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CHAPTER FOUR

THE DEMOCRATIC EXPERIMENT, 1950-1957

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

Introduction

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

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

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

The chapter begins with an examination of the economic institutions and pays particular attention to the technical experience and political affiliation of their leaders. Such an examination helps to gain a better understanding of the political and intellectual origins of the economic decisions taken by various cabinets. I shall also survey the economic views of the major political parties, as these evolved in post-independent Indonesia. The views of the political parties served as the most important set of instruments for the articulation of the political and economic aspirations of the Indonesians. Government policies and plans for economic nationalism will be discussed in some detail in order to highlight the unbridgeable gap between the insistence on economic nationalism by the Nationalist parties and the pragmatic solutions the government was forced to look for.

1. The Indonesian Cabinets

The structure of the new state at the time of the Transfer of Sovereignty was federal. The Republic of the United States of Indonesia (Republik Indonesia Serikat-RIS) was an aggregation of sixteen states, including the Republic of Indonesia plus fifteen other states established by the Dutch. Soekarno, former President of the Republic of Indonesia, became president of the federation. Former Vice-President Mohammad Hatta was appointed prime minister, to head a federal cabinet formed on 20 December 1949. Multiple forms of authority and legislation were installed in the member states but the ultimate authority was vested in the RIS government and the Republic of Indonesia. By that time, most parts of Java and Sumatra had effectively come under the authority of the already existing Republican government.

Federalism survived the Transfer of Sovereignty by eight months. Most Indonesian Nationalists dismissed the new federal member states as mere Dutch creations, devoid of any real independence.[2] Soon after the Transfer of Sovereignty in December 1949, these states began to dissolve of their own accord and subsequently join the prime member state, the Republic of Indonesia. In May 1950, the leaders of the Republic of Indonesia and RIS signed a charter of agreement, under whose terms the two governments agreed to work in co-operation towards the goal of a unitary state. Finally, on 17 August 1950, on the fifth anniversary of his Proclamation of Independence, Soekarno officially announced the birth of the unitary Republic of Indonesia. Mohammad Natsir, the chairman of the executive council of the Masjoemi, was asked to form a new cabinet, and this was inaugurated on 6 September 1950. Soekarno retained his position as President, and Hatta returned to his previous post in the old Republic as Vice-President.

Formerly speaking, the unitary Republic of Indonesia was the successor to RIS but this is a misconception as the new state was the materialization of the concept of the Republic of Indonesia as this was proclaimed in August 1945.[3] With the exception of a few amendments, most of the Provisional Constitution adopted in July 1950 was based on the 1945 Constitution. The parliamentary system based on the multiplicity of parties was revitalized and extended to ensure the representation of most of the parties in Parliament. The composition of the unicameral Parliament announced in March 1951 included 232 members. The two largest parties, Masjoemi and PNI, won forty-nine and thirty-six seats, respectively. Other prominent parties, such as PSI, PKI, and the Catholic Party held between ten and seventeen seats. The remaining seats were divided among some fifteen small parties and organizations, many of which were just emerging

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[2] *Mimbar Indonesia,* 7 January 1950.

[3] R.E. Elson, *The idea of Indonesia; A history* (Cambridge: Cambridge University Press, 2008) 150.

at the time of the Transfer of Sovereignty.[4] Post-revolutionary Indonesia was divided into ten provinces; each headed by a governor appointed by the central government.[5] In each province and at lower levels, legislative councils were elected from representatives of local social organizations, political parties, and individuals. The governor and the other heads of the region were responsible to these legislative councils as well as to the central government in Jakarta.

Both the composition and organization of this refashioned state apparatus were considered provisional pending elections for the Constituent Assembly, which were scheduled to be held in August 1951. However, the first general elections in Indonesia did not take place until September 1955. Even when they were finally held, they ushered in no significant changes in the political constellation. The interim parliamentary structure and political processes remained by and large intact. The unresolved political oppositions between and within the political parties in government and Parliament produced a chronic instability in the cabinet system. From the Transfer of Sovereignty until the abolition of parliamentary democracy in 1957, there were no fewer than seven cabinets in office, only two of which lasted more than one year. In order of precedence they were the Hatta Cabinet (December 1949-August 1950), the Natsir Cabinet (September 1950-March 1951), the Sukiman Cabinet (April 1951-February 1952), the Wilopo Cabinet (April 1952-June 1953), the first Ali Sastroamidjojo Cabinet (July 1953-July 1955), the Burhanuddin Harahap Cabinet (August 1955-March 1956) and the second Ali Sastroamidjojo Cabinet (March 1956-March 1957). Only the first federal cabinet, led by Mohammad Hatta, did not suffer unduly from parliament opposition and political strife.

The Hatta Cabinet was termed a *Zaken Kabinet* (Business Cabinet), which implied that cabinet ministers had been specifically chosen for their

[4] Ge.orge McT Kahin, 'The new Indonesian government', *Far Eastern Survey* 20 (1950) 212; Feith, *The decline of constitutional democracy*, 128, 434-435.

[5] The ten provinces were West Java, Central Java, East Java (including Madura), North Sumatra, Central Sumatra, South Sumatra, Kalimantan, Sulawesi, Lesser Sunda Islands, and the Moluccas.

technical competence rather than on the basis of party affiliation.[6] This principle is seen most clearly in the leadership which had to deal with the management of the economy. All the ministers responsible for economic affairs were capable persons who had held similar positions in previous cabinets during the revolution. Sjafruddin Prawiranegara, former Minister of Finance, then Minister of Welfare under the old Republic, became Minister of Finance. Djuanda Kartawidjaja, who had previously served as Minister of Communications, was now appointed the new Minister of Welfare. Head of the Ministry of Communications and Public Works was H. Laoh, who had served in the same department in the old Republic. His colleague in the Sjarifuddin Cabinet (July 1947-January 1948), Deputy-Minister of Labour Wilopo, was now elevated to hold a portfolio.

By appointing Nationalist intellectuals with ability and experience to the very heart of the central government apparatus under the leadership of a professional economist, the Hatta Cabinet would appear to be able to claim to be the most competent cabinet in terms of the economic management of Indonesia since 1945. Unfortunately, the cabinet remained in office only briefly, during a period in which huge quantities of energy and attention were being swallowed up by political matters, chief among them national unification. When the unitary state was created in August 1950, two-thirds of members of the Hatta Cabinet were replaced by younger politicians, mostly of them the members of Masjoemi.[7] Among the ministers responsible for the economy, only Sjafruddin Prawiranegara and the non-affiliated Djuanda remained in office. Sjafruddin Prawiranegara continued to be Minister of Finance, while Djuanda moved to become head of the Ministry of Communications, which was now made into a separate department. Another part of this huge ministry was reorganized into a Ministry of Public Works and Energy under Herman Johannes, a Professor and Dean of the Technical Faculty of Gadjah Mada

[6] Feith, *The decline of constitutional democracy*, 50.
[7] *Kabinet-kabinet RI; Susunan dan programnja sedjak 1945* (Jakarta: Ministry of Foreign Affairs, 1961) 18.

University (UGM) in Yogyakarta. He was renowned for his research and inventions to do with the utilization of energy derived from coal and waste.[8]

The Ministry of Welfare was also divided into two; the Ministry of Agriculture and the Ministry of Commerce and Industry under Tandiono Manu and Sumitro Djojohadikusumo respectively. Both were affiliated with Sutan Sjahrir's PSI. Tandiono Manu was a lawyer who had graduated from the Batavia Law School in 1941. During the Revolution, he had served as a judge in Yogyakarta before being appointed Resident of Bodjonegoro in East Java. He was an active leader in the principal Republican peasant organization, the *Barisan Tani*. Following the Transfer of Sovereignty, Tandiono was appointed Minister of Commerce in the Halim Cabinet of the member-state Republic of Indonesia. Sumitro had received his doctoral degree at the Rotterdam Business School (Rotterdam Handelshogeschool) in 1943 with a dissertation on the popular credit system. He returned to Indonesia in 1946 and shortly afterwards became a permanent financial and trade representative of the Republic in the United States. In 1949, Sumitro was a delegate to the Round Table Conference in The Hague, at which he played an important role in defending the economic interests of the Republic against the exigencies of Dutch demands. With Sjafruddin Prawiranegara, who became governor of the Central Bank of Indonesia in 1951, Sumitro was a key figure in the post-war economic planning of Indonesia.[9] Other members of the Natsir Cabinet involved in economic policy-making were Minister of Labour R.P. Suroso and Minister of Social Affairs F.S. Harjadi. AS Prime Minister Natsir had been, they were appointed in response to the political influence they could command rather than any pronounced technical competence. Suroso was founder of the Greater Indonesia Party (Partai Indonesia Raja-Parindra) and Harjadi was an active member of the Catholic Party. Natsir himself graduated from the General Secondary School (Algemeene Middelbare School-AMS) in Bandung in 1930. From 1932 to

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[8] For more information on the scientific career and personal life of Herman Johannes, see: Julius Pour, *Herman Johannes*; *Tokoh yang Konsisten dalam Sikap dan Perhuatan* (Jakarta: Gramedia Pustaka Utama, 1993)

[9] For more information about Sjafruddin Prawiranegara and Sumitro Djojohadikusumo, see: Thee *Recollections,* 49-65, 75-86.

1942, he served as chairman of the private Islamic school organization, *Pendidikan Islam*.[10] In the old Republic of Indonesia, Natsir held the portfolio of Minister of Information in Sjahrir's second and third cabinets and also in the Hatta Cabinet. Natsir was chairman of the executive body of Masjoemi; and following the Transfer of Sovereignty he acted as head of the Masjoemi faction in Parliament.

Initially, Natsir was invited to form a coalition cabinet of in which several political parties would be represented. Nevertheless, the eventual composition of the cabinet reveals that the majority of its membership was drawn from Masjoemi, supplemented by two representatives from PSI and a few non-party members. This preponderance inevitably provoked protests both in Parliament and from the general public. The protestors came not only from the parties left out, including PNI, PKI and Murba. Rival groups within Masjoemi also did not hesistate to voice their dissatisfaction. Tensions mounted in the early months of 1951, after Natsir failed to bring negotiations with the Dutch over the West Irian issue to a satisfactory conclusion. Never very stable, the Natsir Cabinet eventually had to resign on 20 March 1951. Sukiman Wirjosandjojo, the chairman of Masjoemi and also Natsir's leading rival was authorized to form a cabinet based on a Masjoemi-PNI coalition, from which members of the Natsir group would be excluded. The list of the Sukiman Cabinet, announced on 26 April 1951, included only six members of the former Natsir Cabinet. Djuanda continued to hold the portfolio of Ministry of Communications. The new Minister of Finance was a Masjoemi member, Jusuf Wibisono, who had been a principal participant in the Working Committee of the old Republic and Deputy-Minister of Welfare in the Sjahrir Cabinet. Sujono Hadinoto, the author of *Dari ekonomi colonial ke ekonomi nasional*, was given the portfolio of the Ministry of Commerce and Industry, shortly afterwards renamed the Ministry of Economic Affairs. Hadinoto had played an important role in the Financial and Economic Affairs Committee at the Round Table

[10] Tamar Djaja, *10 orang Indonesia terbesar sekarang* (Bukittinggi: Toko Buku &Penerbit,1952) 83.

Conference as vice-chairman of the Republican delegation. Another member of the delegation, Suwarto, an agricultural graduate, was appointed Minister of Agriculture. The Minister of Public Works and Power was Ukar Bratakusumah, the former mayor of Bandung and later governor of West Java. Iskandar Tedjasukmana, a lawyer and member of the Labour Party, was appointed Minister of Labour.[11] At this juncture a new ministry in the sphere of economy was created, the Ministry of Agrarian Affairs, under Gondokusumo, a member of the Greater Indonesia Unity Party (Partai Persatuan Indonesia Raja-PIR).[12]

All in all, the composition of the Sukiman Cabinet reflected the re-emergence of an older generation of leaders, whose skills lay in the fields of politics and administration rather than in the possession of technical qualifications. Sukiman himself was a medical doctor by training, who had obtained his degree from the University of Amsterdam in 1925. He had founded the Indonesian Islamic Party (Partai Islam Indonesia-PII) in 1932, but when the Revolution broke out, he joined Masjoemi and was elected chairman of the party. In the Hatta Cabinets of the old Republic, Sukiman had served as Minister of Home Affairs and he ahd also attended the Round Table Conference as a member of the Indonesian delegation.[13] The Sukiman Cabinet fell in February 1952, succumbing to fierce leftist criticism of the pro-American foreign policy pursued.[14]

On 19 March 1952, President Soekarno appointed the PNI leader Wilopo to form a new coalition cabinet. Wilopo had only just taken up the

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[11] *Indonesian review* 3 (April-June, 1951) 165-173.

[12] PIR was founded in December 1948 by a combination of non-party persons and PNI leaders, who decried their party's criticisms of Hatta's policies in his negotiations with the Dutch. Led by a group of older leaders, many of them from the Javanese aristocracy, PIR counted on the support of a considerable number of *pamong pradja* leaders.

[13] Tamar Djaja, *10 orang Indonsia*, 83; *Indonesian review* 3 (April-June 1951) 169; Simatupang, *Report from Banaran*, 73.

[14] Most of the attacks were from PNI and the Labour Party, who fiercely disagreed with the signing of the San Francisco Peace Treaty with Japan in September 1951 and the Mutual Security Agreement with the United States in January 1952 by the cabinet. Under these agreements, Indonesia would receive economic and military aid from the United States and Japan, but committed itself to align with the US-led bloc of states. See: Feith, *The decline of constitutional democracy*, 192-204.

position as Minister of Economic Affairs nine months earlier in July 1951, replacing Sujono Hadinoto. The Wilopo Cabinet was principally based on a coalition formed by Masjoemi and PNI. In fact the reality was more nuanced. It represented different factional groups of these two main parties. Only two of the five PNI leaders and none of the five Masjoemi leaders who had sat in the Sukiman Cabinet were included. Strikingly, three ministers in the economic sphere, assigned neither to Masjoemi nor PNI, remained in office, Minister of Communications Djuanda (non-party), Minister of Public Works Suwarto (Catholic Party), and Minister of Labour Tedjasukmana (Labour Party). Sumitro, at that time Dean of the Faculty of Economics at the University of Indonesia, returned to the cabinet, as Minister of Finance. Mohammad Sardjan, secretary-general of the Islamic Farmers Union (Serikat Tani Islam Indonesia, STII) became Minister of Agriculture, and Sumanang was appointed Minister of Economic Affairs. In comparison with the two previous cabinets, once again this was a cabinet in which a younger Western educated generation predominated. Although the abilities and technical qualifications of the individual ministers were widely recognized, the political hostilities between and within the parties represented in it, particularly Masjoemi and PNI, made it impossible for them to carry out their ideas and plans. The Wilopo Cabinet resigned in June 1953 in the wake of leftist criticism on its intention to return the oil installations in North Sumatra to Royal Dutch Shell.[15]

The resignation of the Wilopo Cabinet marked the end of PNI-Majsumi co-operation and signified a new alignment in the political forces between PNI and the other nationalist parties, such as PKI, Murba and Labour Party. This break-down in co-operation in the power situation is revealed in the composition of the first Ali Sastroamidjojo Cabinet, formed on 31 July 1953. PNI obtained the prime minister-ship and three other major portfolios, two directly connected with the management of the economy, the Ministry of Finance under Ong Eng Die and the Ministry of Economic Affairs under Iskaq

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[15] Herbert Feith, *The Wilopo cabinet, 1952-1953; A turning-point in post-revolutionary Indonesia* (Ithaca, NY: Cornell University Press, 1958) 190.

Tjokroadisurjo. Ong was a Chinese Indonesian who had obtained a doctoral degree in economics at the University of Amsterdam in 1943. He returned to Indonesia in 1945 and worked for the *Bank Pusat Indonesia* in Yogyakarta. Between 1947 and 1948, he served as Deputy-Minister of Finance in the Amir Sjarifoeddin Cabinet.[16] Iskaq Tjokroadisurjo was a Leiden-trained lawyer, who had served as secretary of several Residents of Banjumas and Solo. He was one of the founders of PNI and an active member of Partindo and Parindra. He had been appointed Minister of Internal Affairs or of the Interior in the Sukiman Cabinet.[17] When the first Ali Cabinet was reorganized in November 1954, Iskaq Tjokroadisurjo was forced to resign following corruption charges. He was replaced by Rooseno Soerjohadikoesoemo, also a member of Parindra. Rooseno had graduated from the *Bandung Technische Hogeschool* in 1932. He became a professor in 1943 and after independence served as Dean of the Faculty of Technology at the UGM. In 1950, he returned to teach at his alma mater. In fact, Rooseno's first appointment was Minister of Public Works and Power but in September 1953 he was lifted to the post of Minister of Communications.[18] After he resigned from the ministry, the portfolio was given to A.K. Gani, the former Minister of Welfare in the first Amir Sjarifuddin Cabinet under the old Republic. Another professor at the Bandung Technical Institute, Sutan Muchtar Abidin, was appointed Minister of Labour. He had obtained a degree in engineering in 1939 and, during the Japanese occupation, he had worked as an inspector of finances. He was also a former member of the Republic's KNIP during the federal period.[19]

Despite inherent political instability within the cabinet, resulting in several reshuffles in late 1953 and early 1954, the first Ali Cabinet eventually succeeded in remaining in office for more than two years, a longer period than

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[16] Leo Suryadinata, *Prominent Indonesian Chinese; biographical sketches* (Singapore: Institute of Southeast Asian Studies, 1995) 124; *Ensiklopedi Nasional Indonesia*, Vol.XI (Jakarta: Cipta Adi Pustaka,1991) 279.

[17] *Indonesian Review* 1 (1951) 171.

[18] Rooseno's reputation is closely associated with such major construction projects as the head office of Bank Indonesia, the Pola building, Cupola Istiqlal, National Monument, Hotel Bali Beach, and Asian Game Complex. *Ensiklopedi Nasional Indonesia*, Vol.XV, 167.

[19] *Ensiklopedi Nasional Indonesia*, Vol. I, 15.

any of its predecessors. The mechanism by which cabinets usually fell was sustained political opposition from the political parties and in Parliament, but the first Ali Cabinet was toppled by the military when it attempted to curb the rising political power of this body. On 24 July 1955, Ali Sastroamidjojo returned his mandate to Vice-President Hatta, who was serving as acting president because President Soekarno was on pilgrimage to Mecca. Having accepted it, Hatta invited the parliamentary leader of Masjoemi, Burhanuddin Harahap, to form a new cabinet, which took office on 14 August 1955. Burhanuddin Harahap replaced all the PNI members in the first Ali Cabinet by members of Masjoemi, adding members from PSI and the small nationalist parties. Sumitro and Mohammad Sardjan were again raised to cabinet rank as Minister of Finance and Minister of Agriculture, respectively. The Minister of Economic Affairs was a Catholic I.J. Kasimo and the Minister of Communications was H. Laoh, now a member of the newly founded National People's Party (Partai Rakjat Nasional-PRN).[20] The post at the Ministry of Public Works and Power was given to Sunarjo, who also served as interim Minister of Interior. With the exception of Sumitro and Mohammad Sardjan, the other members of the cabinet, including Prime Minister Burhanuddin Harahap himself, had had no previous cabinet experience. In fact, the cabinet was generally recognized as an interim cabinet, simply a stop-gap put there in office to maintain the government until the general elections, scheduled for September 1955. Given its temporary status, after the elections, repeated demands were put forward for the resignation of the cabinet. The most vociferous of these demands were from PNI and the other Nationalist parties, which were feeling more securely in the saddle riding on the political strength gained from their success in the elections. In the new distribution of seats in Parliament, PNI had gained the same number of seats as Masjoemi (57 seats) and PKI raised its representation to thirty-nine. The new Islamic party, *Nahdlatuh Ulama* (NU), which split from Masjoemi in April 1952, gained forty-five seats. The liberal PSI lost nine seats, dropping from fourteen to five. *Parkindo* and the Indonesian

[20] The National People's Party was formed in July 1950 after a split from PNI. It was initially called Indonesian National Party-Merdeka.

Islamic Union Party (Partai Sarekat Islam Indonesia, PSII), each had eight seats.[21] Six months later, the Harahap Cabinet resigned in March 1956.

After the fall of the Harahap Cabinet it became impossible for the Indonesian Nationalists not to acknowledge that the underlying cause of the political instability besting the system of Parliamentary Democracy was the rivalry between the political parties, particularly between the two largest parties, Masjoemi and PNI. In an attempt to reduce this tension, when he returned to cabinet leadership on 20 March 1956, Ali Sastroamidjojo strategically included NU in the traditional Masjoemi-PNI coalition. Nevertheless, Ali Sastroamidjojo was not prepared to go to the lengths of accepting President Soekarno's request that PKI be included in the cabinet. His principal argument was that this would be irreconcilable with Masjoemi. By way of compromise, he did appoint Djuanda, who had also been recommended by the President, State Minister for Planning Affairs. Jusuf Wibisono, Minister of Finance in the Natsir Cabinet, was invited to fill this post again. Other key members of the government directly involved with economic policy-making included the Minister of Economic Affairs, Burhanuddin, the Minister of Communications, Suchjar Tedjasukman, the Minister of Public Works and Manpower, Pangeran Noor and the Minister of Agriculture, Eni Karim. With the exception of Prime Minister Ali Sastroamidjojo, Minister of the Interior Sunarjo, Djuanda and Jusuf Wibisono, the overwhelming majority of the ministers lacked cabinet experience. Despite the representations of Masjoemi, the composition of the second Ali Cabinet reaffirmed the ascendancy of the leftist and extreme Nationalist groups in the government as it took shape in the aftermath of the general elections in 1955.

Soon after the formation of the second Ali Cabinet, at the opening ceremony of newly elected Parliament on 26 March 1956, President Soekarno gave a speech in which he emphasized that the new Parliament would work on the basis of mutual co-operation, as the members of a family would, rather than

[21] *Mimbar Indonesia*, 10 March 1956. For more information on the 1955 elections, see Herbert Feith, *The Indonesian elections of 1955* (Ithaca, N.Y.: Cornell, 1957) and A. van Marie, 'The first Indonesian parliamentary elections', *Indonesië*, 9 (1956), 258.

on competition between the political parties vying for power on the number of votes they had received. Although his concrete conception (*konsepsi*) for a new system of government, namely Guided Democracy (*Demokrasi Terpimpin*), was not effectively introduced until February 1957, at this point the President had no compunction about making clear his dissatisfaction with the existing system of Parliamentary Democracy. Instead of maintaining a Parliament composed of the elected representatives of parties, Soekarno proposed the establishment of a National Council (*Dewan Nasional*), its membership principally made up of the functional groups in society. The Council would assist the cabinet and offer it advice. Decisions would be reached by consensus rather than by voting.[22] The establishment of the National Council by President Soekarno in July 1957 in conjunction with the formation of a 'Working Cabinet' (*Karya Cabinet*) led by Djuanda one month earlier officially marked the end of the era of parliamentary democracy, ushering in a new era in Indonesian history, Guided Democracy, which was to last until 1966.

The brunt of Soekarno's attack on the system of Parliamentary Democracy was directed towards the lack of consensus between the political parties represented in Parliament. It has to be said that the continuous bickering did undoubtedly weaken Indonesian unity and undermine national strength. Indeed, the seven-year period from the Transfer of Sovereignty to the beginning of Guided Democracy was one characterised by high and rising political dissatisfaction and unrest, of which the most outward and visible sign was the succession of seven cabinets in less than eight years. With the exception of the second Ali Cabinet, which extended its coalition to the Islamic NU, post-revolutionary Indonesian cabinets were led by either Masjoemi or PNI, in co-operation with other smaller parties. In comparison with its status in the previous period under the Republic of Indonesia, the position of PKI had weakened and it was excluded from all succeeding cabinets in the early 1950s. Despite its failure to make the cabinet, its influence in Parliament actually grew, indeed markedly so after the general elections of 1955. The disintegration of

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[22] Daniel S. Lev, *The transition to Guided Democracy; Indonesian politics 1957-1959* (Ithaca, NY: Cornell University Press, 1966) 37-43.

government by political parties was blamed for the difficulty encountered in producing a strong national leadership so necessary if long-term policies were to be successfully formulated and pushed through. Examining the personal qualities of their leadership, there is no question that quite a few of Indonesian leaders were highly educated and had built up considerable professional experience in either economics or engineering. Mohammad Hatta, Sumitro Djojohadikusumo, Sjafruddin Prawiranegara, Ong Eng Die, Jusuf Wibisono, Djuanda and Rooseno Soerjohadikoesoemo were all among the best professionally trained people in the Indonesian intellectual elite. The Achilles'heel in the system was that they had to co-operate with other cabinet members, only half of whom were qualified graduates, and they were constantly challenged in a Parliament, in which two-thirds of the members had no more than a certificate of secondary education. Notwithstanding the relatively high number of trained civil servants (Table 8) on which it could rely, the restrictive political environment of the early 1950s prevented the Indonesian government from bringing its economic policies and plans to fruition.

Table 8*:* Educational level of Indonesian political decision makers in the 1950s (in percentage)

Educational level attained	Cabinet members	Members of Parliament	Highest level civil servants
University	**68**	**27**	**87**
Fully trained	58	19	67
Partially trained	10	8	20
Secondary	**32**	**64**	**13**
Senior certificate	15	32	13
Junior certificate	17	32	0
Primary certificate	**0**	**9**	**0**
Total	100 (n=146)	100 (n=234)	100 (n=160)

Source: Soelaeman Soemardi, *Some Aspects of the Social origin of Indonesian Political Decision Makers* (London: International Sociological Association, 1956) p. 342.

2. Re-formulating the National Economy

Despite the rampant disagreement about balancing the roles of the state, co-operatives, and private firms in the economy, all Indonesian politicians and intellectuals were adamant that independent Indonesia must never again fall into the pitfalls of the colonial economy. Nobody disputed that Indonesia had to develop its own national economy, controlled, led, and organized by Indonesians. The constant goal before all their eyes had to be the welfare of the Indonesian people.[23] Unquestionably, the Transfer of Sovereignty in December 1949 aroused high expectations among Indonesians who were waiting on tenterhooks for the rapid realization of such an ideal economy, while controversies continued to be waged over the ways and means to foster the economic transformation. Debates about the most appropriate systems for the national economy continued into the early 1950s, alongside questions about the role and potential contribution of national capital. The most controversial issue was related to the policies towards the Dutch companies which were still in control of important segments of the Indonesian economy. The ideological splits within the political parties, the direct effect of the formation of so many new political parties in the late 1940s and immediately after Transfer of Sovereignty, appeared to have little effect in reducing the diversity of opinion existing within each party.

As they had tended to dominate the economic discussions in the late 1940s, the articles in the Constitution touching on the economy continued to be the point of departure from which arguments about the desired systems of economy were launched. After the Transfer of Sovereignty, although RIS adopted a federal Constitution, the member-state of the Republic of Indonesia continued to implement its former 1945 Constitution. The federal Constitution was subsequently abrogated in July 1950 and replaced by a new Constitution amended from the Constitution of the Republic. Under the new unitary state in

[23] See Djuanda's introduction in Hadinoto's *Ekonomi Indonesia*.

August 1950 the Constitution was renamed the Provisional Constitution, although it remained in force until July 1959 when President Soekarno restored the 1945 Constitution.[24] Significantly, despite various changes made between the successive constitutions, Article 33 of the 1945 Constitution, with its important passages regarding the economy, remained intact. It simply renumbered as Article 38 in the Constitution of 1950. At this point, in order to avoid confusion, an elucidation was added, to define the term 'controlled' (dikoeasai) in the sense of direction and/or management. This was a deliberate choice for the purpose of encouraging production at a time at which co-operative bodies were growing in importance. The term 'branch of production' was defined as all kinds of production of goods, transportation, distribution, circulation and trade. Once again this wording failed to identify which branches were considered important enough to be kept under state control. The upshot of this vagueness was that the political discourse of economy in the 1950s laid less stress on state ownership. Needless to say, in such a hotbed of political opinions, plenty of ideas circulated about which enterprises should be nationalized. The other two articles in the Provisional Constitution relating to economy were Article 26 and Article 28, which defined the right to work and to the ownership of property of Indonesian citizens, respectively.[25]

The most active groups in steering the public and parliamentary discussions in the direction of the solution to economic issues were the Nationalist and Marxist-oriented parties. Several of the latter were newly formed as a result of their dissociation with PKI after the Madiun Rebellion. They included Murba, PIR, and the Labour Party.[26] The leaders of these parties, were often quick to vent extreme anti-Dutch and anti-imperialist views and, by definition they were utterly opposed to the economic concessions made to the

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[24] Ricklefs, *A History of Modern Indonesia,* 304.

[25] 'The Provisional Constitution of the Republik Indonesia (1950)', *Indonesian Review* 2 (Feb.-March 1951) 140-157; *Rentjana Undang-undang Dasar Sementara Republik Indonesia* (Jakarta: Pertjetkan Negara, 1950) 49.

[26] This Labour Party (often called *Party Buruh*) was a split-off from the post-war Labour Party (BPI). It was formed by a group of members of BPI and PS who were opposed to the merger of BPI into PKI in September 1948. After the Madiun Affair, BPI reappeared, but rejoined PKI in February 1951. In fact the leader of BPI often considered themselves Communists.

Netherlands at the Round Table Conference by the Indonesian delegation. With new life breathed into Parliamentary Democracy under a new set of rules following the Transfer of Sovereignty, these leaders did their level best to attract support from other political parties and put pressure on the government to take immediate action to seize economic power out of Dutch hands. There were also demands for a unilateral abrogation of agreement made at the Round Table Conference, on the grounds that these would obstruct Indonesia in operating its economy in the spirit of the Indonesian Constitution.[27]

Murba adopted an Urgency programme in early January 1950. Its ultimate aim was to strive for 100 per cent independence, adhering to the letter of the 1945 Proclamation of Independence and to strengthen the goal of establishing socialism. Demanding a reassessment of economic objectives, the party urged the government to organize the economy in accordance with the spirit of Article 27 and Article 33 of the Constitution of the Republic of Indonesia. Its ultimate goal was realization of a truly national economy which it thought could be achieved by ridding the country from foreign capital and eradicating the capitalist economic structure inherited from colonial times. The Murba platform was that the national economy should be based on the concept of the people's welfare, and this could be achieved by giving state-owned enterprises and co-operatives a leading role in the process. The party identified those vital enterprises which it was convinced should be nationalized, including transport, communications, gas, electricity, and water enterprises, mining, manufacturing and agricultural estates. The Murba Urgency Programme also demanded that banks be nationalized and that the entry of foreign capital should be stopped forthwith. It expected the government to implement a progressive system of taxation, from which wage and land taxes should be eliminated to be replaced by income tax. Its plan was that imports should be placed under government regulation and their quotas should be based on the daily needs of the population. In its separate programme for labour, the party requested the government introduce a regulation on minimum wage and a forty-hour working

[27] Feith, *The decline of constitutional democracy*, 163-164.

week. In its agricultural workers' programme, the party promised to protect peasants and small-scale farmers working in businesses or leasing land to others.[28]

Although the Labour Party also insisted on the nationalization of Dutch enterprises, it did not neglect the macro-economic management of the state and the interests of labour. In its Emergency Programme, announced on 8 February 1950, the Labour Party urged the government to set up a scheme to organize the distribution of basic consumer goods and tools. It stated in no uncertain terms that the government should also supervise and co-ordinate the entire production process. In order to implement Article 33 of the Constitution of the Republic of Indonesia, the government had no option but to nationalize important enterprises and expand the state-controlled sectors. Turning to the interests of the labour, the party stuck to its guns and insisted that the government to draw up regulations which would govern collective work contracts (*Collectieve Arbeidsovereenkomst*) and labour participation in decision making (*medezeggingschap*) in all enterprises. Since it had been set up by former members of PSI and PBI, naturally the Labour Party shared some ideological affinity with these two political parties. As time went by and PSI became increasingly liberal in its economic outlook, whereas PBI leaned more heavily towards radicalism, the Labour Party took the middle ground somewhere between the two. It acquiesced in the restoration of foreign property on the condition that the government ensured the implementation of the above-mentioned principles.[29]

On 13 March 1950, twenty-four PNI members of Parliament held a conference in Jakarta. At this meeting, the chairman, Sujono Hadinoto, asserted that the faction would continue to act according to the Charter and Principles of the party, which had been agreed at its third congress in June 1948. The ultimate goal of PNI was to create a *sosio-nasional-demokrasi* in Indonesia. The PNI

[28] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951) 324-325.
[29] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951) 338; *Ichtisar Parlemen*, 9 August1950.

leaders were convinced that the future economy of the country should be a democratic economy, based on *gotong-rojong* principles. With this conception of the economic system, clearly before their eyes, the party left no doubt it was opposed to individualism and capitalism, and therefore rejected the concept of liberalism.[30] In May 1950, PNI organized its fourth congress in Yogyakarta, and at it a new Political Struggle Programme was adopted. The first point in the Social-Economic Section of the programme read '[to] lay the foundation of a socialist economy', or in other words 'the nationalization of vital enterprises'. Other points noted in the section included demands for the implementation of Article 27 and Article 33 of the Constitution of the Republic of Indonesia, the strengthening of democratic and anti-imperialist movements of industrial labour and farmers, the reform of labour and agrarian laws and the stimulation of the establishment of co-operatives and transmigration.[31]

The PNI programme paid special attention to labour in a separate Labour Urgency Programme. It demanded the government to be the pioneer in democratizing the life of labourers and that it recognized labour as the principal factor in the production process. Therefore labour should be entitled to participate in determining the process of production though Management Boards (*Dewan Pimpinan*), which would be established in state-owned enterprises and Enterprise Councils (*Dewan-Dewan Perusahaan*) in privately-owned or mixed firms. The task of these boards would be to supervise production and initiate collective and co-operative projects with labour. In its Farmers' Programme, PNI promised to insist that the government implement a national economic plan based on collectivism. By ensuring that its representatives would be placed in collective projects, the party promised it

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[30] *Ichtisar Parlemen* 1 August 1950, 21 March 1950, *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 116-117.

[31] Three months later, during parliamentary debates on a new Constitution for the unitary state, Ranai Sophian, a member of PNI stated that his party identified vital enterprises as land, sea and air transport, communications, electricity, gas, water, and mining. These enterprises should be made state property, paying compensation where necessary to the owner (*Ichtisar Parlemen* 1950. pp.347-350). Nevertheless, this elucidation was never put into the official documents of the party. In its programmes adopted later in December 1952, the issue of nationalization was mentioned in oblique terms just as Article 38 of the Provisional Constitution.

would fight to attain the rights of farmers.[32] This Political Struggle Programme continued to be the fundamental guideline of PNI in the following years, although a few changes in orientation were made at subsequent congresses. In the Fighting Programme adopted at the sixth congress in December 1952, PNI put more stress on government assistance to national businessmen and put forward cogent arguments for the imposition of restrictions on foreign capital. Its nationalist standpoint, both anti-Dutch and anti-imperialist, was never compromised.[33]

Within a few months of the Transfer of Sovereignty, most major political parties in Indonesia had reorganized themselves and were ready to introduce their new political and economic programmes. The exception was PKI which was still in an organizational chaos in the aftermath of the Madiun Affair. Shaken by their defeat, the remaining leaders of the party devoted more attention to seeking co-operation with other nationalist parties, than to strengthening the ideology and organization in the party itself.[34] Only after the return of D.A. Aidit and M.H. Lukman, the leading Leninists who had fled to China and Vietnam after the Madiun Uprising, in mid-1950 and their subsequent appointment to the new leadership of PKI in January 1951, did the party begin to regain its political influence. Aidit and Lukman became editors of *Bintang Merah* (Red Star) and *Harian Rakjat* (People's Daily), the foremost PKI publications. After the affiliation of BPI to PKI in February 1951, the influence of the latter grew as BPI had several representatives in Parliament.

In March 1951, Aidit announced a 'New Road' resolution, whose principal rallying call was the creation of a united national front. To elaborate this 'New Road' resolution, the party adopted a new party programme consisting of twelve articles. Point 6 of the programme was a call for the nationalization of important enterprises, which in PKI terms encompassed large factories, mining and transport enterprises, major agricultural estates and large

[32] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 119-121.
[33] *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 52-55.
[34] J. M. van der Kroef, *The Communist party of Indonesia; its history, program and tactics* (Vancouver: University of British Columbia, 1965) 45- 48.

banks. PKI also demanded that an industrialization plan to be drawn up which would cover all of Indonesia. It was the duty of the state to help and support all small-and medium- scale enterprises which would benefit the people. All agreements with foreign capital which might in any way threaten or hamper the development of the national economy should be discontinued forthwith. Point 7 demanded the confiscation of large landed properties and private estates as well as the implementation of a policy of 'land for the farmers'. Large foreign enterprises should pay very heavy taxes but the masses should be advantaged by reduced taxes.[35] This twelve-point programme served as the principal documentary basis of the party until its fifth national congress in March 1954. At this juncture, a new modified twelve-point programme was adopted, which put more emphasis on the development of national industrial enterprises and the protection of the national middle class from foreign competition.[36]

In preparation for the formation of the united front, PKI called on leaders of several political parties to form a confederative association. On 30 March 1951, a Political Parties' Consultative Council (*Badan Permusjawaratan Partai-Partai*-BPP) was founded, in which PKI, the Sumatran Islamic Party Perti, Murba, the Labour Party, Parindra, the National People Party (*Partai Rakjat Nasional*-PRN) and the Indonesian People's Party (*Partai Rakjat Indonesi*-PRI) all participated. These eight parties signed a charter of co-operation, a joint programme, and a constitution for the council.[37] To this extent, the BPP programme can be considered as a shared aspiration of the participating parties, although by no means all of them agreed with Communist and Marxist doctrines. The Welfare Section of the programme was designed to mobilize domestic manpower and resources in an attempt to improve the physical and spiritual welfare of the people, guaranteeing a fair distribution of products to the state, labour and capital. It called for the nationalization of vital enterprises and for the support of those national businessmen, who made it their

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[35] 'Program PKI untuk Pemerintah nasional Koalisi', *Bintang merah*, 25 March 1952.
[36] Van der Kroef, *The Communist party of Indonesia*, 69.
[37] Donald Hindley, *The Communist Party of Indonesia, 1951-1963* (Berkeley: University of California Press, 1964) 51.

duty to promote the interests of the people. The government should ensure that an industrialization programme was put into force and see to the mechanization of agriculture throughout Indonesia. An upswing in production would certainly assist domestic consumption and would be vent more important to exports. National export organizations should be given a helping hand and the government had to take serious measures to combat smuggling and corruption. BPP also promised to improve the condition of land, sea and air transport throughout the Archipelago, tackling the handicaps caused by the inefficient transport system on a national basis. Such an undertaking would guarantee the interests of the people. Above all, the BPP programme insisted on the abrogation of the Round Table Conference agreement.[38]

Initially, PKI tried to attract PNI into BPP, planning to form a national coalition government with members from PNI and other Nationalist parties. This attempts was doomed to failure as, after some preliminary negotiations, PNI withdrew and threw its weight behind Sukiman in his efforts to form a new cabinet based on the Masjoemi-PNI coalition. PKI, Murba and the Labour Party were again excluded from the government. More critically, in August 1951 the Sukiman government announced the mass arrest of Communists for an allegedly planning a coup against the state.[39] This proved no more than a hiccough as this action did not stop PKI from expanding through various trade unions, especially SOBSI. The party re-emerged under the PNI-led cabinets of Wilopo and Ali Sastroamidjojo. In March 1954, when President Soekarno sent his good wishes to the fifth PKI congress, the party was well on its way to being accepted as a full-fledged part of the nationalist political framework.[40]The outcome of the 1955 election and the President's suggestion that PKI should be included in the second Ali Cabinet established a firm foundation for the direct participation of PKI in Indonesian politics under the Guided Democracy.

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[38] Sutter, *Indonesianisasi*, 1152.
[39] Van der Kroef, *The Communist party of Indonesia*, 49.
[40] Feith, *The decline of constitutional democracy*, 408.

As one of the two leading factions in both the cabinet and Parliament during the early 1950s, PNI shared various political ideas and sometimes was willing to co-operate with PKI and the Murba party. It goes without saying that the other major faction, the Islamic Masjoemi, was the most anti-Communist party. At this stage, the economic views of Masjoemi were far more liberal and moderate than those of other major political parties in post-independence Indonesia. In its new programme, adopted at the fourth congress in late December 1949, Masjoemi only demanded nationalization of the central bank although it did press the government to establish state banks in order to facilitate the development of agriculture, commerce, manufacturing and shipping. It stressed that the regulations drawn up by the former colonial authorities, which had proved injurious to economic development, had to be simplified. Other points in the economic section of the programme included demands for the stimulation of transmigration from Java to other islands, the improvement of the welfare of village people, and the termination of monopolies such as that on copra in Sulawesi and other territories.[41]

At its sixth congress in August 1952, Masjoemi adopted a new programme which demanded a state-directed economy, in which production and distribution would be run 'to benefit the largest possible number of people'. Private monopolies detrimental to society should be prohibited. To strengthen the Indonesian national economy, the party called for the establishment of co-operatives supported by the government. The party demanded industrialization in the near future and asserted that opportunities must be opened up for foreign capital to set up new industries on the basis of mutual gain. In its plans for nationalization, four categories were identified in order of priority: the central bank, basic transport enterprises, public utilities, and mining. Although there were now three more categories for any prospective nationalization than there had been after the fourth congress, the new three categories did not have the immediacy of the demand for the central bank.[42]

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[41] *Kepartaian di Indonesia* (Jakarta: Kementerian Penerangan, 1951), 25-26.
[42] Mochtar Lubis, 'Party Confusion in Indonesia', *Far Eastern Survey*, Vol.21, No.15 (1952) 156; *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 461.

As was Masjoemi, PSI was also often charged by PKI and other nationalist parties of 'being too much concerned with looking after foreign interests'.[43] This was the reason that, in its plan to form a popular-front government, BPP flatly rejected co-operation with Masjoemi and PSI. Because the ideological base of PSI was socialism, it did not count as a Nationalist party. In terms of economic orientation, it did indeed differ markedly from the Nationalist parties. It had set its sights on modernization and economic development, rather than on economic nationalism. During the first two years after the Transfer of Sovereignty, PSI was still preoccupied with its internal reorganization after its split from PS in early 1948. The first congress of PSI, at which the economic programme of the party was officially adopted, was held in February 1952. The ideology of PSI was that a socialist economy was the only guarantee of the people's livelihood, no unemployment, an increase in production and the equality of property. Designing a socialist economy went far beyond matters of nationalization or socialization. Rather, it meant the mobilization of all the means of production, natural resources and state and private property to achieve the goals of socialism. The party pointed out the need for an improvement of technology of production and an expansion in the opportunities for people to participate in planning the economy. Although they definitely did not support liberal capitalism, the PSI leaders were opposed to extreme nationalism and anti-foreign sentiment. They were convinced that foreign capital would be necessary for a considerable time to come.[44]

Although the political influence of PSI and Masjoemi in Parliament gradually declined, their liberal and rational economic views continued to be implemented during most of the 1950s. This palpable influence was felt not least because three of the most prominent leaders of the economy, Sumitro Djojohadikusumo, Sjafruddin Prawiranegara, and Jusuf Wibisono, were loyal members of these parties. Other leaders who belonged to the Nationalist PNI, such as Sujono Hadinoto, Wilopo, and Sumanang, also supported the Masjoemi

[43] Feith, *The decline of constitutional democracy*, 332.
[44] *Program Nasional Partai Socialis Indonesia* (Jakarta: Partai Socialis Indonesia, 1952) 10-11; *Kepartaian dan Parlementaria Indonesia* (Jakarta: Kementerian Penerangan, 1954) 528.

point of view in economic matters, especially those related to foreign investment.[45] Masjoemi received enormous support especially from Vice-President Hatta. It was indeed Hatta in the absence of President Soekarno took the chance to revitalize the national leadership of Masjoemi in August 1955. The short-lived revival of Masjoemi and PSI was an important episode in the Indonesian economic history. Under the Harahap Cabinet, several economic measures were carried out to rationalize the economic system, which had been thrown into disarray by the preceding first Ali Cabinet. Looking at the re-emergence of Masjoemi in late 1955 and early 1956, Sutter's hypothesis of a periodization between the Masjoemi era and the PNI era marked by the fall of the Wilopo Cabinet in mid-1953 is untenable. The extreme views of PNI, let alone the far more drastic proposals of PKI and Murba, were in fact never put into effect prior to 1957. Even under the two cabinets led by Ali Sastroamidjojo, the matter of the nationalization of Dutch enterprises was not given top priority.

The differences in economic views between Masjoemi and PSI opposed to those of PNI, PKI, Murba and other small Nationalist parties did not preclude them having a common economic objective; that is to achieve an independent national economy.[46] The acceptance of private capital and foreign investment by Masjoemi and PSI should be seen in the light of being a pragmatic solution to the prevailing situation in which Indonesia found itself in acute need of capital and foreign assistance for economic development. What is beyond doubt is that none of the Indonesian politicians was in favour of capitalism or liberalism, both far too strongly bound up with Dutch colonialism and economic imperialism.[47] Socialism was an alternative economic system supported by most parties, particularly the Nationalist and Marxist-oriented ones. Nevertheless, caution is advised in attempting to interpret the Indonesian concept of socialism, since its interpretation fluctuated enormously between the political parties and

[45] Because of their pragmatic policies, at the sixth PNI congress in Yogyakarta in December 1952, Prime Minister Wilopo and Minister of Economic Affairs Sumanang were vehemently criticized for defying the party discipline. In fact, the PNI leaders thought the Wilopo Cabinet seemed to be a cabinet established on Masjoemi terms, even, to some extent, on those of PSI. Feith, *The Wilopo cabinet*,190-191.

[46] Djuanda, 'Buiding up a national economy', *Indonesian review*, 1 (1950) 9.

[47] Higgins, All the difference, 53.

individuals. In the eyes of some Indonesian politicians, socialism meant little more than Sutter's concept of *Indonesianisasi*, which encompassed a conscious effort to increase the participation and elevate the role of the Indonesian in the large sectors of the economy. Others understood socialism as a collectivist economy based on co-operatives or the spirit of *gotong-rojong*. In the broadest sense, anything related to state control, planning, class division, and social equality could be considered to espouse socialism and therefore to be progressive.[48]

3. *Indonesianisasi*

In a response to the clamours of the leftist groups in Parliament who were demanding the immediate nationalization of Dutch firms, in June 1950 Prime Minister Hatta stated that it was impossible to undertake any nationalization at that moment since the government did not have any money and was still borrowing from abroad. He pointed out that state budgetary deficit was 1,500 million rupiahs. In answer to their protests he added that on account of a shortage of trained Indonesian personnel, for the time being foreign management was inevitable. Hatta hastened to give assurances that foreign personnel would be obliged to work under government supervision and that the government was already busy with plans to nationalize important public utilities.[49] As supplementary material to back up Hatta's argument, the following month, Minister of Labour Wilopo published an article on Indonesian labour issues, in which he stressed the severe shortage of Indonesian experts. Wilopo stated that the total number of civil, electrical and other engineers was no more than ninety, whereas at least 4,000 were actually needed. The number of medical doctors, some 1.5000, was slightly better, but it was still far below the minimum of 5,000 needed for a total population of more than 70 million.[50] In a nutshell, lack of capital and trained personnel continued to be major factors

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[48] J.A.C. Mackie, 'The Indonesian economy, 1950-1963', in: Glassburner (ed.), *The economy of Indonesia*, 44.
[49] *Ichtisar Parlemen* 1 (1950) 253-254.
[50] *Indonesian review*. 3-4 (1950)14.

thwarting the implementation of economic nationalism in Indonesia in the early 1950s. Pragmatic leaders in the Indonesian government realized that, rather than immediately nationalizing them, they had to accept the necessity of utilizing the advantages offered by Dutch firms if they were to build up the national economy and sustain economic development.

Adhering to this pragmatic thinking, in early 1950 the Indonesian government issued a series of regulations stipulating that agricultural estates and factories should be returned to their former owners, the majority of them Dutch. A Committee for the Return of Foreign Estates (Panitia Pengembalian Perusahaan Perkebunan Milik Asing) was set up in each of the main estates areas to organize the returns.[51] The government also encouraged the continuing operations of such public services as local transport, gas and electricity, most of which were managed by private enterprises with Dutch owners. In early August 1950, the General Netherlands Indies Electricity Company (Algemeene Nederlandsche-Indische Electriciteits-Maatschappij, ANIEM) and the Overseas Gas and Electricity Company (Overzeese Gas-en Electriciteits Maatschappij, OGEM), the two largest distributors of electricity, accounting for 70 per cent of electrical power distribution in Indonesia, were allowed to raise their charges by 58 and 48 per cent, respectively.[52] Several attempts were also made by the Hatta Cabinet to seek the co-operation of Dutch firms in establishing new joint enterprises. Garuda Indonesian Airways (GIA), founded in March 1950, is a typical example of the type of joint venture which was common in the early 1950s. The Indonesian government and Royal Dutch Airlines (*Koninklijk Luchtvaart Maatschapij*, KLM) shared 51-49 per cent equity in this company. KLM agreed to train Indonesian staffs and gradually to transfer ownership into Indonesian hands. The contract was drawn up for a period of thirty years, allowing for the possibility of nationalization within ten years. This space of time would be used to *Indonesianize* GIA. It was the Indonesian government

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[51] Sutter, *Indonesianisasi*, 695-702.
[52] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*,144-5; *Indonesian review* 1 (1951) 71-72.

which would decide which routes would be flown.[53] On slightly lesser scale, during his trip to the Netherlands and other European countries in mid-1950, the then Minister of Trade and Industry Sumitro Djojohadikusumo concluded agreements with Dutch firms for the setting up of three enterprises, manufacturing wire and cables, bicycles and textiles as well as with a Swedish firm to construct a paper-mill. In all these cases, 51 per cent of the share capital was officially Indonesian and 49 Dutch or Swedish.[54]

The most drastic actions undertaken under the Hatta Cabinet were the implementation of a new tariff system and the subsequent monetary reforms. In March 1950, the Indonesian government introduced a new foreign exchange certificate system, under which an exporter would receive twice the amount stated on the invoice of a completed export transaction in Indonesian currency. However, an importer would have to pay in *rupiahs* not only the amount on his invoice but twice that amount in order to obtain an import certificate. In effect, this system was the equivalent of a devaluation, reducing the official exchange rate of the Indonesian rupiah from 1:1 to 1:3 to the Dutch guilder.[55]In an effort to reduce the money supply which expanded rapidly in the wake of the devaluation of the *rupiah*, on 19 March 1950 Minister of Finance Sjafruddin Prawiranegara implemented a 'monetary purge' (*pembersihan uang*). All bank-notes with a denomination higher than 2.50 guilders were literally cut in half, one half to be exchanged for a new bank-note, the other half for a government bond. More radically, all bank deposits in excess of 400 guilders were reduced to half with the remaining 50 per cent converted into compulsory government loans at 3 per cent interest.[56] The result of the monetary purge was surprising. President Houwink of the Java Bank claimed that 1.6 billion guilders,

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[53] *Indonesian review* 1 (1951) 71; Lindblad, *Bridges to new business*, 115; Sutter, *Indonesianisasi,* 894-899.

[54] *Indonesian review* 1 (1951) 50.

[55] ANRI, Report by Dr Schacht, KP, inventory number 262. Dr. Hjalmar Schacht, the former central bank president in Hitler's Nazi Germany, was invited by Sumitro on 3 June 1951 and by Prime Minister Sukiman on 25 August 1951 to conduct research into the financial and economic situation of Indonesia and give advice about how to improve the situation. His findings were submitted to President Soekarno on 26 October 1951.

[56] Glassburner, 'Economic policy-making in Indonesia', 122; Meek, *The government and economic development,* 284.

equivalent to 41 per cent of the total money supply, had been taken out of circulation.[57] Although the effectiveness of the new exchange certificate system and monetary reform for the long-term economic development of Indonesia continued to arouse controversy,[58] it cannot be denied that these measures assisted the Indonesian government to get a better grip on the currency. At long last, Indonesian money now no longer depended on the exchange rate system which had been designed by the Netherlands. Another part of the monetary reform also meant that all local and the old Republic Indonesia currencies were demonetized, signalling the unification of the monetary system in Indonesia. From 1 May 1950, the official currency unit in Indonesia was the *rupiah*, issued by the Java Bank.[59]

One of Hatta's primary intentions when the federal cabinet was founded in December 1949 was to set up new industries, which made sound economic sense.[60] Unfortunately, high budgetary deficits and an unfavourable political climate thwarted his cabinet in its intention to implement new industrial plans. When Natsir took over the cabinet, both the financial and the political situations improved significantly. The political unification of the country had at long last been materialized and thanks to the Korean War boom, Indonesian exports expanded remarkably, reaching a record of 445 per cent in October 1950, compared to the monthly average of 1949.[61] The government budget rose accordingly from Rp. 3,596 million in December 1949 to Rp. 5,222 million in January 1951, contributing to a sizable budget surplus of Rp. 1,7 billion in 1951.[62] All seemed set fair, especially as foreign aid to Indonesia rose remarkably during the last quarter of 1950. In August 1950, the government

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[57] De Javasch Bank, *Laporan tahun 1950-1951*, p. 25.

[58] For the criticism, see Hans O. Schmitt, *Some monetary and fiscal consequences of social conflict in Indonesia, 1950-1958* (PhD dissertation, University of California, Berkeley, 1959) 51-74.

[59] De Javasch Bank, *Laporan tahun puku 1949-1950*, 42.

[60] In an interview in Bangkok in mid-November 1949, on his return from the Round Table Conference, Hatta declared that the economic policy of the Republic of the United States of Indonesia would be directed towards promoting the welfare of the people, social security and better wages for the workers. This would require expansion of production and the establishment of new industries. Sutter, *Indonesianisasi*, 1106.

[61] *Indonesian review* 1 (1951) 39.

[62] De Javasch Bank, *Laporan tahun 1950-1951,* 25.

received a loan of $ 32 million (Rp. 365 million) from the Export-Import Bank.[63] Assured of the availability of accumulated funds, the Indonesian government could now concentrate its attention on the development of the desperately needed new industries.

At this juncture, it should be said that industrial development in post-independent Indonesia did not necessarily take place to the detriment of foreign estates and future foreign investment. In an article 'Building up a national economy' published in July 1950, Minister of Welfare Djuanda argued the importance of promoting national industries. He stated that 'There is plenty of opportunity for many more branches of industry and for new trading enterprises [to be founded], without [these] interfering with established interests.'[64] This idea was incorporated into an industrial plan, drafted by Minister of Trade and Industry in the Natsir cabinet, Sumitro Djojohadikusumo. The actual plan was announced in April 1951, under the name *Rentjana Urgensi Perekonomian* (Economic Urgency Programme). It is often referred to as the Sumitro Plan although by that time Sumitro was no longer in charge. The Economic Urgency Programme, as Sumitro himself said, was an integral part of the general policy of the government to build up the economic strength of the Indonesian people as basis for developing a sound national economy.[65]

The specific objective of the Sumitro Plan was to stimulate the development of all the layers of the Indonesian industrial sector, to wit: small-, medium- and large-scale industries. The major part of the activities it proposed were concentrated on extending loans and credit to small-scale industries, installing central production and processing units (*induks*) in industrial centres in various rural regions and establishing large industrial plants in vital sectors of the economy. In contrast to the *induks* which functioned as a concentration of

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[63] Dauglas S.Paauw, *Financing economic development; the Indonesian case* (Glencoe, Illinois: The Free Press, 1960) 424.
[64] *Indonesian Review* 1 (1950) 9.
[65] Sumitro Djojohadikusumo (ed.), *The government's program on industries; A progress report* (Jakarta: Institute for Economic and Social Research, Djakarta School of Economics, University of Indonesia, 1954) 3.

management for small enterprises, large-scale industry was meant to support the other sectors. Significantly, the Economic Urgency Programme laid down that all projects were to be operated under government sponsorship through its agencies.[66] Foreign capital and Indonesian private citizens were allowed to participate, but on condition that the government had dominant control of key industries, including defence factories, chemical factories, cement works, power plants, waterworks and transport enterprises. This would be assured by a government participation of at least 50 per cent of the capital and two-thirds of preference shares as well as a controlling majority on the Board of Directors. Foreigners would be employed on management contracts to provide technical assistance and train Indonesians to assume leading positions in the enterprises.[67] The obligation to train Indonesian employees and promote them to higher ranking management positions applied not only to new joint enterprises, it also extended to important foreign-owned firms, particularly oil companies, an industry in which the Indonesian lack of expertise and technology were glaringly apparent.

It was understood that, given the circumstances, the Economic Urgency Programme was provisional. At the time of its first publication in April 1951, its most detailed planning instructions were handed out to large-scale industries. There covered short-term projects, expected to be completed by the end of 1952, and applied to the establishment of a wide range of industries for printing, rubber re-milling, cement, tyres and textiles. The estimated cost of these projects was Rp. 179 million. Among the long-term projects were those to construct eleven factories in different regions of Indonesia, processing caustic soda, manure, aluminium, plywood, paper as well as iron smelting and manufacturing glass. Other enterprises would be for knitting and spinning as well as the production of tannic acid and coconut flour. These projects required an investment of Rp.522 million. Turning to the idea of projects for production centres, the Programme proposed the installation of eight *induks*, concentrated

[66] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 4.
[67] *Indonesian Review* 1 (1951) 186.

in Java. The budget appropriated for the *induks* projects amounted to Rp. 27 million. The programme also proposed the establishment of a number of research institutes and laboratories in Bandung whose investigations would help to produce better materials and improve the efficiency of production. At this time, no specific instructions had yet been given for mechanization and loan projects.[68] The estimated cost of the Sumitro Plan was Rp.863.5 million.

Table 9: Total cost of the 'Sumitro Plan' (in million rupiahs)

	1951	**1952**	**After 1952**	**Total**
Laboratories and institutes	3.8	4	1.5	7.8
Central production units	14.5	12.5	p.m.	27
Small industries	66.5	59.5	p.m.	126
Large scale industries (short- term)	107	72	p.m.	179
Large scale industries (long-term)	p.m.	p.m.	522	522
Total	192	148	523.5	863.5

Source: *Indonesian Review* 1 (1951) p. 189.

In order to facilitate the implementation of these plans, the Natsir Cabinet paid a great deal of attention to the reorganization of the credit system. Attempts were made to increase the number of Indonesian members on the board of the central bank and other government credit institutions. Government banks, as among them the Java Bank, the Indonesian People's Bank (Bank Rakjat Indonesia) and the Postal Savings Bank (Bank Tabungan Pos), were still owned and staffed by Dutch corporations. Fully aware of this, the cabinet also stimulated the development of national banks. The *Bank Negara Indonesia*, which had served as the central bank of the Republic during the Revolution, was reorganized and provided with Rp. 250 million in outstanding credits at the end

[68] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 5-8.

of 1951.[69] The *Bank Negara Indonesia* became the first Indonesian-owned foreign exchange bank. Its primary task was to assist Indonesians to build up their trade and export-import businesses. Credit institutions whose job it was to develop industries included the State Industrial Bank (Bank Industri Negara), the Credit Foundation (Jajasan Credit) and the Bureau of National Reconstruction.[70] The former colonial Copra Fund was reorganized into a copra foundation in December 1950. Its primary task was to assist the Indonesian copra-producers to set up co-operatives.[71] Alongside this state activity, Indonesian private citizens were encouraged to establish banks in order to attract private funds from the population.

The Sumitro Plan was presented only after the Natsir Cabinet had been dissolved. It was taken over by the Sukiman Cabinet under the supervision of Minister of Commerce and Industry Sujono Hadinoto and after July 1951 of Minister of Economic Affairs Wilopo. The vision was there in plenty but the capital needed for the programme turned out to be in extremely short supply. The peak of Korean War boom had passed by mid-1951 and Indonesian exports had begun to decline. The budget deficit in 1952 was Rp. 4.3 billion, compared to the surplus of Rp. 1.7 billion the preceding year.[72] In such a difficult situation, only those projects to support small-scale industries, which did not require either large investment or particularly skilled labour, were fully financed during the first year of the plan. In early 1952, the government expanded the *induk* projects, providing Rp. 14 million to establish ten other production centres.[73] As had been expected under the circumstances, the results of the projects for large-scale industries were very disappointing. The most that can be said is that a few printing presses were acquired by private Indonesian firms using state credit. The government itself financed five rubber re-milling factories, all much less than what private investors had accomplished of their

[69] *Indonesia Review* 2 (1954) 57.
[70] BI, inventory number 5383.
[71] *Indonesian Review* 1 (1954) 36.
[72] The Javasch Bank, *Laporan tahun 1952-1953,* p.108.
[73] Sumitro Djojohadikusumo (ed.), *The government's program on industries*, 11.

own accord in the meantime. No project was completed within the allotted two years.[74]

The most spectacular action undertaken under the Sukiman Cabinet was the nationalization of the Java Bank in 1951. The total capital of the bank amounting to Rp. 25 million was paid in full by the Indonesian government. In 1953, the name of the bank was changed into the *Bank Indonesia*, but its primary function as the central bank continued.[75]It was decreed by law that, from now on, only Indonesian citizens could sit on the management board. From the point at which it was nationalized in 1951, Sjafruddin Prawiranegara served as its first Indonesian Governor. The nationalization plan was also extended to public utilities and a number of mines and estates owned by private Dutch corporate firms. A report issued by the Board for Financial Supervision (Dewan Pengawas Keuangan) states that, by the end of 1951 the Indonesian government had obtained a leading share in the Bandung Public Electric Company (73 per cent) and the Surakarta Mineral Water Company (60 per cent), as well as a controlling interest in the Billiton Mining Company (62.5 per cent) and the Java Private Land Company (75 per cent). A Central Shipping Foundation (Penguasaan Pusat Kapal-Kapal, PEPUSKA), formed by the government in September 1950, succeeded in buying up six large Dutch ships and several smaller ones operating in East Indonesia.[76] The activities of PEPUSKA anticipated the establishment of the Indonesian National Shipping Company (*Pelajaran Nasional Indonesia,* PELNI) in May 1952. The objective of the PELNI was to wrest control of inter-island shipping from the Dutch Royal Packet Company (Koninklijk Paketvaart Maatschappij, KPM). Unfortunately a lack of expertise in leadership skills meant that the operations of PELNI were inefficient and it never achieved a position from which it could seriously challenge KPM.[77]

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[74] Lindblad, *Bridges to new business*, 81.

[75] BI, Nationalization of the Javasche Bank, inventory number. 3233; For more information about the nationalization of the Java bank, see: Budi Nofianto. *Nasionalisasi de Javasche Bank, tahun 1951-1953* (PhD dissertation, University of Diponegoro, Semarang, 2001).

[76] Dewan Pengawas Keuangan, *Pemberitaan Tahun 1951*.

[77] ANRI, Report of the Indonesian Sailor Union, 9 May 1953, KP, inventory number 9h.

The foreign exchange certificate system, which was put into place in March 1950, was devised to stimulate exports. The stumbling block on which it floundered was that the fluctuating prices on the home markets, as these were constantly being adjusted to the rampant inflation, made the system fiendishly complicated, not to mention that it was open to manipulation and hence invited corruption. On the advice of Hjalmar Schacht, in February 1952 the Sukiman Cabinet abolished the exchange certificate system replacing it with fixed export duties set at 331/3 per cent of the proceeds.[78] The cabinet simultaneously introduced the Export Dollar Certificate (Bukti Export Dollar, BED) which encouraged exports to the countries in the dollar zone, particularly the United States, Canada and Japan. Exporters with their sights set on dollar areas received a premium in BEDs worth up to 70 per cent of the amount of dollars submitted to the Foreign Exchange Institute. Conversely, traders needing dollars to import goods from dollar areas were obliged to buy BEDs to the full amount of the foreign exchange required.[79] The immediate effect of the new trade policy was a decline of exports from Indonesia to the Netherlands (Table 7, Chapter 3).

At this point, the Indonesian government imposed a specific policy which discriminated in favour of national importers, namely the *Benteng* Policy. *Benteng* (literally 'fortress') referred to those categories of goods which the government reserved for Indonesian importers.[80] Generally speaking, the government controlled 60 per cent of total exports. Part of this sum was reserved for highly privileged consumers, among them government's institutions, health centres and anyone trying to get industrialization off the ground; the rest was reserved for the *benteng* importers.[81] It is important to note that only ethnic Indonesians were eligible to participate in the *benteng* groups. The Indonesian leaders, referred to them as 'an economically weak groups' who

[78] ANRI, Laporan Dr Schacht, KP, Inventory number 262.
[79] Kementerian Penerangan, *Government statement on abolishment of system of foreign exchange certificates*, 11-02-1952.
[80] Mackie , 'The Indonesian Economy', 47-48; Richard Robison, *Indonesia; The Rise of Capital* (Singapore: Sydney: Allen&Unwin, 1986) 44-46.
[81] ANRI, Letter of Dr. Hjalmat Schacht to President of the Republic of Indonesia concerning the problem of economy and finance, 26 October 1951, KP, inventory number 262.

were entitled the government protection.[82] These protective measures began to bear fruit, beginning in March 1951 when the Sukiman Cabinet used foreign exchange certificates as import licences to monitor imports. A substantial number of the import licences were reserved for indigenous Indonesian importers. In 1952, 43 per cent of all foreign exchange was allocated to indigenous Indonesian importers, giving them a marked advantage over European firms (31 per cent) and Chinese traders (26 per cent).[83] The number of *benteng* importers rose from 250 by the end of 1950 to 741 in April 1952.[84]

As must already be obvious from what has been said previously, economic nationalism proceeded at a relatively slow pace between 1949 and 1953 but nevertheless it did progress. It was the Wilopo Cabinet which threw a spanner in the works and caused a slow-down leading to stagnation in the process. Confronted with serious, almost insurmountable financial problems, this cabinet concentrated its efforts on curbing inflation and reducing routine government expenditure. The first to feel the pinch were importers of luxury and semi-luxury articles on which stringent restrictions were placed and a number of ministries had no option but to accept severe budget cuts. In April 1952, the National Planning Bureau, in which foreign specialists also participated, was set up. Its task was to make adjustment to economic projects to bring them into line with the critical situation. While a long-term economic plan was being drawn up, in June 1952 Prime Minister Wilopo announced that the period for implementing the short-term projects proposed under the Sumitro Plan would be extended to three years.[85] The new policies laid down that only industries which seemed capable of producing goods at a better price than continuing to import them would be given the go-ahead to develop. A Supply Council (Dewan Perlengkapan) was established to compile lists of what supplies were really required by ministries and government departments. The

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[82] According to Article 11 of the Financial and Economic Agreement, the Indonesian government had the right to make regulations necessary to safeguard national interest and protect economically weak groups.
[83] Lindblad, *Bridges to new business*, 131.
[84] Sutter, *Indonesianisasi*, 1021.
[85] *Ichtisar Palemen* (1952) 571.

government could refer to this in its efforts to find a balance between imports and manufacturing.[86] The combination of competition from cheap import products and a lack of government support meant that a large number of Indonesian smaller entrepreneurs, especially textile producers, who still had to use traditional obsolete technologies, went bankrupt.[87]

In January 1953, the government issued a decree to regulate the establishment of new enterprises. In it four categories of enterprise were distinguished. Enterprises important to the security of the country, public utilities, non-profit enterprises and enterprises traditionally undertaken by the state were operated only by the state. Indonesian citizens (*warge-negara Indonesia*) operated enterprises which had traditionally been the prerogative of Indonesian nationals (*bangsa Indonesia*). Such enterprises did not require foreign capital and/or foreign experts. In any joint enterprises, Indonesian citizens had to have a major participation in the stock capital, which would automatically give them more votes in such companies. Enterprises which did not fit into the categories above were opened up for foreign capital. This did not offer an open playing field as the decree stressed the Indonesian government reserved the right to restrict the co-operation when it considered it was necessary to intervene to give Indonesian nationals the opportunity also to participate. The use of Indonesian labour was clearly detailed in Article 20 of the decree which stipulated that work usually done by Indonesians must be reserved for the Indonesian people. Indonesian members must be in the majority on the board of directors and each foreign director had to be assisted by one deputy-director who was an Indonesian national. At least 70 per cent of the staffs of the company and 90 per cent of the lower positions had to be composed of Indonesian citizens.[88]

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[86] Members of The Supplies Council consisted of the Minister of Economic Affairs, the Minister of Finance, the Minister of Minister of Education, Teaching and Culture, the Minister of Agriculture, the Minister of Public Works and Labour, the Minister of Transportation and the Minister of Defence. Peraturan perlengkapan untuk perkembangan perindustrian. Kementerian perekonomian, Jakarta, 28 January 1953. ANRI, KP, inventory number 1543.
[87] BI, Inventory number 5383.
[88] ANRI, Peraturan mendirikan perusahaan2, 29 Djanuari 1953, KP, inventory number 1537.

Obviously, these new regulations were drawn up to protect the interests of the Indonesian people but this did not mean that they did not provided foreign capital with wider opportunities to invest in Indonesia. In July 1952, Minister of Economic Affairs Sumarang suggested the return of the oil installations in Bangkalan Brandan, North Sumatra, to Royal Dutch Shell. In early 1953, Prime Minister Wilopo also announced that the government was preparing new statements on foreign investment policy.[89] These statements turned out to be rather premature as neither the bill on the Statement on Foreign Investment Policy nor the restoration of Dutch-owned oilfields was approved by Parliament. In fact, criticisms of the foreign economic outlook of the cabinet eventually forced Wilopo to resign. Despite this upset, when the first Ali Cabinet took office in July 1953, the matter of foreign investment policy was still occasionally being brought up for the discussion, albeit sporadically as the attitude of the government at the time towards foreign enterprises was anything but congenial.[90] The protracted nature of negotiations is shown by the fact that it was not until the Harahap Cabinet took office in August 1955 that an agreement between BPM and Masjoemi was reached. Masjoemi promised to return the oilfields on condition that the current supervisor, Djohan, be allowed to retain in office.[91]

Under the first Ali Cabinet, economic nationalism was again taken up at a new accelerated pace. In contrast to the policies of restricting imports pursued by the Wilopo Cabinet, the first Ali Cabinet accorded the development of trade, particularly imports, a high priority. The moving force behind this, Minister of Economic Affairs Iskaq Tjokroadisurjo, considered an equitable settlement of the issue of import licences and credits an effective means to raise government revenue and improve the position of Indonesian trading enterprises. Consequently, it was during Iskaq's incumbency as Minister of Economic Affairs, that the *Benteng* Policy was pursued most aggressively. The number of

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[89] ANRI, Proposal of the Economic and Financial Council, 15 May 1952, KP, inventory number 292.
[90] Glassburner, 'Economic policy-making in Indonesia', 126.
[91] Lindblad, *Bridges to new business*, 154.

recognized national trading firms rose to at least 2,111, possibly even as high as 4,000 by March 1955.[92] The percentage of total exchange allocations for imports to national importers increased from 37.9 per cent in 1953 to 80 and 90 per cent in late 1954.[93] The government agency in charge of granting the credits was PNI, which co-operated with Indonesian importer associations to channel the flow of credits to their members.[94]Private Indonesian banks was one sorts of institutions for which the first Ali Cabinet provided credits to encourage their establishment. It was expected that they would serve national enterprises better. In effect, the number of private national banks rose from twenty in mid-1953 to seventy-five at the end of 1955.[95]

In February 1953, the Indonesian government took over the exploitation of the Batavian Transport Company (Bataviasche Verkeers Maatschappij, BVM). The company was subsequently transformed into a state-owned Jakarta Transport Company (Perusahaan Pengangkutan Djakarta). The Indonesian government paid the Dutch owners Rp. 4.3 million.[96]A plan for nationalization of gas and electrical companies was also drawn up by the government in early 1953. Several branches of OGEM and ANIEM were also brought under the control of the Indonesian government in 1954. The Dutch owners received Rp.15 million, far less from their original demand of Rp.52 million.[97] In 1954, the government bought up the Dutch share in GIA, transforming it into a fully state-owned enterprise in which the role of KLM was henceforth limited to providing technical assistance.[98] The government had also a plan to buy Fuchs & Rens, the main Dutch manufacturer of rolling stock and motor cars, which owned four assembling plants in various locations in Indonesia. The estimated

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[92] ANRI, Penarikan hot-money, screening import dan importer nasitional, 1 March 1955, KP, inventory number 1593.

[93] Feith, *The decline of constitutional democracy*, 9, 375; Bondan Kanumoyoso*, Nasionalisasi perusahaan Belanda di Indonesia* (Jakarta: Pustaka Sinar Harapan, 2001) 9.

[94] Sutter, *Indonesianisasi,* 1035.

[95] Sutter, *Indonesianisasi,* 997.

[96] ANRI, Nasionalisasi Bataafsche Verkeers Maatschappij (B.V.M), 26 Feberuay 1953.KP, inventory number 1528.

[97] ANRI, Nasionalisasi perusahaan listrik dan gas, KP, inventory number 1577.

[98] Lindblad, *Bridges to New Business,* 113-5; Thee, 'Indonesianization', 26; Daan Marks, 'The Lost Decades?',*Itinerario* 34/1 (2010) 85.

cost was 1.5 billion guilders, payable within five years up to 1959.[99] A shortage of funds derailed this project and no further nationalization of Dutch enterprises, including Fuchs & Rens, was effected during 1956 and 1957.

As it had sounded the death knell of the efforts to industrialize, the shortage of capable trained Indonesian entrepreneurs likewise frustrated the *Benteng* Programme. A large number of the people involved in the business of importing had had no previous commercial experience. The new national companies were frequently *importir aktentas* (brief-case firms), which kept themselves afloat by reselling licences to foreign and Chinese enterprises. They were also frequently called 'Al-Baba' firms, straw-man Indonesian-Chinese establishments in which 'Ali', the Indonesian titular head, secured the licences and 'Baba', his Chinese associate, ran the business.[100] In early 1955, the Central Import Office estimated that only fifty of the many national importing firms were bona fide establishments, and another 200 concerns hovered on the borderline. Deputy Prime Minister Wongsonegoro added that as many as 80 per cent of licences allocated to national importers were in fact being sold on to non-indigenous traders.[101] The perversion of the *Benteng* Programme and the arbitrary allocations of government credit, if not sheer unadulterated corruption, eventually forced Iskaq to resign in November 1954. When Roosseno succeeded Iskaq, his first task was to rationalize the *Benteng* Policy, a task which he commenced by ordering a rescreening of the 4,300 persons already accredited as national importers. He worked from a premise that sixty to seventy importers would be really sufficient to cover the import needs of Indonesia. By coincidence, shortly after the rescreening had begun, Roosseno stated that only 10 per cent of the 600 importers already screened could be considered bona fide.[102]

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[99] ANRI, Report by Dr. A.K. Gani, KP, inventory number 1579.
[100] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment*, 171; Thee, 'Indonesianization', 32-33; Bondan Kanumoyoso, *Nasionalisasi perusahaan Belanda*, 14-15.
[101] Amstutz, *The development of indigenous Indonesian importers*,144.
[102] Sutter, *Indonesianisasi*, 1027.

With the return of the more moderately-minded Sumitro Djojohadikusumo to the Ministry of Finance, the economic policies of the Indonesian government tended to focus on solving the most immediate economic problems, rather than the rather more distant issues of nationalism and ideology. The cabinet decided that getting inflation under control was the most pressing necessity as it was convinced that economic stabilization was the most urgent step. The best way to achieve this goal was by expanding production and this would have to take precedence over the ideal of the indigenization of ownership. The ailing *Benteng* Programme was finally abolished under the Harahap Cabintet. All businessmen who were citizens of Indonesia, regardless of ethnic origin, were accorded the same priority.[103] Importers were now required to advance the full value of the goods they intended to purchase abroad at the time they applied an import licence. The results of this action were not long in making themselves felt. By November 1955, the supply of money had been reduced by nearly Rp. 600 million (5 per cent), and the indices of imported goods fell by 15 per cent to 27 per cent in December 1955.[104] Furthermore, imports of raw materials for industrial production in 1955 increased considerably, for instance caustic soda (doubled), dye materials (2.5 times) and cotton (1.5 times) compared to 1954.[105]

The most major drastic action of the Harahap Cabinet was the unilateral abrogation of the Round Table Conference agreements. It did this in March 1956, only one month before the cabinet returned its mandate. When Ali Sastroamidjojo resumed cabinet leadership, he upheld the decision and finally, on 4 August 1956, the cabinet officially announced that it repudiated the 3,241 million guilders of the remaining debt to the Netherlands. This amount corresponded to only 18 per cent of the total debts which the Indonesians had agreed to pay to Netherlands at the Round Table Conference in November 1949. In principal, the Indonesian government recognized the 871 million

[103] Thee, 'Indonesianization', 32-33.
[104] BI, Quantitative and descriptive date concerning the economic situation, period October-December 1955, inventory number 4597.
[105] BI, Laporan tahun pembukuan 1955-1956, pp 127,194.

guilders which composed the pre-war debts of the Netherlands Indies government, of which 210 million had already been paid off. It refused to pay the 3 billion guilders of internal debts and the 420 million guilders to third parties (mainly the United States, Canada and Australia), arguing that these debts were contracted by the Netherlands Indies government to buy arms for the purpose of attacking the Republic of Indonesia. In the final balance, since the Indonesian government had already paid 120 million guilders and would continue to pay the remaining debts to third parties, the balance of pre-war debts to the Netherlands was reduced to 241 million guilders. Given that the total budget deficit of the Netherlands Indies Government between 1946 and 1949 amounted to almost 5 billion guilders, and the sole source for meeting the deficit was to print paper money through the Java Bank, the Netherlands Indies Government in fact owed Indonesian society, not the Java Bank. Although the Dutch government agreed to wipe out 2 million guilders, it was still indebted to Indonesian society to the tune of 3 billion guilders. The Indonesian authorities thought that this indebtedness of the Dutch was large enough to warrant the offset of the responsibility of the Indonesian government to pay the sum of 241 million guilders to the Dutch. Indonesia no further had a debt to the Netherlands.[106]

The second Ali Cabinet also revitalized many of the policies of discrimination against foreigners devised by the previous cabinets. In May 1956, the cabinet decided not to return the oil installations in Sumatra to the Royal Dutch Shell. Instead, an army-controlled company, called North Sumatra Oil Extraction Company (Eksploitasi Tambang Minjak Sumatera Utara, ETMSU), was established to take control of the oilfields in that region.[107] The following month, the cabinet submitted a draft for a Foreign Investment Bill to Parliament. Under its term, foreign capital would be banned from investing in social enterprises and public utilities. Owing to the prevailing economic climate,

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[106] NA, Betaling schulden door Indonesië, 2 July 1956, EZ, inventory number 125; Ministry of Foreign Affairs Indonesia, *Explanation of government of Republic of Indonesia's statement of 4 August 1956* (Jakarta: Ministry of Foreign Affairs, 1956).

[107] Aden, *Oil and politics, 161-162*; Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 159.

no Foreign Investment Law was promulgated until 1958, ironically right around the time that the Indonesian government decided to nationalize Dutch enterprises and seize Chinese businesses.[108] In October 1956, the cabinet launched the long-awaited Five-Year Development Plan (1956-1960) which had been being prepared by previous cabinets.[109] Two months before the second Ali Cabinet returned its mandate, in February 1957, the Indonesian government announced its plan to nationalize various branches of OGEM in Makassar and Medan in 1958 and ANIEM in 1959-1960. The seemingly ineradicable labour problem meant that the nationalization of the electricity and gas companies in South Sumatra had to be postponed.[110] Following the advent of the Guided Democracy, all the economic efforts made by Indonesian cabinets since independence, including those of the second Ali Cabinet, were reformulated and incorporated into the new scheme for the Guided Economy.

In short, with the exception of the nationalization of the Java Bank, GIA and a number of public utilities, no other significant transfer of economic ownership from the Dutch to Indonesian hands occurred during the period between the Transfer of Sovereignty and December 1957. Realizing that an immediate dismantling of the former colonial economic system while the country was still facing an acute shortage of capital and skilled employees would spell economic dislocation and hardship, Nationalist leaders in successive Indonesian cabinets in the early 1950s adopted pragmatic measures. While foreign firms were encouraged to continue their operations, vigorous efforts were made to develop new state-owned enterprises and build up a national business class. Dutch firms were requested to provide financial and technical assistance for government projects and to train Indonesian employees,

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[108] Hal Hill, *Foreign investment and industrialization in Indonesia* (Singapore: Oxford University Press, 1988) 5; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 187; Lindblad, *Bridges to new business*, 204. For an English translation of the Indonesian foreign investment law of 1958 in: Paauw, *Financing economic development*, Appendix H.

[109] See summary of the Five-Year Development Plan in: Paauw, *Financing economic development*, 363-392.

[110] ANRI, Resolution of the Indonesian Labour Union of Electricity and Gas (Seriat Buruh Listerik & Gas Indonesia, SBLGI), branch of Palembang, 1 March 1957, KP, inventory number 1528.

who could gradually be promoted to management positions in the companies. The overriding desire of the government to promote the economic strength of Indonesians to counter the domination of Dutch and Chinese firms was eventually frustrated by the unstable political system and particularly the weakness of the administrative apparatus.

4. Entrenched Dutch Position

The disappointing performance of the *Indonesianisasi* process in the early 1950s can also be laid at the door of the Dutch hesitance to co-operate with the Indonesian government. In its policies, the Indonesian government failed to make the most of the advantages which it might have received from Dutch firms, which would have supported the policy of economic nationalism. Under the first four cabinets in what Sutter has labelled 'the Masjoemi period', foreign firms seized by the Indonesian authorities during the revolution were speedily returned to their former owners. By 1952, about 98 per cent of the rubber estates, 88 per cent of the palm oil estates and 80 per cent of the fibre estates in the Medan region had been returned to their owners. Likewise, most estates in West Java and about 60 per cent of the estates in East Java had also been returned by the end of 1952. In total, by the end of 1952, about 70 per cent of the foreign estates in both Java and Sumatra had been returned to their original owners. In absolute terms, the number was 1,140 estates, covering 2 million hectares. Another 466 estates, totalling 480,000 hectares, accounting for 20 per cent of the total area were also returned in the new few years. Only some smaller estates were not returned, in part because the owners no longer wanted them and local conditions made it too difficult for them to have resumed their property. The big three foreign oil companies, namely Shell, Stanvac and Caltex, also returned, as did most of the foreign companies in the manufacturing sector.[111]

In principal, 40 per cent of the profits made by foreign capital must be paid into the public treasury in the form of company taxes. For the remittance of

[111] Sutter, *Indonesianisasi,* 695-702; Aden, *Oil and politics,* 132-133.

money to foreign countries, foreign exchange certificates had to be bought for up to 200 per cent of the value of the money remitted. Any overseas transfers of foreign currency must have the permission of the Foreign Exchange Control Institute (Lembaga Alat-alat Pembayaran Luar Negeri, LAAPLN).[112] Over and above these demands, export duties (about eight per cent of the value of the goods) and other levies were imposed. The oil imports and exports were exempted from the foreign exchange regulations. 'Let Alone Agreements' signed in 1948 between the Republican government and foreign oil companies were still in force. More than 50 per cent of the profits of foreign oil companies had to be paid to the Indonesian government.[113] Initially, foreign companies were allowed to transfer 100 per cent of after-tax profits gained overseas, but in July 1953, the Ali Cabinet introduced new regulations, which allowed foreign companies to transfer only 40 per cent of their net profits. In March 1954, these regulations were reformulated and a 66 per cent levy was imposed on all overseas transfers. In May 1954, new more severe restrictions were placed on imports, and the corporate tax rate rose to as high as 52 per cent.[114] Foreign manufacturing firms were prohibited from distributing their own goods in Indonesia; they had to hand this over to distribution firms owned by Indonesians.[115]

At this distance in time, it is difficult to examine just how far the Indonesian government was in control of the overseas transfer of profits by foreign companies. It was certainly not as much as it had hoped, as will be revealed in the next chapter. Only later did the Indonesian authorities discover the full extent of unauthorized oversee transactions by Dutch and Chinese firms, when these were used as evidences against Dutch claims for compensation after nationalization or as a justification for the confiscation of the Chinese businesses. Clear cut evidences of Dutch and Chinese attempts to counteract the discriminatory policies of the Indonesian government are certainly evident in

[112] ANRI, Government regulation, 20 February 1952, KP, inventory number 1532.
[113] *Indonesian review* 1, 4 (1951)
[114] Meek, *The government and economic development,* 196-198.
[115] Anspach, *The problem of a plural economy*, 203.

their reactions to the *Benteng* Programme. Besides fostering their association with the Indonesian brief-case firms, Dutch and Chinese corporate firms established their own Indonesian branches as a legitimate route to obtain import licences from the Indonesian authorities. The *Indoprom* Company, for instance, was a *benteng* importer recognized by the Indonesian authorities in November 1950. It co-operated closely with the *Indoprom* Company in Japan and the *Indoprom* Company in Hong Kong, as well as having various agencies in Singapore, Rotterdam, New York and Sydney. Although two-thirds of the shareholders of the company were Indonesian citizens, the director and his deputy, Tan Thong Yam and Tan Thong Kie, were Chinese descent.[116] A similar example is the Libra Company which was listed as a *benteng* firm. Nevertheless, 90 per cent of its employees, including its directors, were former employees of the Dutch trading firm *Lindeteves*. *Libra* received its capital and took instructions from *Lindeteves*, *de factor* serving as a branch of this Dutch company.[117]

Indonesian efforts to co-operate with Dutch firms in setting-up of joint ventures were only successful in the case of aviation and a small number of industrial enterprises. KPM consistently refused to co-operate with the Indonesian government so that it still remained the central transport apparatus under the Dutch flag.[118] Indonesian efforts to elevate the position of the Indonesians in the Dutch companies were also often unsatisfactory. Dutch companies were reluctant to promote Indonesian employees to higher-ranking management positions. They routinely stated that there were not enough qualified Indonesians to replace European expatriates.[119] It was not until 1952, when the Indonesian government introduced immigration quotas restricting the entry of expatriates from the Netherlands, that Dutch companies began to put

[116] ANRI, Letter of the Director of the Indoprom Company to Department of Private Business, Jakarta, 16 December 1952 and Letter of the director of Indoprom Company to the Department of Benteng Administration, 10 January 1953, KP, inventory number 1528.
[117] ANRI, Penarikan hot-money, secreening import dan importer nasitional, 1 March 1955, KP, inventory number 1593.
[118] Howard Dick, *The Indonesian interisland shipping; An analysis of competition and regulation* (Singapore: Institute of Southeast Asian Studies, 1986) 14-16.
[119] Meijer, *Den Haag-Djakarta,* 352; Van de Kerkhof, '"Colonial enterprise', 180.

Indonesians into the positions in the lower and middle management ranks vacated by Dutch people. In large firms, new positions for relatively high functionaries were created, such as the *Staf Indonesia* (Indonesian Staff) in the trading firm *Internatio* and the *mandur* (foremen) in the estate company Oud Djember (Landbouw-Maatschappij Oud-Djember, LMOD).[120] Needless to say, these efforts to pay lip service to the Indonesian government regulations did not meet Indonesian Nationalist aspirations. The positions vacated by Dutch were often taken by Chinese Indonesians rather than by indigenous Indonesian employees. The top management remained exclusively in Dutch hands.[121]

The result of the failure of the *Indonesianisasi* was that the Indonesian economy in the early 1950s retained many colonial characteristics, especially its dualistic nature, represented most unequivocally in the sharp cleavage between the modern sector and the traditional rural, subsistence agricultural sector. By 1952, the modern sector still constituted 24 per cent of Indonesian GDP compared to the 32 per cent it had been in 1939.[122] No less than 35 per cent or more than one-third of total revenue were derived from foreign trade.[123] The economy was still largely geared towards the production and export of a limited number of agricultural products and the extraction of raw materials by mining, the most important of all these being oil. In 1955, for instance, almost 80 per cent of export revenue was derived from four export products: rubber, tin, copra, and oil. Rubber alone accounted for about 50 per cent of the total export value (Appendix, Table 12). The rural economy was so under-commercialized that in 1955 only 9.4 per cent and in 1956 6.7 per cent of rice production in Java and Madura was being milled commercially.[124] Dutch firms and some British

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[120] Van de Kerkhof, ' "Colonial" enterprise and the indigenization of management in independent Indonesia and Malaysia", in: Lindblad and Post (ed.) *Indonesian economic decolonization*, 182; Van de Kerkhof, 'Indonesianisasi of Dutch Economic Interests; The Case of Internatio, 1930-1960', *Bijdragen tot de Taal-,Land-en Volkenkunde* 161 (2005)196.

[121] Van de Kerkhof, '"Colonial" enterprise', 183.

[122] Hans O. Schmitt, 'Foreign capital and social conflict in Indonesia', 286; Higgins, *All the difference*, 51.

[123] Sumitro Djojohadikusumo, *Facing the situation* (Jakarta, Ministry of Information, 1952) 7.

[124] Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 174; Paauw, *Financing economic development;* 205.

and American multinationals dominated the modern sector. Most indigenous Indonesians were still engaged in agriculture and making handicrafts. The Chinese middlemen formed the nexus between the two sectors.

Despite Indonesian control of a number of oil installations in North Sumatra, the oil sector was predominantly managed by three big foreign companies (Royal Dutch Shell, Stanvac and Caltex) and four marginal (the Amsterdam Algemeen Petroleum Corporation, the Surabaya Oriental Petroleum Corporation, the Borneo Oil Company and the Sekoerau Petroleum Company). The insurance sector was likewise completely dominated by 110 foreign insurance companies. It was not until June 1950 that the first Indonesian insurance company (Maskapai Assuransi Indonesia) was opened its door for business.[125] In the commercial sector, in 1952 four leading Dutch trading firms handled 50 per cent of all consumer imports, and eight firms controlled 60 per cent of all exports, excluding copra, tin, and cinchona.[126] Private banking was largely in the hands of seven foreign banks, of which three were Dutch-, three Chinese-, and one British-owned.[127] The Dutch businesses in post-colonial Indonesia continued to be very profitable. Between 1954 and 1957, annual remittances of profits to the Netherlands amounted to 900 million to 1 billion guilders, contributing to 2.9 to 4.5 per cent to the national income of the Netherlands (Appendix, Table 14). The lure of such profits encouraged Dutch firms to continue to invest around 1.5 billion guilders in Indonesia between 1950 and 1958.[128] By the time of the take-over in December 1957, Dutch firms controlled about 50 per cent of all estate acreage and about 60 per cent of Indonesian foreign trade.[129]

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[125] Indonesian review 4 (1951)
[126] Meek, *The government and economic development,* 168; Higgins, *All the Difference,* 168.
[127] De Javasche Bank, *Laporan Tahun Pembukunan 1949/1950*, 43-4; Meek, *The government and economic development,* 164.
[128] H. Meijer, *Den Haag-Djakarta*, 497,529; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 183.
[129] Golay, Anspach, Pfanner, and Ayal, *Underdevelopment and economic nationalism*, 180.

Table 10: The importance of the Netherlands in Indonesian trade, 1950-1957 (in percentages)

Year	The share of Indonesia in Dutch imports	The share of Indonesia in Dutch exports	The share of the Netherlands in Indonesian imports	The share of the Netherlands in Indonesian exports
1950	-	-	17.2	25.3
1951	-	-	12	20.6
1952	6.4	5.6	13	21.4
1953	5.5	3.6	11.8	23
1954	4.8	2.6	10.5	19.5
1955	3.0	2.5	11.7	15.8
1956	3.1	2.9	10.7	19.5
1957	2.9	2.3	9.8	-

Source: NA, *Het economisch belang van Indonesië voor Nederland in 1957*, EZ, inventory number 127, in adjustment with *Statistical pocket book of Indonesia* (Jakarta: Biro Pusat Statistik, 1957) pp. 100-101.

Post-colonial Indonesia still continued to experience a considerable trade surplus with the Netherlands. For the period from 1948 to 1957, the trade surplus of Indonesia with the Netherlands was 58 per cent. In the peak year of 1954, the surplus mounted to 127 per cent (Table 7, Chapter 3). Ironically, more than in the first two decades of the twentieth century, when the trade surplus of the Netherlands Indies with the Netherlands amounted to 25-40 per cent (Chapter One). Although the Indonesian government tried to guide trade relations in the direction of countries in the dollar zone, the Netherlands still remained an important trading partner of Indonesia until 1957. A comparison with the late colonial period shows that the share of Indonesia in Dutch imports in the early 1950s remained the same, but its share in Dutch exports was reduced to half. Clearly the importance of the Netherlands in Indonesian imports declined in the 1950s, but, conversely, the share of the Netherlands in Dutch exports remained large. Exports to the Netherlands accounted for 20-25 per cent of all Indonesian exports between 1950 and 1957, with the exception of a remarkable decline in 1955 when it was only 16 per cent, probably the result of the intensified screening of trading firms by the Indonesian government (Table 10). Importantly, this share was not significantly different from the 16.5-32 per cent of the late colonial period. In a nutshell, post-colonial Indonesia continued to remain highly dependent on the Dutch market.

Understandably the continuing domination of the Indonesian economy by Dutch firms after independence stirred negative public sentiment. One of the best illustrations of the reactions by the local population to the restoration of Dutch firms is the upset known as the Tanjung Morawa Incident, which flared up in early 1953. Tanjung Morawa had originally been a Dutch tobacco estate, which had been occupied by Chinese families since the late 1940s. In 1951, the Indonesian government decided to return part of the property to its Dutch owners. The Chinese families, who were supported by the local peasant unions, refused to leave. Finally, in March 1953, the Indonesian government sent police to clear the land. At this point the conflict escalated into a confrontation between the police officers and 1,500 demonstrators supporting the Chinese families. The conflict resulted in the death of five demonstrators and several more people were injured. Although the government eventually did clear the land, it was not long before the Tanjung Morawa Incident escalated into a serious political issue, which contributed to the downfall of the Wilopo Cabinet in June 1953.[130]

Trade unions were the most vigorous activists in protests against Dutch business. In July 1953, the trade union of the Padalarang Paper Factory passed a resolution demanding that the government nationalize the company and made it state property.[131] Likewise, in March 1954, a branch of the Indonesian Trade Union of Electricity and Gas Workers (Seriat Buruh Listerik & Gas Indonesia, SBLGI) in South Sumatra issued a resolution, urging the government to nationalize all gas and electrical companies in Indonesia and make these 100 per

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130 Pelzer, *Planters against peasants*, 50-71.
131 ANRI, Nationalization of the Padalarang Paper Factory, 5 July 1953, KP, inventory number 1528.

cent state property.[132]In the wake of this action, shortly afterwards branches of SBLGI in other provinces issued similar resolutions. Workers in ANIEM quit their jobs and moved to the newly established electricity companies, many of which had actually formerly been branches of ANIEM.[133] In a resolution presented to the Indonesian government in June 1956, SOBSI estimated that the Dutch still controlled 669 plantations, covering more than 1 million hectares. Many of the plantations had been sold to the Chinese and other foreign nationals, instead of Indonesians. Incensed, SOBSI strongly urged the government to confiscated Dutch estates, whose land leases had expired.[134] In the midst of this unrest, attitudes towards Dutch business hardened after the Independence Day speech of President Soekarno on 17 August 1956. The President warned that Dutch colonialism in the Indonesian economy had not yet been overthrown. He supported the action by the Harahap Cabinet when it unilaterally abrogated the Round Table Conference agreements and called for further actions to expel the residue of foreign domination of the Indonesian economy.[135] In the three months between September 1956 and December 1957, numerous requests from various trade unions and occupational associations were submitted to the Indonesian government, demanding that Dutch enterprises be nationalized and that control of these enterprises be handed over to their organizations. The hotbed of political tensions in late 1957 created conditions under which trade unions could undertake spontaneous actions against Dutch business interests.

Conclusion

As Bruce Glassburner has said, the years from 1950 to 1957 in Indonesia are best understood as years of a hopeless losing battle on the part of a very small group of pragmatically conservative political leaders, whose ideas were on a

[132] ANRI, Resolution of SBLGI, March 1954. KP, inventory number 1528.

[133] ANRI, Resolution of the SBLGI, branch of Cebu, 3 October 1954; KP, inventory number 1528; Resolution of the SBLGI of East Sumatra. KP, inventory number 1558.

[134] ANRI, Resolution of the SOBSI, 9 June 1956, KP, inventory number 1528.

[135] ANRI, 'Lenjapkan kekuasaan asing atas ekonomi Indonesia', Resolution of the East Workers Union of the Republic of Indonesia (Sarekat Buruh Perkebunan Republik Indonesia, SARBUPRI), 23 August 1956, KP, inventory number 1558.

collision course with an increasingly powerful political opposition whose orientation was generally radical.[136] The pragmatic conservative group had largely dominated the government during the first three years after the Transfer of Sovereignty. It consisted of members affiliated to Masjoemi, PSI and the moderate faction of PNI, or else of non-party members. Most of them had enjoyed a Western education and some had participated in the negotiations at the Round Table Conference. Their chief concern was the economic development and the concomitant stability of the country, which they believed should take precedence over matters of ideology. The political opposition group which opposed this cautious approach had begun to exert an increasing influence since the time of the first Ali Sastroamidjojo Cabinet, although the pragmatic conservatives once again managed to revitalize their power in the Burhanuddin Harahap Cabinet. Members of the radical oriented and extreme Nationalist groups were loyal followers of PNI, Murba, the Labour Party and some smaller Nationalist parties. Despite its strong presence in Parliament, particularly after the general elections of 1955, PKI was not invited to take any cabinet position. The ultimate goal of the radically minded, extreme Nationalist politicians was an independent national economy based on the Indonesian concept of socialism. They demanded the immediate nationalization of all vital enterprises at that moment still owned by the Dutch and the introduction of a co-operative economic system, in which state enterprises would play the pivotal role. The resultant political splits inside the government were the main reason for the frequent succession of cabinets, a situation which made it difficult to produce strong national leadership and formulate long-term policies for Indonesia in immediate post-independence period.

With the predomination of the pragmatic group in the government, the Indonesian economy in the early 1950s was operated on the basis of a mixed pattern, exhibiting both capitalist and 'socialist' characters. The pragmatic Nationalist leaders realized that they could not dismantle the colonial and capitalist structure of the economy overnight since the country was suffering from an extreme shortage of both capital and skilled labour. Moderate measures

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

were therefore adopted and efforts were thrown into utilizing the advantages of foreign companies to support economic nationalism. Nationalisation affected only the central bank, the national carrier and a small number of public enterprises. Meanwhile, discriminatory policies were also taken to promote state-owned industries and indigenous entrepreneurship. The apparent failure of the *Indonesianisasi* campaign was most clearly demonstrated by the continuing domination of Dutch and other foreign firms in the important sectors of the Indonesian economy throughout most of the 1950s. Public sentiment of the economic domination of the Dutch escalated in the mid-1950s and culminated in the take-over of Dutch-owned firms in December 1957. Ironically, the subsequent advent of the policy of Guided Economy coincided with the period of intensified collectivization movement in North Vietnam. The upshot was that after a period of diverging developments, the economic struggle in Indonesia and Vietnam again run parallel.