind their decision to redeploy their troops in Indonesia was to restore and protect their economic interests, which had been devastated during the Japanese occupation. The goal the British se themselves was to revitalize the *entrepôt* trade between Singapore and Indonesia, especially the rubber trade from Sumatra and Kalimantan.[69] Unquestionably, the chief motivation of the Dutch was economic. In the words of wartime Prime Mister of the Netherlands P.S. Gerbrandy, 'if the bonds which attach the Netherlands to the Indies are severed there will be a permanent reduction in the national income of the Netherlands, which will lead to the country's pauperization'.[70] The Dutch fears of losing their economic interests in Indonesia are best illustrated by the slogan widely current in the Netherlands in the late 1940s '*Indië verloren, rampspoed geboren*' (the loss of the Indies spells disaster).[71] In the context of the serious concerns of the British and the Dutch raised by the uncertainty of the future of their economic interests in the Indonesian Archipelago, a liberal policy on foreign investment guaranteed by the newly installed local government would certainly have eased diplomatic negotiations.

In an interview with Australian war correspondents on 20 September 1945, President Soekarno expressed the views of the Indonesian government about foreign investment in the Indonesia of the future as follows: 'We shall not

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[68] Soekarno (1953), Penggantian zaman dan kewadjiban kita, in Osman Raliby, *Documenta historica; Sedjarah documenter dari pertumbuhan dan perdjuangan Negara Republik Indonesia* Jakarta: Bulan-Bintang, pp. 4-10.
[69] Dick, Houben, Lindblad and Thee, *The emergence of a national economy*, 169.
[70] P.S. Gerbrandy, *Indonesia* (London: Hutchinson, 1950) 27; Meijer, *Den Haag-Djakarta,* 39-40.
[71] H.L. Wesseling, *Indië verloren, rampspoed geborenen andere opstellen over de geschiedenis van de Europese expansie*. Amsterdam: Bakket, 1988.

repudiate the entry of foreign capital if it is really needed and can help tap the wealth of our soil and assist our manpower in ensuring the welfare of our country and people, thereby contributing towards meeting the world's needs.'[72] The President also solicited foreign understanding for the Indonesian situation and asked for aid for the Republic. Just three weeks later, on 12 October, Minister of Welfare Soerachman issued a government decree regulating the position of foreign property still in Indonesia in which it was stated that the Republican Government would respect the property of foreigners. To deal with the problem of property, which had been held by the Japanese and was now in Indonesian hands, a commission, in which for the Allies were to be joint participants, would be formed by the government to administer its restitution.[73]

Neither the British nor the Dutch responded to the Republican declaration on foreign property of 12 October, because a week earlier they had already established an Allied Commission for Investigating Foreign Property in Semarang to oversee matters relating to the property of Allied nationals.[74] In October and November 1945, the Allies stepped up the dispatch of troops to Bandung, Semarang, Surabaya and other cities in Java and this military influx immediately led to battles between the *Pemuda* and the Allied troops. On 28 October, the first shots were fired in a bloody battle in Surabaya, which raged for more than three weeks. It cost the lives of at least 6,000 Indonesians, and also claimed about 600 British and Indian casualties.[75] Although Allied troops were thereafter in control of the situation, the Battle of Surabaya was enough to convince the British of the unique role of Soekarno in being able to quell the military skirmishes in Indonesia. This epiphany led the Allies to exert pressure on the Dutch to negotiate with the Republic.

In order to prevent the Dutch propaganda claiming that the Indonesians were opposed to the Allied powers spreading to the world, it was vital that a more positive policy on the matter of foreign property be formulated. On 1 November 1945, Vice-President Hatta issued a foreign policy manifesto which

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[72] *Berita Repoeblik Indonesia*, 17 November 1945.
[73] *Merdeka*, 15 October 1945.
[74] *Merdeka*, 5 October 1945.
[75] Ricklefs, *A History of Modern Indonesia*, 217.

emphasized that, 'all foreign property other than that which the state needs to run itself will be returned to its rightful owners, and that what has been seized by the government will be compensated as fairly as possible'. Turning to the matter of foreign investment, it was stated that foreigners willing to obey the laws of the Republic and whose governments had recognized it, not excepting the Dutch, would be invited to run their businesses in Indonesia. The Dutch were warned to steer clear of beginning a senseless war, which would only prejudice their commercial interest in the country. The Republic also declared that it was prepared to take over the debts of the pre-war Netherlands Indies.[76]

The primary objective of the political manifesto was to obtain recognition from the world at large and the Netherlands in particular. Henceforth, the Republican leaders used the manifesto in their negotiations with the Dutch, which ultimately culminated in the 'Transfer of Sovereignty'. At a meting with Prime Minister and also Minister of Foreign Affairs Sjahrir in November 1945, when H.J. van Mook, the Lieutenant-Governor-General of the post-war Netherlands Indies, proposed the creation of a Dutch Commonwealth in which Indonesia would become a partner, Sjahrir made no bones in declaring that he was not prepared to accept any proposals which ignored the existence of the Republic.[77] He reiterated the wording of the manifesto, but stressed that the Republic would not take steps to settle the matter of Dutch property as long as the Dutch refused to recognize the Indonesian independence.[78] One month later Minister of Defence, Amir Sjarifuddin resumed efforts to persuade the Dutch to recognize the Republic. He said that the Republic was ready to assume responsibility for all former Dutch financial matters in Indonesia and that it would gladly permit foreign investment.[79] Despite these concessions, Van Mook steadfastly refused to recognize the Republic. He adhered to the idea of a

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[76] Sutter, *Indonesianisasi,* 311-313

[77] Yong Mun Cheong, *H.J.van Mook and Indonesian independence, A study of his role in Dutch-Indonesian relations, 1945-1948* (The Hague: Martius Nijhoff, 1982) 50-51.

[78] *Merdeka*, 5 December 1945

[79] *Aneta news agency*, 31 December 1945.

Commonwealth of Indonesian constituting a part of the Kingdom of the Netherlands.[80]

The deadlock in the negotiations between the Dutch and the Republic was only broken when Van Mook decided to adopt the 6 March Accord of 1946, concluded between the French and Vietnamese, as a model for the Dutch and the Republic. On the basis of the fact that out of the whole of former Indochina, France only recognized the independent status of Vietnam, the Netherlands would follow suit by acknowledging Republican control of a certain part of the Netherlands Indies, namely Java. In return, the Republic would agree to become a member of a federal state in Indonesia, which would join the Netherlands in a union. The Indonesians accepted Van Mook's idea of a federal state, but disputes rapidly arose about the extent of the authority of the Republic. Further trouble lay ahead as they made economic concessions to the Dutch, while the Indonesian Nationalist leaders began to put forward their claims to the economy. At the Malino Conference in Sulawesi in May 1946, the Indonesian delegates demanded the abolition of trade monopolies granted Dutch companies. There was also a call for the nationalization of the Java Bank, the central bank in the Netherlands Indies. The Dutch responses to these matters were only proffered in oblique terms.[81] They were not prepared to make any unequivocal commitment.

On 15 March 1947, an agreement between the Dutch and the Republic was officially signed by Van Mook and Sjahrir at a mountain resort in West Java called Linggadjati. Under the terms of the Linggadjati agreement, the Netherlands recognized that the Republic of Indonesia held *de facto* authority over Java, Madura and Sumatra. The Republic, together with Borneo (Kalimantan) and the Great East (Sulawesi, the Lesser Sundas, Maluku and West New Guinea), would constitute the United States of Indonesia (Republik Indonesia Serikat-RIS) within the Netherlands-Indonesia Union. In an attempt to sort out the economic issues, Article 14 of the Agreement provided for the

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[80] Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 131.

[81] Cheong, *H.J.van Mook and Indonesian independence,* 90.

Republican Government to recognize the claims by foreign nationals for restitution of their rights and property within the areas controlled by the Republic. Joint commissions, in which both Dutch and Indonesian representatives would participate, would be set up to supervise this restitution and to keep an eye on economic co-operation between the member states within the Netherlands-Indonesia Union.[82]

Although the Linggadjati Agreement was inspired by the 6 March Accord, it would be a mistake to think that by signing these agreements, Indonesian and Vietnam obtained the same degree of sovereignty. In the views of Indonesian Nationalist leaders, the Linggarjati granted the Republic greater sovereignty than the 6 March Accord did Vietnam. Indonesia was to become an independent state on an equal footing with the Netherlands, and the other member states within the Netherlands-Indonesia Union. In contrast, the sovereignty of Vietnam was contained within the Indochinese Federation and the French Union, in which France obviously enjoyed a superior position. In other words, the integration between the member states in the Netherlands-Indonesia Union was much weaker than in the French Union. The United States of Indonesia did not have anything to do with the Netherlands, Surinam and Curaçao.[83]

Nevertheless, the Indonesian comparison between the 6 March Accord and the Linggadjati Agreement was misleading. Vietnam had had a legal status long before the arrival of the French and Hồ Chí Minh did not demand sovereignty over the whole of former Indochina. Under the 6 March Accord, the French promised that they would not intervene in the eventual unification of the three parts of Vietnam, namely: Tonkin, Annam and Cochin China. Meanwhile, the Indonesians demanded sovereignty over the entire former Netherlands Indies, but the Linggadjati Agreement restricted Republican authority to only Java and Sumatra. Moreover, the Linggadjati Agreement made extensive

[82] Cheong, *H.J.van Mook and Indonesian independence,* 96, 205; S.L. van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen, 1945-1950*, Vol. VI. The Hagues: Martinus Nijhoff, 1976, pp. 753-757.

[83] *Indonesische pers*, 6 January 1947.

economic concessions to the Dutch, whereas the French economic interests in Vietnam were only recognized later in the Modus Vivendi. Yet, as had happened to the 6 March Accord, the Linggadjati Agreement was soon broken because of the military actions launched by the Dutch forces. The motivation for these was different from the reasons which had inspired that of the French. Van Mook was looking for ways to enforce the Linggadjati Agreement, while the French wanted to break the 6 March Accord.[84]

Soon after the conclusion of the Linggadjati Agreement, discussions about the economic problems arising from the implementation of Article 14 were resumed. On 10 April, Minister of Welfare Gani forwarded the Republican proposals for the restoration of foreign property to the Dutch Government. The stipulations set down in these proposals were that all public utilities, such as railways, tram, gas and electricity companies in the Republican territory, would become state property, and their former Dutch owners would be compensated. Foreign private property would be returned to its owners after agreements had been reached with the parties concerned wages, safeguards for labour, the inclusion of Indonesians in the managerial staff, land rentals and other matters. A joint commission would be set up to supervise the restoration of foreign businesses. Venturing into the sensitive area of the control of foreign exchange revenues, Gani proposed the establishment of an organization to be called the Joint Fund for Imports, Exports and Foreign Exchange Control for Indonesia (*Gemeenschappelijk Fonds voor Import-, Export- en Deviezenbeheer voor Indonesia*-Gafiedi). Gafiedi would be in charge of all matters related to imports and exports. It would be composed of nine members, five from the Republic and four from the Netherlands, the Netherlands Indies Government, Eastern Indonesia and Borneo. All decisions would be made by majority vote.[85] In their counter proposals submitted on 15 April, the Dutch agreed to the Gafiedi in

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[84] Pham, 'The Political Framework of Economic Decision-making', 40-42.
[85] Cheong, *H.J.van Mook and Indonesian independence,* 121.

principle, but demanded the immediate restoration of foreign property and estates to its rightful owners.[86]

On 27 May 1947, the Netherlands Commission General presented a memorandum to the Indonesian delegation. This memo again stressed the urgency of returning estates and industrial enterprises and the restitution of other property to non-Indonesian owners. No conditions whatsoever would be imposed. Eager to put their oar in the Gafiedi, the Dutch proposed the establishment of an administrative council to govern the fund. Instead of the nine members preferred by the Indonesians, they suggested Gafiedi be composed of ten representatives: four from the Republic, three from the Netherlands and the Netherlands Indies Government, one from Eastern Indonesia and one from Borneo. The President of the Java Bank would also be a member. This administrative council would be expected to issue regulations covering imports and exports, which would be binding in all parts of Indonesia. It would be up to organizations within the territory of the Republic or in other parts of Indonesia to see that the decisions taken by the administration were effectuated. Other similar organizations would also be established in order to achieve a uniform regulations and customs legislation for the whole of the Indonesian Archipelago. These would include a joint food supply fund, a joint customs administration and a joint customs personnel. The memorandum also required the immediate export of all estate production available in the Republican territory. The sales of these estate products would be handled by a central organization with a board of directors consisting of seven members: four from estate owners, two from the Republic and one from the Netherlands Indies Government. The Republican delegation was given a fortnight to respond to the Dutch proposals.[87]

On 8 June 1947, the Republic replied in a memorandum whose wording was quite conciliatory. It agreed to the composition of members of Gafiedi and

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[86] *Merdeka* 13-5-1947.

[87] 'The economic aspects of the note presented by the Commission General to the Indonesian delegation', *The economic review of Indonesia*, 6 (1947) 92-95; *Daerah Istimewa Jogjakarta* (Jakarta: Kementerian Penerangan, 1953) 211-212.

the Board of Directors, as well as to the setting-up of a joint food supply commission. It also agreed that it was important that foreign property be speedily restored, but argued that the restoration needed more time as it was imperative that an accurate inventory be compiled and good relations between employers and labour established. All state enterprises and the enterprises owned by the Japanese had to remain under the control of the Republican Government.[88] The Dutch flatly rejected this proposal and threatened military action.[89] On 8 July, the newly appointed Prime Minister, Amir Sjarifuddin, finally announced that the Republican Government did recognize foreign property rights and its unconditional restoration.[90] Despite this conciliatory statement, the Dutch went ahead and launched a military attack, named *Operatie Product,* against the Republican territories on 20 July 1947. Negotiations resulting in the Renville Agreement of 19 January 1948, were resumed after the cessation of hostilities. This agreement confirmed Dutch control of West Java, Madura and the Malang region in East Java comforming to what was known as the 'Van Mook line'. A second military action (*Operatie Kraai*) was waged in December 1948 and January 1949, in the course of which all key leaders of the Republic, including President Soekarno and Vice President Hatta, were captured.[91]

Bowing to pressure from the United States which threatened to withhold the Marshall Aid to the Netherlands, the Dutch reluctantly reinstated the Republican Government in January 1949 and agreed to re-open negotiations.[92] In May 1949, negotiations were resumed. The Netherlands agreed to discontinue military operations and return the capital Yogyakarta to

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88 *Daerah Istimewa Jogjakarta*, 212-219.

89 *The voice of free Indonesia*,14 June 1947

90 However, Sjarifuddin suggested that the transfer of property should be organized after the compilation of an inventory and reasserted the Republican claim to the former state enterprises within the territory of the Republic. *Daerah Istimewa Jogjakarta*, 227.

91 Kahin, *Nationalism and revolution in Indonesia,* 228-229. For more information about the Dutch two military operations, see: R. Krimp, J.J. de Ruyter, *Operatie Product, de eerste politionele actie in Indonesië* (Breda: S.L, 1980) and Louis Zweers, *Agressi II; Operatie Kraai, de vergeten beelden van de tweede politionele actie* (Den Haag: SDU,1995).

92 Alastair M.Taylor, *Indonesian Independence and the United Nations* (Ithaca: Cornell University Press, 1960) 189.

the Republican Government. Agreement about the terms of the Transfer of Sovereignty was concluded at the Round Table Conference in The Hague in November 1949. Under these terms, the Netherlands recognized the sovereignty of the United States of Indonesia over the former Dutch colonies in the Netherlands East Indies, excluding the territory of West Irian (West New Guinea). The question of the political status of New Guinea was to be determined by negotiations within a year of the date of Transfer of Sovereignty.[93] In fact, Irian Barat remained in a dispute between the Netherlands and Indonesia for over a decade and became one of the main reasons for Indonesian campaigns against Dutch business throughout the 1950s. It was not until October 1962 that the territory was finally surrendered to the Republic of Indonesia.

In return, the Indonesian delegation agreed that the Dutch could continue to do business in Indonesia, including the remittance of their profits, as usual. There was also an obligation placed on the new Indonesian Government to consult with the Netherlands on any monetary and financial measures likely to have an impact on Dutch interests. The nationalization of Dutch enterprises would only be permitted if it were deemed essential to the national interest of Indonesia and if both parties agreed. The amount of compensation would be determined by a judge on the basis of actual value of the nationalized enterprises.[94] The new nation was forced to take over the 4.5 billion guilder (or $1.13 billion) of the public debt incurred by the Netherlands Indies Government to the Netherlands. This amount was made up of the entire internal debt of the colonial government, amounting to 3 billion guilders, and another 1.5 billion guilders of external floating debts.[95] The debt was running at an interest rate of 3 per cent per year and, as long as this debt was not fully paid off, the Dutch

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[93] Ide Anak Agung Gde Agung, *Twenty years Indonesian foreign policy, 1945-1965 (*Yogyakarta: Duta Wacana University Press. 1990) 65-70.

[94] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 171; Ide Anak Agung, *Twenty years Indonesian foreign policy*, 65-70.

[95] Meijer, *Den Haag-Djakarta,* 536; Clerx, J.M.M.J. 'De financiële verhouding tussen Nederland en Indonesie opnieuw bezien (1945-1967)', *Politieke opstellen* 11/12 (1992) 65 ; Lindblad, *Bridges to new business,* 74.

Government retained the right to intervene in the Indonesian economic policy.[96] Furthermore, the Indonesian Government was obliged to maintain the position of 17,000 Dutch officials on European pay scales for two years.[97]It is widely acknowledged that Indonesia had to pay a high price for independence. No other former colony had to shoulder as heavier a heavy burden from its former colonial ruler as Indonesia was expected to do.[98]

With the conclusion of the Round Table Conference Agreement, Indonesia at long last obtained political independence from the Netherlands. Alongside the vigorous revolutionary armed struggles, the diplomatic efforts made by Indonesian Nationalist leaders undoubtedly played a central role in the process which led to the conclusion of agreement of Transfer of Sovereignty. Confronted by the disadvantages in the escalating war against returning Dutch forces, the Indonesian leaders continued to strive to gain independence through diplomatic negotiations. Economic concessions to the Dutch and the promise of a liberal economic policy towards foreign investment in Indonesia were repeatedly used during the negotiations. The Indonesian leaders subordinated the economic sovereignty of the country to the ultimate aim of gaining political independence. Hồ Chí Minh made similar attempts in the early stages of the Vietnamese revolution. The crucial differences in the war policies of the governments of France, the Netherlands and the United States were the determining factor in any explanation of why the nationalist struggles for independence fought so hard for by the Indonesian and Vietnamese people ended up at the different ends of the spectrum.

4. Early Economic Transformation

In comparison with the situation in Vietnam, the government of newly independent Indonesian was in a more advantageous position when it took over

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[96] Kahin, George McT. 'Some recollections from and reflections on the Indonesian revolution', in Abdullah (ed) *The heartbeat of Indonesian revolution,* (Jakarto: Gramedia, 1997) 26.

[97] Meijer, *Den Haag-Djakarta,* 536; Clerx, 'De financiële verhouding', 65; Lindblad, *Bridges to new business,* 74.

[98] Thee Kian Wie, 'Indonesianization; Economic aspects of decolonization in Indonesia in the 1950s', in: Lindblad and Post (ed.) *Indonesian economic decolonization*, 71.

the economy. After independence, most of important companies in Vietnam were still under the control of the French managers, who went out of their way not to co-operate with the newly established Vietnamese Government. The Indonesian Government took over the economy from the departing Japanese army. The transfer of management was carried out speedily during the months prior to the landing and occupation of the Allied troops and NICA. Enterprises formerly in Japanese hands were taken over by Indonesian employees and subsequently fell under the control of the Republican Government. Indonesian private entrepreneurs were urged to join in co-operative federations or associations run by high-ranking government personnel.

The first major sectors liberated from the Japanese control were the enterprises which had been operated as government services during the occupation. During the first week of September 1945, the media agencies, radio stations, post, telephone and telegraph offices were all put under Indonesian management. On 7 September, Indonesian publishers and editors established the National Publishing Agency (Badan Penerbitan Nasional), which made responsible for the supervision of all kinds of publishing in a manner true to the spirit of *gotong-rojong*. A wide range of Indonesian newspapers and magazines was founded during this one month, including notably *Berita Indonesia* (Indonesian News) *Merdeka* (Independence), *Indonesia Raya* (Greater Indonesia), *Ma'moer* (Prosperity) and *Berita Perekonomian* (Economic News). Through these media channels, subtly playing on nationalist sentiments the Indonesian government was able to encourage the ordinary people to get behind and support the newly established Republic and its leaders. Important government policies and legislation, not to mention the political situation of the country, were all major themes of these writings.[99]

As well as the take-over of the media enterprises at this crucial period, the transportation system was also gradually passing into Indonesian hands. On 1 September 1945, Indonesian employees of the *Kaizi Sookyoku* declared

[99] Oey Hoong Lee, *Indonesian Government and press during guided democracy* (Zug: Inter Documentation, 1971) 35-39.

themselves to be the personnel of the Republican Government and renamed the office to the Department of Maritime Affairs (Djwatan Oeroesan Laoet). Two days later, at the Manggarai Railway Station in Jakarta workers passed a resolution in the name of all railway employees in Indonesia, declaring the railway networks were the property of the Republic of Indonesia (milik negara Republik Indonesia).[100] The Department of Railways (Djawatan Kereta Api) was established to manage the operations of both the railway and tram networks in Indonesia. During the same month, branches of the Japanese trucking corporation, for instance, Djawa Unyu Zigyosha, were gradually taken over and in some places converted into new Indonesian companies.[101] On 3 October, Minister of Communications Abikoesno gave a speech calling on the employees of the railways, the post, telephone and telegraph systems and the radio stations to maintain their operations.[102] Plans were made to organize Indonesian shipping companies and maritime trade into federations under the control of the Ministry of Welfare.

The Indonesian take-over of the water, gas, electricity and mining companies was initiated somewhat later. On 29 September 1945, the power installation in Bandung was taken over by the trade union of workers in gas and electricity companies.[103] The example of this seizure was gradually extended to other provinces in Java and, by the end of October 1945, the distribution of gas and power was being fully managed by the Department of Electricity and Gas (Djawatan Listrik dan Gas). On 5 October, the most active mining enterprise in Java, the coal-mine at Bajah in southwest Java, was declared the property of the Republic. On 15 October, Indonesian personnel took over the largest coal-mine in the country, Boekit Asam, in the region of South Sumatra, and proclaimed it state property.[104] The take-over of the principal mineral industry, oil, also made rapid strides in the regions controlled by the Republic. The oilfields and

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[100] Asia Raya, 4-5 September 1945.
[101] Merdeka, 3,7,30 October 1945.
[102] *Merdeka*, 7 October 1945
[103] *Merdeka*, 5-10, 19,24 November 1945. *Api rakjat*, 12 March 1946.
[104] *Merdeka*, 7 October 1945

refineries in South and North Sumatra were gradually taken over in October and November 1945.[105]

Unlike the withdrawal of the Japanese armed forces, which sometimes involved violent skirmishes with Indonesian revolutionary units,[106] the transfer of economic power from the Japanese to Indonesian hands went relatively smoothly. The managers of Japanese enterprises initially complied with the orders to stay on their jobs as caretakers, but after the repatriation of Japanese army, they relinquished their positions to their Indonesian deputies. Some Japanese managers even seized the initiative and sold their businesses to interested Indonesian individuals.[107] By the time of Allied forces arrived, most important production facilities in Java and South and North Sumatra had passed into Indonesian hands. In Yogyakarta, for instance, by 26 September 1945 all offices, factories and enterprises had been transferred to the control of the regional KNI.[108] Outside Java and Sumatra, where Republican authority was still weak, the Japanese were able to maintain their businesses somewhat longer, pending instructions for evacuation.[109] Appealing to employees to continue operations, the Republican Government began introducing measures to establish proper control of economic activities.

On 4 October 1945, the Republican Government issued a series of measures to guide the reorientation of the economy. On 4 October, Minister of Welfare Soerachman announced a government policy on co-operatives. His announcement emphasized the fact that the Indonesian economy was to be nurtured in the spirit of *gotong-rojong*, its ultimate goal being the attainment of

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[105] *Merdeka*, 5,6 October 1945.

[106] For instance, armed conflicts in Semarang in September 1945 led to the massacre of about 130 Japanese imprisoned at Bulu Prison in the city on 14 October. See: Kenichi Goto, 'The Semarang incident in the context of Japanese-Indonesian relations', in: Abdullah (ed.), *The heartbeat of Indonesian revolution*, 144.

[107] Sutter, *Indonesianisasi,305.*

[108] Factories and enterprises which passed into the control of the regional KNI in Yogyakarta by 26 September 1945 included the central office and branches of *Nanyo Kohatsu* company, the Forestry Service, *Daiken Sangyo*, the sugar factories at Tandjungtirtor, Padokanm, Beran, Tjebongan, Gondanglipuro, Plered, Gesikan, Rewulu, Medari, Pundong, Sewugalur and 15 factories in Salakan. *Daerah Istimewa Jogjakarta*, 39.

[109] Reid, *The Indonesian national revolution,* 40.

a prosperous society. Co-operatives which had been established during the Dutch period and were still functioning were to continue operating. The Japanese co-operatives (*kumiai*) were to be abolished as they had been neither democratic nor had served the community. All co-operatives were bound to comply with the new regulations issued by the Ministry of Welfare. In an attempt to define the position of the private sector, Soerachman declared that the Republican Government would recognize the proprietary rights of private individuals so long as they did not impinge upon the interests of the community. Government supervision of foreign property was declared to be only of a temporary nature, intended to protect such property from the depredations of any public disorder.[110] On 12 October, the government affirmed that the Republic of Indonesia would respect the property of foreigners. The administration of the property formerly held by the Japanese and now in Indonesian hands was to be entrusted to a commission which would include representatives of the Allies.[111]

Control of finances was absolutely crucial, not only because the government was in desperate need of money to set up the state apparatus properly and to wage the guerrilla war against the Dutch, but also because, if it were in control of the banking system, it would be able to control production as well as exports and imports. While the major foreign banks which had been seized by the Japanese were returned to their rightful owners,[112] it was vital to the Republican government to establish its own financial institutions. On 22 August 1945, the Indonesian Independence Fund (Fonds Kemerdekaan Indonesia, FKI) was set up to collect and handle the funds and goods contributed by residents and organizations to finance the Indonesian independence struggle. Just less than a month later, on 19 September, the

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[110] *Berita Repoeklik Indonesia*, 17 November 1945.

[111] *Merdeka*, 15 October 1945.

[112] The Java Bank recommenced its activities immediately after the end of the war, when the Japanese authorities used Java banknotes to pay their salaries and allowances and Indonesian officials. The total amount of credits claimed by the directors of the Java Bank from the *Nanpo Kaihatsu Kinko* in compensation was 21,6 million guilders. On account of the continuing instability caused by the guerilla war, the British and Chinese banks were still loath to re-invest in Indonesia, BI, inventory number 2976, 2977, 2978.

Republican Government founded the Indonesian Central Bank (Poesat Bank Indonesia, PBI). The tasks of this bank were to manage the circulation of money and pave the way for the establishment of an Indonesian State Bank (Bank Negara Indonesia, BNI). After more than nine months of preparation, on 5 July 1946 the *Bank Negara Indonesia* was officially established. Its tasks were the issue and circulation of banknotes, the extension of credit to government bodies, Indonesian banks and economic organizations and the expediting of foreign exchange transactions, all geared towards guaranteeing price stability. Although the bank was open to managing the business of all residents, but only Indonesian citizens qualified for a seat on the management board. Margono Djojohadikusumo, the father of the most distinguished economic expert of post-war Indonesia, Sumitro Djojohadikusoemo, was appointed the first President of BNI. On 30 October 1946, BNI was authorized to issue the new currency of Republic of Indonesia (Oeang Republik Indonesia, ORI) which was to replace the existing Japanese money still in circulation.[113] Indonesian private entrepreneurs were encouraged to throw their weight behind the government and establish new companies and banks. In January 1947, for instance, the government called for private investment efforts to set up a Banking and Trading Corporation capitalized with Rp. 20 million. The government held 60 per cent of the capital, leaving 40 per cent open to private investors. The directors of the corporation were Soemitro Djojohadikoesoemo, Ong Eng Die and Pri Sastroatmodjo.[114]

Most of the large agricultural estates were situated on the territories controlled by the Republic. One investigation ordered by the Indonesian Government in May 1946 revealed that more than 55,000 hectares of rubber and coffee plantations, plus about 18,000 hectares of sugar estates, six sugar-mills and 10,000 hectares of cotton plantations had been effectively placed under control of the Republic.[115] The Indonesian Government set up two new agencies

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[113] Sutter, *Indonesianisasi*, 346-347, *Indonesische pers*, 22 August 46, 21 October 1946; *Berita Repoeklik Indonesia*, 15 December 1945.
[114] *Indonesische pers*, 4 January 1947.
[115] *Merdeka*, 31 May 19465; *Indonesische pers*, 1 June 1946.

to manage the agricultural estates in its territories. The Agency for Management of State Sugar Companies (Badan Penjelenggaraan Peroesahaan Goela Negara, BPPGN) was entrusted with running of the sugar industry and the Central Organization for State Estates (Poesat Perkeboenan Negara, PPN) was to be responsible for supervising all other state plantations.[116] In total, these two organizations were entrusted with the supervision of approximately 900 enterprises in Java and 300 in Sumatra.[117] Special training courses offering instruction in the techniques of sugar processing and textile manufacturing and estate cultivation in general were organized in major companies. The candidates recruited from the local community and were not supposed to be older than thirty-five. By September 1946, in Surabaya and Klaten alone, some 500 training courses had been organized, covering a wide range of skills including general techniques, machinery, electric, chemicals and microbiology.[118] Despite these efforts, the shortage of labour and the unrelenting guerilla war meant that agricultural exports continued to decline rather drastically. Rubber production in Java, for instance, had fallen 82 per cent compared to the 1942 level.[119] A number of sugar-and rubber-mills had been able to resume operations, but ran into difficulties when the export of their outputs was thwarted by the Dutch naval blockade of the Republican territories. Until the Dutch ended the blockade in 1948, most Indonesian trade was carried out by smuggling the products to Singapore and the Malay Peninsula.

The Republican Government had also established two other bodies to supervise industries, namely the Bureau for Estates and Industrial Affairs (Kantoor Oeroesan Perkeboenan dan Perindoestrian (KOPP) and the Agency for the State Textile Industry (Badan Textiel Negara, BTN). Factories processing timber and those manufacturing textiles and cigarettes quickly resumed production. In January 1946, a cigarette factory in Central Java was employing 2,000 workers in comparison to only 300 personnel before the war and 18,000

[116] *Indonesische pers*, 14 January 1947.
[117] Lindblad, *Bridges to new business*,61; Sutter, *Indonesianisasi*, 396-400.
[118] *Indonesische pers*, 3 August 1946, 14 September 1946.
[119] *The voice of free Indonesia*, 28 September 1946; *Indonesische pers*, 18 October 1946.

during the occupation.[120] The timber industries throve healthily throughout the whole of Java and by January 1947 there were no fewer than 3,000 companies in operation.[121] Cigarette manufacturing, which was stopped during the occupation, now resumed production, turning out 16 million cigarettes per month. Textile manufacturing was also stimulated. In January 1947, twenty-one privately-owned textile factories with a capital of Rp. 200,000 were opened in Yogyakarta producing 42,000 meters monthly. In Madiun, a state textile enterprise planted 2,300 hectares of cotton and made plans to increase the acreage to 3,000 hectares. In total, by the end of January 1947 there had been about 500 domestic textile companies under the supervision by BTN.[122] As a general rule, 15 per cent of the annual net profits of state-owned factories were earmarked for benefits for their employees and 85 per cent was assigned by the government.[123] The government implemented a policy of tax reduction for privately-owned enterprises. Those producing cigarettes had to hand over only 30 and 40 per cent of net profits. In the colonial era this had been as high as 50 per cent and 75 per cent, respectively.[124] The major problems facing manufacturing were the shortage of labour, raw materials and machinery.[125]

One of the distinctive features of the Indonesian economy during the revolutionary period was the marked involvement of the military in economic management. Military involvement in economic life had begun in the early months after the Proclamation of Independence, when various defence organizations reportedly participated in the take-over of foreign businesses, previously managed by the Japanese army. These estates included power installations, transport companies, mines, factories, and even agricultural estates. In Wonosobo, Central Java, for example, the military took charge of Dutch-owned tea estates and factories. In Yogyakarta, the military gained control of the tool factories and metal workshops owned by the Dutch and even

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[120] *Indonesische pers*, 29, 30 July 1946; 14 January 1947.
[121] *Indonesische pers*, 15 January 1947.
[122] *Indonesische pers*, 25, 27 January 1947.
[123] *The voice of free Indonesia,* 18 January 1947.
[124] *Indonesische pers*, 15 January 1947.
[125] *Indonesische pers*, 29, 30 July 1946, *The voice of free Indonesia*,21 June 1947.

seized various Chinese-owned companies, factories and warehouses. Similar take-overs were reported from other cities, including Surabaya, Semarang, Surakarta, Cirebon, Jakarta, Palembang, Padang, Medan and Makassar.[126] Later, when the Republican Government was moved to Yogyakarta in January 1946 and, of the necessity, a defence force occupied an important place on its agenda, economic institutions increasingly passed into the hands of the armed forces, the local authorities and the trade unions.

The management of the oil installations was exclusively in the hands of the military organizations. The oil refineries in Palembang, South Sumatra, were managed by the military-controlled Petroleum Company of the Republic of Indonesia (Peroesahaan Tambang Minjak Republik Indonesia). In Pangkalan Brandan in the Aceh region of North Sumatra, the BPM oil installation (Bataafsche Petroleum Maatschappij, Batavian Petroleum Company), a Dutch-owned company run by the Japanese during the occupation, was renamed the Oilfield of the Republic of Indonesia (Tambang Minjak Republik Indonesia Daerah Atjeh). In early 1947, a State Petroleum Exploration Company of the Republic of Indonesia (Peroesahaan Tambang Minjak Negara Republik Indonesia) was established and it took control of oil production and distribution in the Aceh and North Sumatra regions. The company was reported to be under the command of Lieutenant-Colonel Abdul Rachman of the National Armed Forces of Indonesia (Tentara Nasional Indonesia-TNI).[127] Outside the major oil-producing areas in Palembang and Aceh, between October 1946 and mid-1947 the oil installations in other parts of Sumatra were gradually handed over to the Allied forces.[128]

The administration of shipping and trading had been thrown into great confusion in which several institutions, including the armed forces, were involved. Initially Indonesian shipping companies declared that they were under

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[126] Purwanto Bambang, 'Economic decolonization and the rise of Indonesian military business', in: Lindblad and Post (eds) *Indonesian economic decolonization*, 43-44; Lindblad, *Bridges to new business*, 58.
[127] ANRI,'Tambang minjak Republik Indonesia Sumatra Utara', KP, inventory number1558.
[128] Lindblad, *Bridges to new business*, 58.

the authority of the Ministry of Welfare. However, the management of sea transport and shipping industries was gradually transferred to the Ministry of Defence and the Ministry of Communications. Although the Ministry of Welfare officially exercised jurisdiction over the sales and shipment of commodities, the control of the foreign trade was largely in the hands of the armed forces. The military played a particularly prominent role in the barter trading with British Malaya and Singapore. Audrey Kahin has written that the barter trade between West Sumatra and the Malay Peninsula shortly after the Proclamation of Independence was effectively dominated by the Ninth Army Division in Bukittingi.[129] Apart from trafficking daily provisions, Indonesian soldiers also traded firearms which were distributed to Republican resistance groups. In Palembang, these trader-soldiers succeeded in turning rubber, coffee and quinine into lucrative economic resources which could take their place alongside the traditional oil and coal of the region. At a meeting in Bukittinggi in August 1946, the deputy-governor of South Sumatra, A.K. Gani, stated that each month Palembang exported no less than 90 million guilders worth of goods to Singapore. Rubber and coal which were exchanged for foodstuffs and clothes, loomed large in this trade.[130] By September 1946, the volume of rubber exported to Singapore had topped more than 400,000 tons, and other 500,000 tons was still in store in Sumatra. Sugar, rubber and rice were also carried from Java to Sumatra from where they were traded on to Singapore and India.[131] Opium was another important commodity. It was reported that many of both the regular and the militia army units in Java regularly traded opium from Yogyakarta to the occupied territories and Singapore.[132] The Dutch colonial government estimated that the value of exports from the Netherlands Indies to Singapore and the Malay Peninsula from January to October 1946 amounted to

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[129] Audrey Kahin, *Struggle for independence; West Sumatra in the Indonesian national revolution 1945-1950* (PhD dissertation, Cornell University, Ithaca, NY, 1979) 23.

[130] *Indonesische pers* 24, 29 August 1946.

[131] *Indonesische pers*, 30 August 1946; 24 September 1946; Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 79-80, 442.

[132] Purwanto, 'Economic decolonization', 47; Mary Somers Heidhues, Anti-Chinese violence in Java during the Indonesian revolution, 1945-1949', *Journal of Genocide Research*, 3-4 (2012) 385.

over 178 million Straits Dollar. Of this amount, the value of the 'illegal exports' had been no less than 150 million in the same currency.[133] Indonesia accounted for one-third of the total import trade of Singapore, whereas the exports to Indonesia amounted one-seventh of the total exports of Singapore.[134]

The trading partners of the Republican authorities were the Chinese, the British and the Americans. The opium trade pursued by the Indonesian army was run in close co-operation with the Chinese. The Chinese was also active in trading sugar, rubber, tobacco and pepper from Java in exchange for dried fish, gambir and cloves. The British and American traders were interested in sugar, rubber, coal, textiles, machines and luxury cars. It was reported that the British authorities in Singapore were receiving 1,000 tons of coal per day from Palembang.[135] Dutch reactions to this 'smuggling' were both indecisive and discriminatory. Their discrimination was blatant in the fact that, whereas the Chinese ships were captured and confiscated, British and American ships were only stopped by the Dutch forces and forced to leave Indonesian waters. In early August 1946, the Dutch authorities seized eighteen Chinese ships sailing under the British flag loaded with sugar and rubber. Their cargo was worth 16 million Straits Dollars. In the following month, twenty-two Chinese-owned ships were seized.[136] Notwithstanding the lurking danger of Dutch seizure, it was reported that there were some 150 Chinese-owned ships were lingering in the proximity of Singapore ready to engage in trade with Indonesians.[137] It is interesting to note that whereas the Dutch authorities branded the Chinese and Indonesians engaged in trading between the Republic, the Dutch-occupied areas and the British Straits Settlement smugglers, the Dutch naval personnel were stigmatized as pirates in the Indonesian and Chinese newspapers.

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[133] Of which 129 million from Sumatra, 22 million from the Riau Archipelago, one million from Banka and Billiton, 11 million from Borneo, 13 million fro Java and 2 million from other islands. 'Illegal export', *The economic review of Indonesia*, 1 (1947) 37.

[134] *Indonesische pers* 5 October 1946.

[135] *Indonesische pers* 19 August 1946; 24 August 1946.

[136] *Indonesische pers* 29 August 1946; 17 September 1946.

[137] Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 572.

The treatment meted out to British and American traders was rather different. In early 1946, at least three British-owned ships, named the *Empire Mayoven*, the *East Corzor* and the *Fortune*, arrived in Ceribon, the main port under the *de factor* control of the Republic. These ships had all been captured by the Dutch and their captains were asked to sail to Batavia where they could apply for the licence from the Dutch authorities. The British captains ignored the warnings and travelled to Yogyakarta instead. These ships were returned to British owners, minus their cargoes which had been confiscated by the Dutch.[138] The Dutch were more ambivalent in their dealings with the Americans. In February 1947, an American vessel named the *Martin Behrman*, carrying 9,000 tons of cargo, arrived in Cirebon. The ship was stopped by the Dutch destroyer, the *Kortenaer*, but not prevented from unloading her cargo. Within a short time, the *Martin Behrman* had been loaded with 5,000 tons rubber and 1,300 tons sugar.[139] However, when the American vessel was preparing to leave Cirebon, the commander of the *Kortenaer* ordered her to proceed to Batavia. Although the *Martin Behrman* was later released, her cargo was seized by Dutch authorities.[140] As had the 'Gibson affair' which attracted far more attention to the Archipelago from of the American Government in the mid-nineteenth century,[141] the prolonged dispute over the *Martin Behrman* incident paved the

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[138] *Indonesische pers*, 9 January 1947; 13 February 1947;

[139] *Indonesische pers*, 6 February 1947. This volume is based on that quoted in the Indonesian newspaper, *Mederka*. However, according to the list provided by the Dutch authorities, the quantity was much less, consisting of only 408,999 kilos of sugar, 500,055 kilos of cinchona bark, 4,715,846 kilos of sheet rubber, 248,102 kilos of crepe rubber and 200,000 kilos of sisal fibers. Gerlof D. Homan, 'The Martin Behrman incident', *Bijdragen en Mededelingen Betreffende de Geschiedenis der Nederlanden* 94 (1979).

[140] For more information about the *Martin Behrman* incident, see: Homan, 'The Martin Behrman incident', 252-270; *Indonesische pers* 6, 13 February 1947; The voice of free Indonesia, 1, 8 March 1947; The new import and export regulations and the 'Martin Behrman', *The Economic Review of Indonesia* 1 (1947) 38-40.

[141] The 'Gibson affair' erupted when the Dutch arrested of an American adventurer named Walter Murray Gibson in 1852. Although he had no connection with the American Government, Gibson made promises of American help to the rulers of Jambi and Palembang who were at war with the Dutch. After the Dutch authorities discovered his scheme, Gibson was arrested and sentenced to twelve years' imprisonment. After his escape from prison and return to the United States, Gibson launched a campaign to convince both the public and the American Government to defend his interests. While supporting Gibson's claims for compensation from the Dutch colonial government for the seizure of his ship and his unjust treatment, the American Government began investigating the sovereignty rights of the Netherlands in the Indonesian

way for the strengthening of the American relations with the Republic of Indonesia.[142]

In January 1948, the Republican Government made a tactical move, when Sumitro Djojohadikusomo, the General Representative of Finance and Trade Affairs of the Republic in New York, signed a contract with an American businessman, M. Fox, to establish an Indonesia-American Corporation. The corporation was recognized as the 'sole and exclusive' agent for the sale of all products of the Republican Government in the United States and the purchase of goods in the United States on behalf of the Republic for a period of ten years.[143] In mid-1948, the Republican government signed what were known as 'Let Alone' agreements with three large foreign oil producers, Anglo-Dutch BPM, American Stanvac and Caltex. These three giant oil firms pledged to repair damaged installations and resume production as soon as possible on condition that they would be exempt from government restrictions on access to foreign exchange and remittances of profits. By its policy of extending economic relationships with foreign partners and respecting the rights of non-Dutch foreign ownership of vital economic assets, the Republican government hoped to drive a wedge between the Netherlands and other Western countries.[144] American disapproval of Dutch military actions against the Republic government and the pressures it exerted on the Dutch to acquiesce in the Round Table Conference Agreements can be seen as a reflection of the Indonesian success in mobilizing support from Western countries in its independence struggle.

Archipelago. This prompted the Dutch to conclude treaties with local rulers and expand colonial authorities in the Outer Islands in the mid and late nineteenth century. See: Phạm Văn Thủy, 'Scramble for Sumatra; Dutch imperialism in the Netherlands East Indies, 1810s-1910' (MPhil thesis, Leiden University, Leiden, 2009) 44-68

[142] It was only in May 1949 that the Dutch Government agreed to pay $ 250,000 damages for the enforced sailing of the *Martin Behrman* from Cirebon to Batavia. No compensation was paid for the confiscated cargo. Homan, 'The Martin Behrman incident', 270.

[143] Gerlof, D. Homan, 'American business interests in the Indonesian Republic, 1946-1949', *Indonesia* 35 (1983) 129.

[144] Lindblad, *Bridges to new business*, 59.

5. The Return of the Dutch

In October 1945, the Netherlands Indies Government was once again able to establish its seat in Batavia. Following the return of Dutch colonial forces and the gradual enlargement of the territories they occupied, growing numbers of enterprises slipped from under the control of the Republican Government. During the final months of 1945 and again during 1946, the occupation of the Allied-NICA forces continued to be restricted to the major port cities in Java and Sumatra. However, in 1947 after the British had withdrawn from Indonesia and handed over control of the areas they occupied to the Netherlands Indies Government, Dutch troops began to expand their perimeter of their area of occupation. After the First Military Intervention, the Dutch succeeded in reducing the Republican territory to smaller areas in Java and Sumatra, separated from each other by Dutch zones. In early 1949, after farther successes the Dutch even claimed authority over the entire Republican territory.[145]

As a matter of course, transport facilities, factories, mines and plantations in the areas under Dutch occupation were placed under the jurisdiction of the Dutch colonial government. Priority in economic reconstruction was allocated to the most critical industries, such as bakeries, refrigeration installations, saw-mills and car repair workshops. As early as March 1946, approximately one hundred large and medium-sized industrial concerns had already resumed production. By February 1947, the average industrial capacity, measured in terms of equipment, was estimated to amount to 50 per cent of the pre-war capacity. Economic recovery in Surabaya, Bandung and Semarang continued to be limited as it was hampered by destruction and shortage of skilled labour, not to mention a dicey electricity supply. Only industries producing the most vital necessities were re-opened. Among them were bakeries, building businesses, rice-mills, factories producing machinery, printing establishments and metal foundries. In the Outer Islands, although the Japanese lost no time in surrendering enterprises to Dutch owners, progress proceeded at a snail's pace, hampered at every turn by the inadequate transport,

[145] Robert Cribb, *Historical atlas of Indonesia* (Singapore: Curzon Press, 2000) 156-58.

lack of materials and spare parts and power supplies. The sectors which were the quickest to resume production were copra oil, textile manufacturing and cement in Celebes, and rice-processing, salt-panning, coconut oil and shoe manufacturing in Borneo.[146] Despite the numerous stumbling-blocks, the efforts the Dutch colonial government made to promote industrial recovery did eventually pay off. By 1949, the number of important industries, including rice-mills, ice factories, rubber-milling plants and metal foundries was back to where it had been in early 1942.[147]

Initially, the Dutch controlled the major industrial centres and ports in Java and Sumatra but, in the aftermath of First Military Action, economic establishments in West Java, East Java and some parts of Central Java fell under Dutch control. The estate areas of East Sumatra and the coal-mines and oilfields in Palembang were also seized by the Dutch. As the result of their tactic of deploying lightening attacks, most infrastructures, mining installations and plantations were captured by Dutch troops without damage.[148] After the Second Military Action, most of the remaining estates and industries were also occupied by the Dutch. As the Việt Minh had done, the Indonesian revolutionary forces also resorted to scorched-earth tactics, but in their case the targets were buildings, public facilities and equipment. The long and the short of it was that the Dutch had been able to achieve their economic aims. They resumed control of large quantities of export products which had been stockpiling at habours because of the Dutch blockade.[149]

In the wake of the occupation forces, Dutch managers gradually returned to their former estates but a number of small-and medium-sized Dutch entrepreneurs, who had faced an uphill battle in re-establishing their business after their release from internment camps, sold their properties to local Chinese businessmen.[150] In late July 1947, the Chinese also paid one million guilders by the Dutch Government in compensation for the damage they had suffered from

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[146] *The economic review of Indonesia* 2 (1947) 21-24.
[147] Lindblad, *Bridges to new business,* 70.
[148] *The economic review of Indonesia*,9 (1947) 135-137.
[149] Kahin, *Struggle for independence*, 214.
[150] Sutter, *Indonesianisasi*, 636.

Dutch military actions.[151] The Dutch colonial government had the policies also tabled policies to stimulate the position of Indonesians in the economy. These covered a wide range of initiatives, including granting smallholders credit and granting Indonesian importers certain privileges. Despite these efforts, only a small number of Indonesian-owned enterprises were actually established in the second half of the 1940s. Among them were a number of trading corporations in Makassar and Medan, and a few textile-mills in West Java. It should be noted that the Indonesian factories tended to be small as compared to the enterprises of their Dutch and Chinese counterparts.[152]

Control of imports and exports in the Netherlands Indies was monopolized by the Netherlands Indies Government Import and Export Organization (Nederlands-Indische Goevernments Import en Export Organisatie, NIGIEO). NIGIEO was established in March 1946 for the specific purpose of controlling the stockpiles of supplies abandoned by the Japanese. It also exercised jurisdiction over the distribution of goods and decided on the prices of such important goods as provisions, beverages and textiles. On 1 October 1947, NIGIEO was closed down. In its place was established the General Import Organization (Algemene Import Organisatie, AIO). The responsibility of the AIO was to allocate import licences to importers, but it also held a monopoly on the import of the commodities required by the armed forces and government services. In June 1948, AIO ceased its operations and trading companies were given a free rein in their import of commodities.[153] By that time, 75 per cent of imports to Indonesia were controlled by five Dutch trading companies, known as the Big Five, namely Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindeteves.[154] Although trade between the Netherlands and Indonesia had been restored earlier, it only regained a significant level in 1948. The balance of trade in the table 7 shows a huge surplus on the part of Indonesia, with 134 million guilders or 35 per cent. The

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[151] Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 80.
[152] Lindblad, *Bridges to new business*, 69-71.
[153] Bank Indonesia, inventory number, 3273.
[154] Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 252.

balance was positive at the time of Transfer of Sovereignty, but the surplus immediately jumped in the early 1950s (Table 7). This speculation will be discussed in the following chapter.

Table 7: Indonesian trade with the Netherlands, 1948-1957

	Imports from the Netherlands		**Exports to the Netherlands**	
Year	Volume (ton)	Value (million guilders)	Volume (ton)	Value (million guilders)
1948	145,651	200	265,516	334
1949	249,792	392	345,200	406
1950	198,012	300	391,419	510
1951	198,618	402	529,744	755
1952	253,090	439	370,928	543
1953	206,548	291	451,420	493
1954	191,644	233	512,503	528
1955	201,893	258	315,701	369
1956	256,662	315	329,013	440
1957	286,842	274	220,044	454

Source: Data from 1948 to 1953 from NA, EZ, inventory number 123; data from 1954 to 1957 is compiled from NA, EZ, inventory number 127.

Conclusion

Unlike the abortive government of Trần Trọng Kim in Vietnam, the Indonesian government created by Soekarno and Hatta did manage to survive the turmoil of political upheavals which came in the wake of the Japanese surrender. Led by strong, charismatic personalities gifted with commonsense and an astute awareness of the significance of pragmatism and diplomacy, its survival was certainly a tribute to the resource and good management of these leaders. Quite a part from the external threat posed by the Dutch military attempts to regain their former colony by force of arms, internally the government had to deal with the Communists and the young revolutionary fighters (*pemuda*) who also made attempts to seize power in Indonesia, but time and again they failed.[155] Control of the Republican Government remained largely in the hands of the Nationalists who were affiliated with PS, Masjoemi, PNI and non-party members. Most of them had once been employed in either the colonial apparatus or the Japanese administration, or even both. This is one obvious stark contrast to the situation in immediate post-war Vietnam, where the principal leaders of the Việt Minh government were revolutionaries and senior members of the Communist Party.

Despite the differences in the political composition of their leaderships, the Republic of Indonesia and the Democratic Republic of Vietnam pursued similar strategies in their struggle to obtain independence. Both groups made serious diplomatic attempts to solve the imminent conflict with the returning colonial forces by entering into negotiations, in which of necessity economic compromises loomed large. Their aspirations to achieve economic nationalism were subordinated to the demands political independence for the nation. The Indonesian Nationalist leaders eventually succeeded in their strategy, their efforts crowned by the conclusion of the Round Table Conference Agreement in November 1949. At the time at which the war in Vietnam was escalating into a full-scale conflict, Indonesia was granted the Transfer of Sovereignty by the Netherlands. This disparate outcome of the course of the revolutionary wars in Indonesia and Vietnam can be largely attributed to the attitude of the Western powers, especially the United States. Whereas pressure was put on the Dutch to discontinue the armed conflict in Indonesia, the American Government threw its weight behind France in the continuation of the war in Vietnam. Eventually, the French eventually were forced to recognize independence in Vietnam under

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[155] Between 1945 and 1949, Indonesian Communists were involved in at least three coups, the kidnapping of Soekarno and Hatta on in August 1945 in an attempt to force them proclaim independence of Indonesia, the capture of Prime Minister Sjahrir in June 1946 and the Madiun Uprising in September 1948.

which power was transferred to the Nationalist forces, not the Communist-led Việt Minh.

The economic transformation in immediate post-war Indonesia also followed a different course to that in Vietnam. The Republican Government inherited a large number of estates and factories formerly operated by the Japanese army. Measures were taken to strengthen government control of these potentially profitable economic enterprises. However, as the armed conflict escalated, many estates and enterprises slipped out of the hands of the central government and into those of the armed forces, trade unions and the local authorities, before finally being handed back to their Dutch owners. Weighing up which of the decisions they made would be best of the future of the country, those in charge of the economic reconstruction in Indonesia consciously paved the way for the restitution of Dutch businesses and foreign investment, even though this deflected from the declared goal of the government, namely: improving the economic position of the indigenous Indonesians and the Chinese. The picture in Vietnam was very different. As the landings of the French armed forces, French entrepreneurs began to pull out of Vietnam in the late 1940s and seek fresh pastures. It is at this point that the political and economic decolonization in Indonesia and Vietnam proceeded in opposite directions.

CHAPTER FOUR

THE DEMOCRATIC EXPERIMENT, 1950-1957

‘*The economic side of the Indonesian revolution has yet to begin*’. - HajiAgus Salim

Introduction

With the agreement reached at the Round Table Conference in November 1949, Indonesian independence was at long last acknowledged by the Netherlands. Hence, at a time at which their Vietnamese ‘comrades-in-arms’ were seeing no let-up in their war of resistance against the French forces, the Indonesian Nationalists were embarking on the next stage of their struggle which would allow them to obtain economic sovereignty. In the words of HajiAgus Salim, ‘The economic side of the Indonesian revolution has yet to begin.’[1] The discussion in this chapter investigates the unstinting efforts made by the Indonesians once their political independence in the bag to liberate their country from the economic domination of Dutch and other foreign firms. The period covered ranges from the Dutch Transfer of Sovereignty on 27 December 1949 to the eclipse of the so-called Parliamentary Democracy in 1957. This period was characterized by the active participation by various political parties in the decision making of the government. Although the system of party government reflected the extremely democratic nature of the Indonesian state immediately after independence, the other side of the coin was that rivalry between and within the political parties undermined the instability of the political system. One of the most palpable consequences of this instability was the short life of

[1] Higgins, *Indonesia's stabilization and development*,102.

the successive cabinets during most of the 1950s. No few than seven cabinets in all succeeded one another in seven years. This change in the political leadership aggravated by the weakness of the administrative apparatus and the upshot was discontinuity in economic policy making and planning. The widely felt dissatisfaction with the economy was another important feature of this period. The crux of the matter was failure of the government to reduce the economic power of Dutch corporations. In the resultant economic limbo, by the mid-1950s attempts to build up an Indonesian entrepreneurial class were proving fruitless.

The chapter begins with an examination of the economic institutions and pays particular attention to the technical experience and political affiliation of their leaders. Such an examination helps to gain a better understanding of the political and intellectual origins of the economic decisions taken by various cabinets. I shall also survey the economic views of the major political parties, as these evolved in post-independent Indonesia. The views of the political parties served as the most important set of instruments for the articulation of the political and economic aspirations of the Indonesians. Government policies and plans for economic nationalism will be discussed in some detail in order to highlight the unbridgeable gap between the insistence on economic nationalism by the Nationalist parties and the pragmatic solutions the government was forced to look for.

1. The Indonesian Cabinets

The structure of the new state at the time of the Transfer of Sovereignty was federal. The Republic of the United States of Indonesia (Republik Indonesia Serikat-RIS) was an aggregation of sixteen states, including the Republic of Indonesia plus fifteen other states established by the Dutch. Soekarno, former President of the Republic of Indonesia, became president of the federation. Former Vice-President Mohammad Hatta was appointed prime minister, to head a federal cabinet formed on 20 December 1949. Multiple forms of authority and legislation were installed in the member states but the ultimate authority was vested in the RIS government and the Republic of Indonesia. By that time, most parts of Java and Sumatra had effectively come under the authority of the already existing Republican government.

Federalism survived the Transfer of Sovereignty by eight months. Most Indonesian Nationalists dismissed the new federal member states as mere Dutch creations, devoid of any real independence.[2] Soon after the Transfer of Sovereignty in December 1949, these states began to dissolve of their own accord and subsequently join the prime member state, the Republic of Indonesia. In May 1950, the leaders of the Republic of Indonesia and RIS signed a charter of agreement, under whose terms the two governments agreed to work in co-operation towards the goal of a unitary state. Finally, on 17 August 1950, on the fifth anniversary of his Proclamation of Independence, Soekarno officially announced the birth of the unitary Republic of Indonesia. Mohammad Natsir, the chairman of the executive council of the Masjoemi, was asked to form a new cabinet, and this was inaugurated on 6 September 1950. Soekarno retained his position as President, and Hatta returned to his previous post in the old Republic as Vice-President.

Formerly speaking, the unitary Republic of Indonesia was the successor to RIS but this is a misconception as the new state was the materialization of the concept of the Republic of Indonesia as this was proclaimed in August 1945.[3] With the exception of a few amendments, most of the Provisional Constitution adopted in July 1950 was based on the 1945 Constitution. The parliamentary system based on the multiplicity of parties was revitalized and extended to ensure the representation of most of the parties in Parliament. The composition of the unicameral Parliament announced in March 1951 included 232 members. The two largest parties, Masjoemi and PNI, won forty-nine and thirty-six seats, respectively. Other prominent parties, such as PSI, PKI, and the Catholic Party held between ten and seventeen seats. The remaining seats were divided among some fifteen small parties and organizations, many of which were just emerging

[2] *Mimbar Indonesia,* 7 January 1950.
[3] R.E. Elson, *The idea of Indonesia; A history* (Cambridge: Cambridge University Press, 2008) 150.

at the time of the Transfer of Sovereignty.[4] Post-revolutionary Indonesia was divided into ten provinces; each headed by a governor appointed by the central government.[5] In each province and at lower levels, legislative councils were elected from representatives of local social organizations, political parties, and individuals. The governor and the other heads of the region were responsible to these legislative councils as well as to the central government in Jakarta.

Both the composition and organization of this refashioned state apparatus were considered provisional pending elections for the Constituent Assembly, which were scheduled to be held in August 1951. However, the first general elections in Indonesia did not take place until September 1955. Even when they were finally held, they ushered in no significant changes in the political constellation. The interim parliamentary structure and political processes remained by and large intact. The unresolved political oppositions between and within the political parties in government and Parliament produced a chronic instability in the cabinet system. From the Transfer of Sovereignty until the abolition of parliamentary democracy in 1957, there were no fewer than seven cabinets in office, only two of which lasted more than one year. In order of precedence they were the Hatta Cabinet (December 1949-August 1950), the Natsir Cabinet (September 1950-March 1951), the Sukiman Cabinet (April 1951-February 1952), the Wilopo Cabinet (April 1952-June 1953), the first Ali Sastroamidjojo Cabinet (July 1953-July 1955), the Burhanuddin Harahap Cabinet (August 1955-March 1956) and the second Ali Sastroamidjojo Cabinet (March 1956-March 1957). Only the first federal cabinet, led by Mohammad Hatta, did not suffer unduly from parliament opposition and political strife.

The Hatta Cabinet was termed a *Zaken Kabinet* (Business Cabinet), which implied that cabinet ministers had been specifically chosen for their

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[4] Ge.orge McT Kahin, 'The new Indonesian government', *Far Eastern Survey* 20 (1950) 212; Feith, *The decline of constitutional democracy*, 128, 434-435.

[5] The ten provinces were West Java, Central Java, East Java (including Madura), North Sumatra, Central Sumatra, South Sumatra, Kalimantan, Sulawesi, Lesser Sunda Islands, and the Moluccas.

technical competence rather than on the basis of party affiliation.[6] This principle is seen most clearly in the leadership which had to deal with the management of the economy. All the ministers responsible for economic affairs were capable persons who had held similar positions in previous cabinets during the revolution. Sjafruddin Prawiranegara, former Minister of Finance, then Minister of Welfare under the old Republic, became Minister of Finance. Djuanda Kartawidjaja, who had previously served as Minister of Communications, was now appointed the new Minister of Welfare. Head of the Ministry of Communications and Public Works was H. Laoh, who had served in the same department in the old Republic. His colleague in the Sjarifuddin Cabinet (July 1947-January 1948), Deputy-Minister of Labour Wilopo, was now elevated to hold a portfolio.

By appointing Nationalist intellectuals with ability and experience to the very heart of the central government apparatus under the leadership of a professional economist, the Hatta Cabinet would appear to be able to claim to be the most competent cabinet in terms of the economic management of Indonesia since 1945. Unfortunately, the cabinet remained in office only briefly, during a period in which huge quantities of energy and attention were being swallowed up by political matters, chief among them national unification. When the unitary state was created in August 1950, two-thirds of members of the Hatta Cabinet were replaced by younger politicians, mostly of them the members of Masjoemi.[7] Among the ministers responsible for the economy, only Sjafruddin Prawiranegara and the non-affiliated Djuanda remained in office. Sjafruddin Prawiranegara continued to be Minister of Finance, while Djuanda moved to become head of the Ministry of Communications, which was now made into a separate department. Another part of this huge ministry was reorganized into a Ministry of Public Works and Energy under Herman Johannes, a Professor and Dean of the Technical Faculty of Gadjah Mada

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[6] Feith, *The decline of constitutional democracy*, 50.
[7] *Kabinet-kabinet RI; Susunan dan programnja sedjak 1945* (Jakarta: Ministry of Foreign Affairs, 1961) 18.

University (UGM) in Yogyakarta. He was renowned for his research and inventions to do with the utilization of energy derived from coal and waste.[8]

The Ministry of Welfare was also divided into two; the Ministry of Agriculture and the Ministry of Commerce and Industry under Tandiono Manu and Sumitro Djojohadikusumo respectively. Both were affiliated with Sutan Sjahrir's PSI. Tandiono Manu was a lawyer who had graduated from the Batavia Law School in 1941. During the Revolution, he had served as a judge in Yogyakarta before being appointed Resident of Bodjonegoro in East Java. He was an active leader in the principal Republican peasant organization, the *Barisan Tani*. Following the Transfer of Sovereignty, Tandiono was appointed Minister of Commerce in the Halim Cabinet of the member-state Republic of Indonesia. Sumitro had received his doctoral degree at the Rotterdam Business School (Rotterdam Handelshogeschool) in 1943 with a dissertation on the popular credit system. He returned to Indonesia in 1946 and shortly afterwards became a permanent financial and trade representative of the Republic in the United States. In 1949, Sumitro was a delegate to the Round Table Conference in The Hague, at which he played an important role in defending the economic interests of the Republic against the exigencies of Dutch demands. With Sjafruddin Prawiranegara, who became governor of the Central Bank of Indonesia in 1951, Sumitro was a key figure in the post-war economic planning of Indonesia.[9] Other members of the Natsir Cabinet involved in economic policy-making were Minister of Labour R.P. Suroso and Minister of Social Affairs F.S. Harjadi. AS Prime Minister Natsir had been, they were appointed in response to the political influence they could command rather than any pronounced technical competence. Suroso was founder of the Greater Indonesia Party (Partai Indonesia Raja-Parindra) and Harjadi was an active member of the Catholic Party. Natsir himself graduated from the General Secondary School (Algemeene Middelbare School-AMS) in Bandung in 1930. From 1932 to

[8] For more information on the scientific career and personal life of Herman Johannes, see: Julius Pour, *Herman Johannes*; *Tokoh yang Konsisten dalam Sikap dan Perhuatan* (Jakarta: Gramedia Pustaka Utama, 1993)

[9] For more information about Sjafruddin Prawiranegara and Sumitro Djojohadikusumo, see: Thee *Recollections,* 49-65, 75-86.

1942, he served as chairman of the private Islamic school organization, *Pendidikan Islam*.[10] In the old Republic of Indonesia, Natsir held the portfolio of Minister of Information in Sjahrir's second and third cabinets and also in the Hatta Cabinet. Natsir was chairman of the executive body of Masjoemi; and following the Transfer of Sovereignty he acted as head of the Masjoemi faction in Parliament.

Initially, Natsir was invited to form a coalition cabinet of in which several political parties would be represented. Nevertheless, the eventual composition of the cabinet reveals that the majority of its membership was drawn from Masjoemi, supplemented by two representatives from PSI and a few non-party members. This preponderance inevitably provoked protests both in Parliament and from the general public. The protestors came not only from the parties left out, including PNI, PKI and Murba. Rival groups within Masjoemi also did not hesistate to voice their dissatisfaction. Tensions mounted in the early months of 1951, after Natsir failed to bring negotiations with the Dutch over the West Irian issue to a satisfactory conclusion. Never very stable, the Natsir Cabinet eventually had to resign on 20 March 1951. Sukiman Wirjosandjojo, the chairman of Masjoemi and also Natsir's leading rival was authorized to form a cabinet based on a Masjoemi-PNI coalition, from which members of the Natsir group would be excluded. The list of the Sukiman Cabinet, announced on 26 April 1951, included only six members of the former Natsir Cabinet. Djuanda continued to hold the portfolio of Ministry of Communications. The new Minister of Finance was a Masjoemi member, Jusuf Wibisono, who had been a principal participant in the Working Committee of the old Republic and Deputy-Minister of Welfare in the Sjahrir Cabinet. Sujono Hadinoto, the author of *Dari ekonomi colonial ke ekonomi nasional*, was given the portfolio of the Ministry of Commerce and Industry, shortly afterwards renamed the Ministry of Economic Affairs. Hadinoto had played an important role in the Financial and Economic Affairs Committee at the Round Table

[10] Tamar Djaja, *10 orang Indonesia terbesar sekarang* (Bukittinggi: Toko Buku &Penerbit,1952) 83.

Conference as vice-chairman of the Republican delegation. Another member of the delegation, Suwarto, an agricultural graduate, was appointed Minister of Agriculture. The Minister of Public Works and Power was Ukar Bratakusumah, the former mayor of Bandung and later governor of West Java. Iskandar Tedjasukmana, a lawyer and member of the Labour Party, was appointed Minister of Labour.[11] At this juncture a new ministry in the sphere of economy was created, the Ministry of Agrarian Affairs, under Gondokusumo, a member of the Greater Indonesia Unity Party (Partai Persatuan Indonesia Raja-PIR).[12]

All in all, the composition of the Sukiman Cabinet reflected the re-emergence of an older generation of leaders, whose skills lay in the fields of politics and administration rather than in the possession of technical qualifications. Sukiman himself was a medical doctor by training, who had obtained his degree from the University of Amsterdam in 1925. He had founded the Indonesian Islamic Party (Partai Islam Indonesia-PII) in 1932, but when the Revolution broke out, he joined Masjoemi and was elected chairman of the party. In the Hatta Cabinets of the old Republic, Sukiman had served as Minister of Home Affairs and he ahd also attended the Round Table Conference as a member of the Indonesian delegation.[13] The Sukiman Cabinet fell in February 1952, succumbing to fierce leftist criticism of the pro-American foreign policy pursued.[14]

On 19 March 1952, President Soekarno appointed the PNI leader Wilopo to form a new coalition cabinet. Wilopo had only just taken up the

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[11] *Indonesian review* 3 (April-June, 1951) 165-173.

[12] PIR was founded in December 1948 by a combination of non-party persons and PNI leaders, who decried their party's criticisms of Hatta's policies in his negotiations with the Dutch. Led by a group of older leaders, many of them from the Javanese aristocracy, PIR counted on the support of a considerable number of *pamong pradja* leaders.

[13] Tamar Djaja, *10 orang Indonsia*, 83; *Indonesian review* 3 (April-June 1951) 169; Simatupang, *Report from Banaran*, 73.

[14] Most of the attacks were from PNI and the Labour Party, who fiercely disagreed with the signing of the San Francisco Peace Treaty with Japan in September 1951 and the Mutual Security Agreement with the United States in January 1952 by the cabinet. Under these agreements, Indonesia would receive economic and military aid from the United States and Japan, but committed itself to align with the US-led bloc of states. See: Feith, *The decline of constitutional democracy*, 192-204.

position as Minister of Economic Affairs nine months earlier in July 1951, replacing Sujono Hadinoto. The Wilopo Cabinet was principally based on a coalition formed by Masjoemi and PNI. In fact the reality was more nuanced. It represented different factional groups of these two main parties. Only two of the five PNI leaders and none of the five Masjoemi leaders who had sat in the Sukiman Cabinet were included. Strikingly, three ministers in the economic sphere, assigned neither to Masjoemi nor PNI, remained in office, Minister of Communications Djuanda (non-party), Minister of Public Works Suwarto (Catholic Party), and Minister of Labour Tedjasukmana (Labour Party). Sumitro, at that time Dean of the Faculty of Economics at the University of Indonesia, returned to the cabinet, as Minister of Finance. Mohammad Sardjan, secretary-general of the Islamic Farmers Union (Serikat Tani Islam Indonesia, STII) became Minister of Agriculture, and Sumanang was appointed Minister of Economic Affairs. In comparison with the two previous cabinets, once again this was a cabinet in which a younger Western educated generation predominated. Although the abilities and technical qualifications of the individual ministers were widely recognized, the political hostilities between and within the parties represented in it, particularly Masjoemi and PNI, made it impossible for them to carry out their ideas and plans. The Wilopo Cabinet resigned in June 1953 in the wake of leftist criticism on its intention to return the oil installations in North Sumatra to Royal Dutch Shell.[15]

The resignation of the Wilopo Cabinet marked the end of PNI-Majsumi co-operation and signified a new alignment in the political forces between PNI and the other nationalist parties, such as PKI, Murba and Labour Party. This break-down in co-operation in the power situation is revealed in the composition of the first Ali Sastroamidjojo Cabinet, formed on 31 July 1953. PNI obtained the prime minister-ship and three other major portfolios, two directly connected with the management of the economy, the Ministry of Finance under Ong Eng Die and the Ministry of Economic Affairs under Iskaq

[15] Herbert Feith, *The Wilopo cabinet, 1952-1953; A turning-point in post-revolutionary Indonesia* (Ithaca, NY: Cornell University Press, 1958) 190.

Tjokroadisurjo. Ong was a Chinese Indonesian who had obtained a doctoral degree in economics at the University of Amsterdam in 1943. He returned to Indonesia in 1945 and worked for the *Bank Pusat Indonesia* in Yogyakarta. Between 1947 and 1948, he served as Deputy-Minister of Finance in the Amir Sjarifoeddin Cabinet.[16] Iskaq Tjokroadisurjo was a Leiden-trained lawyer, who had served as secretary of several Residents of Banjumas and Solo. He was one of the founders of PNI and an active member of Partindo and Parindra. He had been appointed Minister of Internal Affairs or of the Interior in the Sukiman Cabinet.[17] When the first Ali Cabinet was reorganized in November 1954, Iskaq Tjokroadisurjo was forced to resign following corruption charges. He was replaced by Rooseno Soerjohadikoesoemo, also a member of Parindra. Rooseno had graduated from the *Bandung Technische Hogeschool* in 1932. He became a professor in 1943 and after independence served as Dean of the Faculty of Technology at the UGM. In 1950, he returned to teach at his alma mater. In fact, Rooseno's first appointment was Minister of Public Works and Power but in September 1953 he was lifted to the post of Minister of Communications.[18] After he resigned from the ministry, the portfolio was given to A.K. Gani, the former Minister of Welfare in the first Amir Sjarifuddin Cabinet under the old Republic. Another professor at the Bandung Technical Institute, Sutan Muchtar Abidin, was appointed Minister of Labour. He had obtained a degree in engineering in 1939 and, during the Japanese occupation, he had worked as an inspector of finances. He was also a former member of the Republic's KNIP during the federal period.[19]

Despite inherent political instability within the cabinet, resulting in several reshuffles in late 1953 and early 1954, the first Ali Cabinet eventually succeeded in remaining in office for more than two years, a longer period than

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[16] Leo Suryadinata, *Prominent Indonesian Chinese; biographical sketches* (Singapore: Institute of Southeast Asian Studies, 1995) 124; *Ensiklopedi Nasional Indonesia*, Vol.XI (Jakarta: Cipta Adi Pustaka,1991) 279.

[17] *Indonesian Review* 1 (1951) 171.

[18] Rooseno's reputation is closely associated with such major construction projects as the head office of Bank Indonesia, the Pola building, Cupola Istiqlal, National Monument, Hotel Bali Beach, and Asian Game Complex. *Ensiklopedi Nasional Indonesia*, Vol.XV, 167.

[19] *Ensiklopedi Nasional Indonesia*, Vol. I, 15.

any of its predecessors. The mechanism by which cabinets usually fell was sustained political opposition from the political parties and in Parliament, but the first Ali Cabinet was toppled by the military when it attempted to curb the rising political power of this body. On 24 July 1955, Ali Sastroamidjojo returned his mandate to Vice-President Hatta, who was serving as acting president because President Soekarno was on pilgrimage to Mecca. Having accepted it, Hatta invited the parliamentary leader of Masjoemi, Burhanuddin Harahap, to form a new cabinet, which took office on 14 August 1955. Burhanuddin Harahap replaced all the PNI members in the first Ali Cabinet by members of Masjoemi, adding members from PSI and the small nationalist parties. Sumitro and Mohammad Sardjan were again raised to cabinet rank as Minister of Finance and Minister of Agriculture, respectively. The Minister of Economic Affairs was a Catholic I.J. Kasimo and the Minister of Communications was H. Laoh, now a member of the newly founded National People's Party (Partai Rakjat Nasional-PRN).[20] The post at the Ministry of Public Works and Power was given to Sunarjo, who also served as interim Minister of Interior. With the exception of Sumitro and Mohammad Sardjan, the other members of the cabinet, including Prime Minister Burhanuddin Harahap himself, had had no previous cabinet experience. In fact, the cabinet was generally recognized as an interim cabinet, simply a stop-gap put there in office to maintain the government until the general elections, scheduled for September 1955. Given its temporary status, after the elections, repeated demands were put forward for the resignation of the cabinet. The most vociferous of these demands were from PNI and the other Nationalist parties, which were feeling more securely in the saddle riding on the political strength gained from their success in the elections. In the new distribution of seats in Parliament, PNI had gained the same number of seats as Masjoemi (57 seats) and PKI raised its representation to thirty-nine. The new Islamic party, *Nahdlatuh Ulama* (NU), which split from Masjoemi in April 1952, gained forty-five seats. The liberal PSI lost nine seats, dropping from fourteen to five. *Parkindo* and the Indonesian

[20] The National People's Party was formed in July 1950 after a split from PNI. It was initially called Indonesian National Party-Merdeka.

Islamic Union Party (Partai Sarekat Islam Indonesia, PSII), each had eight seats.[21] Six months later, the Harahap Cabinet resigned in March 1956.

After the fall of the Harahap Cabinet it became impossible for the Indonesian Nationalists not to acknowledge that the underlying cause of the political instability besting the system of Parliamentary Democracy was the rivalry between the political parties, particularly between the two largest parties, Masjoemi and PNI. In an attempt to reduce this tension, when he returned to cabinet leadership on 20 March 1956, Ali Sastroamidjojo strategically included NU in the traditional Masjoemi-PNI coalition. Nevertheless, Ali Sastroamidjojo was not prepared to go to the lengths of accepting President Soekarno's request that PKI be included in the cabinet. His principal argument was that this would be irreconcilable with Masjoemi. By way of compromise, he did appoint Djuanda, who had also been recommended by the President, State Minister for Planning Affairs. Jusuf Wibisono, Minister of Finance in the Natsir Cabinet, was invited to fill this post again. Other key members of the government directly involved with economic policy-making included the Minister of Economic Affairs, Burhanuddin, the Minister of Communications, Suchjar Tedjasukman, the Minister of Public Works and Manpower, Pangeran Noor and the Minister of Agriculture, Eni Karim. With the exception of Prime Minister Ali Sastroamidjojo, Minister of the Interior Sunarjo, Djuanda and Jusuf Wibisono, the overwhelming majority of the ministers lacked cabinet experience. Despite the representations of Masjoemi, the composition of the second Ali Cabinet reaffirmed the ascendancy of the leftist and extreme Nationalist groups in the government as it took shape in the aftermath of the general elections in 1955.

Soon after the formation of the second Ali Cabinet, at the opening ceremony of newly elected Parliament on 26 March 1956, President Soekarno gave a speech in which he emphasized that the new Parliament would work on the basis of mutual co-operation, as the members of a family would, rather than

[21] *Mimbar Indonesia*, 10 March 1956. For more information on the 1955 elections, see Herbert Feith, *The Indonesian elections of 1955* (Ithaca, N.Y.: Cornell, 1957) and A. van Marie, 'The first Indonesian parliamentary elections', *Indonesië*, 9 (1956), 258.

on competition between the political parties vying for power on the number of votes they had received. Although his concrete conception (*konsepsi*) for a new system of government, namely Guided Democracy (*Demokrasi Terpimpin*), was not effectively introduced until February 1957, at this point the President had no compunction about making clear his dissatisfaction with the existing system of Parliamentary Democracy. Instead of maintaining a Parliament composed of the elected representatives of parties, Soekarno proposed the establishment of a National Council (*Dewan Nasional*), its membership principally made up of the functional groups in society. The Council would assist the cabinet and offer it advice. Decisions would be reached by consensus rather than by voting.[22] The establishment of the National Council by President Soekarno in July 1957 in conjunction with the formation of a 'Working Cabinet' (*Karya Cabinet*) led by Djuanda one month earlier officially marked the end of the era of parliamentary democracy, ushering in a new era in Indonesian history, Guided Democracy, which was to last until 1966.

The brunt of Soekarno's attack on the system of Parliamentary Democracy was directed towards the lack of consensus between the political parties represented in Parliament. It has to be said that the continuous bickering did undoubtedly weaken Indonesian unity and undermine national strength. Indeed, the seven-year period from the Transfer of Sovereignty to the beginning of Guided Democracy was one characterised by high and rising political dissatisfaction and unrest, of which the most outward and visible sign was the succession of seven cabinets in less than eight years. With the exception of the second Ali Cabinet, which extended its coalition to the Islamic NU, post-revolutionary Indonesian cabinets were led by either Masjoemi or PNI, in co-operation with other smaller parties. In comparison with its status in the previous period under the Republic of Indonesia, the position of PKI had weakened and it was excluded from all succeeding cabinets in the early 1950s. Despite its failure to make the cabinet, its influence in Parliament actually grew, indeed markedly so after the general elections of 1955. The disintegration of

[22] Daniel S. Lev, *The transition to Guided Democracy; Indonesian politics 1957-1959* (Ithaca, NY: Cornell University Press, 1966) 37-43.

government by political parties was blamed for the difficulty encountered in producing a strong national leadership so necessary if long-term policies were to be successfully formulated and pushed through. Examining the personal qualities of their leadership, there is no question that quite a few of Indonesian leaders were highly educated and had built up considerable professional experience in either economics or engineering. Mohammad Hatta, Sumitro Djojohadikusumo, Sjafruddin Prawiranegara, Ong Eng Die, Jusuf Wibisono, Djuanda and Rooseno Soerjohadikoesoemo were all among the best professionally trained people in the Indonesian intellectual elite. The Achilles'heel in the system was that they had to co-operate with other cabinet members, only half of whom were qualified graduates, and they were constantly challenged in a Parliament, in which two-thirds of the members had no more than a certificate of secondary education. Notwithstanding the relatively high number of trained civil servants (Table 8) on which it could rely, the restrictive political environment of the early 1950s prevented the Indonesian government from bringing its economic policies and plans to fruition.

Table 8*:* Educational level of Indonesian political decision makers in the 1950s (in percentage)

Educational level attained	Cabinet members	Members of Parliament	Highest level civil servants
University	**68**	**27**	**87**
Fully trained	58	19	67
Partially trained	10	8	20
Secondary	**32**	**64**	**13**
Senior certificate	15	32	13
Junior certificate	17	32	0
Primary certificate	**0**	**9**	**0**
Total	100 (n=146)	100 (n=234)	100 (n=160)

Source: Soelaeman Soemardi, *Some Aspects of the Social origin of Indonesian Political Decision Makers* (London: International Sociological Association, 1956) p. 342.

2. Re-formulating the National Economy

Despite the rampant disagreement about balancing the roles of the state, co-operatives, and private firms in the economy, all Indonesian politicians and intellectuals were adamant that independent Indonesia must never again fall into the pitfalls of the colonial economy. Nobody disputed that Indonesia had to develop its own national economy, controlled, led, and organized by Indonesians. The constant goal before all their eyes had to be the welfare of the Indonesian people.[23] Unquestionably, the Transfer of Sovereignty in December 1949 aroused high expectations among Indonesians who were waiting on tenterhooks for the rapid realization of such an ideal economy, while controversies continued to be waged over the ways and means to foster the economic transformation. Debates about the most appropriate systems for the national economy continued into the early 1950s, alongside questions about the role and potential contribution of national capital. The most controversial issue was related to the policies towards the Dutch companies which were still in control of important segments of the Indonesian economy. The ideological splits within the political parties, the direct effect of the formation of so many new political parties in the late 1940s and immediately after Transfer of Sovereignty, appeared to have little effect in reducing the diversity of opinion existing within each party.

As they had tended to dominate the economic discussions in the late 1940s, the articles in the Constitution touching on the economy continued to be the point of departure from which arguments about the desired systems of economy were launched. After the Transfer of Sovereignty, although RIS adopted a federal Constitution, the member-state of the Republic of Indonesia continued to implement its former 1945 Constitution. The federal Constitution was subsequently abrogated in July 1950 and replaced by a new Constitution amended from the Constitution of the Republic. Under the new unitary state in

[23] See Djuanda's introduction in Hadinoto's *Ekonomi Indonesia*.

August 1950 the Constitution was renamed the Provisional Constitution, although it remained in force until July 1959 when President Soekarno restored the 1945 Constitution.[24] Significantly, despite various changes made between the successive constitutions, Article 33 of the 1945 Constitution, with its important passages regarding the economy, remained intact. It simply renumbered as Article 38 in the Constitution of 1950. At this point, in order to avoid confusion, an elucidation was added, to define the term 'controlled' (dikoeasai) in the sense of direction and/or management. This was a deliberate choice for the purpose of encouraging production at a time at which co-operative bodies were growing in importance. The term 'branch of production' was defined as all kinds of production of goods, transportation, distribution, circulation and trade. Once again this wording failed to identify which branches were considered important enough to be kept under state control. The upshot of this vagueness was that the political discourse of economy in the 1950s laid less stress on state ownership. Needless to say, in such a hotbed of political opinions, plenty of ideas circulated about which enterprises should be nationalized. The other two articles in the Provisional Constitution relating to economy were Article 26 and Article 28, which defined the right to work and to the ownership of property of Indonesian citizens, respectively.[25]

The most active groups in steering the public and parliamentary discussions in the direction of the solution to economic issues were the Nationalist and Marxist-oriented parties. Several of the latter were newly formed as a result of their dissociation with PKI after the Madiun Rebellion. They included Murba, PIR, and the Labour Party.[26] The leaders of these parties, were often quick to vent extreme anti-Dutch and anti-imperialist views and, by definition they were utterly opposed to the economic concessions made to the

[24] Ricklefs, *A History of Modern Indonesia,* 304.

[25] 'The Provisional Constitution of the Republik Indonesia (1950)', *Indonesian Review* 2 (Feb.-March 1951) 140-157; *Rentjana Undang-undang Dasar Sementara Republik Indonesia* (Jakarta: Pertjetkan Negara, 1950) 49.

[26] This Labour Party (often called *Party Buruh*) was a split-off from the post-war Labour Party (BPI). It was formed by a group of members of BPI and PS who were opposed to the merger of BPI into PKI in September 1948. After the Madiun Affair, BPI reappeared, but rejoined PKI in February 1951. In fact the leader of BPI often considered themselves Communists.

Netherlands at the Round Table Conference by the Indonesian delegation. With new life breathed into Parliamentary Democracy under a new set of rules following the Transfer of Sovereignty, these leaders did their level best to attract support from other political parties and put pressure on the government to take immediate action to seize economic power out of Dutch hands. There were also demands for a unilateral abrogation of agreement made at the Round Table Conference, on the grounds that these would obstruct Indonesia in operating its economy in the spirit of the Indonesian Constitution.[27]

Murba adopted an Urgency programme in early January 1950. Its ultimate aim was to strive for 100 per cent independence, adhering to the letter of the 1945 Proclamation of Independence and to strengthen the goal of establishing socialism. Demanding a reassessment of economic objectives, the party urged the government to organize the economy in accordance with the spirit of Article 27 and Article 33 of the Constitution of the Republic of Indonesia. Its ultimate goal was realization of a truly national economy which it thought could be achieved by ridding the country from foreign capital and eradicating the capitalist economic structure inherited from colonial times. The Murba platform was that the national economy should be based on the concept of the people's welfare, and this could be achieved by giving state-owned enterprises and co-operatives a leading role in the process. The party identified those vital enterprises which it was convinced should be nationalized, including transport, communications, gas, electricity, and water enterprises, mining, manufacturing and agricultural estates. The Murba Urgency Programme also demanded that banks be nationalized and that the entry of foreign capital should be stopped forthwith. It expected the government to implement a progressive system of taxation, from which wage and land taxes should be eliminated to be replaced by income tax. Its plan was that imports should be placed under government regulation and their quotas should be based on the daily needs of the population. In its separate programme for labour, the party requested the government introduce a regulation on minimum wage and a forty-hour working

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[27] Feith, *The decline of constitutional democracy*, 163-164.

week. In its agricultural workers' programme, the party promised to protect peasants and small-scale farmers working in businesses or leasing land to others.[28]

Although the Labour Party also insisted on the nationalization of Dutch enterprises, it did not neglect the macro-economic management of the state and the interests of labour. In its Emergency Programme, announced on 8 February 1950, the Labour Party urged the government to set up a scheme to organize the distribution of basic consumer goods and tools. It stated in no uncertain terms that the government should also supervise and co-ordinate the entire production process. In order to implement Article 33 of the Constitution of the Republic of Indonesia, the government had no option but to nationalize important enterprises and expand the state-controlled sectors. Turning to the interests of the labour, the party stuck to its guns and insisted that the government to draw up regulations which would govern collective work contracts (*Collectieve Arbeidsovereenkomst*) and labour participation in decision making (*medezeggingschap*) in all enterprises. Since it had been set up by former members of PSI and PBI, naturally the Labour Party shared some ideological affinity with these two political parties. As time went by and PSI became increasingly liberal in its economic outlook, whereas PBI leaned more heavily towards radicalism, the Labour Party took the middle ground somewhere between the two. It acquiesced in the restoration of foreign property on the condition that the government ensured the implementation of the above-mentioned principles.[29]

On 13 March 1950, twenty-four PNI members of Parliament held a conference in Jakarta. At this meeting, the chairman, Sujono Hadinoto, asserted that the faction would continue to act according to the Charter and Principles of the party, which had been agreed at its third congress in June 1948. The ultimate goal of PNI was to create a *sosio-nasional-demokrasi* in Indonesia. The PNI

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[28] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951) 324-325.
[29] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951) 338; *Ichtisar Parlemen*, 9 August1950.

leaders were convinced that the future economy of the country should be a democratic economy, based on *gotong-rojong* principles. With this conception of the economic system, clearly before their eyes, the party left no doubt it was opposed to individualism and capitalism, and therefore rejected the concept of liberalism.[30] In May 1950, PNI organized its fourth congress in Yogyakarta, and at it a new Political Struggle Programme was adopted. The first point in the Social-Economic Section of the programme read '[to] lay the foundation of a socialist economy', or in other words 'the nationalization of vital enterprises'. Other points noted in the section included demands for the implementation of Article 27 and Article 33 of the Constitution of the Republic of Indonesia, the strengthening of democratic and anti-imperialist movements of industrial labour and farmers, the reform of labour and agrarian laws and the stimulation of the establishment of co-operatives and transmigration.[31]

The PNI programme paid special attention to labour in a separate Labour Urgency Programme. It demanded the government to be the pioneer in democratizing the life of labourers and that it recognized labour as the principal factor in the production process. Therefore labour should be entitled to participate in determining the process of production though Management Boards (*Dewan Pimpinan*), which would be established in state-owned enterprises and Enterprise Councils (*Dewan-Dewan Perusahaan*) in privately-owned or mixed firms. The task of these boards would be to supervise production and initiate collective and co-operative projects with labour. In its Farmers' Programme, PNI promised to insist that the government implement a national economic plan based on collectivism. By ensuring that its representatives would be placed in collective projects, the party promised it

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[30] *Ichtisar Parlemen* 1 August 1950, 21 March 1950, *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 116-117.

[31] Three months later, during parliamentary debates on a new Constitution for the unitary state, Ranai Sophian, a member of PNI stated that his party identified vital enterprises as land, sea and air transport, communications, electricity, gas, water, and mining. These enterprises should be made state property, paying compensation where necessary to the owner (*Ichtisar Parlemen* 1950. pp.347-350). Nevertheless, this elucidation was never put into the official documents of the party. In its programmes adopted later in December 1952, the issue of nationalization was mentioned in oblique terms just as Article 38 of the Provisional Constitution.

would fight to attain the rights of farmers.[32] This Political Struggle Programme continued to be the fundamental guideline of PNI in the following years, although a few changes in orientation were made at subsequent congresses. In the Fighting Programme adopted at the sixth congress in December 1952, PNI put more stress on government assistance to national businessmen and put forward cogent arguments for the imposition of restrictions on foreign capital. Its nationalist standpoint, both anti-Dutch and anti-imperialist, was never compromised.[33]

Within a few months of the Transfer of Sovereignty, most major political parties in Indonesia had reorganized themselves and were ready to introduce their new political and economic programmes. The exception was PKI which was still in an organizational chaos in the aftermath of the Madiun Affair. Shaken by their defeat, the remaining leaders of the party devoted more attention to seeking co-operation with other nationalist parties, than to strengthening the ideology and organization in the party itself.[34] Only after the return of D.A. Aidit and M.H. Lukman, the leading Leninists who had fled to China and Vietnam after the Madiun Uprising, in mid-1950 and their subsequent appointment to the new leadership of PKI in January 1951, did the party begin to regain its political influence. Aidit and Lukman became editors of *Bintang Merah* (Red Star) and *Harian Rakjat* (People's Daily), the foremost PKI publications. After the affiliation of BPI to PKI in February 1951, the influence of the latter grew as BPI had several representatives in Parliament.

In March 1951, Aidit announced a 'New Road' resolution, whose principal rallying call was the creation of a united national front. To elaborate this 'New Road' resolution, the party adopted a new party programme consisting of twelve articles. Point 6 of the programme was a call for the nationalization of important enterprises, which in PKI terms encompassed large factories, mining and transport enterprises, major agricultural estates and large

[32] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 119-121.
[33] *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 52-55.
[34] J. M. van der Kroef, *The Communist party of Indonesia; its history, program and tactics* (Vancouver: University of British Columbia, 1965) 45- 48.

banks. PKI also demanded that an industrialization plan to be drawn up which would cover all of Indonesia. It was the duty of the state to help and support all small-and medium- scale enterprises which would benefit the people. All agreements with foreign capital which might in any way threaten or hamper the development of the national economy should be discontinued forthwith. Point 7 demanded the confiscation of large landed properties and private estates as well as the implementation of a policy of 'land for the farmers'. Large foreign enterprises should pay very heavy taxes but the masses should be advantaged by reduced taxes.[35] This twelve-point programme served as the principal documentary basis of the party until its fifth national congress in March 1954. At this juncture, a new modified twelve-point programme was adopted, which put more emphasis on the development of national industrial enterprises and the protection of the national middle class from foreign competition.[36]

In preparation for the formation of the united front, PKI called on leaders of several political parties to form a confederative association. On 30 March 1951, a Political Parties' Consultative Council (*Badan Permusjawaratan Partai-Partai*-BPP) was founded, in which PKI, the Sumatran Islamic Party Perti, Murba, the Labour Party, Parindra, the National People Party (*Partai Rakjat Nasional*-PRN) and the Indonesian People's Party (*Partai Rakjat Indonesi*-PRI) all participated. These eight parties signed a charter of co-operation, a joint programme, and a constitution for the council.[37] To this extent, the BPP programme can be considered as a shared aspiration of the participating parties, although by no means all of them agreed with Communist and Marxist doctrines. The Welfare Section of the programme was designed to mobilize domestic manpower and resources in an attempt to improve the physical and spiritual welfare of the people, guaranteeing a fair distribution of products to the state, labour and capital. It called for the nationalization of vital enterprises and for the support of those national businessmen, who made it their

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[35] 'Program PKI untuk Pemerintah nasional Koalisi', *Bintang merah*, 25 March 1952.
[36] Van der Kroef, *The Communist party of Indonesia*, 69.
[37] Donald Hindley, *The Communist Party of Indonesia, 1951-1963* (Berkeley: University of California Press, 1964) 51.

duty to promote the interests of the people. The government should ensure that an industrialization programme was put into force and see to the mechanization of agriculture throughout Indonesia. An upswing in production would certainly assist domestic consumption and would be vent more important to exports. National export organizations should be given a helping hand and the government had to take serious measures to combat smuggling and corruption. BPP also promised to improve the condition of land, sea and air transport throughout the Archipelago, tackling the handicaps caused by the inefficient transport system on a national basis. Such an undertaking would guarantee the interests of the people. Above all, the BPP programme insisted on the abrogation of the Round Table Conference agreement.[38]

Initially, PKI tried to attract PNI into BPP, planning to form a national coalition government with members from PNI and other Nationalist parties. This attempts was doomed to failure as, after some preliminary negotiations, PNI withdrew and threw its weight behind Sukiman in his efforts to form a new cabinet based on the Masjoemi-PNI coalition. PKI, Murba and the Labour Party were again excluded from the government. More critically, in August 1951 the Sukiman government announced the mass arrest of Communists for an allegedly planning a coup against the state.[39] This proved no more than a hiccough as this action did not stop PKI from expanding through various trade unions, especially SOBSI. The party re-emerged under the PNI-led cabinets of Wilopo and Ali Sastroamidjojo. In March 1954, when President Soekarno sent his good wishes to the fifth PKI congress, the party was well on its way to being accepted as a full-fledged part of the nationalist political framework.[40]The outcome of the 1955 election and the President's suggestion that PKI should be included in the second Ali Cabinet established a firm foundation for the direct participation of PKI in Indonesian politics under the Guided Democracy.

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[38] Sutter, *Indonesianisasi*, 1152.
[39] Van der Kroef, *The Communist party of Indonesia*, 49.
[40] Feith, *The decline of constitutional democracy*, 408.

As one of the two leading factions in both the cabinet and Parliament during the early 1950s, PNI shared various political ideas and sometimes was willing to co-operate with PKI and the Murba party. It goes without saying that the other major faction, the Islamic Masjoemi, was the most anti-Communist party. At this stage, the economic views of Masjoemi were far more liberal and moderate than those of other major political parties in post-independence Indonesia. In its new programme, adopted at the fourth congress in late December 1949, Masjoemi only demanded nationalization of the central bank although it did press the government to establish state banks in order to facilitate the development of agriculture, commerce, manufacturing and shipping. It stressed that the regulations drawn up by the former colonial authorities, which had proved injurious to economic development, had to be simplified. Other points in the economic section of the programme included demands for the stimulation of transmigration from Java to other islands, the improvement of the welfare of village people, and the termination of monopolies such as that on copra in Sulawesi and other territories.[41]

At its sixth congress in August 1952, Masjoemi adopted a new programme which demanded a state-directed economy, in which production and distribution would be run ‘to benefit the largest possible number of people’. Private monopolies detrimental to society should be prohibited. To strengthen the Indonesian national economy, the party called for the establishment of co-operatives supported by the government. The party demanded industrialization in the near future and asserted that opportunities must be opened up for foreign capital to set up new industries on the basis of mutual gain. In its plans for nationalization, four categories were identified in order of priority: the central bank, basic transport enterprises, public utilities, and mining. Although there were now three more categories for any prospective nationalization than there had been after the fourth congress, the new three categories did not have the immediacy of the demand for the central bank.[42]

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[41] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 25-26.
[42] Mochtar Lubis, ‘Party Confusion in Indonesia’, *Far Eastern Survey*, Vol.21, No.15 (1952) 156; *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 461.

As was Masjoemi, PSI was also often charged by PKI and other nationalist parties of 'being too much concerned with looking after foreign interests'.[43] This was the reason that, in its plan to form a popular-front government, BPP flatly rejected co-operation with Masjoemi and PSI. Because the ideological base of PSI was socialism, it did not count as a Nationalist party. In terms of economic orientation, it did indeed differ markedly from the Nationalist parties. It had set its sights on modernization and economic development, rather than on economic nationalism. During the first two years after the Transfer of Sovereignty, PSI was still preoccupied with its internal reorganization after its split from PS in early 1948. The first congress of PSI, at which the economic programme of the party was officially adopted, was held in February 1952. The ideology of PSI was that a socialist economy was the only guarantee of the people's livelihood, no unemployment, an increase in production and the equality of property. Designing a socialist economy went far beyond matters of nationalization or socialization. Rather, it meant the mobilization of all the means of production, natural resources and state and private property to achieve the goals of socialism. The party pointed out the need for an improvement of technology of production and an expansion in the opportunities for people to participate in planning the economy. Although they definitely did not support liberal capitalism, the PSI leaders were opposed to extreme nationalism and anti-foreign sentiment. They were convinced that foreign capital would be necessary for a considerable time to come.[44]

Although the political influence of PSI and Masjoemi in Parliament gradually declined, their liberal and rational economic views continued to be implemented during most of the 1950s. This palpable influence was felt not least because three of the most prominent leaders of the economy, Sumitro Djojohadikusumo, Sjafruddin Prawiranegara, and Jusuf Wibisono, were loyal members of these parties. Other leaders who belonged to the Nationalist PNI, such as Sujono Hadinoto, Wilopo, and Sumanang, also supported the Masjoemi

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[43] Feith, *The decline of constitutional democracy*, 332.
[44] *Program Nasional Partai Socialis Indonesia* (Jakarta: Partai Socialis Indonesia, 1952) 10-11; *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 528.

point of view in economic matters, especially those related to foreign investment.[45] Masjoemi received enormous support especially from Vice-President Hatta. It was indeed Hatta in the absence of President Soekarno took the chance to revitalize the national leadership of Masjoemi in August 1955. The short-lived revival of Masjoemi and PSI was an important episode in the Indonesian economic history. Under the Harahap Cabinet, several economic measures were carried out to rationalize the economic system, which had been thrown into disarray by the preceding first Ali Cabinet. Looking at the re-emergence of Masjoemi in late 1955 and early 1956, Sutter's hypothesis of a periodization between the Masjoemi era and the PNI era marked by the fall of the Wilopo Cabinet in mid-1953 is untenable. The extreme views of PNI, let alone the far more drastic proposals of PKI and Murba, were in fact never put into effect prior to 1957. Even under the two cabinets led by Ali Sastroamidjojo, the matter of the nationalization of Dutch enterprises was not given top priority.

The differences in economic views between Masjoemi and PSI opposed to those of PNI, PKI, Murba and other small Nationalist parties did not preclude them having a common economic objective; that is to achieve an independent national economy.[46] The acceptance of private capital and foreign investment by Masjoemi and PSI should be seen in the light of being a pragmatic solution to the prevailing situation in which Indonesia found itself in acute need of capital and foreign assistance for economic development. What is beyond doubt is that none of the Indonesian politicians was in favour of capitalism or liberalism, both far too strongly bound up with Dutch colonialism and economic imperialism.[47] Socialism was an alternative economic system supported by most parties, particularly the Nationalist and Marxist-oriented ones. Nevertheless, caution is advised in attempting to interpret the Indonesian concept of socialism, since its interpretation fluctuated enormously between the political parties and

[45] Because of their pragmatic policies, at the sixth PNI congress in Yogyakarta in December 1952, Prime Minister Wilopo and Minister of Economic Affairs Sumanang were vehemently criticized for defying the party discipline. In fact, the PNI leaders thought the Wilopo Cabinet seemed to be a cabinet established on Masjoemi terms, even, to some extent, on those of PSI. Feith, *The Wilopo cabinet*,190-191.
[46] Djuanda, 'Buiding up a national economy', *Indonesian review*, 1 (1950) 9.
[47] Higgins, All the difference, 53.

individuals. In the eyes of some Indonesian politicians, socialism meant little more than Sutter's concept of *Indonesianisasi*, which encompassed a conscious effort to increase the participation and elevate the role of the Indonesian in the large sectors of the economy. Others understood socialism as a collectivist economy based on co-operatives or the spirit of *gotong-rojong*. In the broadest sense, anything related to state control, planning, class division, and social equality could be considered to espouse socialism and therefore to be progressive.[48]

3. *Indonesianisasi*

In a response to the clamours of the leftist groups in Parliament who were demanding the immediate nationalization of Dutch firms, in June 1950 Prime Minister Hatta stated that it was impossible to undertake any nationalization at that moment since the government did not have any money and was still borrowing from abroad. He pointed out that state budgetary deficit was 1,500 million rupiahs. In answer to their protests he added that on account of a shortage of trained Indonesian personnel, for the time being foreign management was inevitable. Hatta hastened to give assurances that foreign personnel would be obliged to work under government supervision and that the government was already busy with plans to nationalize important public utilities.[49] As supplementary material to back up Hatta's argument, the following month, Minister of Labour Wilopo published an article on Indonesian labour issues, in which he stressed the severe shortage of Indonesian experts. Wilopo stated that the total number of civil, electrical and other engineers was no more than ninety, whereas at least 4,000 were actually needed. The number of medical doctors, some 1.5000, was slightly better, but it was still far below the minimum of 5,000 needed for a total population of more than 70 million.[50] In a nutshell, lack of capital and trained personnel continued to be major factors

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[48] J.A.C. Mackie, 'The Indonesian economy, 1950-1963', in: Glassburner (ed.), *The economy of Indonesia*, 44.
[49] *Ichtisar Parlemen* 1 (1950) 253-254.
[50] *Indonesian review*. 3-4 (1950)14.

thwarting the implementation of economic nationalism in Indonesia in the early 1950s. Pragmatic leaders in the Indonesian government realized that, rather than immediately nationalizing them, they had to accept the necessity of utilizing the advantages offered by Dutch firms if they were to build up the national economy and sustain economic development.

Adhering to this pragmatic thinking, in early 1950 the Indonesian government issued a series of regulations stipulating that agricultural estates and factories should be returned to their former owners, the majority of them Dutch. A Committee for the Return of Foreign Estates (Panitia Pengembalian Perusahaan Perkebunan Milik Asing) was set up in each of the main estates areas to organize the returns.[51] The government also encouraged the continuing operations of such public services as local transport, gas and electricity, most of which were managed by private enterprises with Dutch owners. In early August 1950, the General Netherlands Indies Electricity Company (Algemeene Nederlandsche-Indische Electriciteits-Maatschappij, ANIEM) and the Overseas Gas and Electricity Company (Overzeese Gas-en Electriciteits Maatschappij, OGEM), the two largest distributors of electricity, accounting for 70 per cent of electrical power distribution in Indonesia, were allowed to raise their charges by 58 and 48 per cent, respectively.[52] Several attempts were also made by the Hatta Cabinet to seek the co-operation of Dutch firms in establishing new joint enterprises. Garuda Indonesian Airways (GIA), founded in March 1950, is a typical example of the type of joint venture which was common in the early 1950s. The Indonesian government and Royal Dutch Airlines (*Koninklijk Luchtvaart Maatschapij*, KLM) shared 51-49 per cent equity in this company. KLM agreed to train Indonesian staffs and gradually to transfer ownership into Indonesian hands. The contract was drawn up for a period of thirty years, allowing for the possibility of nationalization within ten years. This space of time would be used to *Indonesianize* GIA. It was the Indonesian government

[51] Sutter, *Indonesianisasi*, 695-702.
[52] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*,144-5; *Indonesian review* 1 (1951) 71-72.

which would decide which routes would be flown.[53] On slightly lesser scale, during his trip to the Netherlands and other European countries in mid-1950, the then Minister of Trade and Industry Sumitro Djojohadikusumo concluded agreements with Dutch firms for the setting up of three enterprises, manufacturing wire and cables, bicycles and textiles as well as with a Swedish firm to construct a paper-mill. In all these cases, 51 per cent of the share capital was officially Indonesian and 49 Dutch or Swedish.[54]

The most drastic actions undertaken under the Hatta Cabinet were the implementation of a new tariff system and the subsequent monetary reforms. In March 1950, the Indonesian government introduced a new foreign exchange certificate system, under which an exporter would receive twice the amount stated on the invoice of a completed export transaction in Indonesian currency. However, an importer would have to pay in *rupiahs* not only the amount on his invoice but twice that amount in order to obtain an import certificate. In effect, this system was the equivalent of a devaluation, reducing the official exchange rate of the Indonesian rupiah from 1:1 to 1:3 to the Dutch guilder.[55]In an effort to reduce the money supply which expanded rapidly in the wake of the devaluation of the *rupiah*, on 19 March 1950 Minister of Finance Sjafruddin Prawiranegara implemented a 'monetary purge' (*pembersihan uang*). All bank-notes with a denomination higher than 2.50 guilders were literally cut in half, one half to be exchanged for a new bank-note, the other half for a government bond. More radically, all bank deposits in excess of 400 guilders were reduced to half with the remaining 50 per cent converted into compulsory government loans at 3 per cent interest.[56] The result of the monetary purge was surprising. President Houwink of the Java Bank claimed that 1.6 billion guilders,

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[53] *Indonesian review* 1 (1951) 71; Lindblad, *Bridges to new business*, 115; Sutter, *Indonesianisasi,* 894-899.

[54] *Indonesian review* 1 (1951) 50.

[55] ANRI, Report by Dr Schacht, KP, inventory number 262. Dr. Hjalmar Schacht, the former central bank president in Hitler's Nazi Germany, was invited by Sumitro on 3 June 1951 and by Prime Minister Sukiman on 25 August 1951 to conduct research into the financial and economic situation of Indonesia and give advice about how to improve the situation. His findings were submitted to President Soekarno on 26 October 1951.

[56] Glassburner, 'Economic policy-making in Indonesia', 122; Meek, *The government and economic development,* 284.

equivalent to 41 per cent of the total money supply, had been taken out of circulation.[57] Although the effectiveness of the new exchange certificate system and monetary reform for the long-term economic development of Indonesia continued to arouse controversy,[58] it cannot be denied that these measures assisted the Indonesian government to get a better grip on the currency. At long last, Indonesian money now no longer depended on the exchange rate system which had been designed by the Netherlands. Another part of the monetary reform also meant that all local and the old Republic Indonesia currencies were demonetized, signalling the unification of the monetary system in Indonesia. From 1 May 1950, the official currency unit in Indonesia was the *rupiah*, issued by the Java Bank.[59]

One of Hatta's primary intentions when the federal cabinet was founded in December 1949 was to set up new industries, which made sound economic sense.[60] Unfortunately, high budgetary deficits and an unfavourable political climate thwarted his cabinet in its intention to implement new industrial plans. When Natsir took over the cabinet, both the financial and the political situations improved significantly. The political unification of the country had at long last been materialized and thanks to the Korean War boom, Indonesian exports expanded remarkably, reaching a record of 445 per cent in October 1950, compared to the monthly average of 1949.[61] The government budget rose accordingly from Rp. 3,596 million in December 1949 to Rp. 5,222 million in January 1951, contributing to a sizable budget surplus of Rp. 1,7 billion in 1951.[62] All seemed set fair, especially as foreign aid to Indonesia rose remarkably during the last quarter of 1950. In August 1950, the government

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[57] De Javasch Bank, *Laporan tahun 1950-1951*, p. 25.

[58] For the criticism, see Hans O. Schmitt, *Some monetary and fiscal consequences of social conflict in Indonesia, 1950-1958* (PhD dissertation, University of California, Berkeley, 1959) 51-74.

[59] De Javasch Bank, *Laporan tahun puku 1949-1950*, 42.

[60] In an interview in Bangkok in mid-November 1949, on his return from the Round Table Conference, Hatta declared that the economic policy of the Republic of the United States of Indonesia would be directed towards promoting the welfare of the people, social security and better wages for the workers. This would require expansion of production and the establishment of new industries. Sutter, *Indonesianisasi*, 1106.

[61] *Indonesian review* 1 (1951) 39.

[62] De Javasch Bank, *Laporan tahun 1950-1951,* 25.

received a loan of $ 32 million (Rp. 365 million) from the Export-Import Bank.[63] Assured of the availability of accumulated funds, the Indonesian government could now concentrate its attention on the development of the desperately needed new industries.

At this juncture, it should be said that industrial development in post-independent Indonesia did not necessarily take place to the detriment of foreign estates and future foreign investment. In an article 'Building up a national economy' published in July 1950, Minister of Welfare Djuanda argued the importance of promoting national industries. He stated that 'There is plenty of opportunity for many more branches of industry and for new trading enterprises [to be founded], without [these] interfering with established interests.'[64] This idea was incorporated into an industrial plan, drafted by Minister of Trade and Industry in the Natsir cabinet, Sumitro Djojohadikusumo. The actual plan was announced in April 1951, under the name *Rentjana Urgensi Perekonomian* (Economic Urgency Programme). It is often referred to as the Sumitro Plan although by that time Sumitro was no longer in charge. The Economic Urgency Programme, as Sumitro himself said, was an integral part of the general policy of the government to build up the economic strength of the Indonesian people as basis for developing a sound national economy.[65]

The specific objective of the Sumitro Plan was to stimulate the development of all the layers of the Indonesian industrial sector, to wit: small-, medium- and large-scale industries. The major part of the activities it proposed were concentrated on extending loans and credit to small-scale industries, installing central production and processing units (*induks*) in industrial centres in various rural regions and establishing large industrial plants in vital sectors of the economy. In contrast to the *induks* which functioned as a concentration of

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[63] Dauglas S.Paauw, *Financing economic development; the Indonesian case* (Glencoe, Illinois: The Free Press, 1960) 424.
[64] *Indonesian Review* 1 (1950) 9.
[65] Sumitro Djojohadikusumo (ed.), *The government's program on industries; A progress report* (Jakarta: Institute for Economic and Social Research, Djakarta School of Economics, University of Indonesia, 1954) 3.

management for small enterprises, large-scale industry was meant to support the other sectors. Significantly, the Economic Urgency Programme laid down that all projects were to be operated under government sponsorship through its agencies.[66] Foreign capital and Indonesian private citizens were allowed to participate, but on condition that the government had dominant control of key industries, including defence factories, chemical factories, cement works, power plants, waterworks and transport enterprises. This would be assured by a government participation of at least 50 per cent of the capital and two-thirds of preference shares as well as a controlling majority on the Board of Directors. Foreigners would be employed on management contracts to provide technical assistance and train Indonesians to assume leading positions in the enterprises.[67] The obligation to train Indonesian employees and promote them to higher ranking management positions applied not only to new joint enterprises, it also extended to important foreign-owned firms, particularly oil companies, an industry in which the Indonesian lack of expertise and technology were glaringly apparent.

It was understood that, given the circumstances, the Economic Urgency Programme was provisional. At the time of its first publication in April 1951, its most detailed planning instructions were handed out to large-scale industries. There covered short-term projects, expected to be completed by the end of 1952, and applied to the establishment of a wide range of industries for printing, rubber re-milling, cement, tyres and textiles. The estimated cost of these projects was Rp. 179 million. Among the long-term projects were those to construct eleven factories in different regions of Indonesia, processing caustic soda, manure, aluminium, plywood, paper as well as iron smelting and manufacturing glass. Other enterprises would be for knitting and spinning as well as the production of tannic acid and coconut flour. These projects required an investment of Rp.522 million. Turning to the idea of projects for production centres, the Programme proposed the installation of eight *induks*, concentrated

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[66] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 4.
[67] *Indonesian Review* 1 (1951) 186.

in Java. The budget appropriated for the *induks* projects amounted to Rp. 27 million. The programme also proposed the establishment of a number of research institutes and laboratories in Bandung whose investigations would help to produce better materials and improve the efficiency of production. At this time, no specific instructions had yet been given for mechanization and loan projects.[68]The estimated cost of the Sumitro Plan was Rp.863.5 million.

Table 9: Total cost of the 'Sumitro Plan' (in million rupiahs)

	1951	**1952**	**After 1952**	**Total**
Laboratories and institutes	3.8	4	1.5	7.8
Central production units	14.5	12.5	p.m.	27
Small industries	66.5	59.5	p.m.	126
Large scale industries (short- term)	107	72	p.m.	179
Large scale industries (long-term)	p.m.	p.m.	522	522
Total	192	148	523.5	863.5

Source: *Indonesian Review* 1 (1951) p. 189.

In order to facilitate the implementation of these plans, the Natsir Cabinet paid a great deal of attention to the reorganization of the credit system. Attempts were made to increase the number of Indonesian members on the board of the central bank and other government credit institutions. Government banks, as among them the Java Bank, the Indonesian People's Bank (Bank Rakjat Indonesia) and the Postal Savings Bank (Bank Tabungan Pos), were still owned and staffed by Dutch corporations. Fully aware of this, the cabinet also stimulated the development of national banks. The *Bank Negara Indonesia*, which had served as the central bank of the Republic during the Revolution, was reorganized and provided with Rp. 250 million in outstanding credits at the end

[68] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 5-8.

of 1951.[69] The *Bank Negara Indonesia* became the first Indonesian-owned foreign exchange bank. Its primary task was to assist Indonesians to build up their trade and export-import businesses. Credit institutions whose job it was to develop industries included the State Industrial Bank (Bank Industri Negara), the Credit Foundation (Jajasan Credit) and the Bureau of National Reconstruction.[70] The former colonial Copra Fund was reorganized into a copra foundation in December 1950. Its primary task was to assist the Indonesian copra-producers to set up co-operatives.[71] Alongside this state activity, Indonesian private citizens were encouraged to establish banks in order to attract private funds from the population.

The Sumitro Plan was presented only after the Natsir Cabinet had been dissolved. It was taken over by the Sukiman Cabinet under the supervision of Minister of Commerce and Industry Sujono Hadinoto and after July 1951 of Minister of Economic Affairs Wilopo. The vision was there in plenty but the capital needed for the programme turned out to be in extremely short supply. The peak of Korean War boom had passed by mid-1951 and Indonesian exports had begun to decline. The budget deficit in 1952 was Rp. 4.3 billion, compared to the surplus of Rp. 1.7 billion the preceding year.[72] In such a difficult situation, only those projects to support small-scale industries, which did not require either large investment or particularly skilled labour, were fully financed during the first year of the plan. In early 1952, the government expanded the *induk* projects, providing Rp. 14 million to establish ten other production centres.[73] As had been expected under the circumstances, the results of the projects for large-scale industries were very disappointing. The most that can be said is that a few printing presses were acquired by private Indonesian firms using state credit. The government itself financed five rubber re-milling factories, all much less than what private investors had accomplished of their

[69] *Indonesia Review* 2 (1954) 57.
[70] BI, inventory number 5383.
[71] *Indonesian Review* 1 (1954) 36.
[72] The Javasch Bank, *Laporan tahun 1952-1953,* p.108.
[73] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 11.

own accord in the meantime. No project was completed within the allotted two years.[74]

The most spectacular action undertaken under the Sukiman Cabinet was the nationalization of the Java Bank in 1951. The total capital of the bank amounting to Rp. 25 million was paid in full by the Indonesian government. In 1953, the name of the bank was changed into the *Bank Indonesia*, but its primary function as the central bank continued.[75]It was decreed by law that, from now on, only Indonesian citizens could sit on the management board. From the point at which it was nationalized in 1951, Sjafruddin Prawiranegara served as its first Indonesian Governor. The nationalization plan was also extended to public utilities and a number of mines and estates owned by private Dutch corporate firms. A report issued by the Board for Financial Supervision (Dewan Pengawas Keuangan) states that, by the end of 1951 the Indonesian government had obtained a leading share in the Bandung Public Electric Company (73 per cent) and the Surakarta Mineral Water Company (60 per cent), as well as a controlling interest in the Billiton Mining Company (62.5 per cent) and the Java Private Land Company (75 per cent). A Central Shipping Foundation (Penguasaan Pusat Kapal-Kapal, PEPUSKA), formed by the government in September 1950, succeeded in buying up six large Dutch ships and several smaller ones operating in East Indonesia.[76] The activities of PEPUSKA anticipated the establishment of the Indonesian National Shipping Company (*Pelajaran Nasional Indonesia,* PELNI) in May 1952. The objective of the PELNI was to wrest control of inter-island shipping from the Dutch Royal Packet Company (Koninklijk Paketvaart Maatschappij, KPM). Unfortunately a lack of expertise in leadership skills meant that the operations of PELNI were inefficient and it never achieved a position from which it could seriously challenge KPM.[77]

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[74] Lindblad, *Bridges to new business*, 81.
[75] BI, Nationalization of the Javasche Bank, inventory number. 3233; For more information about the nationalization of the Java bank, see: Budi Nofianto. *Nasionalisasi de Javasche Bank, tahun 1951-1953* (PhD dissertation, University of Diponegoro, Semarang, 2001).
[76] Dewan Pengawas Keuangan, *Pemberitaan Tahun 1951*.
[77] ANRI, Report of the Indonesian Sailor Union, 9 May 1953, KP, inventory number 9h.

The foreign exchange certificate system, which was put into place in March 1950, was devised to stimulate exports. The stumbling block on which it floundered was that the fluctuating prices on the home markets, as these were constantly being adjusted to the rampant inflation, made the system fiendishly complicated, not to mention that it was open to manipulation and hence invited corruption. On the advice of Hjalmar Schacht, in February 1952 the Sukiman Cabinet abolished the exchange certificate system replacing it with fixed export duties set at 331/3 per cent of the proceeds.[78] The cabinet simultaneously introduced the Export Dollar Certificate (Bukti Export Dollar, BED) which encouraged exports to the countries in the dollar zone, particularly the United States, Canada and Japan. Exporters with their sights set on dollar areas received a premium in BEDs worth up to 70 per cent of the amount of dollars submitted to the Foreign Exchange Institute. Conversely, traders needing dollars to import goods from dollar areas were obliged to buy BEDs to the full amount of the foreign exchange required.[79] The immediate effect of the new trade policy was a decline of exports from Indonesia to the Netherlands (Table 7, Chapter 3).

At this point, the Indonesian government imposed a specific policy which discriminated in favour of national importers, namely the *Benteng* Policy. *Benteng* (literally ‘fortress’) referred to those categories of goods which the government reserved for Indonesian importers.[80] Generally speaking, the government controlled 60 per cent of total exports. Part of this sum was reserved for highly privileged consumers, among them government’s institutions, health centres and anyone trying to get industrialization off the ground; the rest was reserved for the *benteng* importers.[81] It is important to note that only ethnic Indonesians were eligible to participate in the *benteng* groups. The Indonesian leaders, referred to them as ‘an economically weak groups’ who

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[78] ANRI, Laporan Dr Schacht, KP, Inventory number 262.

[79] Kementerian Penerangan, *Government statement on abolishment of system of foreign exchange certificates*, 11-02-1952.

[80] Mackie , ‘The Indonesian Economy’, 47-48; Richard Robison, *Indonesia; The Rise of Capital* (Singapore: Sydney: Allen&Unwin, 1986) 44-46.

[81] ANRI, Letter of Dr. Hjalmat Schacht to President of the Republic of Indonesia concerning the problem of economy and finance, 26 October 1951, KP, inventory number 262.

were entitled the government protection.[82] These protective measures began to bear fruit, beginning in March 1951 when the Sukiman Cabinet used foreign exchange certificates as import licences to monitor imports. A substantial number of the import licences were reserved for indigenous Indonesian importers. In 1952, 43 per cent of all foreign exchange was allocated to indigenous Indonesian importers, giving them a marked advantage over European firms (31 per cent) and Chinese traders (26 per cent).[83] The number of *benteng* importers rose from 250 by the end of 1950 to 741 in April 1952.[84]

As must already be obvious from what has been said previously, economic nationalism proceeded at a relatively slow pace between 1949 and 1953 but nevertheless it did progress. It was the Wilopo Cabinet which threw a spanner in the works and caused a slow-down leading to stagnation in the process. Confronted with serious, almost insurmountable financial problems, this cabinet concentrated its efforts on curbing inflation and reducing routine government expenditure. The first to feel the pinch were importers of luxury and semi-luxury articles on which stringent restrictions were placed and a number of ministries had no option but to accept severe budget cuts. In April 1952, the National Planning Bureau, in which foreign specialists also participated, was set up. Its task was to make adjustment to economic projects to bring them into line with the critical situation. While a long-term economic plan was being drawn up, in June 1952 Prime Minister Wilopo announced that the period for implementing the short-term projects proposed under the Sumitro Plan would be extended to three years.[85] The new policies laid down that only industries which seemed capable of producing goods at a better price than continuing to import them would be given the go-ahead to develop. A Supply Council (Dewan Perlengkapan) was established to compile lists of what supplies were really required by ministries and government departments. The

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[82] According to Article 11 of the Financial and Economic Agreement, the Indonesian government had the right to make regulations necessary to safeguard national interest and protect economically weak groups.
[83] Lindblad, *Bridges to new business*, 131.
[84] Sutter, *Indonesianisasi*, 1021.
[85] *Ichtisar Palemen* (1952) 571.

government could refer to this in its efforts to find a balance between imports and manufacturing.[86] The combination of competition from cheap import products and a lack of government support meant that a large number of Indonesian smaller entrepreneurs, especially textile producers, who still had to use traditional obsolete technologies, went bankrupt.[87]

In January 1953, the government issued a decree to regulate the establishment of new enterprises. In it four categories of enterprise were distinguished. Enterprises important to the security of the country, public utilities, non-profit enterprises and enterprises traditionally undertaken by the state were operated only by the state. Indonesian citizens (*warge-negara Indonesia*) operated enterprises which had traditionally been the prerogative of Indonesian nationals (*bangsa Indonesia*). Such enterprises did not require foreign capital and/or foreign experts. In any joint enterprises, Indonesian citizens had to have a major participation in the stock capital, which would automatically give them more votes in such companies. Enterprises which did not fit into the categories above were opened up for foreign capital. This did not offer an open playing field as the decree stressed the Indonesian government reserved the right to restrict the co-operation when it considered it was necessary to intervene to give Indonesian nationals the opportunity also to participate. The use of Indonesian labour was clearly detailed in Article 20 of the decree which stipulated that work usually done by Indonesians must be reserved for the Indonesian people. Indonesian members must be in the majority on the board of directors and each foreign director had to be assisted by one deputy-director who was an Indonesian national. At least 70 per cent of the staffs of the company and 90 per cent of the lower positions had to be composed of Indonesian citizens.[88]

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[86] Members of The Supplies Council consisted of the Minister of Economic Affairs, the Minister of Finance, the Minister of Minister of Education, Teaching and Culture, the Minister of Agriculture, the Minister of Public Works and Labour, the Minister of Transportation and the Minister of Defence. Peraturan perlengkapan untuk perkembangan perindustrian. Kementerian perekonomian, Jakarta, 28 January 1953. ANRI, KP, inventory number 1543.

[87] BI, Inventory number 5383.

[88] ANRI, Peraturan mendirikan perusahaan2, 29 Djanuari 1953, KP, inventory number 1537.

Obviously, these new regulations were drawn up to protect the interests of the Indonesian people but this did not mean that they did not provided foreign capital with wider opportunities to invest in Indonesia. In July 1952, Minister of Economic Affairs Sumarang suggested the return of the oil installations in Bangkalan Brandan, North Sumatra, to Royal Dutch Shell. In early 1953, Prime Minister Wilopo also announced that the government was preparing new statements on foreign investment policy.[89] These statements turned out to be rather premature as neither the bill on the Statement on Foreign Investment Policy nor the restoration of Dutch-owned oilfields was approved by Parliament. In fact, criticisms of the foreign economic outlook of the cabinet eventually forced Wilopo to resign. Despite this upset, when the first Ali Cabinet took office in July 1953, the matter of foreign investment policy was still occasionally being brought up for the discussion, albeit sporadically as the attitude of the government at the time towards foreign enterprises was anything but congenial.[90] The protracted nature of negotiations is shown by the fact that it was not until the Harahap Cabinet took office in August 1955 that an agreement between BPM and Masjoemi was reached. Masjoemi promised to return the oilfields on condition that the current supervisor, Djohan, be allowed to retain in office.[91]

Under the first Ali Cabinet, economic nationalism was again taken up at a new accelerated pace. In contrast to the policies of restricting imports pursued by the Wilopo Cabinet, the first Ali Cabinet accorded the development of trade, particularly imports, a high priority. The moving force behind this, Minister of Economic Affairs Iskaq Tjokroadisurjo, considered an equitable settlement of the issue of import licences and credits an effective means to raise government revenue and improve the position of Indonesian trading enterprises. Consequently, it was during Iskaq's incumbency as Minister of Economic Affairs, that the *Benteng* Policy was pursued most aggressively. The number of

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[89] ANRI, Proposal of the Economic and Financial Council, 15 May 1952, KP, inventory number 292.

[90] Glassburner, 'Economic policy-making in Indonesia', 126.

[91] Lindblad, *Bridges to new business*, 154.

recognized national trading firms rose to at least 2,111, possibly even as high as 4,000 by March 1955.[92] The percentage of total exchange allocations for imports to national importers increased from 37.9 per cent in 1953 to 80 and 90 per cent in late 1954.[93] The government agency in charge of granting the credits was PNI, which co-operated with Indonesian importer associations to channel the flow of credits to their members.[94]Private Indonesian banks was one sorts of institutions for which the first Ali Cabinet provided credits to encourage their establishment. It was expected that they would serve national enterprises better. In effect, the number of private national banks rose from twenty in mid-1953 to seventy-five at the end of 1955.[95]

In February 1953, the Indonesian government took over the exploitation of the Batavian Transport Company (Bataviasche Verkeers Maatschappij, BVM). The company was subsequently transformed into a state-owned Jakarta Transport Company (Perusahaan Pengangkutan Djakarta). The Indonesian government paid the Dutch owners Rp. 4.3 million.[96]A plan for nationalization of gas and electrical companies was also drawn up by the government in early 1953. Several branches of OGEM and ANIEM were also brought under the control of the Indonesian government in 1954. The Dutch owners received Rp.15 million, far less from their original demand of Rp.52 million.[97] In 1954, the government bought up the Dutch share in GIA, transforming it into a fully state-owned enterprise in which the role of KLM was henceforth limited to providing technical assistance.[98] The government had also a plan to buy Fuchs & Rens, the main Dutch manufacturer of rolling stock and motor cars, which owned four assembling plants in various locations in Indonesia. The estimated

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[92] ANRI, Penarikan hot-money, screening import dan importer nasitional, 1 March 1955, KP, inventory number 1593.

[93] Feith, *The decline of constitutional democracy*, 9, 375; Bondan Kanumoyoso*, Nasionalisasi perusahaan Belanda di Indonesia* (Jakarta: Pustaka Sinar Harapan, 2001) 9.

[94] Sutter, *Indonesianisasi,* 1035.

[95] Sutter, *Indonesianisasi,* 997.

[96] ANRI, Nasionalisasi Bataafsche Verkeers Maatschappij (B.V.M), 26 Feberuay 1953.KP, inventory number 1528.

[97] ANRI, Nasionalisasi perusahaan listrik dan gas, KP, inventory number 1577.

[98] Lindblad, *Bridges to New Business,* 113-5; Thee, 'Indonesianization', 26; Daan Marks, 'The Lost Decades?',*Itinerario* 34/1 (2010) 85.

cost was 1.5 billion guilders, payable within five years up to 1959.[99] A shortage of funds derailed this project and no further nationalization of Dutch enterprises, including Fuchs & Rens, was effected during 1956 and 1957.

As it had sounded the death knell of the efforts to industrialize, the shortage of capable trained Indonesian entrepreneurs likewise frustrated the *Benteng* Programme. A large number of the people involved in the business of importing had had no previous commercial experience. The new national companies were frequently *importir aktentas* (brief-case firms), which kept themselves afloat by reselling licences to foreign and Chinese enterprises. They were also frequently called 'Al-Baba' firms, straw-man Indonesian-Chinese establishments in which 'Ali', the Indonesian titular head, secured the licences and 'Baba', his Chinese associate, ran the business.[100] In early 1955, the Central Import Office estimated that only fifty of the many national importing firms were bona fide establishments, and another 200 concerns hovered on the borderline. Deputy Prime Minister Wongsonegoro added that as many as 80 per cent of licences allocated to national importers were in fact being sold on to non-indigenous traders.[101] The perversion of the *Benteng* Programme and the arbitrary allocations of government credit, if not sheer unadulterated corruption, eventually forced Iskaq to resign in November 1954. When Roosseno succeeded Iskaq, his first task was to rationalize the *Benteng* Policy, a task which he commenced by ordering a rescreening of the 4,300 persons already accredited as national importers. He worked from a premise that sixty to seventy importers would be really sufficient to cover the import needs of Indonesia. By coincidence, shortly after the rescreening had begun, Roosseno stated that only 10 per cent of the 600 importers already screened could be considered bona fide.[102]

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[99] ANRI, Report by Dr. A.K. Gani, KP, inventory number 1579.
[100] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment*, 171; Thee, 'Indonesianization', 32-33; Bondan Kanumoyoso, *Nasionalisasi perusahaan Belanda*, 14-15.
[101] Amstutz, *The development of indigenous Indonesian importers*, 144.
[102] Sutter, *Indonesianisasi*, 1027.

With the return of the more moderately-minded Sumitro Djojohadikusumo to the Ministry of Finance, the economic policies of the Indonesian government tended to focus on solving the most immediate economic problems, rather than the rather more distant issues of nationalism and ideology. The cabinet decided that getting inflation under control was the most pressing necessity as it was convinced that economic stabilization was the most urgent step. The best way to achieve this goal was by expanding production and this would have to take precedence over the ideal of the indigenization of ownership. The ailing *Benteng* Programme was finally abolished under the Harahap Cabintet. All businessmen who were citizens of Indonesia, regardless of ethnic origin, were accorded the same priority.[103] Importers were now required to advance the full value of the goods they intended to purchase abroad at the time they applied an import licence. The results of this action were not long in making themselves felt. By November 1955, the supply of money had been reduced by nearly Rp. 600 million (5 per cent), and the indices of imported goods fell by 15 per cent to 27 per cent in December 1955.[104] Furthermore, imports of raw materials for industrial production in 1955 increased considerably, for instance caustic soda (doubled), dye materials (2.5 times) and cotton (1.5 times) compared to 1954.[105]

The most major drastic action of the Harahap Cabinet was the unilateral abrogation of the Round Table Conference agreements. It did this in March 1956, only one month before the cabinet returned its mandate. When Ali Sastroamidjojo resumed cabinet leadership, he upheld the decision and finally, on 4 August 1956, the cabinet officially announced that it repudiated the 3,241 million guilders of the remaining debt to the Netherlands. This amount corresponded to only 18 per cent of the total debts which the Indonesians had agreed to pay to Netherlands at the Round Table Conference in November 1949. In principal, the Indonesian government recognized the 871 million

[103] Thee, ‘Indonesianization’, 32-33.
[104] BI, Quantitative and descriptive date concerning the economic situation, period October-December 1955, inventory number 4597.
[105] BI, Laporan tahun pembukuan 1955-1956, pp 127,194.

guilders which composed the pre-war debts of the Netherlands Indies government, of which 210 million had already been paid off. It refused to pay the 3 billion guilders of internal debts and the 420 million guilders to third parties (mainly the United States, Canada and Australia), arguing that these debts were contracted by the Netherlands Indies government to buy arms for the purpose of attacking the Republic of Indonesia. In the final balance, since the Indonesian government had already paid 120 million guilders and would continue to pay the remaining debts to third parties, the balance of pre-war debts to the Netherlands was reduced to 241 million guilders. Given that the total budget deficit of the Netherlands Indies Government between 1946 and 1949 amounted to almost 5 billion guilders, and the sole source for meeting the deficit was to print paper money through the Java Bank, the Netherlands Indies Government in fact owed Indonesian society, not the Java Bank. Although the Dutch government agreed to wipe out 2 million guilders, it was still indebted to Indonesian society to the tune of 3 billion guilders. The Indonesian authorities thought that this indebtedness of the Dutch was large enough to warrant the offset of the responsibility of the Indonesian government to pay the sum of 241 million guilders to the Dutch. Indonesia no further had a debt to the Netherlands.[106]

The second Ali Cabinet also revitalized many of the policies of discrimination against foreigners devised by the previous cabinets. In May 1956, the cabinet decided not to return the oil installations in Sumatra to the Royal Dutch Shell. Instead, an army-controlled company, called North Sumatra Oil Extraction Company (Eksploitasi Tambang Minjak Sumatera Utara, ETMSU), was established to take control of the oilfields in that region.[107] The following month, the cabinet submitted a draft for a Foreign Investment Bill to Parliament. Under its term, foreign capital would be banned from investing in social enterprises and public utilities. Owing to the prevailing economic climate,

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[106] NA, Betaling schulden door Indonesië, 2 July 1956, EZ, inventory number 125; Ministry of Foreign Affairs Indonesia, *Explanation of government of Republic of Indonesia's statement of 4 August 1956* (Jakarta: Ministry of Foreign Affairs, 1956).

[107] Aden, *Oil and politics, 161-162*; Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 159.

no Foreign Investment Law was promulgated until 1958, ironically right around the time that the Indonesian government decided to nationalize Dutch enterprises and seize Chinese businesses.[108] In October 1956, the cabinet launched the long-awaited Five-Year Development Plan (1956-1960) which had been being prepared by previous cabinets.[109] Two months before the second Ali Cabinet returned its mandate, in February 1957, the Indonesian government announced its plan to nationalize various branches of OGEM in Makassar and Medan in 1958 and ANIEM in 1959-1960. The seemingly ineradicable labour problem meant that the nationalization of the electricity and gas companies in South Sumatra had to be postponed.[110] Following the advent of the Guided Democracy, all the economic efforts made by Indonesian cabinets since independence, including those of the second Ali Cabinet, were reformulated and incorporated into the new scheme for the Guided Economy.

In short, with the exception of the nationalization of the Java Bank, GIA and a number of public utilities, no other significant transfer of economic ownership from the Dutch to Indonesian hands occurred during the period between the Transfer of Sovereignty and December 1957. Realizing that an immediate dismantling of the former colonial economic system while the country was still facing an acute shortage of capital and skilled employees would spell economic dislocation and hardship, Nationalist leaders in successive Indonesian cabinets in the early 1950s adopted pragmatic measures. While foreign firms were encouraged to continue their operations, vigorous efforts were made to develop new state-owned enterprises and build up a national business class. Dutch firms were requested to provide financial and technical assistance for government projects and to train Indonesian employees,

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[108] Hal Hill, *Foreign investment and industrialization in Indonesia* (Singapore: Oxford University Press, 1988) 5; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 187; Lindblad, *Bridges to new business*, 204. For an English translation of the Indonesian foreign investment law of 1958 in: Paauw, *Financing economic development*, Appendix H.

[109] See summary of the Five-Year Development Plan in: Paauw, *Financing economic development*, 363-392.

[110] ANRI, Resolution of the Indonesian Labour Union of Electricity and Gas (Seriat Buruh Listerik & Gas Indonesia, SBLGI), branch of Palembang, 1 March 1957, KP, inventory number 1528.

who could gradually be promoted to management positions in the companies. The overriding desire of the government to promote the economic strength of Indonesians to counter the domination of Dutch and Chinese firms was eventually frustrated by the unstable political system and particularly the weakness of the administrative apparatus.

4. Entrenched Dutch Position

The disappointing performance of the *Indonesianisasi* process in the early 1950s can also be laid at the door of the Dutch hesitance to co-operate with the Indonesian government. In its policies, the Indonesian government failed to make the most of the advantages which it might have received from Dutch firms, which would have supported the policy of economic nationalism. Under the first four cabinets in what Sutter has labelled 'the Masjoemi period', foreign firms seized by the Indonesian authorities during the revolution were speedily returned to their former owners. By 1952, about 98 per cent of the rubber estates, 88 per cent of the palm oil estates and 80 per cent of the fibre estates in the Medan region had been returned to their owners. Likewise, most estates in West Java and about 60 per cent of the estates in East Java had also been returned by the end of 1952. In total, by the end of 1952, about 70 per cent of the foreign estates in both Java and Sumatra had been returned to their original owners. In absolute terms, the number was 1,140 estates, covering 2 million hectares. Another 466 estates, totalling 480,000 hectares, accounting for 20 per cent of the total area were also returned in the new few years. Only some smaller estates were not returned, in part because the owners no longer wanted them and local conditions made it too difficult for them to have resumed their property. The big three foreign oil companies, namely Shell, Stanvac and Caltex, also returned, as did most of the foreign companies in the manufacturing sector.[111]

In principal, 40 per cent of the profits made by foreign capital must be paid into the public treasury in the form of company taxes. For the remittance of

[111] Sutter, *Indonesianisasi,* 695-702; Aden, *Oil and politics,* 132-133.

money to foreign countries, foreign exchange certificates had to be bought for up to 200 per cent of the value of the money remitted. Any overseas transfers of foreign currency must have the permission of the Foreign Exchange Control Institute (Lembaga Alat-alat Pembayaran Luar Negeri, LAAPLN).[112] Over and above these demands, export duties (about eight per cent of the value of the goods) and other levies were imposed. The oil imports and exports were exempted from the foreign exchange regulations. 'Let Alone Agreements' signed in 1948 between the Republican government and foreign oil companies were still in force. More than 50 per cent of the profits of foreign oil companies had to be paid to the Indonesian government.[113] Initially, foreign companies were allowed to transfer 100 per cent of after-tax profits gained overseas, but in July 1953, the Ali Cabinet introduced new regulations, which allowed foreign companies to transfer only 40 per cent of their net profits. In March 1954, these regulations were reformulated and a 66 per cent levy was imposed on all overseas transfers. In May 1954, new more severe restrictions were placed on imports, and the corporate tax rate rose to as high as 52 per cent.[114] Foreign manufacturing firms were prohibited from distributing their own goods in Indonesia; they had to hand this over to distribution firms owned by Indonesians.[115]

At this distance in time, it is difficult to examine just how far the Indonesian government was in control of the overseas transfer of profits by foreign companies. It was certainly not as much as it had hoped, as will be revealed in the next chapter. Only later did the Indonesian authorities discover the full extent of unauthorized oversee transactions by Dutch and Chinese firms, when these were used as evidences against Dutch claims for compensation after nationalization or as a justification for the confiscation of the Chinese businesses. Clear cut evidences of Dutch and Chinese attempts to counteract the discriminatory policies of the Indonesian government are certainly evident in

[112] ANRI, Government regulation, 20 February 1952, KP, inventory number 1532.
[113] *Indonesian review* 1, 4 (1951)
[114] Meek, *The government and economic development,* 196-198.
[115] Anspach, *The problem of a plural economy*, 203.

their reactions to the *Benteng* Programme. Besides fostering their association with the Indonesian brief-case firms, Dutch and Chinese corporate firms established their own Indonesian branches as a legitimate route to obtain import licences from the Indonesian authorities. The *Indoprom* Company, for instance, was a *benteng* importer recognized by the Indonesian authorities in November 1950. It co-operated closely with the *Indoprom* Company in Japan and the *Indoprom* Company in Hong Kong, as well as having various agencies in Singapore, Rotterdam, New York and Sydney. Although two-thirds of the shareholders of the company were Indonesian citizens, the director and his deputy, Tan Thong Yam and Tan Thong Kie, were Chinese descent.[116] A similar example is the Libra Company which was listed as a *benteng* firm. Nevertheless, 90 per cent of its employees, including its directors, were former employees of the Dutch trading firm *Lindeteves*. *Libra* received its capital and took instructions from *Lindeteves*, *de factor* serving as a branch of this Dutch company.[117]

Indonesian efforts to co-operate with Dutch firms in setting-up of joint ventures were only successful in the case of aviation and a small number of industrial enterprises. KPM consistently refused to co-operate with the Indonesian government so that it still remained the central transport apparatus under the Dutch flag.[118] Indonesian efforts to elevate the position of the Indonesians in the Dutch companies were also often unsatisfactory. Dutch companies were reluctant to promote Indonesian employees to higher-ranking management positions. They routinely stated that there were not enough qualified Indonesians to replace European expatriates.[119] It was not until 1952, when the Indonesian government introduced immigration quotas restricting the entry of expatriates from the Netherlands, that Dutch companies began to put

[116] ANRI, Letter of the Director of the Indoprom Company to Department of Private Business, Jakarta, 16 December 1952 and Letter of the director of Indoprom Company to the Department of Benteng Administration, 10 January 1953, KP, inventory number 1528.
[117] ANRI, Penarikan hot-money, secreening import dan importer nasitional, 1 March 1955, KP, inventory number 1593.
[118] Howard Dick, *The Indonesian interisland shipping; An analysis of competition and regulation* (Singapore: Institute of Southeast Asian Studies, 1986) 14-16.
[119] Meijer, *Den Haag-Djakarta,* 352; Van de Kerkhof, '"Colonial enterprise', 180.

Indonesians into the positions in the lower and middle management ranks vacated by Dutch people. In large firms, new positions for relatively high functionaries were created, such as the *Staf Indonesia* (Indonesian Staff) in the trading firm *Internatio* and the *mandur* (foremen) in the estate company Oud Djember (Landbouw-Maatschappij Oud-Djember, LMOD).[120] Needless to say, these efforts to pay lip service to the Indonesian government regulations did not meet Indonesian Nationalist aspirations. The positions vacated by Dutch were often taken by Chinese Indonesians rather than by indigenous Indonesian employees. The top management remained exclusively in Dutch hands.[121]

The result of the failure of the *Indonesianisasi* was that the Indonesian economy in the early 1950s retained many colonial characteristics, especially its dualistic nature, represented most unequivocally in the sharp cleavage between the modern sector and the traditional rural, subsistence agricultural sector. By 1952, the modern sector still constituted 24 per cent of Indonesian GDP compared to the 32 per cent it had been in 1939.[122] No less than 35 per cent or more than one-third of total revenue were derived from foreign trade.[123] The economy was still largely geared towards the production and export of a limited number of agricultural products and the extraction of raw materials by mining, the most important of all these being oil. In 1955, for instance, almost 80 per cent of export revenue was derived from four export products: rubber, tin, copra, and oil. Rubber alone accounted for about 50 per cent of the total export value (Appendix, Table 12). The rural economy was so under-commercialized that in 1955 only 9.4 per cent and in 1956 6.7 per cent of rice production in Java and Madura was being milled commercially.[124] Dutch firms and some British

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[120] Van de Kerkhof, ' "Colonial" enterprise and the indigenization of management in independent Indonesia and Malaysia", in: Lindblad and Post (ed.) *Indonesian economic decolonization*, 182; Van de Kerkhof, 'Indonesianisasi of Dutch Economic Interests; The Case of Internatio, 1930-1960', *Bijdragen tot de Taal-,Land-en Volkenkunde* 161 (2005)196.

[121] Van de Kerkhof, '"Colonial" enterprise', 183.

[122] Hans O. Schmitt, 'Foreign capital and social conflict in Indonesia', 286; Higgins, *All the difference*, 51.

[123] Sumitro Djojohadikusumo, *Facing the situation* (Jakarta, Ministry of Information, 1952) 7.

[124] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 174; Paauw, *Financing economic development;* 205.

and American multinationals dominated the modern sector. Most indigenous Indonesians were still engaged in agriculture and making handicrafts. The Chinese middlemen formed the nexus between the two sectors.

Despite Indonesian control of a number of oil installations in North Sumatra, the oil sector was predominantly managed by three big foreign companies (Royal Dutch Shell, Stanvac and Caltex) and four marginal (the Amsterdam Algemeen Petroleum Corporation, the Surabaya Oriental Petroleum Corporation, the Borneo Oil Company and the Sekoerau Petroleum Company). The insurance sector was likewise completely dominated by 110 foreign insurance companies. It was not until June 1950 that the first Indonesian insurance company (Maskapai Assuransi Indonesia) was opened its door for business.[125] In the commercial sector, in 1952 four leading Dutch trading firms handled 50 per cent of all consumer imports, and eight firms controlled 60 per cent of all exports, excluding copra, tin, and cinchona.[126] Private banking was largely in the hands of seven foreign banks, of which three were Dutch-, three Chinese-, and one British-owned.[127] The Dutch businesses in post-colonial Indonesia continued to be very profitable. Between 1954 and 1957, annual remittances of profits to the Netherlands amounted to 900 million to 1 billion guilders, contributing to 2.9 to 4.5 per cent to the national income of the Netherlands (Appendix, Table 14). The lure of such profits encouraged Dutch firms to continue to invest around 1.5 billion guilders in Indonesia between 1950 and 1958.[128] By the time of the take-over in December 1957, Dutch firms controlled about 50 per cent of all estate acreage and about 60 per cent of Indonesian foreign trade.[129]

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[125] Indonesian review 4 (1951)

[126] Meek, *The government and economic development,* 168; Higgins, *All the Difference,* 168.

[127] De Javasche Bank, *Laporan Tahun Pembukunan 1949/1950*, 43-4; Meek, *The government and economic development,* 164.

[128] H. Meijer, *Den Haag-Djakarta*, 497,529; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 183.

[129] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 180.

Table 10: The importance of the Netherlands in Indonesian trade, 1950-1957 (in percentages)

Year	The share of Indonesia in Dutch imports	The share of Indonesia in Dutch exports	The share of the Netherlands in Indonesian imports	The share of the Netherlands in Indonesian exports
1950	-	-	17.2	25.3
1951	-	-	12	20.6
1952	6.4	5.6	13	21.4
1953	5.5	3.6	11.8	23
1954	4.8	2.6	10.5	19.5
1955	3.0	2.5	11.7	15.8
1956	3.1	2.9	10.7	19.5
1957	2.9	2.3	9.8	-

Source: NA, *Het economisch belang van Indonesië voor Nederland in 1957*, EZ, inventory number 127, in adjustment with *Statistical pocket book of Indonesia* (Jakarta: Biro Pusat Statistik, 1957) pp. 100-101.

Post-colonial Indonesia still continued to experience a considerable trade surplus with the Netherlands. For the period from 1948 to 1957, the trade surplus of Indonesia with the Netherlands was 58 per cent. In the peak year of 1954, the surplus mounted to 127 per cent (Table 7, Chapter 3). Ironically, more than in the first two decades of the twentieth century, when the trade surplus of the Netherlands Indies with the Netherlands amounted to 25-40 per cent (Chapter One). Although the Indonesian government tried to guide trade relations in the direction of countries in the dollar zone, the Netherlands still remained an important trading partner of Indonesia until 1957. A comparison with the late colonial period shows that the share of Indonesia in Dutch imports in the early 1950s remained the same, but its share in Dutch exports was reduced to half. Clearly the importance of the Netherlands in Indonesian imports declined in the 1950s, but, conversely, the share of the Netherlands in Dutch exports remained large. Exports to the Netherlands accounted for 20-25 per cent of all Indonesian exports between 1950 and 1957, with the exception of a remarkable decline in 1955 when it was only 16 per cent, probably the result of the intensified screening of trading firms by the Indonesian government (Table 10). Importantly, this share was not significantly different from the 16.5-32 per cent of the late colonial period. In a nutshell, post-colonial Indonesia continued to remain highly dependent on the Dutch market.

Understandably the continuing domination of the Indonesian economy by Dutch firms after independence stirred negative public sentiment. One of the best illustrations of the reactions by the local population to the restoration of Dutch firms is the upset known as the Tanjung Morawa Incident, which flared up in early 1953. Tanjung Morawa had originally been a Dutch tobacco estate, which had been occupied by Chinese families since the late 1940s. In 1951, the Indonesian government decided to return part of the property to its Dutch owners. The Chinese families, who were supported by the local peasant unions, refused to leave. Finally, in March 1953, the Indonesian government sent police to clear the land. At this point the conflict escalated into a confrontation between the police officers and 1,500 demonstrators supporting the Chinese families. The conflict resulted in the death of five demonstrators and several more people were injured. Although the government eventually did clear the land, it was not long before the Tanjung Morawa Incident escalated into a serious political issue, which contributed to the downfall of the Wilopo Cabinet in June 1953.[130]

Trade unions were the most vigorous activists in protests against Dutch business. In July 1953, the trade union of the Padalarang Paper Factory passed a resolution demanding that the government nationalize the company and made it state property.[131] Likewise, in March 1954, a branch of the Indonesian Trade Union of Electricity and Gas Workers (Seriat Buruh Listerik & Gas Indonesia, SBLGI) in South Sumatra issued a resolution, urging the government to nationalize all gas and electrical companies in Indonesia and make these 100 per

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[130] Pelzer, *Planters against peasants*, 50-71.

[131] ANRI, Nationalization of the Padalarang Paper Factory, 5 July 1953, KP, inventory number 1528.

cent state property.[132] In the wake of this action, shortly afterwards branches of SBLGI in other provinces issued similar resolutions. Workers in ANIEM quit their jobs and moved to the newly established electricity companies, many of which had actually formerly been branches of ANIEM.[133] In a resolution presented to the Indonesian government in June 1956, SOBSI estimated that the Dutch still controlled 669 plantations, covering more than 1 million hectares. Many of the plantations had been sold to the Chinese and other foreign nationals, instead of Indonesians. Incensed, SOBSI strongly urged the government to confiscated Dutch estates, whose land leases had expired.[134] In the midst of this unrest, attitudes towards Dutch business hardened after the Independence Day speech of President Soekarno on 17 August 1956. The President warned that Dutch colonialism in the Indonesian economy had not yet been overthrown. He supported the action by the Harahap Cabinet when it unilaterally abrogated the Round Table Conference agreements and called for further actions to expel the residue of foreign domination of the Indonesian economy.[135] In the three months between September 1956 and December 1957, numerous requests from various trade unions and occupational associations were submitted to the Indonesian government, demanding that Dutch enterprises be nationalized and that control of these enterprises be handed over to their organizations. The hotbed of political tensions in late 1957 created conditions under which trade unions could undertake spontaneous actions against Dutch business interests.

Conclusion

As Bruce Glassburner has said, the years from 1950 to 1957 in Indonesia are best understood as years of a hopeless losing battle on the part of a very small group of pragmatically conservative political leaders, whose ideas were on a

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[132] ANRI, Resolution of SBLGI, March 1954. KP, inventory number 1528.

[133] ANRI, Resolution of the SBLGI, branch of Cebu, 3 October 1954; KP, inventory number 1528; Resolution of the SBLGI of East Sumatra. KP, inventory number 1558.

[134] ANRI, Resolution of the SOBSI, 9 June 1956, KP, inventory number 1528.

[135] ANRI, 'Lenjapkan kekuasaan asing atas ekonomi Indonesia', Resolution of the East Workers Union of the Republic of Indonesia (Sarekat Buruh Perkebunan Republik Indonesia, SARBUPRI), 23 August 1956, KP, inventory number 1558.

collision course with an increasingly powerful political opposition whose orientation was generally radical.[136] The pragmatic conservative group had largely dominated the government during the first three years after the Transfer of Sovereignty. It consisted of members affiliated to Masjoemi, PSI and the moderate faction of PNI, or else of non-party members. Most of them had enjoyed a Western education and some had participated in the negotiations at the Round Table Conference. Their chief concern was the economic development and the concomitant stability of the country, which they believed should take precedence over matters of ideology. The political opposition group which opposed this cautious approach had begun to exert an increasing influence since the time of the first Ali Sastroamidjojo Cabinet, although the pragmatic conservatives once again managed to revitalize their power in the Burhanuddin Harahap Cabinet. Members of the radical oriented and extreme Nationalist groups were loyal followers of PNI, Murba, the Labour Party and some smaller Nationalist parties. Despite its strong presence in Parliament, particularly after the general elections of 1955, PKI was not invited to take any cabinet position. The ultimate goal of the radically minded, extreme Nationalist politicians was an independent national economy based on the Indonesian concept of socialism. They demanded the immediate nationalization of all vital enterprises at that moment still owned by the Dutch and the introduction of a co-operative economic system, in which state enterprises would play the pivotal role. The resultant political splits inside the government were the main reason for the frequent succession of cabinets, a situation which made it difficult to produce strong national leadership and formulate long-term policies for Indonesia in immediate post-independence period.

With the predomination of the pragmatic group in the government, the Indonesian economy in the early 1950s was operated on the basis of a mixed pattern, exhibiting both capitalist and 'socialist' characters. The pragmatic Nationalist leaders realized that they could not dismantle the colonial and capitalist structure of the economy overnight since the country was suffering from an extreme shortage of both capital and skilled labour. Moderate measures

[136] Glassburner, 'Economic policy-making in Indonesia', 71.

were therefore adopted and efforts were thrown into utilizing the advantages of foreign companies to support economic nationalism. Nationalisation affected only the central bank, the national carrier and a small number of public enterprises. Meanwhile, discriminatory policies were also taken to promote state-owned industries and indigenous entrepreneurship. The apparent failure of the *Indonesianisasi* campaign was most clearly demonstrated by the continuing domination of Dutch and other foreign firms in the important sectors of the Indonesian economy throughout most of the 1950s. Public sentiment of the economic domination of the Dutch escalated in the mid-1950s and culminated in the take-over of Dutch-owned firms in December 1957. Ironically, the subsequent advent of the policy of Guided Economy coincided with the period of intensified collectivization movement in North Vietnam. The upshot was that after a period of diverging developments, the economic struggle in Indonesia and Vietnam again run parallel.

CHAPTER FIVE

THE GUIDED ECONOMY

‘*Tahun “Vivere Pericoloso”*’ - Soekarno

Introduction

The introduction of Soekarno’s *Konsepsi* in February 1957 led directly to the formation of the *Cabinet Karya* and the National Council and signified a really major change in the political system of post-colonial Indonesia. The message it gave was that Parliamentary Democracy on the basis of a multi-party system was no longer considered appropriate to the nation. It had not lasted for very long, just over a decade in fact, and was replaced in July 1959 by a far more authoritarian system, labelled Guided Democracy, akin to the first Presidential Cabinet established in the early months after the Proclamation of Independence in 1945. Guided Democracy effectively restored and expanded the executive powers of the President, and it opened the door for the military to participate actively in state affairs. In the unpromising climate it created, most political parties suffered a catastrophic decline. The exception was the Communist party, which experienced an unprecedented rise and was also warmly supported by President Soekarno who saw it as a political counterpoise to the armed forces.[1] An essential and integral part of Guided Democracy was the Guided Economy,

[1] Herbert Feith, ‘President Soekarno, the Army and the Communists; The triangle changes shape’, *Asian Survey*, 8 (1964) 977-978; Herbert Feith, ‘Dynamics of Guided Democracy’, in Ruth T. McVey (ed.), *Indonesia* (New Haven: HRAF, 1963) 338; Rex Mortimer, *Indonesian Communism under Soekarno; ideology and politics, 1959-1965* (Singapore: Equinox Publishing, 2006) 79.

which in effect established direct state control and management of the important segments of the national economy.

The institutionalization of Guided Democracy and its component Guided Economy, which coincided with the take-over and subsequent nationalization of private Dutch companies in the late 1950s, at long last signalled the realization of the primary objectives of economic nationalism as these had been formulated by the Indonesian leaders, albeit cautiously, and enshrined in the 1945 Constitution which was restored in July 1959. This chapter is a discussion of the final phase of the transformation into an independent national economy in Indonesia, arguing that in ideological terms the Guided Economy represented the highest expectations of what the Indonesian leadership thought an ideal economic system should be. It examines the transformation in the economic management apparatus, from a liberal-democratic system to a guided counterpart, characterized by strong military intervention. The domination of Communist views as an integral part of state ideology under the Guided Economy as this was formulated by President Soekarno will be analysed in some details. Particular attention will be paid to the forcible eradication of foreign economic factors and the efforts undertaken to convert foreign assets into the state-controlled sectors. It will also examine government control of other sectors, including private enterprises and co-operatives, in order to paint a more comprehensive picture of the Guided Economy. Although the system of the Guided Economy in Indonesia bore some resemblance to the centrally planned economy in North Vietnam as this existed from the late 1950s, this study certainly does not argue that these two models were identical.

1. The Military-Civil Administration

Military involvement in economic affairs in Indonesia had commenced immediately after Independence. Various defence organizations participated actively in the take-over of enterprises previously controlled by the Japanese (Chapter Three). Under the system of Parliamentary Democracy, the prime concern of Indonesian military officers was their conventional task as guardians of the state, rather than any special intervention in politics and business. The attempted coup by the army on 17 October 1952, in which President Soekarno was asked to resume control of the government, was the single most resounding action in reaction to the weakness of the civilian government undertaken by the deeply divided army in the early 1950s. In this period, army commanders in North Sumatra and North Sulawesi were engaged in illegal business with local traders in their attempts to raise essential funds for their troops. These actions were necessitated by an inadequate financial supply from the cash-strapped central government.[2] All in all, the army played a passive role in the political and economical life of the country until at least the end of 1956.[3]

Military involvement in political and economic affairs changed all of a sudden after President Soekarno declared nationwide martial law in March 1957.[4] This measure was primarily based on the colonial Regulation on the State of War and Siege (Regeling op den Staat van Oorlog en van Beleg, SOB) of September 1939. It had remained in force under the Republic of Indonesia as the proposed Law on National Emergencies stipulated in the Provisional Constitution of 1950 had never been drafted.[5] The terms of SOB decreed the subordination of civilian authority to military command.[6] Inevitably, it affected

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[2] Ruth McVey, 'The Post-revolutionary transformation of the Indonesian army', *Indonesia* 11 (1971) 152-153; Harold Crouch, *The army and politics in Indonesia* (Ithaca: Cornell University Press, 1978) 38.

[3] Daniel S. Lev, 'The political role of the army in Indonesia', *Pacific Affairs* 36 (1963-1964) 350; Crouch, *The army and politics*, 38.

[4] In fact, ever since the Transfer of Sovereignty various parts of Indonesia had been under the State of War, in Java because of the activities of the Darul Islam and other armed bands, in the Molucas as the result of the continuing resistance encountered from Soumokil's separatist *Republik Maluku Selatan* forces, in South Sulawesi on the account of the rebellion of Kahar Muzakar and his followers. In December 1956, dissident officers in Sumatra declared a state of siege in the areas under their command. Soekarno's declaration of martial law in March 1957 virtually extended the state of war and siege to the entire country.

[5] Heeding criticism that the government was working under a colonial law, in December 1957 the Indonesian Parliament passed a new martial law. In actual fact, this new law did not ring many changes as it was still principally based on SOB. A few articles, whose purpose was to rein in the power of the army, were added, but these did little to reduce the waxing influence of the armed forces.

[6] SOB distinguished two levels of emergency. In a State of War situation, the military had the authority to issue orders and regulations governing public affairs and internal security. Under the terms of the State of Siege, the military authorities were exempted from public law and were abled to take any measures they considered necessary to deal with the immediate emergency. Under both sets of circumstances, civilian authorities were obliged to obey military orders.

economic affairs since, under its terms, all imports and exports, as well as all traffic whether by land, sea or air now fell under military regulations. Such public services as publishing, posts, telegraph and telephone, theatre and other facilities whose function was to supply entertainment and leisure were also supervised by the armed forces. Generally speaking, army leaders were in charge of safeguarding the conditions required for the pursuit of economic activities in the areas under their command.[7] As martial law had been declared nationwide, army officers were quick to assert their authority throughout the entire country.

Martial law had immediate effects at the regional level, where civilian officials were subordinated to the local army headquarters. Army officers intruded into parts of regional administration; some became governors or district commissioners. They were particularly interested in the administration of such economic matters as tax collection, the issue of licences and the granting of other facilities.[8] At the national level, in Jakarta, where the influence of the central government was still relatively strong, the army could obtain power by infiltrating into government departments and state bodies. Especially so because the highest martial law authority was not in hands of the Head of the Martial Law Administration, General Nasution, but rested with President Soekarno, whose roles included Supreme Commander of the Armed Forces.[9] Soekarno was also chairman of the National Council, which took over the task of being an executive policy making body, which wielded an influence far greater than that allowed Parliament.[10] Members of the National Council were selected on the basis of Soekarno's idea of functional groups, and among them were representatives from trade unions, the peasantry, young people,

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[7] For comprehensive provisions and analysis of SOB, see: Basarudin Nasution, *S.O.B. pedoman pelaksanaan peraturan tentang keadaan perang dan keadaan darurat perang*, Jakarta: Penerbit, 1957.

[8] Crouch, *the army and politics*, 38; Lev, *The transition to Guided Democracy,* 78.

[9] Ulf Sundhaussen, *The road to power; Indonesian military politics 1945-1967* (New York: Oxford University Press, 1982) 129-130; Lev, *The transition to Guided Democracy*, 28.

[10] E. Utrecht, *Pengantar dalam Hukum Indonesia* (Jakarta: Ichtiar, 1959) 442. The vice-chairman was Soeslan Abdulgani, a member of the PNI and trusted associate of the President, who had formerly been Minister of Information and Minister of Foreign Affairs.

intellectuals and veterans, supplemented by delegates from various islands and religious leaders.[11] The armed forces held only four of the forty-two seats on the Council, and these were taken by the Chiefs of the Army, the Navy, the Air Force and the State Police.[12] Key ministries were also represented on the Council. The idea behind their inclusion was that they could facilitate the co-ordination between the Council and the cabinet.[13]

The primary task of the National Council was to give advice to the *Cabinet Karya*, installed under Prime Minister Djuanda on 9 April 1957. As the Hatta Business Cabinet of 1950 had been, the Djuanda *Cabinet Karya* was a non-party cabinet whose ministers were appointed for their technical competence and experience, not their political affiliation. The armed forces had two representatives, Colonel Nazir as Minister of Marine Transport and Colonel Aziz Saleh as Minister of Health. Notably, all posts related to the economic management, with the exception of marine transport, fell outside the sphere of military influence. The Ministry of Finance was led by Sutikno Slamet, who had served as Indonesian representative to the International Monetary Fund (IMF) in Washington. The Minister of Trade was Sunarjo Kolopaking, the very first Dean of the Economics Faculty of the University of Indonesia.[14]In June 1958, he was replaced by his party colleague (NU) Rachmat Muljomiseno, his Achilles heel being that he had failed to deal with widespread smuggling in the Outer Islands.[15] A former member of the Communist peasant organization, the *Barisan Tani*, Sadjarwo, became Minister of Agriculture. Minister for Industries was an electronic engineer, F.J. Inkiriwang, who had obtained a degree at Delft University in the Netherlands. Two graduates from the *Bandung Technische Hoogeschoool*, Pangeran Mohammad Noor and Sukardan, were appointed

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[11] David Reeve, 'Soekarnoism and Indonesia's functional group state', *Review of Indonesian and Malayan Affairs* 13 (1979) 53-116.

[12] In 1957, the military was not yet considered a functional group. It was assumed that the army would keep its expanded authority only as long as martial law was in force. Nasution's demand for functional group status for the military was only acceded to by the National Council and Parliament in November 1958.

[13] *Dewam Nasional* (Jakarta: Kementerian Penerangan, 1957) 15.

[14] However, Sunarjo Kolopaking soon transferred the position of Dean of the Economics Faculty, the University of Indonesia, to Sumitro Djojohadikusumo.

[15]*Berita Negara Republik Indonesia*, 1 July 1958

Minister of Public Works and Minister of Communications, respectively, and non-party Samjono was made Minister of Labour. When Sjaffruddin was reappointed Governor of the Central Bank, the Djuanda government was considered strong on economics.[16]

Another efficient channel through which it was possible to expand army influence in the political economy was that of the civil-military agencies for co-operation (Badan Kerjasama, BKS). Initially, BKSs were created for the purpose of niggling away at the influence of the political parties, especially PKI. What the move actually boilded down to was that army officers were appointed to head the mass organizations attached to the political parties. In the course of their activities, however, BKSs participated in a variety of economic activities, particularly at provincial and village levels. The first BKS was the Youth-Military Co-operative Body (Badan Kerdjasama Pemuda Militer, BKS-PM), established in June 1957 under the leadership of Colonel Pamurahardjo, who was later to play a leading role in the take-over of Dutch firms. In December 1957, the Labour-Military Co-operative Body (BKS Buruh-Militer) was founded by incorporating fourteen labour organizations. Other notable BKSs included the Farmers-Military Co-operative Body (BKS Tani-Militer), the Women-Military Co-operative Body (BKS-Wanita Militer) and the Intellectual-Military Co-operative Body (BKS-Sardjana Militer). In 1958, all BKSs were merged into the National Front for the Liberation of West Irian (Front Nasional Pembebasan Irian Barat, FNPIB). Besides its ultimate political task of mobilizing the masses in the struggle to liberate West Irian, FNPIB also played an important role in stimulating production and public construction in various regions. The activities of BKSs and FNPIB were carried out under the supervision of the State Ministry for Civilian-Military Relations headed by Wahid Wahab, a loyal associate of President Soekarno.[17]

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[16] Higgins, *Indonesia's stabilization and development*, xxii.

[17] For the activities of the BKSs and FNPIB, see: Iskandar Sulayman, *Karya Kerdja Sama Sipil-Militer, 25 Djuni 1958-6 Djuli 1959* (Jakarta: Menteri Negara, 1959)

While martial law was still in force, the official proclamation of Guided Democracy in July 1959 reinforced the entrenched position of the armed forces in the state apparatus. Guided Democracy was proclaimed by Presidential Decree of 5 July 1959, which also promulgated the restoration of the 1945 Constitution. Four days later, a Presidential Cabinet was established, in which Soekarno served as both President and Prime Minister. Djuanda was appointed First Minister (Menteri Pertama) and his actual job was to take charge of the day-to-day running of the government. The cabinet was re-organized into nine core ministers, each responsible for co-ordinating several junior ministers. In the process, the elements of the armed forces, now a functional group, were steadily increasing in absolute terms. In comparison with their rather scarce presence in the preceding Djuanda Cabinet, their representation rose from three ministers to eleven. They controlled five important ministries in economic management, including the Core Ministry of Production and four junior ministries responsible for Agriculture, Land and Air Communications, Transmigration and Co-operatives and Community Development. The civilian bureaucrats were left with the Core Ministry of Finance under Djuanda, assisted by his Junior Minister Notohamiprodjo, a fund-raise for PNI. The Core Ministry of Distribution was in the prestigious hands of Johannes Leimena, who entertained close relations with the Hatta group of liberal politicians. A Sumatran ideological radical, Chairul Saleh, the former Minister of State for Veterans' Affairs in the Djuanda Cabinet, was elevated to the position of Core Minister for Reconstruction and Development, which included a Junior Ministry of Basic Industries and Mining.[18] Dr Suharto, financial secretary of

[18] Chairul Saleh was a strong revolutionary figure who had joined Soekarno in many Nationalist movements during the Dutch colonial period and under the Japanese occupation. He was one of the group of *Pemuda*, who kidnapped Soekarno and Hatta on 16 August 1945. He also joined the *Persatuan Perdjuangan* movement held by Tan Malaka, which was opposed to Sjarih's concessions to the Dutch. After the Transfer of Sovereignty, the armed band led by Saleh refused to mobilize and co-operate with the National Army. In 1951, Saleh was detained by the army but, owing to interventions by Soekarno, Hatta and Moh. Yamin, he was released shortly afterwards and sent off to Europe. On account of his hostility to the army coupled with his Communist sympathies, not to mention he was without party affiliation, Saleh became an ideal recruiting figure when Soekarno initiated his plan to replace the liberal constitutional system. In April 1957, he returned to Indonesia at Soekarno's invitation and shortly thereafter was appointed State Minister for Veterans' Affairs. In fact, ever since his appointment as Junior

PNI, was appointed Junior Minister for People's Industries, while the Junior Minister for Trade was Arifin Harahap, a close associate of President Soekarno and had previously served in the Department of Information. Two junior ministers, Public Works and Manpower, Sardjono Dipokusumo, and Labour, Ahem Erningpradja, held their portfolios under the co-ordinating Core Minister of Production, Colonel Suprajogi.

The name of the cabinet was changed from *Kabinet Karya* to *Kabinet Kerdja*, although both appellations obviously had the same meaning, namely, a working cabinet. It still remained a non-party cabinet, and unlike its predecessor, all members of Soekarno's cabinet were compelled by law to drop their party affiliations.[19] In the wake of the formation of the Presidential Cabinet, a sequence of changes in high government bodies was also pushed through to meet the requirements of the re-implementation of the 1945 Constitution. The National Council was replaced by the Supreme Advisory Council (Dewan Pertimbangan Agung, DPA) chaired personally by President Soekarno, assisted by his close associate Roeslan Abdulgani and later also by Sujono Hadinoto. In March 1960, President Soekarno prorogued the Parliament elected in 1955 and replaced it with a *Gotong-Royong* Parliament (Dewan Perwakilan Rakyat-Gotong Royong, DPR-GR), also headed by the President.[20] In August 1960, President Soekarno appointed members of the Provisional People's Consultative Assembly (Majelis Permusyawaratan Rakyat Sementara, MPRS), the highest policy-making body under the 1945 Constitution. Alongside DPR-GR, a mass organization called the National Front (Front Nasional, FN) was established to replace the army-led FNPIB. FN consisted of representatives from the political parties, functional groups, the government and

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Minister of Basic Industries and Mining, Saleh had unrelentingly fought for government control of the oil sector, which was then under the control of army and foreign oil companies.

[19] Lev, *The transition to Guided Democracy*, 300.

[20] The Parliament was dissolved as a result of its opposition to the government 1960 budget bill. Representatives of all major parties, which together held 198 out of the total 270 seats in Parliament, not only were specifically apposed to the size of the anticipated budget deficit, they also objected to the entire fiscal policy of the government. This parliamentary disagreement was glaringly out of tune with the *gotong-royong*ethos which Soekarno was trying to build as the legal basis of Indonesian politics.

DPA. Soekarno again took charge of FN at the national level, but at the regional levels the army was undeniably strong.[21] The principal opponents of Soekarno's policy, namely, the Masjoemi, PSI and other liberal parties were excluded from the new Parliament, before eventually being banded altogether in 1961.[22]

Now turning in completely the oppositie direction, President Soekarno appointed two principal leaders of PKI, Aidit and Lukman, to the posts of Deputy-Chairman of MPRS and DPR-GR, respectively. Aidit and Lukman also simultaneously served as state ministers. Despite the new system, cabinet changes were not past history and there were various cabinet reorganizations between 1960 and 1965. The title of junior minister was abolished in February 1960, in favour of minister. In March 1962, core minister was replaced by the tile deputy first minister, each of whom was given co-ordinating responsibility over the departments and the ministers in his own section. After the death of Djuanda in November 1963, the post of first minister was abolished. The title deputy first minister was changed into deputy prime minister. His job was to assume responsibility for co-ordinating ministers in each compartment. In September 1964, the cabinet changed its name to *Kabinet Dwikora* (Dwi Komando Rakyator the People's Dual Command).[23] All the deputy prime ministers were grouped into a Praesidium. In July 1966, its name was changed yet again to *Kabinet Ampera* (Amanat Penderitaan Rakyat or Message of the People's Suffering). By that time, most of the control of the government had been transferred to General Soeharto, who was serving as acting-President.

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[21] Of the 17 provincial FN branches established by April 1961, 9 were chaired by the local army commander and another one by an army officer in his capacity as provincial governor, Sundhaussen, *The road to power*, 152.

[22] The banning of Masjoemi, PSI and other liberally-oriented parties was one part of government efforts to retool the political party system. However, the direct cause of their demise was that their leaders had participated in the Revolutionary Government of the Indonesian Republic (Pemerintah Revolusioner Republik Indonesia, PRRI) in North Sumatra in 1958. By the end of 1960, there were only 10 political parties still legally in existence, including three nationalist parties (PNI, Partindo, IPKI), three Muslim parties (NU, PSII and Perti), two Christian parties (Parkindo and Partai Katholik) and two Marxist parties (PKI and Murba). Roeslan Abdulgani, *Nationalism Revolution and Guided Democracy in Indonesia* (Melbourne: Monash University Press, 1973) 50.

[23] The first command referred to the intensification of the Indonesian Revolution and the second one to assistance to the peoples of Malaya, Singapore and North Borneo in achieving their independence.

Soekarno's government in the early 1960s was characterized by various complicated personnel re-arrangements made to fit in with the structural changes in the state organs. In March 1962, Major-General Suprajogi, while changing from Core Minister to Deputy First Minister for Production, held the post of Minister of Public Works and Power. Minister of Agriculture, Major General Azis Saleh, moved to head the Ministry of People's Industries. The former head of this ministry, Dr Suharto, took over the post of Minister of Trade after Arifin Harahap moved to head the new Ministry of the State Budget. In October 1962, Leimena, now Deputy First Minister for Distribution, and Subandrio, Deputy First Minister with Jurisdiction over Foreign Affairs and Foreign Economic Relations, assumed Djuanda's duties when he fell ill. Deputy First Minister for Finance was Achmadi M. Notohamiprodjo. He shred his responsibility of co-ordinating with Minister Arifin Harahap and Minister for the Central Bank Sumarno (Governor of the Bank Indonesia). Notohamiprodjo himself was Minister in Charge of Revenues, Expenditures and Supervision. He was also served as Deputy First Minister for Public Welfare. In the third reshuffle on 13 November 1963, Sumarno, while being appointed Co-ordinating Minister of the Department of Finance, became Minister of State Revenue, Finance and Audits. Suharto moved to head the Ministry of Bank Affairs and Private Banks. The department of the Deputy First Minister for Production was renamed Department of Development under leadership of Chairul Saleh, who also held the post as Minister of Basic Industries and Mining. The Ministry of Land Communications, Post, Telegraphs and Telephone was led by General Hidajat, who replaced General Djatikusumo.

Under the *Kabinet Dwikora*, Sumarno remained Co-ordinating Minister of Compartment of Finance, but the post of Minister of State Revenues, Finance and Audits was handed over to Mohammad Hassan. Arifin Harahap transferred his post as Minister for State Budget to Suryadarma Surjadi, a former leader of the Indonesian Democratic Party. The Minister for Private Banks and Capital was J.D. Massie. Several new ministries were formed. The Ministry of State Plantations was headed by the anti-Communist Roman Catholic Dr Frans Seda.

On 31 March 1965, the Ministry of Basic Industry and Mining was divided into three separate ministries. Chairul Saleh became Minister for Oil and Natural Gas. Armunanto, former leader of Partindo and Hadi Thajeb, an Acehnese medical graduate, were appointed as Minister of Mining and Minister of Basic Industry respectively. Adam Malik, a journalist, was appointed Minister for the Implementation of the Guided Economy. He was succeeded by Brigade-General Achmad Jusuf, who had previously served as Acting Minister of Foreign Trade Relations. On 1 April 1965, Major-General Ibnu Sutowo was appointed supernumerary minister attached to the Praesidium with responsibility for oil and natural gas affairs. In May 1965, several more new ministries were installed, including those for Road Development, Trans-Sumatra Highway, People's Irrigation, Town Planning, Electricity and Power and Village Development. On 4 June 1965, the Ministry of Marine Communications was removed from the Compartment of Distribution. A new Department of Maritime Affairs was established, coordinating with the Minister of Marine Communication, Minister of Fisheries and Marine Exploitation and Minister of Maritime Industries. All but the Ministry of Maritime Industries was under military control.[24]

Since 1947, the Indonesian government had a specific advisory body for long-term economic plans, whose membership was composed of leaders of various ministries or government departments and the Governor of the Central Bank. Prior to the *Karya Cabine*t, the advisory body had been the State Planning Bureau (Badan Perantjang Negara, BPN), which had devised the Five-Year Development Plan (1956-1960). In mid-1957, on Soekarno's advice Djuanda dissolved BPN in the wake of PKI accusations that it was too 'capitalist', on the basis of its connections with foreign experts working closely with Yale University and the Ford Foundation.[25] In June 1959, a National

[24] Susan Finch, Daniel S. Lev, *Republic of Indonesia cabinets, 1945-1965* (Ithaca: Cornell University Press, 1965) 40-66.

[25] BPN was in fact still functioning under the name of Economic and Finance Bureau during the Djuanda Cabinet. Former BPN staff member, Mulyatno Sindhudarmoko, was appointed bureau chief. One of the functions of the Bureau was to co-ordinate foreign aid to Indonesia, including joint venture investment. Robinson Pangaribuan, *The Indonesia state secretariat 1945-1993* (Jakarta: Pustaka Sinar Harapan, 1996) 15, 26.

Planning Council (Dewan Perantjang Nasional, DEPERNAS) was established in the place of BPN. Chairman of DEPERNAS was Professor Mohammad Yamin, leading a committee of seventy-seven members.[26] The composition of DEPERNAS reveals that its members had been chosen by Soekarno for political considerations rather than for their technical expertise. Muhammad Yamin himself was the former Minister of Justice, best known in Indonesia as a poet and a romantic historian. The Secretary-General was a distinguished civil servant, M. Hutasoit, who had worked as Secretary-General of the Ministry of Education and had been largely responsible for the development of public education in Indonesian since independence.[27]

The immediate task of DEPERNAS was to devise an overall national development plan, to be completed within one year. Exactly one year after it had been set up in August 1960, DEPERNAS did finish drafting an Eight-Year Development Plan (1961-1968) and shortly thereafter submitted it to the cabinet and MPRS. The Plan was a massive opus of 5,000 pages, consisting of eight parts, seventeen volumes and 1,945 paragraphs, symbolizing the 17 August 1945, the date of the Proclamation of Independence. All projects were divided into two categories. The A-projects concentrated on increasing the production of foodstuffs, textiles and materials which could be used in industry, laying the foundation for the building up of such heavy industry as steel, aluminium and the manufacture of metal products. It also included what were known as 'mental construction' projects, which encompassed the press, scientific research and tourism. The bulk of the expenditure on the A-projects would be financed by B-projects, which focused on the exploitation of the rich natural resources of Indonesia. Whereas the investment needed for the B-projects was not discussed, the total cost of the A-projects was Rp. 240 billion. Half of that sum would have to be in foreign currency, equivalent to the sum of US$ 2.5 billion.[28]

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[26] H. Muhammad Yamin, *Pemandangan terhadap saran-saran para menteri dalam Sidang Kabinet R.I., tanggal 25, 27, dan 29 Oktober 1960 tentang Rantjangan Dasar Undang-Undang Pembangunan Nasional Semesta Berentjana 1961-1969.* Jakarta: s.n., 1960, pp.1-5.

[27] Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs* 34 (1961), 115

[28] Information about the Eight-Year Plan can be found in: The United State Economic Survey Team to Indonesia, *Perspectives and proposals for United States economic aid; a report to the*

In December 1963, the Indonesian government established a National Development Planning Council (Badan Perentjanaan Pembanguna Nasional, BAPPENAS), which integrated into DEPERNAS. BAPPENAS played a role as the highest government level in the field of overall national development planning. It was personally led by President Soekarno but its daily tasks were supervised by Suharto. BAPPENAS consisted of eight Planning Bureaus, covering financial planning, welfare planning, defence and security, law and home affairs, development, distribution, planning of the building up the spirit of the Revolution and international relations. BAPPENAS was also responsible for making recommendation and giving advice and guidance to private enterprises, as well as for making evaluations of development projects carried out by the private sector.[29] In March 1965, another Consultative Body for National Development Planning (Musjawarah Perantjang Pembangunan Nasional, MUPPENAS) was established. It was composed of seventy members and work in tandem with four government advisory committees. Its primary task was to draft a Three-Year Plan (1966-1968) to finish these projects which had been devised by DEPERNAS in the Eight-Year Development Plan. The plan was approved by MPRS in July 1965, although, as were the previous Five-Year Plan (1956-1960) and Eight-Year Development Plan (1961-1968), larger parts of the Three-Year Plan were never been fully realized. MUPPENAS was dissolved early in 1966.[30]

The transformation of economic institutions in Indonesia in the late 1950s and the early 1960s was part of a wider trend towards the full achievement of Guided Democracy and the Guided Economy. The essence of this process was a high degree of concentration of state power in the hands of President Soekarno. Governing and executive responsibilities were granted to the military and the complex administrative apparatus. Soekarno was

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President (New Haven: Yale Southeast Asia Studies, 1963); Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs*, 1961, 115-130; and Humphrey, 'Indonesia's National Plan for economic development', *Asian Survey*, II (1962) 12-21.

[29] For the organization of BAPPENAS and its task see: Suharto, *Badan Perentjanaan Pembangunan Nasional (BAPPENAS)* (Jakarta: Sekretariat, 1964).

[30] For the organization of the MUPPENAS and its Three -Year Plan, see: Suharto, *Kesimpulan-kesimpulan dan kertas-kerdja- kertas-kerdja, rapat paripurna ke III MUPPENAS* (Jakarta: Sekretariat MUPEENAS, 1965).

simultaneously President, Premier, Commander-in-Chief of the armed forces and Chairman of the National Front, of the National Advisory Council GPRS and of the National Planning Board. The constant structural changes made in the economic institutions in the early 1960s were evidence of the constant efforts by President Soekarno to retool the whole system of the politics and economy to fit his concept of Guided Democracy and Guided Economy. Predictably, the unremitting changes had negative consequences on the effectiveness of the administrative system, particularly that branch involved in economic management. The co-ordination between government departments was extremely weak and many of them had to cede the power they had previously wielded, a sort of ritual self-immolation. Even more detrimental were the problems arising from personal frictions and profound disagreements. Because of the President's personal antipathy to Professor Sumitro, who had participated in PRRI, many of the latter's excellent students, economists trained at Western universities, were deliberately overlooked by the government. This repudiation of Western economic knowledge is also seen in the fact that no foreign experts were invited to consult with DEPERNAS in the creation of the Eight-Year Development Plan. This change of tacks took in stark contrast to the earlier situation, when Sumitro had made the most of contributions by Western economic experts in the formulation of his Economic Urgency Programme and the Five-Year Development Plan. Admittedly, despite these xenophobic feelings, in April 1960 the Indonesian government did ask the US International Co-operation Administration (ICA) to provide economic and financial consultants and two economic experts, Bernard R. Bell and Oscar A. Ornati, were introduced but their appointment was apparently not a success. They were not integrated efficiently and were only consulted on specific technical matters.[31]

While these changes were taking place, the armed forces were gaining extensive access to all economic departments, especially at the regional level.

[31] Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs* 34 (1961) 116.

After the take-over of the Dutch-owned enterprises in late 1957, followed by that of British and American firms in early 1960s, the influence of the army spilled over from administrative sphere into direct participation in business. A considerable number of profitable foreign firms were placed under the direct management of the military. In some aspects the intrusion of the armed forces into the apparatus of economic management in Indonesia in the late 1950s and the early 1960s was can be compared to the 'partification' of the state apparatus by the Communist Party in Vietnam which emerged in the early 1950s. The major difference is that, whereas the Vietnamese Communist Party ultimately attained the outright power in North Vietnam, the Indonesian army had to share its power with emerging Communist rivals and was always subordinated to President Soekarno. Both the Communists and the army officers were highly disciplined and committed to the meaningful independence of their country. Their weak point was not their lack of patriotism, which cannot be faulted, but their failure to realize that managing an economy always requires both extensive economic knowledge and concomitant experience, requirements which the Communist leaders and army commanders of Indonesia and Vietnam could not immediately provide.

2. Ideological basis of Guided Economy

As stated earlier, the idea of an economy operated under direct guidance by the state in Indonesia was not an innovation but had been laid down in the Constitution of 1945. During the revolutionary period, and especially in the initial years after the Transfer of Sovereignty, Article 33 of the 1945 Constitution (which became Article 38 in the Provisional Constitution of 1950) was often referred to in discussions both in Parliament and in public discourse. Calls were made on the government demanding the immediate implementation of state control of the economy. A number of Nationalist as well as the Socialist-inclined parties also accorded Article 33 top priority in their programmes for the economy. The stumbling block was that the economic and social conditions which would have enabled the state to take full responsibility for running the economy were still acutely lacking, hence the leaders of the successive Indonesian governments in the late 1940s and the early 1950s were forced to interpret the economic objectives of the Constitution in terms of a gradual process and a long-term plan. Demands for economic development which was coupled with political and economic stability had the highest priority and, as Indonesia was still struggling to get on its feet, this meant a continued foreign presence. As a result, private enterprises, especially those owned by foreign corporations, continued to dominate the modern sector of the Indonesian economy until the late 1950s.

The blatant failure of the attempts to achieve *Indonesianisasi* in the early 1950s engendered a nationwide frustration with the advisedly moderate measures taken to achieve economic nationalism. In these fraught circumstances, the radical Nationalist views espoused by such political parties as PNI, Murba, PRN, and especially PKI won a ready audience and increasingly gained support from the public, as well as from the President. In fact, President Soekarno had betrayed his sympathy for the Communists as early as April 1954, when he sent his good wishes to the fifth congress of PKI. However, it was not until February 1957 that his support of the PKI was publicly expressed. When explaining his *konsepsi* of the new system of government, President Soekarno suggested the unprecedented inclusion of PKI in the formation of a new cabinet. He unequivocally asked, ‘Can we continue to ignore a group which has received the votes of six million human beings in the elections?’.[32] Despite the massive numbers quoted, the proposal was not accepted and throughout the whole period of Guided Democracy, only two PKI leaders, its chairman Aidit and vice-chairman Lukman, were ever appointed to posts in Soekarno’s cabinets. Nevertheless, in view of their high positions, it would be sage to assume that they exerted some influence on government decision making. Perhaps the Communist influence at lower levels, where such PKI-affiliated organizations as SOBSI and BTI successfully rallied a large number of worker and peasant associations struggling to defend their interests, was more effective.[33]

[32] Quoted from Feith, *The decline of constitutional democracy*, 542.
[33] In July 1962, BTI claimed 5.7 million members, one-quarter of all Indonesian adult peasants. Later in the same year, SOBSI claimed nearly 3.3 million members. PKI itself had over 2

Unquestionably there is evidence that PKI-led movements made some political capital out of the anti-corruption campaigns. Yet policy recommendations were vague and did little to reduce the chaos.[34]

In its turn, PKI was the strongest supporter of President Soekarno and his scheme of Guided Democracy. Its most prominent slogan during the transition to Guided Democracy between 1957-1959 was 'a realization of the *konsepsi* 100 per cent'. At the sixth congress of the party in September 1959, after President Soekarno gave a speech addressing his approval of PKI attitudes, Chairman Aidit affirmed that PKI supported the resurrection of the 1945 Constitution. He went on to stress that one of the indispensable conditions for the establishment of the Guided Democracy system was Soekarno's leadership of the state.[35] At the same congress, PKI adopted a new programme which contained several points similar to its 1954 programme, especially those touching on anti-imperialism, anti-feudalism and the form the government should take. One striking feature of the new programme was that it paid a great deal of attention to detail and widened the scope of the interests and activities of the party. Although, on the occasion of its seventh congress in April 1962, PKI again adopted a new programme, its contents were based mainly on its 1959 programme. In fact, the 1959 programme continued to serve as the official guidelines of PKI until the party was banned in March 1966.

By the time the new PKI programme was adopted in September 1959, most Dutch enterprises had been formally nationalized. The stress in the programme was therefore not on nationalization as it had been in the 1954 programme, but on the next step in formation of a people's democratic state. The new state was to be based on the masses and on a national united front of peasants and workers, led by the working class. In this people's democratic state, PKI assumed that the people's government would have to carry out

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million members by the end of 1962, making it the largest Communist party in any non-Communist nation. Ricklefs, *A History of Modern Indonesia*,327.

[34]J. M. van der Kroef, 'Indonesian Communism and the changing balance of power', *Pacific Affairs*, 57 (4) (1964-1965) 369-370.

[35]Rex Mortimer, *Indonesian Communism under Soekarno; Ideology and politics, 1959-1965* (Singapore: Equinox Publishing, 2006) 80; Sundhaussen, *The road to power*,427.

democratic reforms, including such measures as the abolition of feudalism, the distribution of land to the peasants free of charge, the defence of national industries and the improvement of the living conditions of the workers. The Indonesian economy should be developed in such a way that top priority be given to the state sector, particularly stressing the area of state-owned enterprises. Nevertheless, it stated that the government should not do anything to stand in the way of participation of national capitalists in business, especially in industry and trade. When it came to land reform, its tune was rather different. The programme demanded that all land owned by foreigners and Indonesian landlords be confiscated without compensation and distributed to the peasantry on an individual basis. This ukase did not apply to modern and large-scale estates, which it thought should not be distributed among the peasantry, but placed under state control.

Besides such general objectives, the new programme contained a specific request about the economy, based on ‘a Marxist analysis of the concrete situation and the balance of forces’. Under the slogan ‘For economic improvement’, owners of foreign estates would be required to cultivate rice on estate lands in order to increase the output of this staple. The owners should also help the peasants with seeds, fertilizer and implements. Protective tariffs which would benefit national enterprises and give them protection against foreign competition were also demanded, as was price control. Changes in foreign investment legislation were also insisted on to make sure that the foreign exchange earnings of the foreign oil companies were retained in the country and that the people and the armed services would be guaranteed adequate supplies of oil. All mining concessions which had not yet been taken up should be withdrawn and exploited by the government itself. Imports and exports and all important enterprises should be under full government control. Communications, especially outside Java, should be improved. The section on ‘for better living conditions’ asked for a general improvement in the working conditions and living standards of workers and peasants. This could be realized by taking such measures as raising wages, eliminating crop mortgages, reducing interest rates on loans, as well as by legalizing ownership of land taken by peasants from foreign estates. Small enterprises should be given special protection by the government in the form of credit and tax cuts.[36]

The high priority in the 1959 PKI programme on state control and ownership of businesses, finance, land and mining reflected the recent institutional changes in Indonesia. It is noteworthy that the programme was drafted after President Soekarno had officially implemented Guided Democracy and the Guided Economy. At this state, although Soekarno's theories of Guided Economy did not emerge full-grown in 1959 and were by no means identical to those of PKI, the resemblance between the two is unmistakable. During the discussions about the introduction of Guided Democracy and the return to the 1945 Constitution, President Soekarno had often emphasized the importance of state leadership in the economy. The cautious PKI application of Marxist theories to Indonesia can be seen as a reconciliation with the President's concept of socialism, based on his own ideology of the *Pantjasila*. As from 1960, after Communism had become part of NASAKOM, PKI views were officially integrated into the state ideology as formulated by Soekarno. NASAKOM was the ideological basis of Soekarno's new national front and signaled the co-operation between the three principal political currents in the country, Nationalism (Nasionalism), Religion (Agama) and Communism (Komunisme).Occasionally this concept was broadened to NASAKOMIL, the last three letters referring to the military and their participation in the government. In the early 1960s, the PKI leaders tended to speak more often under the aegis of Soekarno's ideologies and doctrine than those of their own party programme.

When President Soekarno inaugurated the Guided Economy, he was somewhat vague about its main aim: the general drift was an Indonesian sort of socialism, a just and prosperous society (masjarakat adil dan makmur).[37] As did

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[36] Van der Kroef, *The Communist party of Indonesia*, 185-198.

[37] 'Djawaban Presiden Soekarno atas pertanjaan2 para anggota tentang 'Demokrasi Terpimpin' pada sidang Dewan nasional ke-VI, tanggal 5 Djuni 1958'.in Soekarno, Roeslan Abdulgani, Djuanda, *Demokrasi Terpimpin* (Jakarta: Dewan Nasional RI, 1958).

other Indonesian intellectuals, he identified the Guided Economy with a planned economy and thought the new system as a viable alternative to economic liberalism, which he was convinced ought to be abandoned.[38] A planned economy, in the view of President Soekarno, was an integral element in Indonesian Socialism. In a speech in front of the National Council in July 1958, he stated that Indonesian Socialism had to exhibit a planned and orderly character. All fields, including economy, finance, culture, defence and others, had to be planned. There ere no two ways about it; the Indonesian economy was to be a planned economy.[39] The objectives of the Guided Economy became more specific in July 1959, following the official re-enactment of Article 33 of the 1945 Constitution and the *Pantjasila*. In the programme of the *KabinetKerdja*, the first of its three short-terms goals was '[…] to obtain an adequate supply of food and clothing for the people'.[40] This part of the programme was known as the *Sandang-pangan* (clothing-food) Programme. The *Sandang-pangan* Programme was intended to be completed within two years, by the end of 1961, but, in effect, providing people with an adequate supply of clothing and food remained the primary task of Soekarno's government throughout the entire period of Guided Democracy.

On Independence Day of 17 August 1959, President Soekarno delivered a speech entitled 'The Rediscovery of Our Revolution', which was soon adopted by MPRS as a basic guideline of state policy in Indonesia. In the speech, now labelled Manipol (Manifesto Politik), President Soekarno set out the principles, tasks, social powers, character and enemies of the Indonesian Revolution. The principal tasks were to free Indonesia from all kinds and every vestige of imperialism and to achieve three aims: a Unitary State of the

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[38] See Indonesian intellectual discussion on Guided Economy in H.Moh. Djambek, *Doktrin Ekonomi Terpimpin dan Pembangunan; kuliah ilmiah pendidikan kader revolusi angkatan Dwikora* (Jakarta: Jajasan Serbaguna, 1965); Mohammad Hatta, *Ekonomi terpimpin* (Jakarta: Fasco, 1960); 'Demokrasi Terpimpin', Jakarta, 15 August 1958.

[39] 'Pidato Presiden Soekarno tentang 'Demokrasi terpimpin' dalam sidang Dewan Nasional ke-VIII tanggal 23 Djuli 1958'.in Soekarno, Roeslan Abdulgani, Djuanda, *Demokrasi Terpimpin* (Jakarta: Dewan Nasional RI, 1958)

[40] T.K.Tan, 'Soekarnian Economics', in T.K. Tan (ed.), *Soekarno's Guided Indonesia* (Melbourne: Jacaranda Press, 1976) 34.

Republic of Indonesia with a territory stretching from Sabang to Merauke, good friendship between the Republic of Indonesia and all the states of Asia-Africa in the creation of a New World, free from imperialism and colonialism and a just and prosperous society. This ideal society would be called 'Socialism à la Indonesia', a distinct form of Socialism in tune with the conditions, nature, customs, culture and psychology of the Indonesian nation.[41] Soekarno's Socialism was therefore not identical to the orthodox international Marxist theories of Socialism which were being implemented in North Vietnam.

No one doubted that it was to be an uphill struggle and that if these socialist goals were to be attained, plenty of groundwork had to be undertaken and efforts made to retool the whole system of politics, economy and society. New instruments, tools and apparatus would replace those which did not match the ideology of Guided Democracy. In the field of economics, retooling was carried out in all branches of production and distribution so as to ensure that (in a rather mixed metaphor): 'The steering-wheel turning towards the realization of Article 33 of the 1945 Constitution, using the rails of Guided Economy'. All instruments vital to production and distribution should be under the control of the state or at the very least under the state supervision. *Manipol* also stressed the efforts which had to be made to mobilize and organize all funds and forces, including foreign funds, if progressive countries were willing to help realize the programme of the Indonesian government. Any foreign funds and forces contributed could be channelled towards industrial development, for instance, in medium-size industry which was open to private initiative. To deal with the land problem, Manipol continued, the government should abolish the proprietary right (*hak-eigendom*) to land inherited from Dutch colonialism and the right to own landed property would be exclusively for Indonesians. It was unacceptable in independent Indonesia to have land owned by foreigners, especially the Dutch.[42] President Soekarno's command immediately resulted in

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[41] Roeslan Abdulgani, *Pantjawarsa Manipol* (Jakarta: Panitia Pembina Djiwa Revolusi, 1964) 22.

[42] In colonial times, foreigners were not legally allowed to own land. All land without certified ownership (*eigendom*) remained 'free domain of the state' or state land. The colonial government granted a title of long-lease (*eftpacht*) of up to 75 years to foreign planters. Nevertheless, an Indonesian national with dual nationality could acquire a right of ownership.

the promulgation of a Basic Agrarian Law in September 1960, which effectively replaced the Dutch system of land rights then still in operation. The right of ownership (*eigendom*) previously acquired by a foreigner or an Indonesian national with dual nationality was converted into the right of use (*hak pakai*). Only Indonesian nationals holding single nationality could apply for ownership (*hak milik*) of land.[43]

In *Manipol* it was stated that Indonesia opposed Dutch imperialism, considering that the Dutch still possessed West Irian. It was also stated that the take-over of Dutch enterprises marked an important step in the context of struggle for the liberation of West Irian. However, as *Manipol* emphasized, not all Dutch capital had been taken over and not all Dutch enterprises had been nationalized. If the Dutch remained 'stubborn' in the matter of West Irian, 'all the Dutch capital, including that in mixed enterprises, would bring its story to a close on Indonesian soil!'. The enemies of the Indonesian revolution, said the President, were not only the Dutch imperialists, other imperialists were also lurking around and they were trying to deceive the Republic of Indonesia by tacitly offering support to counter-revolutionaries and by perpetrating economic sabotage. In this respect, the *Manipol* affirmed that the owners of foreign non-Dutch capital present in Indonesia had to obey requirements set by the government. If such capitalists did not use it according to Indonesian regulations or illegally gave assistance to counter revolutionaries or those committing economic sabotage, the Indonesian people would one day treat them as they had dealt with Dutch companies.[44]

The retooling and re-ordering of the economic system were said by President Soekarno to be essential to providing supplementary contents to his

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Like many other colonial laws, this land law, promulgated in 1870, continued to be in force in post-independent Indonesia, until September 1960.

[43] For more information about the Basic Agrarian Law of September 1960 and its implementation in Daryono, 'Transformation of land rights in Indonesia; A mixed private and public law model', *Pacific Rim Law & Policy Journal* (July 2010) 418-457; Jude Wallace, 'Indonesian land law and administration', in: Tim Lindsey (ed.), *Indonesia; Law and society* (Singapore: The Federation Press, 1999) 191-223.

[44] *Political Manifesto Republic of Indonesia of 17th August 1959* (Jakarta: Department of Information RI, 1959).

cabinet programme, which was devoted to only the most urgent needs of the Indonesian people, namely: clothing and food. In these efforts, the domestic struggle against Dutch economic interests loomed very large, since for the time being the government had decided not to bring the West Irian issue up before the United Nations. In this respect, President Soekarno asserted, the shifting of the tobacco market from Amsterdam to Bremen, the abolition of property rights of the Dutch in Indonesia and the take-over of Dutch enterprises were all linked up with the government struggle to liberate West Irian. It is therefore important to keep in mind when studying the Indonesian economy in the years after 1959 that the government was ready to sacrifice the immediate economic well-being of the country in order to uphold political ideals and national pride. On 18 August 1962, three days after the Dutch agreement to withdraw from West Irian,[45] President Soekarno made a pledge that now the West Irian issue was resolved, he would devote special attention to the economic front.[46] After a few months of preparation, on 28 March 1963, President Soekarno made public his further thinking about the Guided Economy, known as the Economic Declaration (Deklarasi Ekonomi) or *Dekon*.

Inside Indonesia itself, *Dekon* was considered to be the economic counterpart of the Political Manifesto and was often called the 'Economic Manifesto'. It assumed that the growth of the Indonesian economy would take place in two stages. The first stage would be a period in which an economic structure would be created that was 'national and democratic in character, unsullied by vestiges of imperialism and feudalism'. In the second stage, the chief task would be to establish a socialist economy, an economy free of the exploitation of man by man (*exploitation de l'homme par l'homme*). In socialist

[45] Under pressure from the United States, on 15 August 1962 the Netherlands and Indonesia signed the New York Agreement on West Irian which was put under a temporary trusteeship of the United States before being transferred to Indonesia in May 1963. Under the Act of Free Choice, in 1969, the leaders of West Irian, now New Guinea, decided to join the Republic of Indonesia. For more information about the negotiations over the West Irian, see: P.J. Drooglever, *An act of free choice; Decolonization and the right to self-determination in West Papua* (Oxford: Oneworld Publictions, 2009).

[46] 'The year of triumph', *Review of Indonesia* 7 (1963) 28. For Indonesian version see: Roeslan Abdulgani, *Pantjawarsa Manipol*, 305-350.

Indonesia, it was asserted, each person would be ensured 'work, food, clothing and housing as well as a proper cultural and spiritual life'. *Dekon* also clearly underscored that Indonesia was still in the first stage of its revolution and that the second stage could not begin until the first one has been completed. For the strategic direction of economic development, *Dekon* stressed, all efforts had to be devoted to expanding production by exploiting the abundant natural resources of the country to the full. This meant that agriculture, estates and mining had to be prioritized, while a firm foundation was being laid for industrialization.

In the struggle to complete the national democratic stage, the three basic potentials of the economy, the state, co-operatives and private business, had to be fully mobilized. While the state continued to hold the leading position in the economy and co-operatives were being encouraged to unite and assist the working masses in all their livelihoods, more possibilities for economic participation needed to be opened up to national entrepreneurs, who could play an important role in developing industries. The private sector could serve as an auxiliary factor to the state sector. Operating in wider parts of the economy, state-owned enterprises should become the main source of capital for further development. Should insufficient capital be raised from domestic sources, *Dekon* stated, credit could be sought from abroad. Foreign investors would be repaid on the basis of production-sharing, obtaining a proportion of the output produced by the projects they participated in. It was clearly hammered home that ownership and management of the joint enterprises must remain in the Indonesian hands.

Aware of the inefficiency and mismanagement of state-owned enterprises, partly attributable to the geographical distance between the centralized administration in Jakarta and the regions, Dekon urged for deconcentration (*dekonsentrasi*). Accordingly, the region or branch of the state enterprises would be granted a degree autonomy and, importantly, sufficient individual responsibility. This deconcentration was intended to operate only in matters concerning the region or branch itself. It had to be carried out 'without sacrificing centralization in planning and final control, which resides in the hands of the center.' *Dekon* also unequivocally delineated that deconcentration in management did not fall under local autonomy and that Indonesia must remain a unified economic and political entity.

Besides its basic economic strategy, *Dekon* outlined a short-term programme for the next two years. The major tasks to be achieved by the programme were to resolve the question of *sandang-pangan* goods, which was becoming a serious problem. To accomplish this, *Dekon* specified that 'the government must possess and control an "iron stock" of rice.' Inn essence this meant that the government must be able to control the supply and distribution of rice. The aim was to establish a basic stockpile of rice in order to control the rice price in the market, and it was also acknowledged that measures were needed to increase production. *Dekon* stressed the task of also increasing productive capacity in other fields in order to meet the basic needs of the people. Imports were acknowledged to be necessary, but only for essential consumer goods and for the raw materials needed for investment. The import of luxury goods should be reduced as much as possible. Another measure to increase production was through taxation, and *Dekon* promised that the government would conduct a radical overhaul of taxes and budget policies so as to improve benefits to producers.[47]

By introducing *Manipol* and *Dekon*, President Soekarno had so far thrown the emphasis on the struggle against the economic exploitation of (Dutch) imperialism and on state control of the economy. In passing, he indicated the objective of economic self-sufficiency when he stressed the importance of 'national funds and forces' in the realization of his cabinet's programme. To achieve this they would be aided by abetted import restrictions. In his Independence Day speech of 17 August 1963, he expressed his great pleasure in witnessing the growing desire of the Indonesian people to build the national economy by their own effort, which he chose to refer to as economic

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[47] Soekarno*, Deklarasi Ekonomi; Diutjapkan oleh Presiden Soekarno di Istana Negara, Djakarta, tanggal 28 Maret 1963,* (Jakarta: Departemen Penerangan R.I., 1963).

patriotism.[48] Then, on 17 August 1964, in his famous Independence Day speech 'Tahun "Vivere Pericoloso"' (Year of Living Dangerously), President Soekarno officially introduced a new principle of the Guided Economy, namely *berdiri diatas kaki sendiri* (standing on one's own [two] feet). Initially, this slogan referred to self-reliance in rice.[49] But in another speech entitled *Berdiri Diatas Kaki Sendiri* before MPRS in April 1965, he extended the scope of self-reliance to all fields of the Revolution. MPRS lost no time in adopting Soekarno's concept, now termed *Berdikari*, as the new foundation for national economic policy.

Berdikari grew out of the President's conviction that the Eight-Year Development Plan was not working because the B-projects, designed to provide finance for the A-projects, were so heavily dependent on the co-operation with foreign firms. He now changed tack, averring that the revolutionary development of Indonesia should be based instead on its abundance of natural resources and 'the extensive use of funds and forces' present in the country. President Soekarno now called for a *banting stir* (turn of the wheel) to achieve *Berdikari*. Taking North Korea as his model of a successful self-sufficient economy, which had already solved the problem of *sandang-pandang* and had become 'an industrial country', Soekarno was anxious that Indonesia would not be left behind. If it was to achieve similar economic self-reliance, Indonesia had to accomplish five urgent economic tasks, namely, completing projects on nation and character building, solving the *sandang-pangan* problem as soon as possible, continuing projects which were already under construction or deemed economically very important to the strategy of the country, overcoming obstacles to development by exploring and encouraging the strength of the Indonesian people and exploiting natural resources to produce more goods and solving the problem of the foreign capital already invested in Indonesia, so that Indonesia could achieve full independence in the field of economy.

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[48] His speech was titled 'Genta suara revolusi Indonesia' (The resounding voice of the Indonesian revolution). See: Roeslan Abdulgani, *Pantjawarsa Manipol*, 353-398.
[49] Roeslan Abdulgani, *Pantjawarsa Manipol*, 443.

With these new thoughts in mind, President Soekarno requested that the people embrace a new Programme of Economic Struggle (Kebidjaksanaan Ekonomi Perdjuangan), which had to be based on the Berdikari principle. *Berdikari* in fact became the ideological foundation for the later Three-Year Plan (1966-1968). Soekarno ordered various changes which he deemed necessary in government economic policies. In the field of international trade, exports were to be encouraged and imports restricted to goods, which could not be procured in Indonesia. The President decided that importing would be carried out only by the government. Private entrepreneurs were prohibited take part in any importing unless in the name of the government. Among these private entrepreneurs, licences would only be granted to producer-exporter candidates who were willing to export under government guidance. The task of the Revolution imposed on private entrepreneurs was just one element of the socialist economy of Indonesia. In the new economic climate, it was decreed that co-operatives would be reorganized into two types, production co-operatives and distribution co-operatives. Turning to the financial sector, Soekarno stated that Indonesia had to utilize 'all funds and forces' existing in the country, from co-operatives and private enterprises to farmers, workers and the armed forces efficiently. State-owned enterprises would be the major motor to generate development. Measures had to be taken to fight mismanagement and abuse of authority. Managerial expertise, managerial skills, leadership and co-operation between managers and workers all had to be honed and improved. The regions should have more autonomy and authority to create their own financial resources. In order to reduce inflation and keep it under control, President Soekarno declared that the government budget should be directly under his control.[50]

In an undelivered message appended to this speech, Soekarno stated that the principle of *berdiri diatas kaki sendiri* had been an idea he had nurtured since 1932, when he used the slogan 'self-help' in an attempt to inspire the

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[50] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari)*; Amanat politikPresiden/Pemimpin Besar Resolusi/Mandataris MPRS pada pembukaan Sidang Umum ke-III Madjelis Permusjawaratan Rakjat Sementara, tanggal 11 April 1965* (Jakarta: B.P. Prapantja, 1965) 18-25.

Nationalist movement against Dutch colonialism.[51] Regardless of the conceptual difference between 'self-help' and 'self-reliance', if this statement was true, it is difficult to understand why Soekarno had made such strenuous efforts in earlier years to lure investment and capital from Western countries, particularly the United States. Almost half of the Rp. 240 billion of the A-projects was expected to be provided by the B-projects, which in turn could only be financed by an influx of foreign capital, either to be used to develop untapped natural resources or in the form of loan. Immediately after the Eight-Year Development Plan was launched, President Soekarno went to meet President Kennedy, who offered to assist Indonesia to finance the Plan. In 1962-1963, rumours were spreading in Indonesia, based on a report by the US economic mission for Indonesia led by D.D. Humphrey, that the US government would provide Indonesia with some $ 400 million in aid.[52] The production-sharing possibility offered by *Dekon*, followed by the issuing of a series of regulations on foreign investment in May 1963, was intended to give the signal that the economy of Indonesia had been liberalized.

Disappointment was rife in Indonesia when realization dawned that the Humphrey mission's report was no more than a recommendation and not an official commitment. President Kennedy's aid policy came under considerable attack in Congress. Therefore, in 1963 the American government could offer only very little credit, about $ 17 million in March and $ 50 million in August, channelled through IMF.[53] Meanwhile, help was coming from the other side in the Cold War. The Soviet Union was trying to increase its influence in Indonesia. Its first loan to Indonesia was $100 in 1956 but this was increased to $ 250 million in January 1960, the bulk of it intended for the purchase of Soviet military weapons.[54] By 1962, Soviet loans had expanded to $ 700-800 million.[55]

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[51] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari),34.

[52] The report was issued in mid-1962, recommending US assistance of 200-235 million and multilateral finance of $ 125-155 million. D.D.Humphrey, *Indonesia, perspective and proposal for United States aid; A report of the President of the United States* (New Haven: Yale University Press, 1963).

[53] Usha Mahajani, *Soviet and American aid to Indonesia, 1949-1968* (Ohio: Ohio University Center for international Studies, 1970) 22, 24.

[54] NA, *Notes on repayment obligations of Indonesia*, MEZ, inventory number 123.

Chinese-Indonesian relations were also improved. In 1960, China granted Indonesia $ 46 million and another $ 30 million in October 1961.[56] By April 1960, the total loans from the Communist countries to Indonesia amounted to $ 563 million, almost equivalent to the accumulated loans of $ 607 million from the US. To cap it all, the loans from the Communist countries were offered at a low interest rate of 2.5 per cent against the 5 per cent asked by the US.[57] Even though strongly opposing government policies on foreign investment, by late 1963 PKI decided to follow the Peking line.[58] Relations between the US and Indonesia hardened after the death of President Kennedy. President Johnson supported Great Britain in the formation of Malaysia, to which Soekarno was adamantly opposed. In early 1964, the US government decided to abandon a proposal to lend $ 250 million to Indonesia. Humiliated by the American attitude, in a public speech attended by US Ambassador Jones in March 1964, Soekarno openly stated 'Go to hell with your aid'.[59] Hence, *Berdikari* was officially born in the tensions of the Cold War. Its main target was against the US, not the Soviet or the People's Republic of China. In fact a strong case can be made to argue that it was born of failure to implement *Dekon* which was used to attract investment and financial aid from Western countries.

The adoption of *Berdikari* imbued Guided Democracy and the Guided Economy with important additional substance. The ultimate goal of the Indonesian Revolution had been expanded and was now more than establishing a just and prosperous society, it was also expected to forge a 'self-reliant' economy. Forming a trio with *Manipol* and *Dekon*, Berdikari established the basic guideline on which the national economic policy could be based. These three documents complemented each other and fused to create the main philosophy and aim of the Guided Economy. Although they are often associated

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[55] Mahajani, *Soviet and American aid to Indonesia*, 15; Guy J. Pauker, 'The Soviet challenge in Indonesia', *Foreign Affairs*, 4 (1962) 3.
[56] David Mozingo, *Chinese policy toward Indonesia 1949-1967* (Jakarta: Equinox Publishing, 2007) 189.
[57] NA, *Notes on repayment obligations of Indonesia*, MEZ, inventory number 123.
[58] Mozingo, *Chinese policy toward Indonesia*, 217-218.
[59] Mahajani, *Soviet and American aid to Indonesia*, 26-27.

with the person of President Soekarno, they were not based on concepts thought up by the President alone nor were they entirely new concepts in Indonesian political thought. When it was all said and done, *Manipol* did not introduce many new elements at all. The essence of *Manipol* was USDEK, an acronym, whose letters referred to the five essential elements of the Indonesian state philosophy: the Constitution of 1945 (Undang-Undang Dasar 1945), Indonesian Socialism (Sosialisme à la Indonesia), Guided Democracy (Demokrasi Terpimpin), Guided Economy (Ekonomi Terpimpin) and Indonesian identity (Kepribadian Indonesia). Needless to say, these terms had all been favoured topics of discussion in Indonesian political discourse since Independence. When Soekarno 'rediscovered the Revolution', he simply restructured and systematized themes, which turning them into a weapon to attack the previous political and economic system.[60]

Dekon was drafted by the Cabinet and the Supreme Advisory Council after many marathon meetings chaired by Soekarno with the active participation of Djuanda and other experts, technocrats in finance, trade and agriculture, and not forgetting the army leadership.[61] It was often criticized by moderate groups, which argued 'there is nothing new in it' and 'all of this had been said repeatedly and yet the situation has not gotten better but the contrary'.[62] Nor was Berdikari Soekarno's own idea. He himself stated that had had been given this idea by the leader of North Korea, Kim II Sung, '[…] in order to build a democratic state, the foundation of an independent economy of the nation must be established. Without the foundation of an independent economy, we can neither attain independence, nor found the state, nor subsist'.[63] The general

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[60] D.E.Weatherbee, *Ideology in Indonesia; Soekarno's Indonesian revolution*. New Haven, Conn.: Yale University Press, 1966, p. 33.

[61] Roeslan Abdulgani, *Nationalism Revolution and Guided Democracy*, 57.

[62] See Aidit's analysis of the Dekon in: D.N. Aidit, *Dekon (Economic declaration) and conditions for its implementation; Lecture presented to Indonesian Scholars Association, 11 May 1963'*, (Washington, D.C: US Department of Commerce, 1963).

[63] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari)*; Amanat politikPresiden/Pemimpin Besar Resolusi/Mandataris MPRS pada pembukaan Sidang Umum ke-III Madjelis Permusjawaratan Rakjat Sementara, tanggal 11 April April 1965* (Jakarta: B.P. Prapantja, 1965) 18. This

sentiment applauding anti-imperialism and anti-feudalism in favour of a *gotong-rojong* economy emphasized in Manipol, Dekon and Berdikari had been an almost universal element in Indonesian political ideology since Independence. Looking at the views of the political parties, it is not difficult to recognize that there was plenty of common ground between Soekarno's ideologies and those of PNI, PKI, Murba, NU, PRN as well as various other nationalist parties. Demands that power be balanced against the increasing influence of the army drove Soekarno closer to the Nationalist and Communist-influenced parties, which were drumming up considerable support among the population.

President Soekarno indubitably bore the ultimate responsibility for the system. Nevertheless, as T.K. Tan puts it, under the system of highly centralized control, the whole success or failure Guided Democracy fell into the hands of those who directed it.[64]This fact was also perceived by leaders of the Indonesian government. In his explanation of *Manipol* in 1963, Roeslan Abdulgani, Deputy-Chairman of the Supreme Advisory Council, emphasized the importance of 'the role of the executors'. He quoted a statement issued by the Supreme Advisory Council that, 'although the political manifesto is very important because it has given the answer to the basic problems of the Revolution and has also put forward the basic efforts for the completion of the Indonesian Revolution, nevertheless, its realization depends very much on the persons, who will be given the task of executing it'. The people charged with the execution of Manipol, Roeslan Abdulgani explained, were those who had been given a share in the authority of the state.[65] Military officers were explicitly part of the executors of the state ideology and policy, if not the most powerful ones.

3. Take-over and Nationalization

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quotation had been mentioned (in English) in his speech 'Year of Living Dangerously' on 17 August 1964, see: Roeslan Abdulgani, *Pantjawarsa Manipol*, 444.

[64] T.K.Tan, 'Soekarnian Economics', 31.

[65] H. Roeslan Abdulgani, 'MANIPOL& USDEK; Clarification concerning Manipol-Usdek', in Soekarno, H.Roeslan Abdulgani, *The resounding voice of the Indonesian Revolution (President address of 17 August 1963)* (Jakarta: Department of Information RI, 1965) 127-129.

In *Manipol*, it was stated that the cause of and context for the take-over of Dutch firms was the Indonesian struggle for the liberalization of West Irian. This struggle had been being waged since the mid-1950s, after negotiations by successive Indonesian cabinets with the Netherlands had collapsed. In an attempt to maintain its *laatste parel in de Gordel van Smaragd* (Last Pearl in the Emerald Girdle), the Netherlands refused to countenance the transfer of sovereignty of West Irian to Indonesia.[66] The failure of the Indonesian government to involve the United Nations in the dispute signalled a further deterioration in Dutch-Indonesian relations, of which the final result was a unilateral abrogation of the Round Table Conference Agreement in February 1956. Nevertheless, with the exception of a number of electricity and gas companies, the subsequent second Ali and Djuanda Cabinets did not express any desire to confiscate or nationalize Dutch companies. One of the reasons for their reticence was that that they knew the government could not afford to pay for this nationalization.

In August 1957, a group of Asian and African nations once again attempted to put the conflict over West Irian back on the agenda of the United Nations General Assembly. From that time, the West Irian issue appeared almost daily in Indonesian media. On 28 October, President Soekarno launched the 'Campaign to Liberate West Irian', followed by a four-day boycott of Dutch firms throughout Indonesia. A few weeks later, at another mass rally in Jakarta, President Soekarno announced that, if the resolution of the United Nations about West Irian issue failed again, the Indonesian government would take measures to 'startle the world', including nationalizing vital Dutch businesses. As expected, the General Assembly meeting of 29 November did not obtain the required two-thirds vote on the resolution.[67]

The next day as the news spread in Jakarta, an attempt was made to assassinate Soekarno. Although the President escaped unharmed, two people

[66]Meijer, *Den Haag-Djakarta*, 251.
[67] Lindblad, *Bridges to new business*, 182

were killed and at least thirty were wounded.[68] This attempt certainly added fuel to the tensions. On 1 December 1957, the Djuanda Cabinet met and agreed on a set of reprisals. A nationwide strike against Dutch enterprises was announced on the radio by Minister of Information Soedibjo. On the morning of 3 December, the KLM representative in Indonesia, A.H. Duyf, was informed that the KLM landing rights in Jakarta had been rescinded. The nationwide 24-hour strike took place as planned on 2 December and on 3 December, the Secretary-General of Justice announced that no more visas would be issued to Dutch nationals. All financial transfers to the Netherlands were blocked. The next day, a prohibition was announced on Dutch newspapers and films.[69]

The seizure of Dutch enterprises began on 3 December 1957, when a delegation of trade unions affiliated with PNI and PKI entered the head office of the KPM shipping company in Jakarta. There, they read out a proclamation declaring that the workers were taking over the company. When the KPM directors refused to sign the proclamation, they were forced to leave their offices. All employees were then ordered to gather in front of the KPM building where the union leader again read out the proclamation. The KPM flag was lowered and replaced by the Indonesian national flag and the plain red union flag. The KPM facilities on shore and about forty ships (out of total of ninety-six) were taken over. Most of the other ships had already been moved to Singapore and other foreign ports before the seizure.[70]

The seizure of KPM set the pattern for a series of similar take-over of Dutch companies throughout the country over the next few days. The management of three Dutch banks, namely the *Escomptobank,* the *Nationale Handelsbank* and the *Cultuurbank* passed into the hands of a trade union committee, All-Indonesian Union of Bank Employees (Serikat Buruh Bank Seluruh Indonesia, SBBSI). On 4 December 1957, the assets of the 'Big Five'

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[68] Lindblad, *Bridges to new business*, 182.
[69] Meijer, *Den Haag-Djakarta*, 583.
[70] Meijer, *Den Haag-Djakarta*, 584; *Berita Negara Republik Indonesia*, 1 January 1958; Lindblad, *Bridges to new business*, 182-183; Bondan Kanumoyoso*, Nasionalisasi perusahaan Belanda*,61-63.

(Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindeteves) and of the NHM (Nederlandsche Handel-Maatschappij) were also seized.[71] BPM and Unilever escaped the take-over in view of their joint Anglo-Dutch ownership.[72] On 5 December, the Indonesian Minister of Justice ordered all Dutch nationals who were not employed to leave Indonesia within the next few months.[73] On 13 December 1957 Nasution as Martial Law administrator, tightened the prohibition on any further take-over and put the enterprises already seized under military command, presumably to circumvent Communists gaining control of these assets through the local trade unions which had carried out actual take-over. Finally, on 19 December 1957, Prime Minister Djuanda issued an announcement officially placing Dutch-owned enterprises under control of the Indonesian government. By that time, the total number of companies seized had reached 700, 500 of them estate enterprises.[74]

For one year after the take-over in December 1957, the Indonesian government hesistated about the future legal status of the Dutch companies. Only in December 1958 was it decided that the companies should be nationalized and permanently placed under government. A law on the nationalization of Dutch enterprises was finally promulgated on 31 December 1958. It laid down that Dutch-owned enterprises within the territory of the Republic of Indonesia were nationalized and were declared the full and free property of the State of the Republic of Indonesia. The amount of compensation 'will be determined by a committee whose members are appointed by the government'. In its preamble, the law specified three factors which were directly connected with nationalization: the framework of the liberation of Irian

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[71] van der Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930-1960; The case of Internatio', *Bijdragen tot de Taal-,Land-en Volkenkunde* 2/3 (2005) 201; Meijer, *Den Haag-Djakarta*, 584.

[72] Aden, *Oil and politics in Indonesia,* 177.

[73] This measure supposedly affected about 50,000 individuals, many of mixed European and Indonesian descent. Between December 1957 and August 1958, a total of 33,600 Dutch people left the country. In mid-1959, there was only about 6,000 Dutch people in Indonesia, most of whom (3,500) were under contract to international companies; another 1,600 were working on commission. The rest were Indonesian Dutch.Meijer, *Den Haag-Djakarta*,584; Lindblad, *Bridges to new business,* 183; Leslie H. Palmer*, Indonesia and the Dutch* (London: Oxford University Press, 1962) 108.

[74] Sundhaussen, *The road to power*, 327; Lindblad, *Bridges to new business*, 184.

Barat, the abrogation of the Round Table Conference agreements and the intention to derive the greatest possible benefit for all Indonesians and to improve the security and defence of the state.[75]

The promulgation of the law on the nationalization of Dutch-owned enterprises, laid the foundation for the final expulsion of Dutch businesses from Indonesia. The number of Dutch enterprises affected by this law was very large. On 21 November 1958, Colonel Suprajogi had already submitted of list of enterprises to Parliament, which the Central Military Authority handed over to the relevant government ministries in preparation for the actual nationalization. The list included seventy-seven agricultural enterprises, ninety-two industrial and mining enterprises, thirty-one banks and insurance concerns, thirty-two trading enterprises and some other businesses.[76] In comparison to the total number of Dutch enterprises seized in December 1957, the military certainly retained more than half of enterprises for itself. In February 1959, the Djuanda Cabinet issued an ordinance on the determination of Dutch-owned tobacco agrarian enterprises to be nationalized. A list of thirty-eight tobacco enterprises was provided, of which twenty-two were located in North Sumatra, fourteen in East Java and two in Central Java. The principal proprietors were the Deli Company, the Oud-Djember Company and the Senembah Company.[77]

The ordinance on the nationalization of tobacco enterprises became the prototype for a series of similar ordinances relating to the nationalization of estate enterprises. By May 1959, some 277 plantations of various types and sizes had been nationalized.[78] Dutch trading and manufacturing firms, about forty, including the 'Big Five', were nationalized in June 1959. A report issued by the Association of Employers in Indonesia (Ondernemersbond voor Indonesia) in July 1959 indicated that 248 Dutch companies had so far been

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[75] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 291-295.
[76] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 221.
[77] 'Government Ordinance No.4 year 1959 (Statutes 1959 No.7) concerning nationalization of Dutch-owned tobacco agricultural enterprises', *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 304-306.
[78] J.A.C. Mackie, 'Indonesia's government estates and their masters', *Pacific Affairs*, 34 (1961-1962) 342.

nationalized, of which ninety-two were engaged in mining, seventy-seven in estate agriculture and thirty-two in trading, just to mention the largest categories. These 248 companies were said to represent a value of $ 1.5 billion.[79] Nationalization was continued in 1960 and neared its conclusion by the end of the same year. So far such Anglo-Dutch ventures as BPM and Unilever had escaped unscathed. On 28 July 1960, Colonel Suprajogi, now Core Minister for Production, reported to the cabinet that 489 Dutch companies had been nationalized to date, including forty trading firms, 161 industrial and mining companies, 216 in the estate sector, nine in electricity and gas concerns, eleven livestock breeding companies, ten in charter firms, two printers, twelve involved in railways, two in banking, fourteen in assurance and twelve in maritime services. Approximately another 100 enterprises were awaiting nationalization.[80]

The principal motivation behind the rapid nationalization of Dutch enterprises was the interventions by PKI and SOBSI. Between February and December 1959, SOBSI and its various affiliated trade unions repeatedly sent appeals to the government urging that the law on the nationalization of Dutch-owned enterprises be passed. In August 1959, for instance, SOBSI sent a resolution to the government calling for an immediate nationalization of all Dutch enterprises, noting that the government had so far only focused on the nationalization of tobacco companies, corporate farms, gas and electricity companies, estates and railway companies in Java and Madura. Dutch capital in the oil sector remained free ‘to play its role in raking the riches of the Indonesian soil.’ SOBSI urged the government to nationalize all Dutch companies, including oil companies, making them state property under government supervision. The resolution named various important enterprises which still had not yet been nationalized or transferred to state ownership. These included printing (Kolff and Van Dorp), manufacturing (Nimef and Molenvliet), shipbuilding (VPV), pharmaceutical companies (Rathkamp and

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[79] Lindblad, *Bridges to new* business, 197-198.
[80] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 348.

Van Gorkom), trading (Borsumy, Lindeteves and Internatio),[81] banking (NHM) and the railway company DSM in North Sumatra.[82] One month later, on 30 September 1959, SOBSI was again urging the nationalization of all Dutch companies, including the joint ventures with non-Dutch foreign capital, such as BPM. The government had no choice but to put all vital enterprises, such as transport, mining, electricity and estates, under its control and ownership.[83] Similarly, on 4 December 1959, at a congress in Solo in the presence of President Soekarno, PKI passed a resolution calling for the nationalization of all the remaining Dutch enterprises and the expulsion of the Dutch from Indonesia.[84]

Various occupational associations also exerted pressure on the government to pursue the nationalization of Dutch enterprises as vigorously as possible. For instance, in April 1959, when news spread that the government would not nationalize oil companies because of the dearth of experts compounded by financial difficulties, the Technicians' Association of Yogyakarta sent a detailed proposal to the Indonesian government insisting on a reorganization of oil companies after nationalization. It emphasized the importance of the oil sector to the economic growth and national security of Indonesia. Since a large number of experts and employees working for Dutch Shell companies were non-Dutch, it argued, the Indonesian government could also employ foreign experts after nationalization. The Technicians' Association also asserted that the Indonesian technical experts in their organization could also handle the job.[85] A similar proposal was put forward by the Indonesia Pharmaceutical Importers' Association in February 1959, urging the

[81] It seems that the SOBSI made a mistake since the 'Big Five' had already been nationalized in June 1959.
[82] ANRI, Resolution of the SOBSI, 14 August 1959, KP, inventory number 1528.
[83] ANRI, Declaration of the SOBSI, 30 September 1959, KP, inventory number 1528.
[84] ANRI, Resolution of the PKI, 4 December 1959, KP, inventory number 1528.
[85] ANRI, Proposal of the Technicians' Association of Yogyakarta to the President of the Republic of Indonesia, 20 April 1959, KP, inventory number 1528.

government to allow its members to participate in the nationalization of Dutch pharmaceutical companies.[86]

The Dutch attitude towards the take-over and nationalization by the Indonesian government was predictably fierce. The Dutch government protested and stated that no transfer of ownership had been acknowledged and that this non-recognition also applied to what was produced by these firms.[87] Nevertheless, since the Indonesians promised to pay damages, with its hand tied, all the Dutch government could do was to provide mediation in order to reach some sort of satisfactory outcome. The issue of compensation was primarily a matter between the Indonesian government and Dutch individuals. One of the first to protest was KPM, demanding 120 million guilders in compensation for ships seized. Prime Minister Djuanda retorted by claiming that for some time KPM had already been busy liquidating its operations in Indonesian waters.[88] Some estate companies fought against the seizure by bringing a lawsuit against those foreign companies which were marketing produce from their former plantations in Indonesia. In early 1959, two Dutch tobacco companies, the Deli Tobacco Company and the Senembah Company, appealed to a German court for property rights to the tobacco harvest of 1958, which had been shipped to Bremen by a Germany company.[89] They asked the German court for an injunction which would oblige the German company to deliver the tobacco to them. The German court refused to hand down the injunction on the grounds that the Dutch tobacco companies had forfeited their property rights at the time of the take-over.[90] The *Handelsvereeniging "Amsterdam"*, although it did adopt the same stance as the Dutch government

[86] ANRI, Proposal of the Technicians' Association of Yogyakarta to the Minister of Health, 6 February 1959, KP, inventory number 1528.
[87] NA, Internationaal advies inzake Indonesische nationalisaties, EZ, inventory number 60.
[88] Lindblad, *Bridges to new business,* 184.
[89] In early 1958, the Indonesian government cooperated with four Bremen tobacco-importing firms to establish the German-Indonesian Tobacco Trading Company (Deutsch-Indonesische Tabak-Handelsgesellsehaft, MBH) in Bremen. Most of the 1958 tobacco harvest on the Dutch tobacco plantations was shipped to Bremen by this company.
[90] Martin Domke,'Indonesian nationalization before foreign courts', *The American Journal of International Law*, 54 (1960) 305-322.

on the seizure, warned that it would take legal action if the Indonesian authorities traded in products originating from its estates.[91]

The official Dutch claim for compensation amounted to 1,260 million guilders. This estimate was based on the total of the material and capital investment by the Dutch companies in Indonesia between 1950 and 1957. It consisted of privately owned real estate (140 million guilders), small enterprises (120 million guilders), pensions (capitalized 112 million guilders), loans since 1950 (218 million guilders), lend-lease silver (20 million guilders), taxes (650 million guilders), plus interest of 5 per cent per month for the eight-year period (1950-1958).[92] In some circumstances, the Dutch also claimed an additional payment of 887 million guilders, which was broken up into various parts. The main components were interest accumulated up to 1962 and the repayment of Indonesian bonds (237 million guilders), payment of pensions (290 million guilders), loss of redemption and interest on two state loans (220 million guilders) and an outstanding debt on interstate loans (110 million guilders).[93] The Indonesian government again rejected the claim, arguing that the Dutch firms had long ago repatriated their capital to the Netherlands.[94] As a result of the diplomatic crisis, trade relations between Indonesia and the Netherlands ground to a halt in the late 1950s and early 1960s. When relations were restored in 1963, Dutch exports to Indonesia amounted to only 27 million, rising to 43 million guilders in 1964. The imports from Indonesia to the Netherlands were 55 million in 1963 and 344 million in 1964, of which tin ore (170 million guilders) and petroleum (88 million guilders) were the major players.[95] By comparison, Dutch exports to Indonesia in 1956 were 315 million, whereas the reverse trade was 454 million guilders in 1957 (Table 7, Chapter 3).

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[91] NA, Report of the N.V. Handelsvereeniging "Amsterdam", November 1958, EZ, inventory number 123.

[92] NA, Netherlands delegation in the joint Netherlands Indonesian committee on outstanding financial problems, EZ, inventory number 128.

[93] NA. Economisch-financiele betrekking met Indonesie, EZ, inventory number 127.

[94] Lindblad, *Bridges to new business*, 185.

[95] NA, Trade relation with Indonesia, 8 April 1965, EZ, inventory number 128.

Although the prime target of the take-over and subsequent nationalization were Dutch property, a number of non-Dutch enterprises were also seized under various circumstances. In May 1959, the Norwegian owner of the *A/S Norsk-Sumatra Plantage Kompagni* in Kota Pinang, Deli, reported to the General Association of Rubber Planters in East Sumatra (Algemeene Vereeniging van Rubber Planters ter Oostkust van Sumatra, AVROS) that, between June and August 1958, his estate had ben raided several times and then finally taken over by 'rebel forces'. The majority of the buildings, among them the factory, smokehouses, office and practically all accommodation, had been destroyed, incurring an estimated loss to the estate of nearly Rp. 8 million. Several attempts were made by the government forces to clear the area of rebel occupation, but the estate was still in the hands of the rebels and was now being tapped under their direction.[96] Another case was that of the Belgian-and French-controlled Netherlands N.V., which was also brought under the targets of the nationalization law. The company was owned by a Belgian national, I.E. Schurmans, but it had originally been registered in the Netherlands. In desperation, Schurmans applied to the Indonesian Minister of Foreign Affairs in Jakarta for recognition as a non-Dutch enterprise and appealed to the Belgian authorities to intervene in the dispute. Nevertheless, according to the Dutch ambassador in Belgium, J. M. Devers, all companies in Indonesia registered in the Netherlands were likely to be treated as Dutch companies.[97]

A similarly gloomy situation outlook faced the Chinese businesses in Indonesia. After the Kuo Ming Tang government in Formosa had supported the PRRI uprising in Sumatra, the Indonesian government began to pay more attention to the situation of the Chinese in the country. In the early months of 1958, Communist and Nationalist groups were constantly urging the government to take radical action against the Kuo Ming Tang adherents in

[96] ANRI, Sumatra Norsk-Sumatra Plantage Kompagni, Medan, 11 May 1959, KP, inventory number 259.

[97] NA. Letter of J.M. Deversto to the Minister of Foreign Economic Affairs, Brussels, 19 January 1959, EZ, inventory number 123.

Indonesia, accusing them of siding with PRRI.[98] The first retaliation was in the form of a government prohibition of the publication of Chinese-language newspapers and magazines in April 1958. On 18 September, the government banned fifty-two Chinese organizations in the Jakarta area considered to have links with the Taiwanese government, among them trade associations, sports groups, women's and youth organizations, cinemas and schools as well as the Great Eastern Bank in Jakarta. Finally, in October 1958, decrees were issued placing all schools, business enterprises, estates, industries, insurance companies, banks, shops and mining companies owned by Chinese, who were not citizens of countries maintaining diplomatic relations with Indonesia under government control. It is noteworthy that the measures taken against the Nationalist Chinese were virtually the same as those taken against the Dutch. On 22 September 1958, a high military authority in Jakarta openly declared that, 'the action against Chinese enterprises will be the same as that against the Dutch'.[99]

Table 11: Number of trading firms considered to be foreign owned in Indonesia until February 1959

	Big	Average	Small	Total
Chinese	177	14,654	44,956	59,787
Dutch	139	65	10	214
Indian/Pakistan	73	461	424	958
British/American	58	19	19	96
German/Swiss	14	3	2	19
Other Europeans	13	15	6	34
Other Asian	5	279	736	1.020
Indonesian Chinese	42	222	56	320
Indonesian others	46	25	8	79
Other	23	23	27	73
Total	590	15,766	46,244	62,600

Source: *Dua Tahun Kabinet Karya, April 1957-April 1959* (Jakarta: Kementerian Penerangan R.I, 1959) p. 245.

98 B.H.M. Vlekke (ed.), *Indonesia's struggle 1957-1958* (The Hague: Netherlands Institute of International Affairs, 1959) 56.
99 Vlekke (eds.), *Indonesia's* struggle, 58-59.

The anti-Kuo Ming Tang Chinese actions taken by the Indonesian government in 1958 extended into general anti-Chinese resentment in Indonesia in the next few years. This time, the government complaints were based on the fact that Chinese traders in various rural areas were controlling the market in important products. An investigation conducted by the Ministry of Trade in early 1959 allegedly showed that 94 per cent of the total 62,600 trading firms, especially medium and small businesses throughout Indonesia were owned by Chinese. Only few of their owners had Indonesian citizenship (Table 11).

Another investigation provided even more impressive figures. By November 1959, there were 167,000 foreign enterprises in Indonesia, and this was excepting enterprises in the service sector, such as hotels, the media and cinema. Of these, about 125,000 were trading firms, the majority owned by Chinese.[100] They completely controlled the gold trade and monopolized the salt fish market, which was an important source of protein for the Indonesian people. Government policies on price control and distribution were being disrupted by monopolistic manipulations and speculation.[101] The inevitable upshot was that in July 1959, Minister of Trade, Rachmat Muljomiseno, announced a regulation banning foreign nationals engaging in rural trade, requiring them to have transferred their businesses to Indonesian citizens by 30 September 1959. In November 1959, President Soekarno issued a similar decree which stated that, as of 1 January 1960, foreign nationals engaging in retailing, distribution and brokerage would be banned from rural areas in Indonesia. They could close their shops altogether, sell them to Indonesian citizens or move their businesses to the cities and towns. Although this measure unquestionably also affected the Arab and Indian traders, its principal target was the Chinese. The Indonesian government hoped that the Chinese-run businesses in the rural areas would be taken over by co-operatives or transferred to private Indonesian individuals.[102]

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[100] *Berita Negara Republik Indonesia*, 15 November 1959.
[101] *Berita Negara Republik Indonesia*, 15 January 1960.
[102] *Berita Negara Republik Indonesia*, 15 August 1959; Thee, 'Indonesianization', 35.

Despite heated interventions by the Chinese government which created serious diplomatic tension between Peking and Jakarta,[103] thousands of Chinese left Indonesia for the Chinese People's Republic throughout 1960. By early 1961, the total number who had ultimately left Indonesia swelled to 119,000.[104] Their departure seriously dislocated the distribution trade in a number of areas, not only in Java but also in Kalimantan.[105] Some traders encouraged by Chinese diplomatic officials in Jakarta refused to abandon their rural businesses. As the ethnic Chinese in South Vietnam had done, the most common way for ethnic Chinese in Indonesia to escape the seizure of their assets by the local authorities was to transfer ownership of their property to Chinese relatives who were Indonesian citizens. This became a very common practice when it came to large companies, as soon as it became apparent that the Indonesian authorities were not going to restrict their discriminatory actions to small traders. One of the best examples which illustrates this prevailing tendency can be seen in the desperate efforts made by the managers of the Oei Tiong Ham Concern, which was eventually confiscated by the Indonesian government in July 1961, but not without a fight after a period of resistance.

In 1924, when Oei Tiong Ham died his concern was inherited by nine of his thirteen sons.[106] A lack of strong leadership, the world economic depression of the 1930s and the increasing intervention in the economy of the colonial government all conspired to harm the growth of the company. However, the decisive blow which hastened the steady decline of OTHC was the hostile attitude towards capitalism adopted by the Indonesian government after Independence. Viewed as the symbol of the success of the Chinese,

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[103] See the Chinese reactions against the Indonesian measure to expel the Chinese from the rural areas in Mozingo, *Chinese policy toward Indonesia*, 164-171; *Indonesian Observer*, 1 April 1961. But Chinese relations with Indonesia soon recovered because the Chinese government was keen to increase its influence in Indonesia for fear that Indonesia would incline towards the US or the Soviet Union.

[104] Mozingo, *Chinese policy toward Indonesia*, 175; Ricklefs, *A History of Modern Indonesia,* 324.

[105] *Berita Negara Republik Indonesia*, 15 January 1960.

[106] Nevertheless, one of the nine sons, Oei Tjong Swan, sold his share to other brothers and left for Europe. Since 1930, there had been only 8 shareholders. Oei Tjong Hauw, Oei Tjong Tjiat, Oei Tjong Yan, Oei Tjong Ik, Oei Tjong Ie, Oei Tjong Bo, Oei Tjong Hiong, Oei Tjong Tjay. In 1950, Oei Tjong Hauw died and his share was transferred to his son, Oei Ing Swie.

nefariously acquired through their collaboration with Dutch colonialism, the businesses of OTHC met with serious obstacles thrown up by the Indonesian government. The *Benteng* Programme with its discriminatory measures in favour of indigenous groups certainly speeded up the decline of the Kian Gwan trading company, which also had its work cut out competing with Dutch firms, especially the Lindeteves.[107] Although the owners of OTHC tried to cultivate contacts with Indonesian political leaders, as among them Sumitro Djojohadikusumo, and helped finance both PSI and PNI, the hardening political situation in post-Independent Indonesia frustrated their efforts. Besides the four brothers who had studied abroad and did not return to Indonesia and the three appointed to the head offices in New York, Singapore and Amsterdam, other members of the Oei family left Indonesia one after the other in the course of the 1950s. By the time of the take-over, none of the Oei brothers was in Indonesia and the management had been entrusted to Tjoe Soe Tjong, who was not a member of the family. Nevertheless, in order to deal with the Indonesian authorities, who were seriously concerned about the nationality and property, in late 1959 the shares in OTHC were transferred to three brothers, Oei Tjong Yan (50 per cent), Oei Tjong Ik (37 ½ per cent), Oei Ing Swie (12 ½ per cent), of whom two, Tjong Yan and Tjong Ik, were Indonesian citizens.[108]

On 10 July 1961, an economic court in Semarang decided to confiscate all the OTHC property which had an estimated value of Rp. 4 billion. The confiscation order was based on a court examination of OTHC by the public prosecutor Daan Soelaiman on 26 June 1961. The Indonesian authorities discovered that the owners of OTHC had violated Article 16 of the Economic Penal Code, requiring foreign nationals in Indonesia to register their property with the LAAPLN, which controlled foreign exchange. It transpired that the Oei brothers had not report their property, which they had inherited from their father, Oei Tiong Ham. In separate charges, as a foreign resident, Oei Ing Swie, the director of OTHC in 1952 had sold Kian Gwan shares to a value of

[107] KKA, *New Nation*, 24-25 August 1971, OTHC, inventory number 10.
[108] KKA, Letter of Oei Tjong Tjay to Oei Tjong Ie, Oei Tjong Bo and Oei Tjong Hiong, Amsterdam, 9 April 1959, OTHC, inventory number 12.

16,210,000 guilders without the authorization of LAAPLN. In February 1958, he again booked his stocks from the Bank Indonesia to Amsterdam on behalf of OTHC in the name of Oei Tjong Yan, who was also a foreign resident. This involved a nominal amount of 6,812,574 guilders and it was not reported to LAAPLN.[109] Although the Oei family contested the charge of the Semarang court, which involved them in a legal dispute with the Indonesian government until very recently, the history of OTCH officially ended in July 1961.[110]

While not letting up on the anti-Chinese business during the next few years, the Indonesian government now embarked on other campaigns against British and American companies. The West Irian dispute, the vehicle which rallied Indonesian masses to demand the closure of Dutch business in Indonesia, had been resolved by the end of 1962. To keep alive the spirit of 'continuing Revolution' against imperialism and colonialism, which had escalated into a conflict between the NEFO and OLDEFO,[111] President Soekarno thrust his country into a Confrontation (*Konfrontasi*) with the neigbouring country Malaysia. Whatever ulterior motives he might have had, it seems that Soekarno viewed the formation of the Federation of Malaysia on 16 September 1963 as a British neo-colonialist project and a threat to the security of his country. The *Ganjang Malaysia* (Crush Malaysia) campaign included attacks on British and American property, because Great Britain was considered the intellectual author behind the Malaysia scheme, and the United States was its accomplice. As had

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[109] KKA, *Suara Merdeka*, 27 June 1961, *Sinar Indonesia*, 27 June 1961, OTHC, inventory number 12.

[110] In their defence, the Oei family argued that there was '<u>no obligation existed at all,</u> requiring non-residents to report their assets located in Indonesia to LAAPLN'. Furthermore, in 1952, Oei Ing Swie and Oei Tjong Yan still had Indonesian citizenship. Therefore, they were not obliged to report their transactions to LAAPLN. Letter from Oei Tjong Tjay to the Ambassador of the United Kingdom to the Republic of Indonesia, dated 14 October 1961, and Letter from Tan Swan Bing to Oei Tjong Tjay, dated 29 October 1996, OTHC, inventory number 3.

[111] NEFO-OLDEFO was Soekarno's simplified concept of world order, first introduced by him in 1961 at a conference of non-aligned states held in Belgrade, Yugoslavia. Soekarno argued that the world was divided into two conflicting and irreconcilable camps, the New Emerging Forces (NEFO) consisting of the Socialist countries, the newly independent countries and the progressive peoples in the capitalist countries against the Old Established Forces (OLDEFO), consisting of the imperialists, the capitalists and the colonially minded people. Soekarno aligned Indonesia with the NEFO by organizing the Games of the New Emerging Forces (GANEFO) in Jakarta in November 1963.

happed to the Dutch businesses during the West Irian Campaign, the economic interests of the British and Americans in Indonesia became a principal target for attack. The Indonesian government also broke off trade relations with Malaysia and Singapore, its two foremost commercial partners in Southeast Asia.[112]

On the day of the formation of the Malaysia Federation, there were mass demonstrations in Jakarta and Medan, which led to serious fighting and the destruction of the British embassy, consulates and houses.[113] The seizure of British firms commenced one day later, on 17 September 1963. The Jakarta office of four British companies, Harrisons & Crosfield, J.A. Wattie, Dunlop Rubber and Commercial Union Assurance Company, were taken over by the trade unions of their employees associated with SOBSI. Likewise, workers at the Shell Oil Company at Plaju in South Sumatra seized the refinery but the Shell refinery at Balikpapan was taken over by the military commander of East Kalimantan, Colonel Soehardjo.[114] On 18 September 1963, the Governor of West Java, Mashudi, issued a decree, providing a list of British firms in East Java which were to be placed under the supervision of his provincial government. The list included estates of the P&T Lands, J.A. Wattie, Harrisons & Crosfield and Ross Taylor, as well as the facilities of Dunlop Tyre enterprise, BAT (British and American Tobacco) and the Shell Oil offices in Bandung and Cirebon.[115]

Most of the take-overs were non-violent. Foreign managers were forced to leave their offices and their work was transferred to Indonesian staff. On 19 September, President Soekarno issued decrees forbidding any further take-overs and demanding the enterprises seized be transferred to the appropriate ministries. Supervisory teams were appointed and given the task of safeguarding security and ensuring the smooth operation of these firms. All

112 A.C. Mackie, *Confrontasi; The Indonesia-Malaysia dispute, 1963-1966* (Kuala Lumpur: Oxford University Press, 1974) 182.
113 Mackie, *Confrontasi*, 182-187.
114 Besides the main refinery at Plaju, Shell had 5 smaller refineries: 1 near Balikpapan (East Kalimantan), 1 in Tarakan (Northeast Kalimantan), 1 in Pangkalan Brandan (North Sumatra), 1 in Cepu (East/Central Java) and 1 in Wonokromo (East Java). See: Redfern, *Soekarno's Guided Democracy*, 165-166.
115 Willian A. Redfern, *Soekarno's Guided* Democracy, 215-216.

arrangements were declared to be temporary as the government was planning to return the firms to the foreign owners. Well-aware of the economic importance of oil companies, President Soekarno demanded the immediate return of the Plaju refinery to the Shell Oil Company, and he took the opportunity to instruct the regional authorities firmly that they were to prevent any further take-over of Shell facilities. His instructions were certainly listened as the oil fields and refineries at Plaju were handed back to their Shell managers the next day, 20 September 1963. More remote and with the army behind him, Colonel Soehardjo delayed the return of the Balikpapan refinery until late December 1963. With the exception of these sensitive Shell properties, no other firms were immediately returned to British owners.

In January 1964, a new wave of take-overs of British firms began. This time it was initiated by workers and trade unions, their greatest stimulation being PKI influence. *Konfrontasi*, *Manipol*/*USDEK* and *Dekon* continued to serve as basic sources of inspiration for the take-overs, the immediate flash-point was the behaviour of the British colonial authorities in Hong Kong who refused point blank to the issue licences for the export of military equipment to Indonesia and, adding insult to injure, detained two Indonesian pilgrim ships in December 1963.[116] On 20 January 1964, SOBSI members hoisted the red flag at Shell Oil company headquarters in Jakarta. The walls of the Shell office building were plastered with signs reading 'Indonesian property'. Unilever workers in Jakarta seized the switchboard and bolted the main doors of the factories, after first warming British staff to stay away from the building. On 22 January, workers took over the Jakarta office of BTA. On the same day, the offices of the Maclaine Watson trading firm in Jakarta and Makassar were also taken over by the unions to which its employees belonged. In North Sumatra, on 22 January, various trade unions leaders entered the main office of Harrisons & Crosfield in Medan, and the office and estates of the Anglo-Sumatra Estate Agency and Guthries were also simultaneously seized. In Surabaya, on 24 January, SOBSI-affiliated unions attempted take-overs of three British-owned

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[116] Redfern, *Soekarno's Guided* Democracy, 282.

firms in Surabaya, Unilever, BAT and Fraser & Neave. On 31 January, Third Deputy Prime Minister, Chaerul Saleh, issued a circular placing the British companies seized under the control and supervision of the relevant ministers.[117] The total number of British enterprises taken over in January 1964 was seventy-eight.[118] The Indonesian authorities ignored all claims to property rights to the British companies as well as by the British government.

The government supervision was declared to be a temporary measure and was claimed to be necessary for the purpose of safeguarding the continued operation of British companies. Despite this reassurance, on 26 November 1964, President Soekarno issued a decreed placing all British firms under government control. The decree was supplemented by a list of enterprises to be controlled by relevant ministries. The Ministry of Estates took over Harrisons & Crofssfield, Guthries, P&T Lands, J.A. Wattie, Anglo Sumatra, C.V. Perindo, Groemit/Reids, P.T. Indreswari and Ross Taylor. Dunlop Rubber was transferred to the Ministry of Basic Industries. The Ministry of People's Industries took over the management of Unilever, the mining company Archa, BAT, Limun F&N and a textile factory called Nebritex. Maclaine Watson was placed under the Ministry of Trade. The Ministry of State Revenues, Finance and Audits controlled the companies OCEAN, Semarang Sea and Fire and Union of Canton. The Chartered Bank was transferred to the Ministry of the Central Bank.[119] The list did not include the Shell, since this oil company was still under the British management.

Once the take-over of British companies had been completed at the end of 1964, American companies, led by the oil companies Stanvac and Caltex, were the most important foreign companies remaining in Indonesia. By 1965, the *Konfrontasi* against Malaysia and the British had escalated into a confrontation against all 'imperialist' and colonial powers of the world. This

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[117] Redfern, *Soekarno's Guided* Democracy, 283-300.
[118] Oey Hong Lee, *Indonesian* government, 332.
[119] 'Semua perusahaan Inggris dikuasai', *Madjalah perekonomian nasional*; *Untuk melaksanakan Dekon menudju ekonomi sosialis Indonesia* (Jakarta: Jajasan Penerbitan Pembina Perekonomian Nasional, 1965) 33.

escalation was marked by the withdrawal of Indonesia from the United Nations in January 1965, as well as its exodus from IMF, Interpol and the World Bank in August 1965. The anti-imperialist alliance with the People's Republic of China culminated in President Soekarno's famous proclamation in August 1965 of the Jakarta-Phnom Penh-Hanoi-Peking-Pyongyang axis. Diplomatic relations with the US had been steadily deteriorating since early 1964, when the US government had cut off financial aid to Indonesia, which was greeted by the President's response: 'Go to hell with your aid' on 25 March 1964. US support for Malaysia during *Konfrontasi*, as well as increasing US involvement in Vietnam symbolized plain unvarnished imperialism and added fuel to the anti-US rhetoric in Indonesia. Between February and mid-April 1964, the government of Indonesia took over thirteen foreign companies, eleven of them American-owned, including the Goodyear Tire and Rubber Company and the United State Rubber Corporation (USR). Next to fall victim were the big three foreign oil companies, Caltex, Stanvac and Royal Dutch Shell, which were taken over on 19 March 1965. In April, the remaining American companies, including the Union Carbide Battery Plant, American and Foreign Insurance Association (AIFA), National Cash Register and some American film companies were all taken over. Finally, on 24 April 1965, appealing to the rationale of *Berdikari*, President Soekarno issued a decree stating that all foreign enterprises would be put under the government control, regardless of nationality.[120]

Although most British and American companies were eventually returned to their former owners in the early years of the New Order, the Presidential decree of 24 April 1965 can be considered the culmination of the efforts by the '1945 Generation in Indonesia to liberate their country from economic control by foreigners. These efforts had begun just after Independence, but reached a climax in the late 1950s with the take-over and eventual nationalization of Dutch enterprises and in the early 1960s with the seizure of British and American companies, which happened alongside the

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[120] Redfern, *Soekarno's Guided* Democracy, 492.

extended expropriation of Chinese businesses. Various explanations can be offered for these extraordinarily radical actions by the Indonesian government. Tensions in diplomatic relations, in which foreign companies were used as pawns, were certainly an important factor, especially in the case of Dutch, British and American firms. However, the confiscation of the Chinese businesses and their infrastructures had nothing to do with foreign relations, except for the charge of alleged Taiwanese government support of the PRRI rebellion. They were taken over directly by the government. In contrast, the seizures of the Dutch, British and American companies were all initiated by the military and trade unions affiliated with PKI. The Indonesian government claimed to be passive observe in these events, unable to take any action, except to follow up the seizure in order to 'supervise' and 'safeguard' the continued operations of the companies. Passive though it probably was, why was Soekarno's government so loath to return the seized enterprises to their foreign owners?

4. Business Engagement

Whether or not the take-overs had been clandestinely planned by the Indonesian government, it would seem that these attempts to attain the final elimination of foreign control of the economy were inevitable, an essential part of the transition of Indonesia into an independent national economy. The other side of the coin was the elevation of Indonesians to the commanding role in the economy. The rhythm of this intertwined process depended largely on the political developments. When the country decided to adopt the policies of Guided Democracy and the Guided Economy followed by martial law, sooner or later it was on the cards that foreign control of the economy would have to be eliminated, by hook or by crook. In a speech one day after the take-over had begun, on 4 December 1957, the Governor of the Bank of Indonesia, Sjafruddin Prawiranegara, criticized the seizure, stating that, 'I completely agree with the liquidation of all Dutch property in Indonesia, but everything should be carried out according to a systematic plan and not just prompted by burning passions which might [eventually] only rebound on the people themselves'.[121]

In fact, soon after the imposition of martial law, it is clear that the military had already been making some preparations for a take-over of the economy. On 24 August 1957, the Ministry of Defence issued an instruction, identifying companies, departments and agencies considered vital to the military, which SOB asserted should be under military jurisdiction. In fact, all companies, departments and facilities relating to transportation, posts, the media, hospitals, oil, gas, electricity and printing were vital to the military, or so the military thought. Four major Indonesian banks, *Bank Indonesia*, *Bank Negara Indonesia*, *Bank Industri Negara*, and *Bank Rakjat Indonesia*, together with mining enterprises, some manufacturing enterprises and estates were all scheduled to be put under military authority. At that point, the instruction did not yet go so far as to indicate any measures to bring foreign enterprises under military control.[122] The sudden take-over of Dutch enterprises by local trade unions in December 1957 certainly had an impact on the military thinking about what its primary intentions were. Probably driven by fears that PKI might attempt to bring these enterprises under its own control, thereby strengthening its economic resources and political position, the army quickly stepped in and assumed control of the enterprises seized.[123] The Indonesian government definitely did not wish these enterprises to fall into the hands of either PKI or the army. On 19 December 1957, Djuanda, in the name of both Prime Minister and Minister of Defence, announced government control of all Dutch enterprises.

As a conciliatory measure, various government bodies were installed to control the seized Dutch enterprises. Members of these bodies consisted of judicious mixture of relevant ministers, army officers and representatives of trade unions. Dutch banks were managed by the Central Supervisory Council

[121] Quoted from Karl J.Pelzer, *Planters against peasants*, 160.
[122] ANRI, *Instruction of Ministry of Defence*, KP inventory number 1267.
[123] Sundhaussen, *The road to power*, 328.

for Dutch Banks (Badan Pengawas Bank-Bank Belanda Pusat, BP Bank2 Belanda Pusat), the estates by the Centre for New State Plantations (Pusat Perkebunan Negara Baru, PPN-Baru), trading firms by the Government Agency for Commercial Enterprises (Badan Urusan Dagang, BUD), while the supervision of manufacturing and mining firms and pharmaceutical enterprises was placed under respectively the Government Agency for Manufacturing and Mining Enterprises (Badan Penyelenggara Perusahaan Industri dan Tambang, BAPPIT) and the Central Body for Administration of Dutch Pharmaceutical Companies (Badan Pusat Penguasa Perusahaan2 Pharmasi Belanda, BARPHAR). There were three more supervisory agencies established during the course of 1957-1958, two for the insurance companies, namely, the Supervisory Board for Life Insurance (Badan Pengawas Assuransi Djiwa) and the Supervisory Board for Dutch Insurance Companies (Badan Pengawas Perusahaan2 Assuransi Kerugian Belanda) and the Central Supervisory Board for Dutch Contracting Companies (Badan Pusat Pengawas Perusahaan2 Pemborongan Belanda, BP5B) for contracting services.[124] All former Dutch companies adopted Indonesian names and most of them became state-owned enterprises.

In February 1959, by the time the nationalization law had been effectively executed, all these agencies were placed under one umbrella body, called the Board for the Nationalization of Dutch Enterprises (Badan Nasionalisasi Perusahaan Belanda, BANAS). Members of BANAS consisted of all ministers responsible for economic affairs, the Governor of *Bank Indonesia* and the Minister of Health, whose function was probably to supervise the pharmaceutical enterprises. It was chaired by Prime Minister Djuanda, assisted by two deputies, Soetiko Slamet from *Bank Indonesia* and Minister of Economic Stabilization, Colonel Soeprajogi.BANAS had the authority to decide which Dutch companies would be transferred to the government supervisory agencies and which were to be managed by provincial governments, or left to

[124] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 352-356;

the private sector.[125] BANAS also extended its coordination to existing state corporations, such as PELNI, *Bank Indonesia* and GIA. In total, BANAS supervised about twenty groups of state-owned enterprises and banks.[126] In December 1960, BANAS was dissolved and replaced by a Central Co-ordination Board (Badan Pusat Cordinasi), which functioned as a co-ordinating, planning and supervisory staff for the First Minister Djuanda. From a historical distance, it seems that the running of the Central Co-ordination Board left a great deal to be desired, especially after the death of Djuanda. In the meantime, the government supervisory agencies for state-owned enterprises expanded apace, absorbing a considerable number of Chinese, British and American enterprises. By examining some particular supervisory agencies, it is possible to see how the foreign companies were integrated into the existing Indonesian sectors, if not vice-versa. The consequences of this forced marriage will be discussed below.

Banking was perhaps the sector most urgently in need of control if a tremendous outflow of money from Dutch banks to other foreign banks was to be prevented and if credit was to be made available to state enterprises. As said, all Dutch banks in Jakarta were placed under the control of *BP Bank2 Bank Belanda Pusat*. This body was composed of representatives of high-raking military staff, as well as bureaucrats from financial and economic departments, the ministry of finance and the *Bank Indonesia*. Their branches in the regions were controlled by the Regional Supervisory Council, which was composed along the same lines as the Central Board. A supervisory team, *Team Pengawas*, was stationed in each bank. Henceforward, all the transactions of Dutch banks had to be handled through Indonesian banks with the prior consent of the Indonesian authorities. Dutch nationals also needed a permit from the local authorities to withdraw their money.[127]

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[125] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 301-302.

[126] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 234, 238.

[127] Bank Indonesia, *Report for the year, 1957-1958*, p. 95. *Government statement on the struggle for West Irian; delivered by Prime Minister Djuanda in the plenary meeting of parliament held on Monday, January 27, 1958* (Jakarta: Ministry of Information RI, 1958) 16-17, 48.

The nationalization of Dutch banks eventually took place in 1960. The *Handelsbank* was converted into State General Bank (Bank Umum Negara). The *Escompto Bank* was liquidated and its activities were immediately taken over by the State Commercial Bank (Bank Dagang Negara). The assets and liabilities of the NHM were transferred to the Bank for Co-operatives, Smallholders and Fishermen (Bank Koperasi, Tani den Nelayan).[128] Several rearrangements were simultaneously introduced in the state banks. The Post Office Savings Bank was renamed the State Savings Bank. The State Industrial Bank (Bank Industri Negara) was merged with the Development Bank of Indonesia (Bank Pembangunan Indonesia), which was established in May 1960 with a special task of helping the government finance its Eight-Year Development Plan. The working licences of all foreign banks, including the Overseas-Chinese Banking Corporation (OCBC), Bank of China, Hong Kong and Shanghai Banking Corporation and the British-owned Chartered Bank were gradually withdrawn throughout 1963 and 1964. In March 1964, the Chinese government volunteered to turn over the assets of Bank of China to the Indonesian government as a gift to strengthen its relations with Indonesia.[129] The assets of the Chartered Bank were taken over by the *Bank Negara Indonesia* and the *Bank Umum Negara* in February 1965. The two other banks withdrew their businesses from Indonesia. To consolidate the centralized control of the banking system, in preparation for financing the Three-Year Plan (1966-1968), in August 1965 all seven state banks were integrated into one body, called the *Bank Tunggal* (Sole Bank).[130] In 1960 and 1965, besides the state banks, there were twenty-two regional development banks, nineteen small local banks (both as joint enterprises between the government and private parties) and twenty-two private national banks.[131]

On 10 December 1957, the Minister of Agriculture, Sadjarwo, announced the formation of the Centre for New State Plantations (Pusat

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[128] Lindblad, *Bridges to new business*, 198.
[129] Mozingo, *Chinese policy toward Indonesia*, 209-210.
[130] These 7 state banks were Bank Indonesia (Central Bank), BKTN, Bank Negara Indonesia, BUGNEG, *Bapindo*, BDN, *Bank Tabungan Negara* (BTN, Savings Bank Indonesia).
[131] Bank Indonesia, *Report for the year*, 1960-1965, pp.58-62

Perkebunan Negara Baru, PPN-Baru), which was then merged with the existing PPN, established under the old Republic of Indonesia.[132] PPN-Baru was immediately entrusted with the management of 542 Dutch estates, three-quarters of all Indonesian plantations.[133]A rapid *indigenization*of the administration of Dutch estates immediately followed, although a number of Dutch managers were allowed to stay on after signing documents limiting their rights to the estates.[134] In most cases, senior Indonesian employees of former Dutch enterprises were promoted to key jobs as managers or overseers, and army officers served as supervisors. The new managers were selected from influential groups in the *daerahs* (regions), particularly those who had close ties of interests and affinity with the existing regional authorities, the *pamong pradja,* and army officers.[135]A six-month course was organized to train senior middle school graduates to take over supervisory positions.[136] As the result of all these efforts, 90-95 per cent of the personnel on the rubber estates in North Sumatra had been *Indonesianized* by 1960.[137]

The nationalization after 1959 brought other significant changes. Individual estates were grouped into 'Units', which formed legally distinct state enterprises. The Unit served as the provincial branch of PPN-Baru (now again named PPN), whose head office and general managerial board were stationed in Jakarta. All major decisions were taken by the Jakarta office after it had received recommendations from the provincial branches. The Units carried out general supervision, provided technical advice, determined the annual budgets as well as the planting and production schedules for each estate.[138] The offices of units could be concentrated in one centre, for instance, Surabaya where the

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[132] At the time of incorporation, the 'old' PPN was in charge of 35 estates. Its director, Saksono, continued to head the PPN-Baru.Mackie, 'Indonesia's government estates', 338.
[133] Mackie, 'Indonesia's government estates', 338; Pelzer, *Planters against peasants,* 163.
[134] Pelzer, *Planters against peasants*, 163.
[135] Mackie, 'Indonesia's government estates', 340, 344.
[136] Lim Kim Liat, 'The prospects for the Deli tobacco industry', in Douglas S. Paauw and Lim Kim Liat, *Prospects for East Sumatran plantation industries; a symposium* (New Haven: Yale University, 1962) 5.
[137] Dahlan Thalib, 'The estate rubber industry in the East Coast of Sumatra', in Paauw and Lim, *Prospects for East Sumatran plantation industries*, 53.
[138] Mackie, 'Indonesia's government estates', 343.

office of all sugar units in East Java was located, or situated in the region of estates concerned.[139] In both cases, this brought about a major structural change in the administration of the former Dutch estates. The Dutch estate companies were now broken up and fused into regional units under the centralized administration of the PPN head office in Jakarta. In total, PPN managed ninety-two units, including fifty-two rather small ones for sugar, sixteen huge ones for rubber and seven for tobacco.[140] In May 1962, the sugar factories and rubber estates belonging to OTHC were transferred to the management of PPN, while its other businesses were handled by a joint committee composed of members from the Department of Attorney General and the Department of Trade.[141]

The administration of the estates taken over between 1963 and 1965 generally followed the pattern explained above of grouping them either by geography or previous ownership. At first, overall charge of British estates was entrusted to a supervisory team in the Ministry of Agriculture and Agrarian Affairs. In March 1964, the team developed into the Central Control Board of British Estates (Badan Pusat Penguasaan Perusahaan Perkebunan Milik Inggris), chaired by the Co-ordinating Minister of Agriculture and Agrarian affairs, Sadjarwo. In September 1964, all the seized British estates were grouped into five units, known as *Dwikora*. Each *Dwikora* unit was led by managers appointed by Sadjarwo and these managers were responsible for supervising, controlling and managing the estates in its group. These five *Dwikora* units were either geographically and/or company-based. *Dwikora* I was compoased of all the Harrisons and Crosfield estates in North Sumatra, *Dwikora* II was a mixture of other estates in Sumatra, *Dwikora* III was a mixture of estates primarily in Java, *Dwikora* IV made up almost exclusively of the P&T Lands estates and *Dwikora* V was a cluster of estates in East Java. In November 1964, a Central Board of Directors of *Dwikora* (Badan Pimpinan Umum Dwikora, BPU-Dwikora) was established, which took over the

[139] Mackie, 'Indonesia's government estates', 343
[140] Lindblad, *Bridges to new* business, 204.
[141] KKA, *Letter of Moch Soejoedi to Bill (Oei Tjong Bo)*, dated 12 May 1962, OTHC, inventory number 12.

management of the estates in the *Dwikora* structure. The BPU-*Dwikora* was made up of four directors. The first director was in overall charge of the *Dwikora*, while the other three directors were responsible for production, marketing and finance, respectively. Each *Dwikora* unit also had a board of directors, and one senior director was in overall charge of all the component units. This board of director was advised by a supervisory board, whose members included the governor and representatives of the army, trade unions and the National Front.[142]

Most estates belonging to Goodyear and USR were turned over to the government state-owned rubber plantation unit, known as the State Rubber Plantations (Pusat Perkebunan Karet Negara, PPN Karet) in the Ministry of Agriculture. But the Wingfoot South Estate was sold to two private firms, namely Hapinis and Oriental Tyre. In March 1965, the government changed the name Goodyear to the Estate Company *Ampera* I (Perusahaan Perkebunan Ampera I) and the name USR to the Estate Company *Ampera* II (Perusahaan Perkebunan Ampera II). Following the Presidential decree of April 1965, the estates owned by the Belgium firm SOCFIN in North Sumatra were organized into two units, one in Aceh administering eighteen estates and another called PPN No.5 in charge of ten estates. These estates were later grouped with other Belgium-owned estates into four units called *PPN-Expera*. There were two *Expera* units in Sumatra and two in Java. The *Expera* units appeared to have been administered separately from the other government estates although, as on other estates, the top layer of management was appointed by the central government.[143]

The administration of the Dutch trading firms seized was placed under BUD. Reorganization took place after the promulgation of the nationalization law, with immediate effect for more than forty Dutch trading firms. The 'Big Five' were reorganized into state enterprises under new names. Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindeteves became respectively

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142 Redfern, *Soekarno's Guided* Democracy, 342-347.
143 Redfern, *Soekarno's Guided* Democracy, 507, 558.

the Indonesian Development Industrial and Trading Corporation (Indevitra), Satja Negara Trading Corporation (Satja Negara), Judha Bhakti Corporation, Indonesian Estates and Industrial Supply Corporation (Indestins) and the Triangle Corporation. Another Dutch-owned trading enterprise, Mirandolle and Voute, was transformed into the Estate and Plantation Company Mira Sari (Perusahaan Dagang dan Perkebunan Mira Sari, Mira Sari). These six leading Dutch companies, with two Indonesian state trading enterprises, the Central Trading Company (CTC) and the Indonesian Industrial Enterprise (Usaha Industri Indonesia, Usindo,) formed the 'Big Eight'. A military officer, usually with the rank of major or colonel, headed the management in each of these trading companies.[144]

In 1960, the Law on State Enterprises opened the way for a further reorganization and regrouping of all these enterprises. Seven of the Big Eight, the exception being Mira Sari, were incorporated into other small Dutch firms and a government agency, named the Foundation for the Import of Essential Raw Materials (Jajasan Bahan Penting, JBP), to form nine state trading corporations, called *Bhakti* (loyal service). *Indevitra* became *Budi Bhakti*, *Satja Negara* turned into *Aneka Bhakti*, *Judha Bhakti* into *Fadjar Bhakti*, *Indestins* into *Tulus Bhakti*, the Triangle Corporation into *Marga Bhakti*, the CTC into *Tri Bhakti*, *Usindo* into *Djaja Bhakti*, the JBP into *Sedjati Bhakti*, while a company called *Java-Staal Stokvis* plus a number of other small Dutch firms formed *Sinar Bhakti*.[145] Although the government did make attempts to specialize these state trading corporations, their activities overlapped and sometimes were even in competition with each other. Seven of the nine *Bhakti*, *Budi Bhakti*, *Aneka Bhakti*, *Marga Bhakti*, *Djaja Bhakti*, *Fadjar Bhakti*, *Tulus Bhakti* and *Tri Bhakti*, were primarily concerned with inter-island trade and the import and export of consumer goods and the distribution of domestic manufactured

[144] J. Panglaykim, Ingrid Palmer, *State trading corporations in developing countries; with special reference to Indonesia and selected Asian countries* (Rotterdam: Rotterdam University Press, 1969) 69, 35; Lindblad, *Bridges to new* business, 197.

[145] Panglaykim, *State trading corporations in Indonesia; First years's performance, 1961* (PhD dissertation, University Indonesia, Jakarta, 1963) 55; Panglaykim, Palmer, 'State trading corporations', 17.

products. *Sedjati Bhakti* handled the import of essential goods, while *Tulus Bhakti* operated exclusively in the import of technical articles.[146] In 1965, the nine *Bhakti* were again dissolved and regrouped into six *Niagas* (trading companies), namely *Aduma Niaga*, *Aneka Niaga*, *Pantja Niaga*, *Satya Niaga*, *Dharma Niaga* and *Pembangunan Niaga*.[147]

Although the formal organizational structures of the state enterprises varied widely, that did share some general lines. All the corporations were placed under the supervision of a General Management Board for State Trading Corporations (Badan Pimpinan Umum-Perusahaan Dagan Negara, BPU-PDN) in the Ministry of Trade. Each trading corporation had a board of managing directors, which often consisted of three or four directors, each assigned to a particular field of business, for instance finance, marketing, exports or imports. The directors were assisted by several general managers, who were assumed to have a specialist knowledge of a particular aspect of the company. Under the general managers came the heads of various departments, the names and number of which varied among the specialized corporations. Below the departments, there might be sub-departments, divisions or sections in some cases. For instance, *Budi Bhakti* and *Marga Bhakti*, which operated primarily in agricultural and consumer goods, both had a department for the export of agricultural products. This department was not broken up into divisions in the former company, but was in the latter. *Budhi Bhakti* had a department of internal supervision and statistics and a division of public relations and law, which *Marga Bhakti* did not have. The departmentalization of *Tulus Bhakti* was primarily organized on the basis of main trade categories, such as machinery, electrical equipment and other technical equipment.[148]The regional and overseas branches of the corporations were headed by their own managers. The management of the state trading corporations was largely centralized when they were dealing with essential imports. There were some 'free list' articles which

[146] Panglaykim, *State trading corporations in Indonesia*, 100.
[147] Panglaykim, *State trading corporations in Indonesia*, 102.
[148] Achmad Sanusi, *The dynamics of the nationalization of Dutch-owned enterprises in Indonesia; a political, legal, economic developmental and administrative analysis* (PhD dissertation, Indiana University, 1963) 438-444.

the regional branches were allowed to import directly. These articles could also be imported by private importers.[149]

Just as with government attempts to achieve a functional specialization of state trading corporations, the integrated units of former Dutch trading companies engaged in production were transferred separately to other government bodies. The estate units were incorporated into the above-mentioned *PPN-Baru*, while textile mills and mines were transferred to the respective bodies of the Ministry of Industry and Mining. The Bureau of State Industrial Enterprises (Biro Urusan Perusahaan-Perusahaan Industri Negara, BUPIN) was in charge of industrial enterprises and the Bureau of State Mining Companies (Biro Urusan Perusahaan-perusahaan Tambang Negara, BUPTAN) ran the field of mining. In April 1958, BAPPIT was established to take over the management of state enterprises in manufacturing and mining. BAPPIT had its central office in Jakarta and branches in Bandung, Surabaya and Medan. By 1960, BAPPIT controlled 240 companies, of which forty-eight were in machinery and the electrical industry, twenty-one in the chemical industry, twenty-one in the printing and publishing industry, eighty-nine in general industry and sixty-one in mining.[150]

Under BAPPIT, the companies were classified into groups; important companies were managed by the central government, while less important ones were controlled by the regional governments. Small industries, such as bread factories, cinemas, tile works, were left to private sectors. All former Dutch companies were transformed into limited liability companies or PT (Perseroan Terbatas) with new Indonesian names. For instance, the joint mining enterprise *Gemeenschappelijke Mijnbouw Maatschappij Billiton* was changed into Belitung Tin-Mining Corporation (Pertambangan Timah Belitung). BUPTAN

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[149] Panglaykim, *State trading corporations in Indonesia*, 23; Sanusi, *The dynamics of the nationalization*, 438-444.

[150] Bisuk Siahaan, *Industrialisasi di Indonesia; sejak hutang kehormatan sampai banting stir* (Jakarta: Pustaka Data, 1966) 323.

then appointed an Indonesian engineer, M.E.A. Apitule, to head the firm.[151] The *Pertambangan Timah Belitung* and two other government tin enterprises, *Tambang Timah Bangka* and *Tambang Timah Singkep*, constituted almost the entire tin production in Indonesia, although their production declined dramatically in the late 1950s and early 1960s.[152] Likewise, by 1958 more than 90 per cent of the coal output in Indonesia was being produced by two government coal-mines, the *Bukit Asam* and *Umbilin*, both in Sumatra. When the *Oost-Borneo Maatschappij* handed over its coal-mines at Batu Panggal and Sigihan in East Kalimantan to the state-owned *Sebuku*, the Indonesian government had gained full control of all coal-mining in the country.[153]

In all 179 industrial enterprises were taken over by BAPPIT. In 1964, these manufacturing firms were split up into 121 state companies, which were then rearranged into units defined by regions. The largest unit was that of East Java with forty-two state companies, followed by that of Central Java with twenty-six, while the Jakarta and West Java units contained eighteen state companies each. The Indonesian government did not interfere much in the organization of British and American manufacturing firms, including BAT, Unilever, Fraser & Neave, Nebritex, Goodyear Tire and Rubber, Procter and Gamble and Colgate-Palmoilve Peet after the take-over. The only step which was taken was that a government supervisory body was established in each firm but, rather than introducing any radical change, their function was mainly to keep the operations of the companies up and running. Most of these companies were later returned to their former owners.

The situation in the oil sector where BPM had successfully escaped the take-over of December 1957 by transferring its ownership to the British-owned Shell Indonesia was different. On 10 December 1957, the military controlled-ETMSU was renamed the National Oil Company (Perusahaan Minyak

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[151] At the time of the take-over, the Indonesian owned 62 ½ of the company's shares. *Kabinet Karya; Djuanda, Hardi, Idham, Leimena, mendjelang genap 1 tahun usianja (9 April 1957-9 April 1958)* (Jakarta: Ministry of Information RI, 1958) 208.

[152] Bank Indonesia, *Report for the year1958-1959*, p. 255.

[153] Bank Indonesia, *Report for the year*, *1958-1959*, p. 258; Bank Indonesia, *Report for the year*, 1960-1965, p. 226.

Nasional, Permina). An army official, Colonel Ibnu Sutowo, was appointed President-Director of the company, while two other directors were bureaucats from the Ministry of Industry and Ministry of Trade. In late 1960, the Netherlands Indies Petroleum Company (Nederlandsch Indische Aardolie-Maatschappij, NIAM), a 50-50 joint venture with BPM, which held the concessions at Jambi (South Sumatra) and Bunyu (Kalimantan), adopted an Indonesian name, the Indonesian Oil Mining Company (Pertambangan Minyak Indonesia, Permindo). Its head office was moved from The Hague to Jakarta. *Permindo* was then taken over by a newly established state oil enterprise, Indonesian Oil Mining Enterprise (Pertambangan Minyak Indonesia, Pertamin). The third state-owned oil company set up under the Minister of Basic Industries and Mining Chairul Saleh was the National Oil and Gas Corporation (Pertambangan Minyak dan Gas Nasional, Permigan). *Permigan* was designated to manage the Shell oil fields in Cebu, which had been taken over by Colonel (later General and President) Soeharto in 1957. These facilities were quite small, but were substantially expanded in 1962, when Shell sold all its installations in the Cepu area to *Permigan*. Under the terms of a Work Agreement of 1963, the three foreign oil companies, Caltex, Shell and Stanvac, continued to operate in Indonesia, but under the provisional supervision of the Indonesian government. The Indonesian control over oil sector was intensified in early 1965, after these oil companies had been either purchased or taken over by the government. The government body responsible for the supervision of the oil sector was the Bureau of Oil and Gas (Biro Minyak dan Gas Bumi, Biro Migas) established by Saleh in November 1959.[154]

The centralized operation of the Indonesian economy in the late 1950s and the early 1960s required a good system of transportation and distribution. Unfortunately this was in a very precarious state. Transport facilities had deteriorated since the liquidation of KPM and the forced departure of Chinese traders from rural areas in 1959-1960 pushed the distribution system almost to the point of collapse. The take-over of KPM had not provided PELNI with any

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[154] Aden, *Oil and politics in Indonesia,* 159-217

more facilities and equipment. In fact it was floundering. Although it had to take responsibility for 10,000 Indonesian employees of KPM, none of the KPM ships was handed over to PELNI. The confiscated ships actually had to be returned to KPM as a result of intervention by the insurance company Lloyds of London, which had insured the KPM fleet.[155] After 1958, inter-island shipping was handled primarily by PELNI, with the assistance of several smaller private shipping firms. In January 1958, the number of ships owned by PELNI was only nineteen, the majority from Hong Kong. Another fifteen vessels of the State Salt and Soda Company (PGSN) were also put at the disposal of PELNI. A number of vessels belonging to private national shipping companies, a total of 104 ships, amounting to 44,000 tons, were mobilized and co-ordinated.[156] Under an agreement signed with Japan on 8 December 1957, a few days after the take-over of KPM, the Indonesian authorities hoped to obtain twenty-six ships. It was also reported that about twenty Japanese shipping companies were willing to donate ships to Indonesia, which would mean in effect that the Japanese ships could effectively replace the KPM vessels. Besides helping with ships, the Japanese government also offered a loan of $ 225 million, repayable within twenty years.[157]

All in all, military managers held dominant positions in the management of the administrative and co-ordinating bodies of BUD, BAPPIT, PPN, Bhakti and the majority of state-owned plantations. Some of the *Bhakti*s were managing reasonably well and even won the confidence of business relations abroad, but they were the exceptions to the rule. The volume of production of major agricultural crops suffered a serious decline under the Guided Economy. They were undermined by a potent cocktail of mismanagement, corruption, arbitrary dismissal of well-trained, non-military staff already available on the respective enterprises and vehement conflicts between military managers and labourers prevailed. In PPN, to name just one

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[155] Dick, *The Indonesian interisland shipping,* 23-24; Marks, 'The lost decades?', 80-83.
[156] *Government statement on the struggle for West Irian; delivered by Prime Minister Djuanda in the plenary meeting of parliament held on Monday, January 27, 1958* (Jakarta: Ministry of Information RI) 48.
[157] *Berita Negara Republik Indonesia*, 15 January 1958.

instance, the operation of the large and inefficient central office absorbed 25 per cent of the profits of the estate members.[158] By 1962, conditions had deteriorated into such a state of chaos technically and financially, most of the former Dutch plantations and industrial enterprises had done bankrupt.[159] Some of these corporations even became a financial burden on the government. By now, understandably, foreign investors were very chary of putting their money into Indonesia and the chaos and huge inflation in the financial sector also made donors of foreign aid also think twice before committing their funds, the government had to find an increasingly share of financial resources from the oil sector, especially the two state oil companies, *Pertamin* and *Permina*. Another distinct feature of the Guided Economy was its permanent hyper-inflation, remaining around 100 per cent per annum from late 1960 to 1965.[160] The price of some public services, for instance, railway, bus and air fares had jumped by 400 and 500 per cent by the end of 1963. Public utilities such as electricity, tap water and post and telegraph tariffs also had to battle with a rate of inflation of no less than 400 per cent.[161] The impact of these price increases was soon felt in the market for most of the staples. By the end of 1965, the price of rice was believed to be rising at an annual rate of 900 per cent.[162] The forced marriage between foreign companies and Indonesian sectors ultimately failed, leading to in the collapse of the system of the Guided Economy.

Conclusion

By mid-1965, almost all foreign enterprises operating in Indonesia had been effectively brought under the control of the Indonesian government. The leading

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[158] F.Runturambi, *Problim management ekonomi di Indonesia* (Jakarta, Sumber Tjahaja, 1963) 33.

[159] Earnst Utrecht, *Indonesian army; a socio-political study of an armed, privileged group in the developing countries,* Vol.I (Townsville: James Cook University of North Queensland, 1979) 100.

[160] Ricklefs, *A History of Modern Indonesia,* 328; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 192.

[161] Oey Hoong Lee, *Indonesian* government, 106; Eric Chetwynd, 'The Indonesian stabilization attempt of May 1963; A study of politics and economic development in Indonesia' (MA thesis, American University, 1966) 84-85.

[162] Ricklefs, *A History of Modern Indonesia,* 338.

forces behind this radical move were trade unions, the military and the government itself. Generally speaking, it was the trade unions, which seized the advantage offered by the political and diplomatic crisis and initiated the seizure of Dutch, British and American enterprises. By virtue of the martial law declared shortly thereafter, the military assumed the control of the companies seized, although for the time being the management remained in the hands of trade unions. Finally, the Indonesian government, which certainly did not wish the foreign enterprises to fall in the hands of either the military or the PKI-affiliated trade unions, claimed its authority over all enterprises seized. Nevertheless, it was only in the case of the Chinese businesses that the Indonesian government set in train confiscation or forced liquidation, adducing as its rationale that it was protecting the interests of the Indonesian people. Although, on occasion, it did not shun political and economic allegations to bolster its case, most of the take-overs occurred without violence and foreign managers had little choice but to surrender their positions to subordinate Indonesian staff members or sell their businesses to the Indonesians.

With the exception of a number of small estates and shops, which were left to private sectors, large foreign firms were reorganized and incorporated into new state-owned enterprises. Management was entrusted to a whole string of ever-changing government agencies, whose job was to co-ordinate with the existing state enterprises. Each co-ordinating agency had a board of directors consisting of the relevant ministers, army officers and representatives of trade unions. Although most former foreign enterprises continued their operations, the high cost incurred by inefficient centralized management, conflicts between military managers and labourers and the poor co-ordination between the state enterprises were major contributions to the stagnation of the Indonesian economy in the early 1960s. The already depleted financial resources of the new nation were brought to the point of exhaustion by the military expenditures required to maintain the West Irian conflict and *Confrontasi* campaigns against Malaysia. Budget allocations for the armed forces in the early 1960s made up about 25 to 35 per cent of the government expenditure and no less than 50 per cent of the state budget (Appendix, Table 13). Had these funds been rallied and used in investment projects, the economic picture of Guided Democracy would have been a great deal brighter.

The expropriation of Dutch and other foreign businesses occurred in the framework of the Guided Economy. The foundations of this economic model were laid in the 1945 Constitution, which strongly emphasized state control of the economy. During the periods of the revolutionary struggle and Parliamentary Democracy, state control was exercised only in a fairly limited way, restricted to supervision, co-operatives and the formation of a small number of state-owned enterprises. The Guided Economy swung the pendulum in the opposite direction and stressed state ownership, while the co-operative sector also still continued to be encouraged. In 1960, Indonesia had 27,301 co-operatives involving more than 5 million people. The number of co-operatives rose to 50,158 co-operatives in 1962 and 62,376 in 1964 with the corresponding increase in membership from 10 million to 12 million, respectively.[163] The conversion of foreign firms into state-owned enterprises, coupled with the abolishment of the colonial agrarian law and a radical retooling of the economic management apparatus, signaled the dismantling of what remained of the economic structure of Dutch colonialism in Indonesia after Independence. By the end of 1965, the transition to an independent national economy in Indonesia had been completed. Although the price for this economic transformation was high, the efforts made under the Guided Economy paved the way for the economic development of Indonesia in the future.

[163] Bank Indonesia, *Report for the year*, 1960-1965, p. 322.

CONCLUSION

In November 1945, the President of the Republic of Vietnam, Hồ Chí Minh, sent a letter addressed to 'the President of the Republic of Indonesia', proposing that a joint declaration of solidarity to be made by Indonesia and Vietnam in the form of a 'Preparatory Commission Struggling for a Federation of the Free Peoples of Southern Asia'. The letter, entrusted to an American journalist named Harold Isaacs, did not reach President Soekarno.[1] It was handed to Vice-President Mohammad Hatta, who then passed it on to Prime Minister Sutan Sjahrir.Sjahrir discussed the offer with Soedjatmoko Koko, the interpreter to foreign correspondents of the Republican government, but told him that he would not reply and preferred just to ignore the letter. Sjahrir indifference sprang from his conviction that the situation in Indonesia and Vietnam were very different. The Indonesian Nationalists were up against the Dutch, who were 'a weak colonial power and could be defeated quickly.' Hồ Chí Minh had to contend with the French, who could and would resist him for a long time. Furthermore he looked askance at the fact that the DRV government depended on support from the Communists, which was not the case in Indonesia. In conclusion, Sjahrir argued, 'If we ally ourselves with Hồ Chí Minh, we shall weaken ourselves and delay Independence.'[2]

The story of the missed opportunity for co-operation between Vietnam and Indonesia[3] as a result of Sjahrir's 'betrayal of the greater Asian Revolution', as Soedjatmoko Koko puts it, is tailor-made for the scope of this study. It

[1] Harold Robert Isaacs is the author of *No peace for Asia*, which has been cited widely in this dissertation. In the book, Isaacs claimed that he was Hồ Chí Minh's 'Shanghai friend of long ago'. In mid-November 1945, Isaacs visited Vietnam and met Hồ Chí Minh. The letter was probably given to Isaacs on this occasion. Isaacs claims that Hồ Chí Minh could not count on support from Russia, the French Communists, or the Chinese. Thwarted in this he turned to leaders of the new Nationalist revolutions in Southern Asia, including Indonesia. Harold R. Isaacs, *No peace for Asia* (Cambridge: The MIT Press, 1967) 173.

[2] Papanek, "Note on Soedjatmoko's recollections of a historical movement; Sjahrir's reaction to Hồ Chí Minh 1945 call for a Free People Federation", *Indonesia*, 49 (1990) 141-144.

[3] It was not until 1955 that Vietnam and Indonesia officially established diplomatic relationship in the wake of the Bandung Conference, whose aim was to foster closer relations between the newly independent nations.

discusses the transformation towards a national economy in both Indonesia and Vietnam within the wider context of the Nationalist struggles for Independence in the two countries. The study focuses on the twin processes of economic decolonization and nation-building, paying special attention to political and institutional factors involved in the process. It has been demonstrated in this study that, despite the differences in the political situations resulting in the adoption of divergent strategies, the Vietnamese and Indonesian leadership were in fact pursuing similar long-term goals, namely: to carry out economic nationalism. Certainly, the Indonesian determination to get rid of economic legacy of Dutch colonialism and place the economy under the strong state control and ownership, in accordance with the spirit of Guided Democracy and the Guided Economy in the late 1950s and the early 1960s, did bear some resemblance to the socialist transformation in North Vietnam in the 1950s and to the high concentration of economic power in the hands of the Ngô Đình Diệm government in South Vietnam in the late 1950s and the early 1960s.

Politically speaking, Sjahrir was right in anticipating the outcome of the Nationalist struggles in the two countries. In November 1949, the Netherlands finally acknowledged the political Independence of Indonesia. In Vietnam the story was different. Vietnam had to continue its military struggle against the French until 1954 for the Independence of North Vietnam and against the Americans until 1975 for the Independence and the unification of the whole country. If a battle to attain economic independence should be considering an integral part of the Nationalist revolution alongside the achievement of political Independence, Sjahrir's argument is obviously no longer appropriate. It is an incontrovertible fact that it was not until December 1957 that the Indonesians finally wrested economic power from the Dutch. It took another couple of years, in the late 1950s and the early 1960s, before the Indonesian government proceeded to confront the economic power of the Chinese, British and Americans. In contrast, the Independence of North Vietnam in 1954 went hand-in-hand with the full economic decolonization of French enterprises. The liquidation of most of the remaining French and Chinese enterprises in South

Vietnam in the late 1950s and the early 1960s brought of the process of the French decolonization in Vietnam to an end.

Sjahrir was well aware of and actually did point out one major difference between the leadership of Indonesia and of Vietnam. In Indonesia, the great majority of the leaders of the Republican government were Nationalists, whereas most members of the DRV government were revolutionary leaders who had espoused a Communist ideology. This seems a straightforward statement, but it does not immediately ring true of the Vietnamese situation immediately after Independence, at which time the DRV government still consisted of a considerable number of non-Communist Nationalists. However, from late 1946, and especially after its retreat to the Việt Bắc base in February 1947, the DRV government was indeed dominated by its Communist members. In 1951, the Communist Party officially declared its leadership of the country, leading inexorably to the 'partification' of the state. The intrusion of the Party members into the state apparatus was accelerated in North Vietnam after 1954, and by 1960, Party members had obtained most of the important positions in the DRV government.

Although they were marginalized as a result of the political purge in late 1946, the non-Communist Nationalist forces in Vietnam were not totally dead. They re-emerged again in South Vietnam after the partition of the country as a result of the Geneva Agreement in 1954. The Diệm government consisted of Nationalist intellectuals who had served in the colonial administration. As North Vietnam was gradually transformed into a Socialist state, South Vietnam became an anti-Communist state, supported by the United States and other capitalist countries. Nationalism in South Vietnam was not a pure strain but admixed with *personalism*, which allowed Diệm to concentrate the power in the hands of his family members and friends.

Nobody could deny that post-independence Indonesia was led by the Nationalists. The Communists did not hold any high-level positions in government until the early 1960s, despite their strong support by the population and in Parliament. Admittedly, the political influence of the Indonesian Communist Party (PKI) was strengthened significantly after the general elections in 1955 and reached its zenith in the early 1960s, when Soekarno imposed the Guided Democracy. In contrast to North Vietnam, Indonesian Communists had to face enduring hostilities, not only from various other political parties, but also from the emerging new force of the army. Eventually, in late 1965 and early 1966, the army launched the killing campaigns targeting the Communists, bringing the history of PKI to a catastrophic end. After March 1966, Communism was banned in Indonesia. The collapse of PKI was in a stark contrast to the steady expansion of Communism in North Vietnam, where the Vietnamese Communist Party had won an unchallengeable position by the late 1950s.

The Indonesian Nationalists were not one bloc but were riven by many internal divisions and affiliations with various political parties. Three of the major political parties, which successively dominated the Indonesian government in the immediate post Independence period, were the Socialist Party (PS), the religiously (Islam)-oriented Masjoemi and the Nationalist Party (PNI). Under Sjahrir's chairmanship, PS was able to exert the strongest influence during the negotiations for Independence with the Dutch in the late 1940s. Once this had been achieved, the Masjoemi-PNI political coalition stepped in to control the Indonesian government in the early 1950s, although in different cabinets one party alternated strength with the other. Furthermore, a number of Indonesian Nationalist leaders did not even belong to any political party. Within the same party, a diversity of opinion could exist. The rivalry between and within the political parties was the main reason for the great instability in the political system and the upshot was the short time span of the successive Indonesian cabinets. The introduction of Guided Democracy in the late 1950s was an effort by Soekarno to stabilize the political structure. Aware of the precarious situation in which the country found itself, the President hoped to create a political consensus and national solidarity. In 1960, only ten political parties were legally permitted. Unquestionably, the determined, authoritarian nature of Soekarno's government under Guided Democracy did resemble both the Communist government of North Vietnam and Diệm's despotic government of South Vietnam, albeit in various degrees.

Another important difference in the leadership composition in Indonesia and Vietnam after Independence had to do with professional competence, especially in the field of economic management. With the exception of a few ministers who had been employed in the French colonial administration, all the revolutionary leaders of the DRV government had had no practical experience of organizing an economy. Although members of the Diệm government had been civil servants in the former colonial state, the majority had been low-and middle-ranking officials. Ngô Đình Diệm himself had been appointed governor of Bình Thuận province, in Central Vietnam.[4] French policies of exclusion had prevented the Vietnamese from acquiring positions of any real responsibility in the colonial administration. By contrast, owing to Japanese policies during their occupation of the Netherlands Indies, many Indonesian leaders had had the experience of being appointed to top level positions in departmental hierarchies. They subsequently became senior leaders of the Indonesian government. Therefore, it can be inferred that, in comparison with Vietnam which continued to function under its Vichy regime, post-war Indonesia possessed more experts with some experience in economics. Nevertheless, for a country the size of Indonesia, such persons were in very short supply, especially at the lower levels.

The differences in political and professional backgrounds of the leadership of Indonesia and Vietnam had a great impact on the development of the Nationalist struggle for Independence in the two countries. As Sjahrir stated at a meeting of the Vietnam-United States Friendship Committee in New York in September 1947, Indonesia and Vietnam might follow different paths to Independence. What was important were their long-term goals for their nations and for the region.[5] In response to the intrusion of external factor, the leaders of Indonesia and Vietnam did indeed adopt different strategies in their struggle. Nevertheless, they shared a common goal in pursuing a meaningful

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[4]Denis A. Warner, *The last Confucian; Vietnam, South East Asia, and the West* (Sydney: Angus& Robertson, 1964) 89.

[5] William H. Frederick, ‘Brothers of a kind; Perspectives on comparing the Indonesian and Vietnamese revolutions’, in: Taufik Abdullah (ed.). *The heartbeat of Indonesian revolution*. Jakarta: Gramdedia Pustaka Utama, 1997, 272.

independence, one embracing both political and economic sovereignty. They both favoured a national economic system in which the state played a leading role. Consequently, the Nationalist struggles in Indonesia and Vietnam brought about radical changes in the economic system of the two countries, at least in comparison with what happened in other Southeast Asian countries.

The Indonesian Nationalist leaders adopted a pragmatic strategy and decided to gain Independence by negotiation. This decision was based on the belief that the Netherlands was a weak colonial power. Highly aware of Dutch concerns about the future of their economic interests in Indonesia, the Indonesian leaders sought to play the card of economic concessions as the means to achieve Dutch recognition of Indonesian sovereignty. Dutch enterprises which had been seized from the Japanese by the Indonesians during the early months after Independence were gradually returned to their owners. The Indonesian pragmatic policy, indubitably assisted by American pressure judiciously exerted on the Netherlands government, resulted in the agreements reached at the Round Table Conference in November 1949. Indonesia was at long last granted its Transfer of Sovereignty from the Netherlands on 27 December 1949, excluding the territory of West Irian (West New Guinea).

In fact, Hồ Chí Minh had also tried to prevent what he knew would be a protracted and bitter war by offering economic concessions to the French. In his conversation with Harold Isaacs in mid-November 1945, Hồ Chí Minh told that he was prepared to negotiate the Việt Minh recognition of the French economic position in Vietnam in return for French recognition of Vietnamese Independence. He was willing to accept a compromise since, 'We have been paying out our life's blood for decades. Suppose it costs us a few hundred million more piastres to buy our freedom.'[6] The majority of the economic concessions made by Hồ Chí Minh to the French in the Modus Vivendi of 14 September 1946 were similar to those made by Indonesian leaders to the Dutch in both the Linggadjati Agreement in 1947 and the *Finec* Agreement in 1949, with the exception of the stipulations about Indonesian debt obligations. In

[6] Harold R. Isaacs, *No peace for Asia* (Cambridge: The MIT Press, 1967) 175.

Vietnam, it was the aggression of French officials, who were determined to break off relations with the Communist-controlled Vietnamese government, which frustrated the efforts to reach a peaceful settlement by President Hồ Chí Minh and the top leaders of the French government in Paris.[7] Once the war had officially broken out in December 1946, the policies of the DRV government pertaining to French businesses underwent a radical change. Besides its military operations, the Việt Minh organized sabotage campaigns targeting the French economic installations.

The French enterprises in Vietnam were badly damaged during these economic sabotage campaigns organized by the Việt Minh. Following the pattern of the steady expansion of Việt Minh-controlled territories in the early 1950s, French mines and factories in North Vietnam gradually fell into the hands the Việt Minh and industrial installations in the cities as well as the rubber plantations in South Vietnam were under constant attack. Under such unfavourable, economically ruinous conditions, French companies thought it expedient to withdraw their operations from Vietnam, acts which were in contradiction to the calls from the French authorities for more private investment under the Bourgoin Plan. The withdrawal of the French business from Vietnam began in 1948 and became the prevailing tendency in the early 1950s. Banking corporations and manufacturing firms gradually transferred their business to other French colonies or back to France. The remaining French firms in North Vietnam moved to the South after the implementation of the Geneva Agreement in 1954-1955. The southwards evacuation of the French was accompanied by the emigration of Chinese and Vietnamese Roman Catholics.

However, it was not long before the economic position of the French and the Chinese in South Vietnam was being challenged by Diệm's economic nationalist policies. During the land reform promulgated in late 1956, major French rice plantations were transferred to Vietnamese ownership. By imposing restrictive administrative measures, Diệm's government forced the French

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[7] Stein Tønnesson, *Vietnam 1946; How the war began* (Berkely: University of California Press, 2010) 5-6; Laying the blame for the provocation of the war on shoulders of the local French officials in Indochina has also been well documented in Philippe Devillers, *Paris-Saigon-Hanoi; Les archives de la guerre 1944-1947* (Paris: Gallimard, 1988).

companies to liquidate their businesses to Vietnamese. The French were allowed to retain the ownership of rubber plantations, because of the rising share of rubber in export revenues and a shortage of funds to compensate French owners. The expropriation of the Chinese economic interests was motivated by forcing all Chinese born in Vietnam to take out Vietnamese citizenship. In yet another repressive move, foreign nationals were banned from a number of occupations which had been in the hands of the Chinese since the colonial times. By the fall of the Diệm regime in late 1963, almost all foreign companies associated with French colonialism had been placed under control of the Vietnamese authorities.

Strikingly, at the time the French companies began to move out of Vietnam, the Dutch were strengthening their economic position in Indonesia. Dutch installations still occupied by the Indonesians were returned to their owners shortly after the Transfer of Sovereignty. With the exception of the nationalization of the central bank and of a number of public utilities, no other significant transfers of ownership from Dutch to Indonesian hands took place in the early and mid-1950s. Between 1950 and 1957, Dutch firms continued to invest in Indonesia. Therefore, independent Indonesia was again teetering on the brink of the pitfall of being a colonial economy. Dutch firms and British and American multinationals controlled the modern sector, leaving indigenous Indonesians to engage in agriculture and handicrafts. The Chinese dominated internal trade and were also engaged in mining and industry. In a nutshell, foreign business in post-Independence Indonesia remained profitable. Up to 1957, profit remittances to the Netherlands from Indonesia were still large, enough to make a considerable contribution to the Dutch national income (Appendix, Table 14).

The Dutch predominance in large parts of the Indonesian economy was abruptly subject to a radical change in December 1957, when almost all Dutch-owned companies were taken over by the Indonesian trade unions, subsequently to be put under military supervision. They were officially nationalized by the Indonesian government in 1959. The oil company BPM and Unilever escaped nationalization saved by their dual nationality as Anglo-Dutch firms.

Unquestionably, tensions arising from the continued domination of the Dutch in the Indonesian economy were an important factor in forcing this catalyst, but the immediate reason lay in the protracted dispute between Indonesia and the Netherlands over the territory of West Irian. At the Round Table Conference in 1949, Dutch and Indonesian leaders had agreed that the political status of West Irian would be determined within one year from the date of Transfer of Sovereignty. But nothing was resolved and the matter just simmered on.

The next target of Indonesian economic nationalism was the Chinese, whose businesses were expropriated in the late 1950s and early 1960s. This time, the seizure was directly orchestrated by the Indonesian authorities, claiming exigent economic and political grounds or hiding behind the banner of protecting the interests of the Indonesian people. The more subtle motivation was exposed in the prohibition of the publication of Chinese-language newspapers in April 1958, and on various social organizations, charities, trade associations, schools, shops, banks, estates, notably mining companies run by the Chinese. They were either banned outright or put under control of the Indonesian government. In 1960, Chinese and other foreign nationals were barred from trading in rural areas. Just as the ethnic Chinese in South Vietnam, their compatriots in Indonesia were forced to sell their businesses in the countryside to local people. Large companies, such as the Oei Tiong Ham Concern, fell under direct control by the Indonesian government.

Between 1963 and 1965 the take-over of the British and American enterprises was pursued in conjunction with Soekarno's deflective Confrontation policy against imperialist and colonial powers, particularly the United States and Great Britain which were heavily involved in the formation of the Malaysian Federation and the escalating war in Vietnam. British estates, insurance companies, manufacturing enterprises and facilities of Shell were seized by trade unions in September 1963 and again January 1964. In November 1964, the Indonesian government officially declared that all British firms, with the exception of the Shell, would be placed under its control. In a similar move, in March 1965, American companies, including Stanvac and Caltex and a number of manufacturing firms, insurance companies and film import companies, were seized by trade unions. The Indonesian government officially stepped in on 24 April 1965 when President Soekarno decreed that all foreign enterprises were to be placed under government control, regardless of nationality. Until the restitution of most of British and American companies in the late 1960s, for the first time Indonesia was completely freed of foreign economic domination.

The implementation of the Presidential degree of 24 April 1965 marked the accomplishment of the Indonesian Nationalist struggle for economic sovereignty. The very radical ends to this struggle resembled the total liquidation of French business interests from North Vietnam after 1954. Nevertheless, it differed slightly from the situation in South Vietnam where rubber plantations and a small number of public enterprises still maintained in French hands and the Diệm government permitted a limited amount of new foreign investment. It can with justification be claimed that these rather trifling differences do not obscure the fact that the common goal of the Vietnamese and Indonesian leaders was to obtain a truly national economy, freed of control by foreign capital (on paper at least).

Another aspect of the economic struggles in Vietnam and Indonesia concerned the new national forms of economy established to replace their former colonial counterparts. As befitted colonial economies, the structures of the economy in French Indochina and colonial Indonesia were geared towards primary production rather than manufacturing. The majority of Dutch and French private investors were interested in the extraction of agriculture and mining products, and the colonies were regarded as a captive market outlets for manufactured goods from the metropolis. In both countries, internal trade was largely dominated by the Chinese. In the beginning, the Japanese occupation did bring some changes in the economic system of the Netherlands Indies and Indochina. Not only was there a transfer of economic power from Western companies and the Chinese to the Japanese, but the colonial economies were also diversified by the introduction of new crops and industries. Both the Netherlands Indies and Indochina grew less dependent on the world market.

A new national system of economy was introduced in Indonesia and Vietnam immediately after their Independence had been proclaimed in August and September 1945, respectively. The 1945 Constitution of the DRV favoured a moderate system of control, whereas the 1945 Constitution of the Republic of Indonesia stressed the importance of state control of the economy. It was strongly felt that important enterprises should be in the hands of the state. Private capital could participate in joint ventures and idealistic co-operatives, but would no longer wield the sceptre as it had done in the colonial era. Considering the financial and technical bottlenecks in the country compounded by the increasing Dutch military threat, this sought-after economic system faded into the realm of dreams. Bowing to reality, the pragmatic strategy adopted by the government in the late 1940s and the early 1950s was to accept the inevitable necessity of foreign control of large segments of the economy while the country settled down to pursue and nurture political Independence and economic development. Consequently, main features of the Dutch colonial economy remained largely intact in Indonesia in the immediate post-Independence period. State control was exercised only in the fields of supervision, co-operatives and the formation of a small number of state enterprises. Appeals from the Communist and various Nationalist parties asking for the nationalization of vital enterprises, which would make them state property, were consistently rejected by the Indonesian government.

The DRV government also exercised little intervention in the economy during the early years after Independence, with the exception of taking direct management of the defence industries and a number of enterprises manufacturing essential goods. Change began to infiltrate the system in 1951 when the Communist Party officially took over the policy making of the DRV. The principles of a socialist economy, akin to the socialist economic models implemented in China and the Soviet Union were gradually brought into effect in North Vietnam. Between December 1953 and July 1956 in particular, the Party carried out a radical land reform, which erased the former systems of land ownership in the Vietnamese countryside. Land reform was followed by collectivization campaigns, under which land was incorporated into agricultural production co-operatives. The ownership of land was vested in the hands of the state, which also took control of the agricultural output of the co-operatives and its distribution. The socialist transformation in industry, handicrafts and commerce began in late 1957 after short-term plans for economic reconstruction to repair the damage resulting from the protracted warfare had been largely completed. Former French companies were grouped into state enterprises and Vietnamese private firms were encouraged to co-operate with the government in the formation of joint enterprises or industrial co-operatives. By 1960, the socialist transformation in North Vietnam had by and large been completed and the Party-state had taken control of all the important means of production and distribution.

The economic re-organization in South Vietnam also led to a concentration of economic power in the hands of the new Vietnamese government. Diệm's *personalism* required every citizen to contribute part of his/her property to the government, although in principle it did recognize private property rights. The upshot was that, under land reform a larger part of confiscated land remained government owned, while a smaller part was allocated to peasants. As did the North, the Diệm government also encouraged peasants to participate in co-operates, but it took a slightly different tack. The co-operative campaigns in the South were conducted along more voluntary lines and the southern co-operatives enjoyed a greater autonomy from the central government. Moreover, the South Vietnam government did not take control of large rubber plantations, most of which were owned by the French and American firms. In the manufacturing sector, the government established new state-owned enterprises to purchase the majority of shares or even take full control of existing foreign companies. New foreign investment was only accepted in the form of joint ventures, in which the government held at least 51 per cent of equity. All banking tasks were placed under supervision of the government-owned National Bank of Vietnam. Diệm's economic philosophy, with its strong bias towards state ownership but eschewing the elimination of private participation, did not diverge greatly from many of the economic policies of the DRV in the early years after Independence and those of the

Republic of Indonesia in the late 1940s and the early 1950s. As a consequence of the excessive dependence of South Vietnam on military and financial aid from the United States, Diệm's economic nationalism was doomed to remain an illusion, the price of which was the collapse of the First Republican regime and the loss of his own life.

A radical change in the structure of the Indonesian economy occurred in the late 1950s and the early 1960s. It was characterized by the state taking the direct control and the management of the national economy under the policy of the Guided Economy. Following the reinstitution of the 1945 Constitution of the Republic of Indonesia, its economic principles were brought into effect without fear or favour. With the exception of a number of small estates and shops, which assigned to the private sector, large Dutch, Chinese, British and American enterprises were reorganized and incorporated into new state-owned enterprises. The management of these enterprises was entrusted to various government agencies, which were merged into the existing state enterprises. Major co-ordinating bodies included the *BP Bank2 Bank Belanda Pusat* (banking), BUD (trade), BAPPIT (manufacturing and mining), PPN (plantations) and BARPHAR (pharmacy). Each co-ordinating agency had a board of directors consisting of selected cabinet ministers, army officers and representatives of the Communist-led trade unions. Here it deviated from the situation in North Vietnam where the Party cadres took on full responsibility for the management of state enterprises and co-operatives. Moreover, whereas North and South Vietnam received aid from the Socialist bloc and capitalist countries, respectively, the Indonesian economy was increasingly geared towards self-reliance. The Indonesians did not intend to impose either Communism or Capitalism on their country.[8]They sought to build an Indonesian kind of Socialism, an economic model based on Soekarno's own ideologies. Despite their differences, Indonesian Socialism and its counterpart in North Vietnam displayed similarities in terms of the centrally planned administration of the national economy. After a period of divergent development in their

[8] Brian May, *The Indonesian Tragedy* (Singapore: Graham Brash, 1978) 411.

Nationalist struggles, in the early 1960s both the Indonesians and the Vietnamese obtained their primary goals of economic independence, by constructing a truly national economy. The ways in which they realized these goals had a tremendous effect on the stability of their regimes as well as the future development of their countries.

APPENDIX

Table 12: Main export items in Indonesia, 1948-1959 (Rp. million)

Items	**1938**	**1948**	**1949**	**1950**	**1951**	**1952**	**1953**	**1954**	**1955**	**1956**	**1957**	**1958**	**1959**
Rubber	156	256	349	1,284	2,483	4,833	3,080	3,013	4,888	4,028	3,983	2,987	4,758
Oil and oil products	163	260	412	557	703	2,181	2,292	2,580	2,421	2,561	3,677	3,219	2,637
Copra	39	157	156	219	524	921	728	657	483	513	486	239	363
Tin and Tin ore	35	148	169	185	308	982	926	700	683	725	619	431	408
Palm oil and palm kernels	19	48	102	113	160	358	380	345	305	346	347	314	273
Other products	275	171	293	596	729	1,377	1,938	2,465	1,840	1,875	880.8	1,421	1,505
Total	**687**	**1,040**	**1,478**	**2,954**	**4,908**	**10,651**	**9,344**	**9,759**	**10,620**	**10,048**	**11,052**	**8,611**	**9,944**

Source: De Javasche Bank, Laporan Tahun Pembukuan 1949/50, 1950/51; Report for the Financial Year 1952/53. Jakarta: G. Kolff, 1950, 1951, 1953; Bank Indonesia, Report for the Year 1954/55, 1956/57, 1958/59, 1959/60, Jakarta: G. Kolff: 1955, 1956, 1957, 1958, 1959, 1960, 1966.

Table 13: Revenue and expenditure of the Indonesian government, 1960 - 1965 (Rp. million)

	1960	1961	1962	1963	1964	1965
Expenditures (-)	62,156	97,798	116,819	334,467	669,995	1,749,812
Revenues (+)	49,877	66,000	77,205	153,303	199,987	821,250
Deficit (-)	12,279	31,798	39,614	181,164	470,008	928,562

Source: Bank Indonesia, *Report of Bank Indonesia for the financial year 1960-1965*, Jakarta: GITA KARYA, 1968, p.24.

Table 14: The contribution of Indonesia to the Dutch national income, 1954 - 1957 (million guilders)

	National income	Remittance from Indonesia	Share in national income
1954	24,310	1093	4.5
1955	26,850	1088	4.1
1956	28,560	945	3.3
1957	30,520	882	2.9

Source: *Het economisch belang van Indonesië voor Nederland in 1957*, EZ, inventory number 127.

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SUMMARY

This study discusses the transformation from a colonial into a national economy in Indonesia and Vietnam. It focuses on two intertwined processes of economic decolonization and reconstruction in the two countries after the Second World War, paying special attention to political and institutional factors involved in these processes. The study demonstrates that, although differences in the political situations resulted in the adoption of divergent strategies, the Vietnamese and Indonesian leadership were in fact pursuing similar long-term goals, namely: achieving economic independence. The Indonesian government was determined to get rid of the economic legacy of Dutch colonialism by placing the whole economy under the strong state control and ownership, in accordance with the spirit of Guided Democracy and Guided Economy in the late 1950s and the early 1960s. This effort resembled much the socialist transformation of North Vietnam in the 1950s and the various means by which the government of South Vietnam concentrated economic power in its hands during the late 1950s and the early 1960s.

The study first concentrates on major differences to the political and institutional framework of Indonesia and Vietnam immediately after Independence. Indonesian leaders were mainly Nationalists who were affiliated with various political parties. Many of them had served in the Dutch colonial authority and the Japanese administration and therefore had an extensive knowledge and experience in the field of economic management. By contrast, the majority of members of the government of the Democratic Republic of Vietnam (DRV) were revolutionary leaders adhering to Marxist ideology. In 1951, the Vietnamese Communist Party officially declared its leadership of the country, leading inexorably to a 'partification' of the state. The intrusion of the Party members into the state apparatus was accelerated in North Vietnam after 1954,

and by 1960, the Party had gained control of most important positions in the DRV government. Even if the Vietnamese Nationalists obtained important positions in the DRV government in the early months after Independence, they were soon eliminated only to re-emerge again in South Vietnam after the partition of the country as a result of the Geneva Agreement in 1954.

The differences in political and professional backgrounds of the leadership of Indonesia and Vietnam had a great impact on the process of economic decolonization in the two countries. Highly aware of Dutch concerns about the future of their economic interests in Indonesia, the Indonesian leaders sought to achieve Dutch recognition of Indonesian sovereignty by economic concessions. The Indonesian pragmatic policy resulted in the agreements reached at the Round Table Conference in November 1949. Indonesia was at long last granted its Transfer of Sovereignty from the Netherlands on 27 December 1949.

The Vietnamese leaders had also tried to prevent war by diplomatic negotiation. Economic concessions made by Hồ Chí Minh to the French in the *Modus Vivendi* of 14 September 1946 were similar to those made by the Indonesian leaders to the Dutch in the Linggadjati Agreement in 1947 and the Finec Agreement in 1949, with the exception of the stipulations about Indonesian debt obligations. The aggression of French officials in Vietnam, who were determined to break off relations with the Communist-controlled Vietnamese government, frustrated the efforts to reach a peaceful settlement by President Hồ Chí Minh and the top leaders of the French government in Paris.

Following the pattern of the steady expansion of Việt Minh-controlled territories in the early 1950s, French mines and factories in North Vietnam gradually fell into the hands the Việt Minh and industrial installations in the cities as well as the rubber plantations in South Vietnam were under constant attack. Under such unfavourable conditions, French companies thought it expedient to withdraw their operations from Vietnam. The withdrawal of the French business from Vietnam began in 1948 and became the prevailing tendency in the early 1950s. Banking corporations and manufacturing firms gradually transferred their business to other French colonies or back to France. The remaining French firms in North Vietnam moved to the South after the implementation of the Geneva Agreement in 1954-1955. The southwards evacuation of the French was accompanied by the emigration of Chinese and Vietnamese Roman Catholics.

The economic position of the French and the Chinese in South Vietnam was soon challenged by Diệm's policies of economic nationalism. During the land reform promulgated in late 1956, major French rice plantations were transferred to Vietnamese ownership. By imposing restrictive administrative measures, Diệm's government forced the French companies to liquidate their businesses to Vietnamese. By the fall of the Diệm regime in November 1963, almost all foreign companies associated with French colonialism had been placed under control of the Vietnamese authorities.

Strikingly, at the time the French companies began to move out of Vietnam, the Dutch held on to their economic position in Indonesia. The Dutch predominance in the Indonesian economy only became subject to a radical change in December 1957, when almost all Dutch-owned companies were taken over by the Indonesian trade unions and the military. They were officially nationalized by the Indonesian government in 1959. The takeover of the British and American enterprises took place between 1963 and 1965 in conjunction with Soekarno's defective Confrontation policy. On 24 April 1965, President Soekarno officially decreed that all foreign enterprises were to be placed under government control. Indonesia was completely freed of control by foreign capital for the first time.

Another aspect of the economic struggles in Vietnam and Indonesia concerned the new national forms of economy that were established to replace their former colonial counterparts. The 1945 Constitution of the Republic of Indonesia stressed the importance of state control of the economy, but this desired economic system faded into the realm of dreams. The Indonesian pragmatic strategy in the late 1940s and the early 1950s was to accept the inevitable necessity of foreign control over large segments of the economy in pursue of political independence and economic development. Consequently, main features of the Dutch colonial economy remained largely intact in Indonesia in the immediate post-Independence period. State control was exercised only in the fields of supervision, co-operatives and the formation of a small number of state enterprises.

The 1945 Constitution of the DRV favoured a moderate system of state control. The DRV government initially exercised little intervention in the economy during the early years after Independence. Change began to infiltrate the system in 1951 when the Communist Party officially took over the policy making of the DRV. The principles of a socialist economy were gradually brought into effect in North Vietnam. Between December 1953 and July 1956, the Party carried out a radical land reform, which erased the former systems of land ownership in the Vietnamese countryside. Land reform was followed by collectivization campaigns, under which land was incorporated into agricultural production co-operatives. The socialist transformation in industry, handicrafts and commerce began in late 1957. By 1960, the socialist transformation in North Vietnam had by and large been completed and the Party-state had taken control of all the important means of production and distribution. The economic re-organization in South Vietnam also led to a concentration of economic power in the hands of the Diệm government. Under land reform a larger part of confiscated land became government owned. The government established new state-owned enterprises to purchase the majority of shares or even take full control of existing foreign companies. New foreign investment was only accepted in the form of joint ventures, in which the government held at least 51 per cent of equity.

A radical change in the structure of the Indonesian economy occurred in the late 1950s and the early 1960s. It was characterized by the state taking the direct control and management of the national economy under the policy of the Guided Economy. Following the reinstitution of the 1945 Constitution of the Republic of Indonesia in July 1959, its radical economic principles were brought into effect. The management of foreign enterprises was entrusted to various government agencies, whose board of directors consisted of selected cabinet ministers, army officers and representatives of the Communist-led trade unions. This was different from the situation in North Vietnam where the Party cadres took on full responsibility for the management of state enterprises and co-operatives. Moreover, whereas North and South Vietnam received aid from the Socialist bloc and capitalist countries, respectively, the Indonesian economy was increasingly geared towards self-reliance. Soekarno sought to build an Indonesian kind of Socialism, or the so-called '*Socialism à la Indonesia*'. Despite their differences, Indonesian Socialism and its counterpart in North Vietnam displayed similarities in terms of the centrally planned administration of the national economy. Here, the Indonesians and the Vietnamese at long last obtained their primary goals of economic nationalism. All principles of their former colonial economies were abandoned and a truly national economy was constructed in the two countries. Although the price for this economic transformation was high, the achievement of independence in their economic affairs had laid foundation for the development of Indonesia and Vietnam in the subsequent periods.

SAMENVATTING

Deze studie betreffende de overgang van de koloniale naar de nationale economieën van Indonesië en Vietnam analyseert de processen van economische dekolonisatie en wederopbouw die na de Tweede Wereldoorlog in beide landen plaatsvonden. Bijzondere aandacht krijgen de politieke en institutionele factoren die hierbij een rol speelden. Ondanks grote verschillen in de lokale politieke situaties, streefden het Vietnamese en het Indonesische leiderschap in feite het zelfde lange termijn doel na: economische onafhankelijkheid. Het Indonesische streven om zich van de koloniale economische erfenis te ontdoen en de gehele economie onder staatscontrole en –eigendom te plaatsen, leek in menig opzicht op de socialistische transformatie die in Noord Vietnam in de 50-er jaren plaatsvond, en op de hoge concentratie van economische macht die de regering van Zuid Vietnam in dezelfde periode naar zich toe trok.

Het proefschrift richt zich in eerste instantie op de grote verschillen in de politieke en institutionele kaders van Indonesië en Vietnam onmiddellijk na de onafhankelijkheid. De Indonesische leiders waren nationalisten die aan verscheidene politieke partijen waren verbonden. Velen van hen hadden onder Nederlands en Japans bestuur gediend en bezaten een uitgebreide kennis en ervaring op het gebied van economisch beheer. Daartegenover bestond de meerderheid van de leden van de Democratische Republiek Vietnam (DRV) uit revolutionaire leiders die de communistische ideologie aanhingen. Het penetreren van deze partijleden in het staatsapparaat versnelde na 1954, en in 1960 had de Partij de belangrijkste posities verworven in de DRV-regering. Een deel van de Vietnamese nationalisten die snel uit het bestuur waren weggewerkt, dook opnieuw op in Zuid Vietnam na de deling van het land als gevolg van het Akkoord van Geneve in 1954.

Het verschil in politieke en professionele achtergronden van de leiders van Indonesië en Vietnam had grote gevolgen voor het proces van economische dekolonisatie in beide landen. Aanvankelijk probeerden de Indonesische leiders erkenning te krijgen van Nederland door economische concessies te doen. Het Indonesische pragmatische beleid leidde tot de overeenkomsten die bereikt werden bij de Ronde Tafel Conferentie in november 1949.

In feite waren de economische concessies die Hồ Chí Minh deed aan de Fransen in de *Modus Vivendi* van 14 september 1946 vergelijkbaar met die van de Indonesische leiders hadden gedaan, met uitzondering van de bepalingen aangaande de schuldverplichtingen. Toen de onderhandelingen met de Fransen toch mislukten en het in december 1946 op een oorlog uitliep, veranderde het beleid van de DRV met betrekking tot de Franse bedrijven radicaal. Naast militaire operaties, organiseerde de Việt Minh ook sabotage campagnes gericht tegen de Franse economische vestigingen. Onder deze ongunstige omstandigheden vonden de Franse bedrijven het raadzaam om zich met hun activiteiten uit Vietnam terug te trekken. Dit proces begon in 1948 en werd een heersende tendens aan het begin van de 50er jaren. Banken en industriële ondernemingen werden geleidelijk verplaatst naar andere Franse koloniën of terug naar Frankrijk.

In Zuid Vietnam werd de economische positie van de Fransen en de Chinezen al gauw bedreigd door het nationalistische beleid van Ngô Đình Diệm. Tijdens de landhervorming uitgevaardigd aan het eind van 1956, gingen de grote Franse rijstplantages over naar de Zuid Vietnamezen. Toen de regering van Diệm ten val kwam in 1963, waren bijna alle buitenlandse bedrijven die deel hadden uitgemaakt van de Franse kolonisatie, al in beheer genomen door de Vietnamese autoriteiten.

Opvallend is dat de Nederlanders nog lang vasthielden aan hun economische positie terwijl de Franse bedrijven zich uit Vietnam begonnen te vertrekken. De

Nederlandse overheersing over de Indonesische economie kwam pas ten einde in 1957, toen bijna alle Nederlandse bedrijven werden bezet door de vakbonden en de militairen. Nationalisering door de Indonesische regering volgde in 1959. De etnisch Chinese minderheid werd het volgende doelwit van het Indonesische nationalisme. In 1960 werden Chinezen en andere buitenlanders buitengesloten van handel op het platteland. De overname van Engelse en Amerikaanse bedrijven vond plaats tussen 1963 en 1965 in het kader van Soekarno's Confrontatie politiek. Op 24 april 1964 plaatste President Soekarno alle buitenlandse bedrijven onder regeringstoezicht.

Een ander aspect van de economische strijd in Vietnam en Indonesië betreft de nationalisering van de economie. De grondwet van de Indonesische republiek van 1945 benadrukte het belang van staatscontrole van de economie, maar aanvankelijk werd staatstoezicht slechts uitgevoerd op coöperaties en de oprichting van kleine staatsbedrijven. Ook de DRV regering intervenieerde weinig in de economie tijdens de beginjaren van de onafhankelijkheid. Veranderingen drongen pas door in het systeem in 1951 toen de communistische partij officieel de beleidsvorming overnam van de DRV. Tussen december 1953 en juli 1956 voerde de partij een radicale landhervorming uit, die alle voorafgaande systemen van grondbezit wegvaagde op het Vietnamese platteland. Landhervorming werd gevolgd door collectiviseringscampagnes, waarmee al het land ingelijfd werd in landbouw productie coöperaties. De socialistische overgang in de industrie, ambacht en handel begon in laat 1957. Rond 1960 was dit proces in Noord Vietnam in grote lijnen volbracht en was het beheer over alle belangrijke middelen van productie en distributie in handen van de partijstaat terecht gekomen.

De economische reorganisatie in Zuid Vietnam leidde ook tot een concentratie van economische macht in handen van de Diệm regering. Bij de landhervorming werd een groot deel van het onteigende land eigendom van de staat. De regering richtte nieuwe staatsbedrijven op om de meerderheid van aandelen te kopen of zelfs het volledig beheer van bestaande buitenlandse bedrijven in handen te krijgen. Nieuwe buitenlandse investeringen werden slechts geaccepteerd in de vorm van joint ventures, waarin de regering minstens 51 procent van het vermogen bezat.

De radicale verandering in de structuur van de Indonesische economie vond pas eind jaren 50 plaats, toen de staat onder het motto van 'Geleide Economie' rechtstreeks controle ging uitoefenen over de nationale economie. Met uitzondering van een aantal kleine landgoederen en winkels in de privé sector werden grote Nederlandse, Chinese, Engelse en Amerikaanse bedrijven gereorganiseerd en ingelijfd in staatsbedrijven. Het management van deze bedrijven werd toevertrouwd aan verschillende regeringsinstanties met een raad van beheer bestaande uit geselecteerde kabinetministers, legerofficieren en vertegenwoordigers van de Communistische vakbonden. Dit verschilde aanmerkelijk met de situatie in Noord Vietnam waar de partijkaders de volle verantwoordelijkheid namen voor het management van staatsbedrijven en coöperaties. Terwijl Noord en Zuid Vietnam werden gesteund door respectievelijk het Socialistische blok en de kapitalistische landen, moest de Indonesische economie op eigen benen leren staan. Soekarno probeerde daarbij een eigen Indonesische Socialisme op te bouwen, het zogenaamde '*Socialism à la Indonesia*'. Ondanks verschillen vertoonden het Indonesische Socialisme en zijn tegenhanger in Noord Vietnam overeenkomsten op het vlak van de centraal geplande administratie van de nationale economie. Nu afscheid was genomen van alle principes van de koloniale economie, kwam in beide landen een ware nationale economie tot stand.

RINGKASAN

Studi ini membahas transformasi sebuah ekonomi kolonial menjadi ekonomi nasional di Indonesia dan Vietnam. Ia terfokus pada dua proses: dekolonisasi dan rekonstruksi ekonomi yang saling terkait satu sama lain di kedua negara tersebut sesudah Perang Dunia Kedua, dengan memberikan perhatian khusus pada faktor-faktor politik dan institusional yang terlibat dalam proses-proses tersebut. Kajian ini menunjukan bahwa, meskipun berbagai perbedaan situasi politik yang menyebabkan perbedaan strategi yang diambil, para pemimpin Vietnam dan Indonesia pada dasarnya berusaha mencapai tujuan jangka panjang yang sama, yaitu: tercapainya nasionalisme ekonomi. Keinginan Indonesia untuk menyingkirkan warisan ekonomi kolonialisme Belanda dan menempatkan seluruh perekonomian di bawah kontrol dan kepemilikan negara yang kuat, sesuai dengan semangat Demokrasi Terpimpin dan Ekonomi Terpimpin pada akhir 1950an hingga awal 1960an, menyerupai transformasi sosialis di Vietnam Utara pada tahun 1950an dan konsentrasi kekuatan ekonomi di tangan pemerintah di Vietnam Selatan pada akhir 1950an dan awal 1960an.

Pertama-tama, studi ini berkonsentrasi pada perbedaan-perbedaan besar dalam kerangka politik dan institusional Indonesia dan Vietnam sesaat setelah keduanya memperoleh kemerdekaan. Para pemimpin Indonesia utamanya adalah kalangan nasionalis yang berafiliasi dengan berbagai partai politik. Banyak diantara mereka pernah bekerja di dalam lingkaran pemerintahan kolonial Belanda dan Jepang sehingga memiliki pengetahuan dan pengalaman yang luas di bidang pengelolaan ekonomi. Sebaliknya, mayoritas anggota pemerintahan Republik Demokratik Vietnam (Democratic Republic of Vietnam - DRV) adalah pemimpin-pemimpin revolusioner yang menganut ideologi komunis. Pada tahun

1951, Partai Komunis Vietnam mendeklarasikan secara resmi para pemimpin negerinya, sehingga kemudian mengakibatkan terjadinya sebuah 'peleburan' (*pertification*) negara. Penyusupan anggota-anggota partai ke dalam berbagai aparat negara terjadi dengan cepat di Vietnam Utara sesudah tahun 1954, dan pada tahun 1960, Partai ini berhasil menguasai sebagian besar posisi penting di dalam pemerintahan DRV. Kalangan nasionalis Vietnam juga memperolah posisi-posisi penting di dalam pemerintahan DRV pada bulan-bulan awal sesudah kemerdekaan. Namun demikian, mereka segera tersingkirkan dan baru kemudian muncul kembali sebagai kekuatan politik di Vietnam Selatan setelah terjadinya pembagian negara sebagai akibat dari Persetujuan Jenewa (*Geneva Agreement*) tahun 1954.

Perbedaan-perbedaan latar belakang politik dan professional di dalam kepemimpinan Indonesia dan Vietnam berdampak besar pada proses dekolonisasi ekonomi di kedua negara. Menyadari kekhawatiran Belanda akan masa depan kepentingan-kepentingan ekonominya di Indonesia, para pemimpin Indonesia berupaya memperoleh pengakuan Belanda terhadap kedaulatan Indonesia melalui konsesi-konsesi ekonomi. Perusahaan-perusahaan Belanda yang dirampas dari Jepang oleh pemerintah Indonesia selama bulan-bulan awal sesudah kemerdekaan dikembalikan kepada para pemiliknya semula secara bertahap. Kebijakan pragmatis Indonesia ini, tidak bisa dipungkiri dibantu oleh tekanan Amerika yang secara jitu berhasil memaksa pemerintah Belanda, yang dihasilkan melalui kesepakatan yang dicapai pada Konferensi Meja Bundar pada bulan November 1949. Setelah menunggu sekian lama, Indonesia akhirnya memperoleh Transfer Kedaulatan dari Belanda pada tanggal 27 Desember 1949.

Faktanya, pemimpin-pemimpin Vietnam juga berusaha untuk mencegah perang melalui negosiasi diplomatik. Konsesi-konsesi ekonomi yang dibuat oleh Hồ Chí Minh dengan Prancis dalam Modus Vivendi 14 September 1946 adalah mirip dengan apa yang dibuat pemimpin-pemimpin Indonesia dengan Belanda dalam Perjanjian Linggadjati pada tahun 1947 dan Perjanjian Finec pada tahun 1949, kecuali butir-butir ketentuan mengenai kewajiban hutang Indonesia. Agresi pejabat-pejabat Prancis di Vietnam, yang menginginkan untuk memutuskan hubungan dengan pemerintah Vietnam yang dikuasai kalangan Komunis, mementahkan upaya-upaya untuk mencapai sebuah kesepakatan damai dengan Presiden Hồ Chí Minh dan pemimpin-pemimpin utama pemerintah Prancis di Paris. Ketika perang akhirnya meletus pada Desember 1946, kebijakan pemerintah DRV berkenaan dengan bisnis-bisnis Prancis mengalami perubahan radikal. Selain melancarkan operasi militer, Việt Minh juga mengorganisir berbagai kampanye sabotase dengan target utama menghancurkan instalasi-instalasi ekonomis milik Prancis.

Perusahaan-perusahaan Prancis di Vietnam mengalami kerusakan parah selama kampanye sabotase ekonomi yang dilancarkan oleh Việt Minh tersebut. Seiring perluasan wilayah yang dikontrol oleh Việt Minh pada awal 1950an, tambang-tambang dan pabrik-pabrik Prancis di Vietnam Utara secara bertahap jatuh ke tangan Viet Min dan instalasi-instalasi industri di kota-kota, seperti halnya perkebunan-perkebunan karet di Vietnam Selatan, juga terus mengalami serangan. Dalam kondisi yang tidak menguntungkan tersebut, perusahaan-perusahaan Prancis mulai mempertimbangkan pilihan untuk menghentikan operasinya dan menarik diri dari Vietnam. Penarikan bisnis Prancis dari Vietnam dimulai pada tahun 1948 dan menjadi kecenderungan umum pada awal 1950an. Korporasi perbankan dan perusahaan-perusahaan manufaktur secara bertahap mulai mentransfer bisnis mereka ke koloni-koloni Pernacis lainnya atau ke Prancis. Perusahaan-perusahaan Prancis yang tersisa di Vietnam Utara berpindah ke Selatan sesudah ditandatanginya Perjanjian Jenewa tahun 1954-1955. Evakuasi orang-orang Prancis ke wilayah selatan disertai oleh emigrasi orang-orang Cina dan oang-orang Vietnam penganut Katolik Romawi.

Posisi ekonomis Prancis dan Cina di Vietnam Selatan tergusur oleh kebijakan-kebijakan nasionalisme yang dikeluarkan oleh Diệm. Selama pelaksanaan reformasi tanah yang dimulai tahun 1956, perkebunan-perkebunan beras utama Perancis diambilalih kepemilikannya ke tangan orang Vietnam. Dengan menerapkan langkah-langkah administratif, pemerintahan Diệm memaksa perusahaan-perusahaan Prancis untuk menutup usahanya bagi orang Vietnam. Pengusaha Prancis diijinkan untuk memelihara kepemilikan mereka atas perkebunan-perkebunan karet, karena meroketnya saham nilai komoditas karet dalam nilai pendapatan ekspor dan karena kurangnya dana untuk memberikan kompensasi kepada para pemilik Prancis tersebut. Pengambilalihan kepentingan ekonomi Cina dilakukan dengan cara memaksa semua orang Cina kelahiran Vietnam untuk mencabut kewarganegaraan Vietnam-nya. Selain itu, orang-orang berkebangsaan asing juga dilarang bekerja di sejumlah profesi, yang sudah dikuasai oleh orang-orang Cina sejak zaman kolonial. Pada saat rejim Diệm jatuh pada November 1963, hampir semua perusahaan yang diasosiasikan dengan kolonialisme Prancis telah berada di bawah penguasaan otoritas Vietnam.

Menariknya, pada saat perusahaan-perusahaan Prancis mulai berpindah ke luar Vietnam, Belanda justru tengah memperkuat posisi ekonominya di Indonesia. Instalasi-instalasi Belanda yang diduduki oleh orang Indonesia dikembalikan kepada para pemiliknya sesaat setelah dilakukannya Penyerahan Kedaulatan. Kecuali nasionalisasi bank sentral dan sejumlah fasilitas publik lain, tidak ada transfer kepemilikan yang signifikan dari Belanda ke Indonesia di awal tahun 1950an. Dominasi Belanda dalam perekonomian Indonesia mulai mengalami perubahan radikal pada bulan Desember 1957, ketika hampir seluruh perusahaan milik orang Belanda diambil alih oleh organisasi-organisasi Serikat Dagang Indonesia dan militer. Mereka semua dinasionalisasi secara resmi pada tahun 1959 oleh pemerintah Indonesia. Perusahaan minyak BPM dan Unilever lolos dari nasionalisasi disebabkan oleh status nasionalitasnya yang ganda sebagai perusahan Inggris-Belanda (*Anglo-Dutch*). Cina menjadi target berikutnya dari nasionalisme ekonomi Indonesia. Di akhir tahun 1950an, berbagai organisasi sosial, asosiasi dagang, sekolah, toko, bank, perusahaan perkebunan dan pertambangan milik orang Cina dilarang beroperasi atau berada di bawah kontrol pemerintah Indonesia. pada tahun 1960, orang Cina dan bangsa asing lainnya dicekal dari perdagangan di wilayah pedesaan. Sebagaimana etnik Cina di Vietnam Selatan, saudara-saudara mereka di Indonesia juga dipaksa untuk menjual bisnis mereka di pedasaan kepada penduduk setempat. Perusahaan-perusahaan besar, seperti Oei Tiong Ham Concern, jatuh di bawah penguasaan langsung pemerintah Indonesia.

Penyitaan perusahaan-perusahaan Inggris dan Amerika terjadi antara 1963 dan 1965 bersamaan dengan kebijakan konfrontatif Soekarno terhadap imperialis dan kekuatan-kekuatan kolonial, terutama Amerika Serikat dan Inggris, yang terlibat langsung dalam pembentukan Federasi Malaysia dan meluasnya perang di Vietnam. Perkebunan-perkebunan Inggris, perusahaan asuransi, perusahaan manufaktur, dan fasilitas-fasilitas Shell disita oleh serikat-serikat dagang di akhir 1963 hingga awal 1964. Pada Maret 1965, perusahaan-perusahaan Amerika, termasuk dua perusahaan minyak terkemuka, Stanvac dan Caltex, perusahaan-perusahaan manufaktur dan asuransi juga disita oleh serikat–serikat dagang. Pada April 1965, Presiden Soekarno memutuskan secara resmi bahwa semua perusahaan asing akan diletakan di bawah pengawasan pemerintah. Hingga penyerahan sebagian besar perusahaan Inggris dan Amerika di akhir tahun 1960an, untuk pertama kalinya Indonesia terbebas dari kontrol modal asing.

Aspek lain dari perjuangan ekonomi di Vietnam dan Indonesia berkenaan dengan pencarian bentuk baru perekonomian nasional yang dibangun untuk menggantikan ekonomi kolonial sebelumnya. Undang-undang Dasar Republik Indonesia tahun 1945 menekankan pentingnya kontrol negara terhadap ekonomi. Namun demikian, hambatan-hambatan finansial dan teknis yang dihadapi negeri ini yang muncul akibat meningkatnya ancaman militer Belanda, telah membuat sistem ekonomi yang diinginkan tersebut harus berhenti di tingkat impian semata. Indonesia harus mengadopsi kebijakan pragmatis di akhir tahun 1940an dan di awal tahun 1950an, yaitu dengan mengakui makna penting kontrol kekuasaan asing atas sebagian besar perekonomian demi menggapai kemerdekaan politik dan pembangunan ekonomi. Akibatnya, ciri-ciri utama dari perekonomian kolonial Belanda di Indonesia tetap bertahan kokoh selama periode sesaat sesudah kemerdekaan. Kontrol negara hanya bisa dicapai pada tingkat pengawasan, kerjasama dan dalam pembentukan sejumlah kecil perusahaan.

Sebaliknya, Undang-Undang DRV tahun 1945 memungkinkan terwujudnya sebuah sistem kontrol negara yang moderat. Pemerintah DRV memiliki kewenangan untuk melakukan sedikit intervensi dalam perekonomian selama tahun-tahun awal sesudah kemerdekaan. Perubahan mulai menyentuh sistem ini pada tahun 1951 ketika Partai Komunis mengambil alih secara resmi proses pembuatan kebijakan di DRV. Prinsip-prinsip sebuah perekonomian sosialis secara perlahan mulai bekerja di Vietnam Utara. Antara Desember 1953 dan Juli 1956, Partai Komunis melaksanakan kebijakan reformasi tanah (*landreform*) radikal, yang menghapus sistem kepemilikian tanah yeng berlaku sebelumnya di pedesaan Vietnam. Reformasi tanah tersebut segera diikuti oleh kampanye-kampanye kolektivisasi, yang menentukan bahwa tanah digabungkan ke dalam koperasi produksi pertanian. Hak kepemilikan tanah berada di tangan negara, yang juga mengambilalih hasil-hasil pertanian dari koperasi ini beserta distribusinya. Transformasi sosialis di bidang industri, kerajinan tangan dan perdagangan dimulai pada akhir tahun 1957. Bekas perusahaan-perusahaan Prancis digabungkan kedalam perusahaan-perusahaan negara dan perusahaan-perusahaan swasta Vietnam dianjurkan untuk bekerjasama dengan pemerintah untuk membentuk perusahaan bersama atau koperasi industrial. Pada tahun 1960, transformasi sosialis di Vietnam Utara sebagian besar telah berakhir dan Partai – negara telah mengambilalih kontrol atas semua alat-alat produksi dan distribusi yang penting. Reorganisasi ekonomis di Vietnam Selatan juga menghasilkan suatu konsentrasi kekuasaan ekonomis di tangan pemerintahan Diệm. Di bawah program reformasi tanah sebagian besar tanah yang disita menjadi milik negara. Pemerintah mendirikan perusahaan-perusahaan milik negara untuk meraih mayoritas saham atau bahkan meraih kontrol penuh atas semua perusahaan asing yang ada. Investasi asing yang baru hanya bisa diterima dalam bentuk usaha bersama, yang didalamnya pemerintah menguasai setidaknya 51 persen equitas.

Perubahan radikal dalam struktur perekonomian Indonesia terjadi pada akhir 1950an dan awal 1960an. Perubahan itu ditandai dengan Negara mengambil alih kontrol langsung dan manajemen perekonomian nasional melalui kebijakan Ekonomi Terpimpin. Seiring dengan diberlakukannya kembali Undang-Undang Republik Indonesia Tahun 1945 pada bulan Juli 1959, maka prinsip-prinsip ekonomi radikal pun turut diterapkan. Dengan pengecualian sejumlah kecil perkebunan dan toko milik swasta, perusahaan-perusahaan besar milik Belanda, Cina, Inggris, dan Amerika direorganisasi dan digabungkan ke dalam perusahaan-perusahaan baru milik negara. Manajemen perusahaan-perusahaan tersebut dipercayakan kepada sejumlah agensi pemerintahan, yang dewan direkturnya seringkali terdiri dari menteri-menteri kabinet, pejabat militer, dan perwakilan dari serikat dagang pimpinan Partai Komunis. Ini berbeda dengan situasi di Vietnam Utara, di mana kader-kader partai bertanggung jawab penuh atas manajemen perusahaan-perusahaan dan koperasi-koperasi. Selain itu, sementara Vietnam Utara dan Selatan yang masing-masing menerima bantuan dari blok Sosialis dan negara-negara kapitalis, ekonomi Indonesia diarahkan menuju kemandirian. Soekarno berupaya membangun sejenis sosialisme Indonesia, "*Sosialisme ala Indonesia"*. Meskipun memiliki perbedaan, Sosialisme Indonesia dan tetangganya di Vietnam Utara menunjukan sejumlah persamaan dalam hal perencanaan administrasi ekonomi nasional yang terpusat atau sentralistik. Pada titik inilah, pada akhirnya Indonesia dan Vietnam mampu mencapai tujuan-tujuan nasionalisme ekonomi mereka. Semua prinsip dasar perekonomian kolonial yang berlaku sebelumnya mereka tinggalkan dan sebuah perekonomian nasiona benar-benar dibangun di kedua negara. Walaupun harga untuk transformasi ekonomi ini sangat tinggi, pencapaian kemerdekaan dalam persoalan-persoalan ekonomis telah meletakan fondasi yang kuat bagi perkembangan Indonesia dan Vietnam di periode-periode selanjutnya.