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## 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.<sup>1</sup> 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.<sup>2</sup> Similar statements can also be found in the speech by Prime Minister Phạm Văn Đồng when he received President Soekarno in June 1959<sup>3</sup> or the addresses by the

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<sup>1</sup> *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.

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

<sup>3</sup> Soekarno, *Presiden Repoeblík 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.<sup>4</sup>

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.<sup>5</sup> Hans Antlöv and Stein Tønnesson have carried out a joint project comparing the immediate post-war years in Vietnam, Indonesia and Malaysia.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> Other scholars engaging in research on Indonesia and Vietnam have principally been

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<sup>4</sup> 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.

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

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup> 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.<sup>11</sup>

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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<sup>9</sup> 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).

<sup>10</sup> 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).

<sup>11</sup> 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.<sup>12</sup> 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

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<sup>12</sup> 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’<sup>13</sup>, 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”.’<sup>14</sup> 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.’<sup>15</sup> 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.<sup>16</sup>

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<sup>13</sup> Stein Rokkan, ‘Comparative cross-national research; the context of current efforts’, Richard L. Merritt and Rokkan (eds), *Comparing nations; The use of quantitative data in cross-national research* (New Haven: Yale University press, 1966), 19-20.

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

<sup>15</sup> Heinz-Gerhard Haupt and Jürgen Kocka, *Comparative and transnational history*, 5.

<sup>16</sup> 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.<sup>17</sup> 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).

<sup>17</sup> 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 United 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.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup> 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.<sup>21</sup> This

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<sup>18</sup> 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.

<sup>19</sup> 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: McGill-Queen's 1992) 168.

<sup>20</sup> *Penempatan semua perusahaan asing di Indonesia yang tidak bersifat domestik 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.

<sup>21</sup> De Javasche Bank, *Laporan tahun pembukuan 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.<sup>22</sup> 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.<sup>23</sup> 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.<sup>24</sup> 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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<sup>22</sup> 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.

<sup>23</sup> Department of Information RI, *Constitution of the Republic of Indonesia* (Jakarta: JAPENPA, 1945) see Article 33.

<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup>

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 *Finrec* 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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<sup>25</sup> 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.

<sup>26</sup> 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.<sup>27</sup> 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.<sup>28</sup>

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.<sup>29</sup> Although Glassburner does not label the latter, they have been referred to as ‘history-minded’ group by Benjamin Higgins<sup>30</sup> or the ‘solidarity makers’ by Herbert Feith.<sup>31</sup> The opposition group steadily gained political power and eventually defeated the pragmatic-conservative intellectuals in late 1956 and 1957.<sup>32</sup> 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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<sup>27</sup> Anne Booth, *The Indonesian economy in the nineteenth and twentieth centuries; A history of missed opportunities* (London: Macmillan 1998) 173.

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

<sup>29</sup> Glassburner, ‘Economic policy-making in Indonesia’, 71, 73.

<sup>30</sup> 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.

<sup>31</sup> ‘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.

<sup>32</sup> 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.'<sup>33</sup>

'*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*).<sup>34</sup> 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.<sup>35</sup> 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

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

<sup>34</sup> Soekarno, *Berdiri diatas kaki sendiri* (Berdikari); *Amanat politik* (Jakarta: B.P. Prapantja, 1965)

<sup>35</sup> 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’.<sup>36</sup> Nevertheless, this argument, intended to apply to all Southeast Asian countries, does not seem to fit the case of Vietnam prior to 1954.<sup>37</sup> 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.<sup>38</sup> 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.<sup>39</sup> 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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<sup>36</sup> Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 439.

<sup>37</sup> 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.

<sup>38</sup> 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

<sup>39</sup> 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.<sup>40</sup> 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, Haji Agus Salim, stated that the Indonesian revolution had not yet entered its economic phase.<sup>41</sup> 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.<sup>42</sup> 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

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<sup>40</sup> 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)

<sup>41</sup> Higgins, *Indonesia’s stabilization and development*, 102.

<sup>42</sup> Lindblad, *Bridges to new business*, 2.

conclusion in 1959 when the Dutch enterprises were nationalized.<sup>43</sup> 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.<sup>44</sup>

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<sup>43</sup> Lindblad and Peter Post (ed.), *Indonesian economic decolonization*, 2.

<sup>44</sup> 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.<sup>45</sup> 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.<sup>46</sup> 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

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<sup>45</sup> Lindblad, *Bridges to new business*, 3.

<sup>46</sup> Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 2-6.



functions performed by nationals'.<sup>47</sup> 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.<sup>48</sup>

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.<sup>49</sup> 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.<sup>50</sup> 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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<sup>47</sup> 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.

<sup>48</sup> Harry G. Johnson, 'A theoretical model of economic nationalism in new and developing states', in: Johnson (ed.), *Economic nationalism*, 10-13.

<sup>49</sup> Johnson, 'A theoretical model of economic nationalism', 12.

<sup>50</sup> 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.<sup>51</sup> 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.<sup>52</sup> 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.<sup>53</sup> 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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<sup>51</sup> 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)

<sup>52</sup> 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).

<sup>53</sup> 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.<sup>54</sup>

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-archieff*, 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

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<sup>54</sup> 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.