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## 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.<sup>1</sup>

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).<sup>2</sup> 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.<sup>3</sup> In December 1946, the British withdrew from Indonesia leaving the jurisdiction over the Archipelago to the returning Dutch colonial authorities.<sup>4</sup> 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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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> George McT. Kahin, *Nationalism and revolution in Indonesia* (Ithaca: Cornell University Press, 1952) 141.

<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> Finally,

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<sup>5</sup> 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.

<sup>6</sup> 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 Komite 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 Pusat-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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup> 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

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<sup>7</sup> 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.

<sup>8</sup> 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).

<sup>9</sup> Kahin (ed.), *Regional dynamics of Indonesian revolution*, 7.

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

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.<sup>12</sup> In April 1947, the Planning Board was expanded into a

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<sup>11</sup> *Asia Raya*, 19 August 1945, *Berita Repoeblik Indonesia*, 15 February 1946; Sutter, *Indonesianisasi*, 310.

<sup>12</sup> *Indonesische pers*, 9 January 1947; *Berita Repoeblik 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.<sup>13</sup> 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.<sup>14</sup>

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.<sup>15</sup> 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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<sup>13</sup> 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.

<sup>14</sup> *Merdeka*, 17 May 1948.

<sup>15</sup> 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.<sup>16</sup>

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.<sup>17</sup> 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.<sup>18</sup> 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.<sup>19</sup> 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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<sup>16</sup> *Asia Raya*, 24,25, 30 August 1945.

<sup>17</sup> Thee, *Recollections*, 75.

<sup>18</sup> *Merdeka*; *Soeara Rakjat Repebliek Indonesia*, 17 November 1945.

<sup>19</sup> *Indonesian review* 1 (1951) 171.



Soekarno's deputy in the Java Service Association (Hōkōkai).<sup>20</sup> 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.<sup>21</sup> 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 (July 1947-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.<sup>22</sup>

As mentioned above, the Minister of Welfare in the first Presidential cabinet was Soerachman. 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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<sup>20</sup> Mavis Rose, *Indonesia Free; A Political Biography of Mohammad Hatta* (Singapore: Equinox, 1987) 13, 92, 172.

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

<sup>22</sup> Anderson, *Java in the time of Revolution*, 426.

administration.<sup>23</sup> 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.<sup>24</sup> 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).<sup>25</sup> Gani was also the first chairman of the Economic Planning Board before being replaced by Hatta in April 1947.<sup>26</sup> 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.<sup>27</sup> 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.<sup>28</sup> 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.<sup>29</sup> In the

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<sup>23</sup> *Ensiklopedia Indonesia* (Bandung: Van Hoeve, 1954-1955) 372.

<sup>24</sup> P.N.H.Simanjuntak, *Kabinet-Kabinet Republik Indonesia; Dari awal kemerdekaan sampai reformasi* (Jakarta: Penerbit Djambatan, 2003) 31.

<sup>25</sup> Robert Cribb and Audrey Kahin, *Historical dictionary of Indonesia* (Lanham: Scarecrow Press, 2004) 54.

<sup>26</sup> Vice chairman of the Economic Planning Board was Soerachman.

<sup>27</sup> *Orang Indonesia jang terkemoeka*, 470.

<sup>28</sup> *Ensiklopedia Indonesia*, 1150.

<sup>29</sup> *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.’<sup>30</sup>

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.<sup>31</sup> 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).<sup>32</sup> 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.<sup>33</sup> 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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<sup>30</sup> Translation from *The Voice of Free Indonesia*, October 1945. See the original text in *Berita Repoeblik Indonesia*, 15 February 1946.

<sup>31</sup> Mohammad Hatta, *Penjabaran pasal 33 Undang-Undang Dasar 1945* (Jakarta: Mutiara, 1947) 27.

<sup>32</sup> 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*.

<sup>33</sup> 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 decree 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.<sup>34</sup> 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.<sup>35</sup> 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,

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<sup>34</sup> Sutter, *Indonesianisasi*, 341.

<sup>35</sup> 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 Katholik Republik Indonesia, PKKI), whereas the PKI, the PS and the PBI each had thirty-five seats.<sup>36</sup> 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.<sup>37</sup> 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.<sup>38</sup>

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

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<sup>36</sup> *Indonesische pers*, 2 January 1947.

<sup>37</sup> *Indonesische pers*, 29 July 1946.

<sup>38</sup> 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.<sup>39</sup> 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.<sup>40</sup>

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.<sup>41</sup> 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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<sup>39</sup> Anderson, *Java in the time of Revolution*, 202-210.

<sup>40</sup> Kahin, *Nationalism and revolution in Indonesia*, 291-294.

<sup>41</sup> *Berita Indonesia*, 6 November 1945, 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.<sup>42</sup> 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.<sup>43</sup> At its first congress held at Malang in May 1947, SOBSI voted to join the World Federation of Trade Unions.<sup>44</sup> 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.<sup>45</sup>

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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<sup>42</sup> *Merdeka*, 1,2, 9,12 November 1945; Sutter, *Indonesianisasi*, 320.

<sup>43</sup> *The voice of free Indonesia*, 15 March 1947.

<sup>44</sup> John E.Moes, 'Trade unionism in Indonesia', *Far Eastern Survey*, 2 (1959) 19.

<sup>45</sup> *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.<sup>46</sup> 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.<sup>47</sup> 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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<sup>46</sup> Sutter, *Indonesianisasi*, 326-327.

<sup>47</sup> 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 Perdjoengan). 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 Perdjoengan* had managed to gather members from 141 organizations, including all the important political parties and military organizations.<sup>48</sup> The strategic objective of the Fighting Union was Tan Malaka's seven-point *Minimum Program*, which centered on '100 percent Independence' (Merdeka 100%).<sup>49</sup> 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.<sup>50</sup>

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

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<sup>48</sup> *Merdeka*, 10, 30 January 1946.

<sup>49</sup> *Merdeka*, 10 January 1946.

<sup>50</sup> *Merdeka*, 30 January 1946; Anderson, *Java in the time of Revolution*, 290; Sutter, *Indonesianisasi*, 332.

eliminated.<sup>51</sup> Later, in October 1948, when he founded the small Proletariat Party (Murba party)<sup>52</sup>, 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.<sup>53</sup>

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, *Perdjoengan 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.<sup>54</sup> 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.’<sup>55</sup> 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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<sup>51</sup> *Merdeka*, 19 Januar 1946, Tan Malaka, *Madilog, Materialisme-Dialektika-Logika* (Jakarta: Widjaya, 1946) 395-409; Sutter, *Indonesianisasi*, 331.

<sup>52</sup> Murba stands for Musjawarah Ra’jat Banjak, meaning the deliberation of the masses.

<sup>53</sup> Kahin, *Nationalism and revolution in Indonesia*, 313-319.

<sup>54</sup> Soetan Sjahrir, *Perdjoangan Kita* (Koetaradja: Ghazali Yunus, 1946)

<sup>55</sup> *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.<sup>56</sup> 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).<sup>57</sup> 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.<sup>58</sup> 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

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<sup>56</sup> Rose, *Indonesia Free*, 275.

<sup>57</sup> 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.

<sup>58</sup> 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.<sup>59</sup>

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).<sup>60</sup> 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 owed much to S. Mangunsarkor, Minister of Education and Culture,

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<sup>59</sup> Hatta, *Ekonomi Kita*, 3-4.

<sup>60</sup> *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.<sup>61</sup> Indeed, the phrase *dari ekonomi kolonial 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.<sup>62</sup>

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<sup>61</sup> Hadinoto Soejono, *Ekonomi Indonesia; Dari ekonomi kolonial ke ekonomi nasional*, (Jakarta: Jajasan Pembangunan, 1949) 8.

<sup>62</sup> 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.<sup>63</sup>

At variance with Hatta's reluctance to co-operate with the Dutch,<sup>64</sup> 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.<sup>65</sup>

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

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<sup>63</sup> Hadinoto, *Ekonomi Indonesia*, 44-47.

<sup>64</sup> 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.

<sup>65</sup> 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.<sup>66</sup> 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.<sup>67</sup>

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

<sup>67</sup> Reid, *The Indonesian national revolution*, 48

country to run the administration and maintain public order'.<sup>68</sup> 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 set themselves was to revitalize the *entrepôt* trade between Singapore and Indonesia, especially the rubber trade from Sumatra and Kalimantan.<sup>69</sup> Unquestionably, the chief motivation of the Dutch was economic. In the words of wartime Prime Minister 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'.<sup>70</sup> 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).<sup>71</sup> 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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<sup>68</sup> Soekarno (1953), Penggantian zaman dan kewajiban kita, in Osman Raliby, *Documenta historica; Sedjarah documenter dari pertumbuhan dan perjuangan Negara Republik Indonesia* Jakarta: Bulan-Bintang, pp. 4-10.

<sup>69</sup> Dick, Houben, Lindblad and Thee, *The emergence of a national economy*, 169.

<sup>70</sup> P.S. Gerbrandy, *Indonesia* (London: Hutchinson, 1950) 27; Meijer, *Den Haag-Djakarta*, 39-40.

<sup>71</sup> H.L. Wesseling, *Indië verloren, rampspoed geboren en 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.<sup>72</sup> 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.<sup>73</sup>

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.<sup>74</sup> 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.<sup>75</sup> 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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<sup>72</sup> *Berita Repoeblik Indonesia*, 17 November 1945.

<sup>73</sup> *Merdeka*, 15 October 1945.

<sup>74</sup> *Merdeka*, 5 October 1945.

<sup>75</sup> 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.<sup>76</sup>

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 meeting 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.<sup>77</sup> 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.<sup>78</sup> 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.<sup>79</sup> Despite these concessions, Van Mook steadfastly refused to recognize the Republic. He adhered to the idea of a

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<sup>76</sup> Sutter, *Indonesianisasi*, 311-313

<sup>77</sup> 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.

<sup>78</sup> *Merdeka*, 5 December 1945

<sup>79</sup> *Aneta news agency*, 31 December 1945.

Commonwealth of Indonesian constituting a part of the Kingdom of the Netherlands.<sup>80</sup>

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.<sup>81</sup> 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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<sup>80</sup> Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 131.

<sup>81</sup> 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.<sup>82</sup>

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 Linggadjati 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.<sup>83</sup>

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

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<sup>82</sup> 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 Hague: Martinus Nijhoff, 1976, pp. 753-757.

<sup>83</sup> *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.<sup>84</sup>

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.<sup>85</sup> In their counter proposals submitted on 15 April, the Dutch agreed to the Gafiedi in

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<sup>84</sup> Pham, 'The Political Framework of Economic Decision-making', 40-42.

<sup>85</sup> Cheong, *H.J.van Mook and Indonesian independence*, 121.

principle, but demanded the immediate restoration of foreign property and estates to its rightful owners.<sup>86</sup>

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.<sup>87</sup>

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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<sup>86</sup> *Merdeka* 13-5-1947.

<sup>87</sup> '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.<sup>88</sup> The Dutch flatly rejected this proposal and threatened military action.<sup>89</sup> 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.<sup>90</sup> 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 conforming 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.<sup>91</sup>

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.<sup>92</sup> In May 1949, negotiations were resumed. The Netherlands agreed to discontinue military operations and return the capital Yogyakarta to

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<sup>88</sup> *Daerah Istimewa Jogjakarta*, 212-219.

<sup>89</sup> *The voice of free Indonesia*, 14 June 1947

<sup>90</sup> 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.

<sup>91</sup> 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).

<sup>92</sup> 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.<sup>93</sup> 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.<sup>94</sup> 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.<sup>95</sup> 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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<sup>93</sup> Ide Anak Agung Gde Agung, *Twenty years Indonesian foreign policy, 1945-1965* (Yogyakarta: Duta Wacana University Press. 1990) 65-70.

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

<sup>95</sup> 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.<sup>96</sup> Furthermore, the Indonesian Government was obliged to maintain the position of 17,000 Dutch officials on European pay scales for two years.<sup>97</sup> It is widely acknowledged that Indonesia had to pay a high price for independence. No other former colony had to shoulder as heavy a burden from its former colonial ruler as Indonesia was expected to do.<sup>98</sup>

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 Indonesia was in a more advantageous position when it took over

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<sup>96</sup> Kahin, George McT. 'Some recollections from and reflections on the Indonesian revolution', in Abdullah (ed) *The heartbeat of Indonesian revolution*, (Jakarta: Gramedia, 1997) 26.

<sup>97</sup> Meijer, *Den Haag-Djakarta*, 536; Clerx, 'De financiële verhouding', 65; Lindblad, *Bridges to new business*, 74.

<sup>98</sup> 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.<sup>99</sup>

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

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<sup>99</sup> 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 (Djawatan 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).<sup>100</sup> 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.<sup>101</sup> 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.<sup>102</sup> 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.<sup>103</sup> 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.<sup>104</sup> 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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<sup>100</sup> Asia Raya, 4-5 September 1945.

<sup>101</sup> Merdeka, 3,7,30 October 1945.

<sup>102</sup> Merdeka, 7 October 1945

<sup>103</sup> Merdeka, 5-10, 19,24 November 1945. *Api rakjat*, 12 March 1946.

<sup>104</sup> Merdeka, 7 October 1945

refineries in South and North Sumatra were gradually taken over in October and November 1945.<sup>105</sup>

Unlike the withdrawal of the Japanese armed forces, which sometimes involved violent skirmishes with Indonesian revolutionary units,<sup>106</sup> 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.<sup>107</sup> 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.<sup>108</sup> Outside Java and Sumatra, where Republican authority was still weak, the Japanese were able to maintain their businesses somewhat longer, pending instructions for evacuation.<sup>109</sup> 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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<sup>105</sup> *Merdeka*, 5,6 October 1945.

<sup>106</sup> 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.

<sup>107</sup> Sutter, *Indonesianisasi*, 305.

<sup>108</sup> 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.

<sup>109</sup> 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.<sup>110</sup> 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.<sup>111</sup>

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,<sup>112</sup> 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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<sup>110</sup> *Berita Repoeblik Indonesia*, 17 November 1945.

<sup>111</sup> *Merdeka*, 15 October 1945.

<sup>112</sup> 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 guerrilla 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 Djojohadikusumo, 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.<sup>113</sup> 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 Djojohadikusumo, Ong Eng Die and Pri Sastroatmodjo.<sup>114</sup>

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.<sup>115</sup> The Indonesian Government set up two new agencies

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<sup>113</sup> Sutter, *Indonesianisasi*, 346-347, *Indonesische pers*, 22 August 46, 21 October 1946; *Berita Repoeklik Indonesia*, 15 December 1945.

<sup>114</sup> *Indonesische pers*, 4 January 1947.

<sup>115</sup> *Merdeka*, 31 May 1946; *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.<sup>116</sup> In total, these two organizations were entrusted with the supervision of approximately 900 enterprises in Java and 300 in Sumatra.<sup>117</sup> 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.<sup>118</sup> 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.<sup>119</sup> 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 Perindustrian (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

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<sup>116</sup> *Indonesische pers*, 14 January 1947.

<sup>117</sup> Lindblad, *Bridges to new business*, 61; Sutter, *Indonesianisasi*, 396-400.

<sup>118</sup> *Indonesische pers*, 3 August 1946, 14 September 1946.

<sup>119</sup> *The voice of free Indonesia*, 28 September 1946; *Indonesische pers*, 18 October 1946.

during the occupation.<sup>120</sup> The timber industries thrived healthily throughout the whole of Java and by January 1947 there were no fewer than 3,000 companies in operation.<sup>121</sup> 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.<sup>122</sup> 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.<sup>123</sup> 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.<sup>124</sup> The major problems facing manufacturing were the shortage of labour, raw materials and machinery.<sup>125</sup>

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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<sup>120</sup> *Indonesische pers*, 29, 30 July 1946; 14 January 1947.

<sup>121</sup> *Indonesische pers*, 15 January 1947.

<sup>122</sup> *Indonesische pers*, 25, 27 January 1947.

<sup>123</sup> *The voice of free Indonesia*, 18 January 1947.

<sup>124</sup> *Indonesische pers*, 15 January 1947.

<sup>125</sup> *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.<sup>126</sup> 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).<sup>127</sup> 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.<sup>128</sup>

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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<sup>126</sup> 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.

<sup>127</sup> ANRI, 'Tambang minjak Republik Indonesia Sumatra Utara', KP, inventory number 1558.

<sup>128</sup> 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.<sup>129</sup> 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.<sup>130</sup> 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.<sup>131</sup> 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.<sup>132</sup> 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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<sup>129</sup> Audrey Kahin, *Struggle for independence; West Sumatra in the Indonesian national revolution 1945-1950* (PhD dissertation, Cornell University, Ithaca, NY, 1979) 23.

<sup>130</sup> *Indonesische pers* 24, 29 August 1946.

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

<sup>132</sup> 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.<sup>133</sup> 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.<sup>134</sup>

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.<sup>135</sup> 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.<sup>136</sup> 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.<sup>137</sup> 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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<sup>133</sup> Of which 129 million from Sumatra, 22 million from the Riau Archipelago, one million from Banka and Billiton, 11 million from Borneo, 13 million from Java and 2 million from other islands. ‘Illegal export’, *The economic review of Indonesia*, 1 (1947) 37.

<sup>134</sup> *Indonesische pers* 5 October 1946.

<sup>135</sup> *Indonesische pers* 19 August 1946; 24 August 1946.

<sup>136</sup> *Indonesische pers* 29 August 1946; 17 September 1946.

<sup>137</sup> 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.<sup>138</sup> 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.<sup>139</sup> 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.<sup>140</sup> As had the ‘Gibson affair’ which attracted far more attention to the Archipelago from of the American Government in the mid-nineteenth century,<sup>141</sup> the prolonged dispute over the *Martin Behrman* incident paved the

<sup>138</sup> *Indonesische pers*, 9 January 1947; 13 February 1947;

<sup>139</sup> *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).

<sup>140</sup> 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.

<sup>141</sup> 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.<sup>142</sup>

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.<sup>143</sup> 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.<sup>144</sup> 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.

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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

<sup>142</sup> 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.

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

<sup>144</sup> 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.<sup>145</sup>

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,

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<sup>145</sup> 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.<sup>146</sup> 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.<sup>147</sup>

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 lightning attacks, most infrastructures, mining installations and plantations were captured by Dutch troops without damage.<sup>148</sup> 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 harbours because of the Dutch blockade.<sup>149</sup>

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.<sup>150</sup> 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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<sup>146</sup> *The economic review of Indonesia* 2 (1947) 21-24.

<sup>147</sup> Lindblad, *Bridges to new business*, 70.

<sup>148</sup> *The economic review of Indonesia*, 9 (1947) 135-137.

<sup>149</sup> Kahin, *Struggle for independence*, 214.

<sup>150</sup> Sutter, *Indonesianisasi*, 636.

Dutch military actions.<sup>151</sup> 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.<sup>152</sup>

Control of imports and exports in the Netherlands Indies was monopolized by the Netherlands Indies Government Import and Export Organization (Nederlands-Indische Goevernements 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.<sup>153</sup> 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.<sup>154</sup> 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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<sup>151</sup> Van der Wal (ed.), *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen*, 80.

<sup>152</sup> Lindblad, *Bridges to new business*, 69-71.

<sup>153</sup> Bank Indonesia, inventory number, 3273.

<sup>154</sup> 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**

Year	Imports from the Netherlands		Exports to the Netherlands	
	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.<sup>155</sup> 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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<sup>155</sup> 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.