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CHAPTER FIVE

THE GUIDED ECONOMY

'*Tahun "Vivere Pericoloso"*' - Soekarno

Introduction

The introduction of Soekarno's *Konsepsi* in February 1957 led directly to the formation of the *Cabinet Karya* and the National Council and signified a really major change in the political system of post-colonial Indonesia. The message it gave was that Parliamentary Democracy on the basis of a multi-party system was no longer considered appropriate to the nation. It had not lasted for very long, just over a decade in fact, and was replaced in July 1959 by a far more authoritarian system, labelled Guided Democracy, akin to the first Presidential Cabinet established in the early months after the Proclamation of Independence in 1945. Guided Democracy effectively restored and expanded the executive powers of the President, and it opened the door for the military to participate actively in state affairs. In the unpromising climate it created, most political parties suffered a catastrophic decline. The exception was the Communist party, which experienced an unprecedented rise and was also warmly supported by President Soekarno who saw it as a political counterpoise to the armed forces.[1] An essential and integral part of Guided Democracy was the Guided Economy,

[1] Herbert Feith, 'President Soekarno, the Army and the Communists; The triangle changes shape', *Asian Survey*, 8 (1964) 977-978; Herbert Feith, 'Dynamics of Guided Democracy', in Ruth T. McVey (ed.), *Indonesia* (New Haven: HRAF, 1963) 338; Rex Mortimer, *Indonesian Communism under Soekarno; ideology and politics, 1959-1965* (Singapore: Equinox Publishing, 2006) 79.

which in effect established direct state control and management of the important segments of the national economy.

The institutionalization of Guided Democracy and its component Guided Economy, which coincided with the take-over and subsequent nationalization of private Dutch companies in the late 1950s, at long last signalled the realization of the primary objectives of economic nationalism as these had been formulated by the Indonesian leaders, albeit cautiously, and enshrined in the 1945 Constitution which was restored in July 1959. This chapter is a discussion of the final phase of the transformation into an independent national economy in Indonesia, arguing that in ideological terms the Guided Economy represented the highest expectations of what the Indonesian leadership thought an ideal economic system should be. It examines the transformation in the economic management apparatus, from a liberal-democratic system to a guided counterpart, characterized by strong military intervention. The domination of Communist views as an integral part of state ideology under the Guided Economy as this was formulated by President Soekarno will be analysed in some details. Particular attention will be paid to the forcible eradication of foreign economic factors and the efforts undertaken to convert foreign assets into the state-controlled sectors. It will also examine government control of other sectors, including private enterprises and co-operatives, in order to paint a more comprehensive picture of the Guided Economy. Although the system of the Guided Economy in Indonesia bore some resemblance to the centrally planned economy in North Vietnam as this existed from the late 1950s, this study certainly does not argue that these two models were identical.

1. The Military-Civil Administration

Military involvement in economic affairs in Indonesia had commenced immediately after Independence. Various defence organizations participated actively in the take-over of enterprises previously controlled by the Japanese (Chapter Three). Under the system of Parliamentary Democracy, the prime concern of Indonesian military officers was their conventional task as guardians of the state, rather than any special intervention in politics and business. The attempted coup by the army on 17 October 1952, in which President Soekarno was asked to resume control of the government, was the single most resounding action in reaction to the weakness of the civilian government undertaken by the deeply divided army in the early 1950s. In this period, army commanders in North Sumatra and North Sulawesi were engaged in illegal business with local traders in their attempts to raise essential funds for their troops. These actions were necessitated by an inadequate financial supply from the cash-strapped central government.[2] All in all, the army played a passive role in the political and economical life of the country until at least the end of 1956.[3]

Military involvement in political and economic affairs changed all of a sudden after President Soekarno declared nationwide martial law in March 1957.[4] This measure was primarily based on the colonial Regulation on the State of War and Siege (Regeling op den Staat van Oorlog en van Beleg, SOB) of September 1939. It had remained in force under the Republic of Indonesia as the proposed Law on National Emergencies stipulated in the Provisional Constitution of 1950 had never been drafted.[5] The terms of SOB decreed the subordination of civilian authority to military command.[6] Inevitably, it affected

[2] Ruth McVey, 'The Post-revolutionary transformation of the Indonesian army', *Indonesia* 11 (1971) 152-153; Harold Crouch, *The army and politics in Indonesia* (Ithaca: Cornell University Press, 1978) 38.

[3] Daniel S. Lev, 'The political role of the army in Indonesia', *Pacific Affairs* 36 (1963-1964) 350; Crouch, *The army and politics*, 38.

[4] In fact, ever since the Transfer of Sovereignty various parts of Indonesia had been under the State of War, in Java because of the activities of the Darul Islam and other armed bands, in the Molucas as the result of the continuing resistance encountered from Soumokil's separatist *Republik Maluku Selatan* forces, in South Sulawesi on the account of the rebellion of Kahar Muzakar and his followers. In December 1956, dissident officers in Sumatra declared a state of siege in the areas under their command. Soekarno's declaration of martial law in March 1957 virtually extended the state of war and siege to the entire country.

[5] Heeding criticism that the government was working under a colonial law, in December 1957 the Indonesian Parliament passed a new martial law. In actual fact, this new law did not ring many changes as it was still principally based on SOB. A few articles, whose purpose was to rein in the power of the army, were added, but these did little to reduce the waxing influence of the armed forces.

[6] SOB distinguished two levels of emergency. In a State of War situation, the military had the authority to issue orders and regulations governing public affairs and internal security. Under the terms of the State of Siege, the military authorities were exempted from public law and were abled to take any measures they considered necessary to deal with the immediate emergency. Under both sets of circumstances, civilian authorities were obliged to obey military orders.

economic affairs since, under its terms, all imports and exports, as well as all traffic whether by land, sea or air now fell under military regulations. Such public services as publishing, posts, telegraph and telephone, theatre and other facilities whose function was to supply entertainment and leisure were also supervised by the armed forces. Generally speaking, army leaders were in charge of safeguarding the conditions required for the pursuit of economic activities in the areas under their command.[7] As martial law had been declared nationwide, army officers were quick to assert their authority throughout the entire country.

Martial law had immediate effects at the regional level, where civilian officials were subordinated to the local army headquarters. Army officers intruded into parts of regional administration; some became governors or district commissioners. They were particularly interested in the administration of such economic matters as tax collection, the issue of licences and the granting of other facilities.[8] At the national level, in Jakarta, where the influence of the central government was still relatively strong, the army could obtain power by infiltrating into government departments and state bodies. Especially so because the highest martial law authority was not in hands of the Head of the Martial Law Administration, General Nasution, but rested with President Soekarno, whose roles included Supreme Commander of the Armed Forces.[9] Soekarno was also chairman of the National Council, which took over the task of being an executive policy making body, which wielded an influence far greater than that allowed Parliament.[10] Members of the National Council were selected on the basis of Soekarno's idea of functional groups, and among them were representatives from trade unions, the peasantry, young people,

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[7] For comprehensive provisions and analysis of SOB, see: Basarudin Nasution, *S.O.B. pedoman pelaksanaan peraturan tentang keadaan perang dan keadaan darurat perang*, Jakarta: Penerbit, 1957.

[8] Crouch, *the army and politics*, 38; Lev, *The transition to Guided Democracy,* 78.

[9] Ulf Sundhaussen, *The road to power; Indonesian military politics 1945-1967* (New York: Oxford University Press, 1982) 129-130; Lev, *The transition to Guided Democracy*, 28.

[10] E. Utrecht, *Pengantar dalam Hukum Indonesia* (Jakarta: Ichtiar, 1959) 442. The vice-chairman was Soeslan Abdulgani, a member of the PNI and trusted associate of the President, who had formerly been Minister of Information and Minister of Foreign Affairs.

intellectuals and veterans, supplemented by delegates from various islands and religious leaders.[11] The armed forces held only four of the forty-two seats on the Council, and these were taken by the Chiefs of the Army, the Navy, the Air Force and the State Police.[12] Key ministries were also represented on the Council. The idea behind their inclusion was that they could facilitate the co-ordination between the Council and the cabinet.[13]

The primary task of the National Council was to give advice to the *Cabinet Karya*, installed under Prime Minister Djuanda on 9 April 1957. As the Hatta Business Cabinet of 1950 had been, the Djuanda *Cabinet Karya* was a non-party cabinet whose ministers were appointed for their technical competence and experience, not their political affiliation. The armed forces had two representatives, Colonel Nazir as Minister of Marine Transport and Colonel Aziz Saleh as Minister of Health. Notably, all posts related to the economic management, with the exception of marine transport, fell outside the sphere of military influence. The Ministry of Finance was led by Sutikno Slamet, who had served as Indonesian representative to the International Monetary Fund (IMF) in Washington. The Minister of Trade was Sunarjo Kolopaking, the very first Dean of the Economics Faculty of the University of Indonesia.[14]In June 1958, he was replaced by his party colleague (NU) Rachmat Muljomiseno, his Achilles heel being that he had failed to deal with widespread smuggling in the Outer Islands.[15] A former member of the Communist peasant organization, the *Barisan Tani*, Sadjarwo, became Minister of Agriculture. Minister for Industries was an electronic engineer, F.J. Inkiriwang, who had obtained a degree at Delft University in the Netherlands. Two graduates from the *Bandung Technische Hoogeschoool*, Pangeran Mohammad Noor and Sukardan, were appointed

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[11] David Reeve, ‘Soekarnoism and Indonesia’s functional group state’, *Review of Indonesian and Malayan Affairs* 13 (1979) 53-116.

[12] In 1957, the military was not yet considered a functional group. It was assumed that the army would keep its expanded authority only as long as martial law was in force. Nasution’s demand for functional group status for the military was only acceded to by the National Council and Parliament in November 1958.

[13] *Dewam Nasional* (Jakarta: Kementerian Penerangan, 1957) 15.

[14] However, Sunarjo Kolopaking soon transferred the position of Dean of the Economics Faculty, the University of Indonesia, to Sumitro Djojohadikusumo.

[15]*Berita Negara Republik Indonesia*, 1 July 1958

Minister of Public Works and Minister of Communications, respectively, and non-party Samjono was made Minister of Labour. When Sjaffruddin was reappointed Governor of the Central Bank, the Djuanda government was considered strong on economics.[16]

Another efficient channel through which it was possible to expand army influence in the political economy was that of the civil-military agencies for co-operation (Badan Kerjasama, BKS). Initially, BKSs were created for the purpose of niggling away at the influence of the political parties, especially PKI. What the move actually boilded down to was that army officers were appointed to head the mass organizations attached to the political parties. In the course of their activities, however, BKSs participated in a variety of economic activities, particularly at provincial and village levels. The first BKS was the Youth-Military Co-operative Body (Badan Kerdjasama Pemuda Militer, BKS-PM), established in June 1957 under the leadership of Colonel Pamurahardjo, who was later to play a leading role in the take-over of Dutch firms. In December 1957, the Labour-Military Co-operative Body (BKS Buruh-Militer) was founded by incorporating fourteen labour organizations. Other notable BKSs included the Farmers-Military Co-operative Body (BKS Tani-Militer), the Women-Military Co-operative Body (BKS-Wanita Militer) and the Intellectual-Military Co-operative Body (BKS-Sardjana Militer). In 1958, all BKSs were merged into the National Front for the Liberation of West Irian (Front Nasional Pembebasan Irian Barat, FNPIB). Besides its ultimate political task of mobilizing the masses in the struggle to liberate West Irian, FNPIB also played an important role in stimulating production and public construction in various regions. The activities of BKSs and FNPIB were carried out under the supervision of the State Ministry for Civilian-Military Relations headed by Wahid Wahab, a loyal associate of President Soekarno.[17]

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[16] Higgins, *Indonesia's stabilization and development*, xxii.
[17] For the activities of the BKSs and FNPIB, see: Iskandar Sulayman, *Karya Kerdja Sama Sipil-Militer, 25 Djuni 1958-6 Djuli 1959* (Jakarta: Menteri Negara, 1959)

While martial law was still in force, the official proclamation of Guided Democracy in July 1959 reinforced the entrenched position of the armed forces in the state apparatus. Guided Democracy was proclaimed by Presidential Decree of 5 July 1959, which also promulgated the restoration of the 1945 Constitution. Four days later, a Presidential Cabinet was established, in which Soekarno served as both President and Prime Minister. Djuanda was appointed First Minister (Menteri Pertama) and his actual job was to take charge of the day-to-day running of the government. The cabinet was re-organized into nine core ministers, each responsible for co-ordinating several junior ministers. In the process, the elements of the armed forces, now a functional group, were steadily increasing in absolute terms. In comparison with their rather scarce presence in the preceding Djuanda Cabinet, their representation rose from three ministers to eleven. They controlled five important ministries in economic management, including the Core Ministry of Production and four junior ministries responsible for Agriculture, Land and Air Communications, Transmigration and Co-operatives and Community Development. The civilian bureaucrats were left with the Core Ministry of Finance under Djuanda, assisted by his Junior Minister Notohamiprodjo, a fund-raise for PNI. The Core Ministry of Distribution was in the prestigious hands of Johannes Leimena, who entertained close relations with the Hatta group of liberal politicians. A Sumatran ideological radical, Chairul Saleh, the former Minister of State for Veterans' Affairs in the Djuanda Cabinet, was elevated to the position of Core Minister for Reconstruction and Development, which included a Junior Ministry of Basic Industries and Mining.[18] Dr Suharto, financial secretary of

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[18] Chairul Saleh was a strong revolutionary figure who had joined Soekarno in many Nationalist movements during the Dutch colonial period and under the Japanese occupation. He was one of the group of *Pemuda*, who kidnapped Soekarno and Hatta on 16 August 1945. He also joined the *Persatuan Perdjuangan* movement held by Tan Malaka, which was opposed to Sjarih's concessions to the Dutch. After the Transfer of Sovereignty, the armed band led by Saleh refused to mobilize and co-operate with the National Army. In 1951, Saleh was detained by the army but, owing to interventions by Soekarno, Hatta and Moh. Yamin, he was released shortly afterwards and sent off to Europe. On account of his hostility to the army coupled with his Communist sympathies, not to mention he was without party affiliation, Saleh became an ideal recruiting figure when Soekarno initiated his plan to replace the liberal constitutional system. In April 1957, he returned to Indonesia at Soekarno's invitation and shortly thereafter was appointed State Minister for Veterans' Affairs. In fact, ever since his appointment as Junior

PNI, was appointed Junior Minister for People's Industries, while the Junior Minister for Trade was Arifin Harahap, a close associate of President Soekarno and had previously served in the Department of Information. Two junior ministers, Public Works and Manpower, Sardjono Dipokusumo, and Labour, Ahem Erningpradja, held their portfolios under the co-ordinating Core Minister of Production, Colonel Suprajogi.

The name of the cabinet was changed from *Kabinet Karya* to *Kabinet Kerdja*, although both appellations obviously had the same meaning, namely, a working cabinet. It still remained a non-party cabinet, and unlike its predecessor, all members of Soekarno's cabinet were compelled by law to drop their party affiliations.[19] In the wake of the formation of the Presidential Cabinet, a sequence of changes in high government bodies was also pushed through to meet the requirements of the re-implementation of the 1945 Constitution. The National Council was replaced by the Supreme Advisory Council (Dewan Pertimbangan Agung, DPA) chaired personally by President Soekarno, assisted by his close associate Roeslan Abdulgani and later also by Sujono Hadinoto. In March 1960, President Soekarno prorogued the Parliament elected in 1955 and replaced it with a *Gotong-Royong* Parliament (Dewan Perwakilan Rakyat-Gotong Royong, DPR-GR), also headed by the President.[20] In August 1960, President Soekarno appointed members of the Provisional People's Consultative Assembly (Majelis Permusyawaratan Rakyat Sementara, MPRS), the highest policy-making body under the 1945 Constitution. Alongside DPR-GR, a mass organization called the National Front (Front Nasional, FN) was established to replace the army-led FNPIB. FN consisted of representatives from the political parties, functional groups, the government and

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Minister of Basic Industries and Mining, Saleh had unrelentingly fought for government control of the oil sector, which was then under the control of army and foreign oil companies.

[19] Lev, *The transition to Guided Democracy*, 300.

[20] The Parliament was dissolved as a result of its opposition to the government 1960 budget bill. Representatives of all major parties, which together held 198 out of the total 270 seats in Parliament, not only were specifically apposed to the size of the anticipated budget deficit, they also objected to the entire fiscal policy of the government. This parliamentary disagreement was glaringly out of tune with the *gotong-royong*ethos which Soekarno was trying to build as the legal basis of Indonesian politics.

DPA. Soekarno again took charge of FN at the national level, but at the regional levels the army was undeniably strong.[21] The principal opponents of Soekarno's policy, namely, the Masjoemi, PSI and other liberal parties were excluded from the new Parliament, before eventually being banded altogether in 1961.[22]

Now turning in completely the oppositie direction, President Soekarno appointed two principal leaders of PKI, Aidit and Lukman, to the posts of Deputy-Chairman of MPRS and DPR-GR, respectively. Aidit and Lukman also simultaneously served as state ministers. Despite the new system, cabinet changes were not past history and there were various cabinet reorganizations between 1960 and 1965. The title of junior minister was abolished in February 1960, in favour of minister. In March 1962, core minister was replaced by the tile deputy first minister, each of whom was given co-ordinating responsibility over the departments and the ministers in his own section. After the death of Djuanda in November 1963, the post of first minister was abolished. The title deputy first minister was changed into deputy prime minister. His job was to assume responsibility for co-ordinating ministers in each compartment. In September 1964, the cabinet changed its name to *Kabinet Dwikora* (Dwi Komando Rakyator the People's Dual Command).[23] All the deputy prime ministers were grouped into a Praesidium. In July 1966, its name was changed yet again to *Kabinet Ampera* (Amanat Penderitaan Rakyat or Message of the People's Suffering). By that time, most of the control of the government had been transferred to General Soeharto, who was serving as acting-President.

[21] Of the 17 provincial FN branches established by April 1961, 9 were chaired by the local army commander and another one by an army officer in his capacity as provincial governor, Sundhaussen, *The road to power*, 152.

[22] The banning of Masjoemi, PSI and other liberally-oriented parties was one part of government efforts to retool the political party system. However, the direct cause of their demise was that their leaders had participated in the Revolutionary Government of the Indonesian Republic (Pemerintah Revolusioner Republik Indonesia, PRRI) in North Sumatra in 1958. By the end of 1960, there were only 10 political parties still legally in existence, including three nationalist parties (PNI, Partindo, IPKI), three Muslim parties (NU, PSII and Perti), two Christian parties (Parkindo and Partai Katholik) and two Marxist parties (PKI and Murba). Roeslan Abdulgani, *Nationalism Revolution and Guided Democracy in Indonesia* (Melbourne: Monash University Press, 1973) 50.

[23] The first command referred to the intensification of the Indonesian Revolution and the second one to assistance to the peoples of Malaya, Singapore and North Borneo in achieving their independence.

Soekarno's government in the early 1960s was characterized by various complicated personnel re-arrangements made to fit in with the structural changes in the state organs. In March 1962, Major-General Suprajogi, while changing from Core Minister to Deputy First Minister for Production, held the post of Minister of Public Works and Power. Minister of Agriculture, Major General Azis Saleh, moved to head the Ministry of People's Industries. The former head of this ministry, Dr Suharto, took over the post of Minister of Trade after Arifin Harahap moved to head the new Ministry of the State Budget. In October 1962, Leimena, now Deputy First Minister for Distribution, and Subandrio, Deputy First Minister with Jurisdiction over Foreign Affairs and Foreign Economic Relations, assumed Djuanda's duties when he fell ill. Deputy First Minister for Finance was Achmadi M. Notohamiprodjo. He shred his responsibility of co-ordinating with Minister Arifin Harahap and Minister for the Central Bank Sumarno (Governor of the Bank Indonesia). Notohamiprodjo himself was Minister in Charge of Revenues, Expenditures and Supervision. He was also served as Deputy First Minister for Public Welfare. In the third reshuffle on 13 November 1963, Sumarno, while being appointed Co-ordinating Minister of the Department of Finance, became Minister of State Revenue, Finance and Audits. Suharto moved to head the Ministry of Bank Affairs and Private Banks. The department of the Deputy First Minister for Production was renamed Department of Development under leadership of Chairul Saleh, who also held the post as Minister of Basic Industries and Mining. The Ministry of Land Communications, Post, Telegraphs and Telephone was led by General Hidajat, who replaced General Djatikusumo.

Under the *Kabinet Dwikora*, Sumarno remained Co-ordinating Minister of Compartment of Finance, but the post of Minister of State Revenues, Finance and Audits was handed over to Mohammad Hassan. Arifin Harahap transferred his post as Minister for State Budget to Suryadarma Surjadi, a former leader of the Indonesian Democratic Party. The Minister for Private Banks and Capital was J.D. Massie. Several new ministries were formed. The Ministry of State Plantations was headed by the anti-Communist Roman Catholic Dr Frans Seda.

On 31 March 1965, the Ministry of Basic Industry and Mining was divided into three separate ministries. Chairul Saleh became Minister for Oil and Natural Gas. Armunanto, former leader of Partindo and Hadi Thajeb, an Acehnese medical graduate, were appointed as Minister of Mining and Minister of Basic Industry respectively. Adam Malik, a journalist, was appointed Minister for the Implementation of the Guided Economy. He was succeeded by Brigade-General Achmad Jusuf, who had previously served as Acting Minister of Foreign Trade Relations. On 1 April 1965, Major-General Ibnu Sutowo was appointed supernumerary minister attached to the Praesidium with responsibility for oil and natural gas affairs. In May 1965, several more new ministries were installed, including those for Road Development, Trans-Sumatra Highway, People's Irrigation, Town Planning, Electricity and Power and Village Development. On 4 June 1965, the Ministry of Marine Communications was removed from the Compartment of Distribution. A new Department of Maritime Affairs was established, coordinating with the Minister of Marine Communication, Minister of Fisheries and Marine Exploitation and Minister of Maritime Industries. All but the Ministry of Maritime Industries was under military control.[24]

Since 1947, the Indonesian government had a specific advisory body for long-term economic plans, whose membership was composed of leaders of various ministries or government departments and the Governor of the Central Bank. Prior to the *Karya Cabine*t, the advisory body had been the State Planning Bureau (Badan Perantjang Negara, BPN), which had devised the Five-Year Development Plan (1956-1960). In mid-1957, on Soekarno's advice Djuanda dissolved BPN in the wake of PKI accusations that it was too 'capitalist', on the basis of its connections with foreign experts working closely with Yale University and the Ford Foundation.[25] In June 1959, a National

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[24] Susan Finch, Daniel S. Lev, *Republic of Indonesia cabinets, 1945-1965* (Ithaca: Cornell University Press, 1965) 40-66.

[25] BPN was in fact still functioning under the name of Economic and Finance Bureau during the Djuanda Cabinet. Former BPN staff member, Mulyatno Sindhudarmoko, was appointed bureau chief. One of the functions of the Bureau was to co-ordinate foreign aid to Indonesia, including joint venture investment. Robinson Pangaribuan, *The Indonesia state secretariat 1945-1993* (Jakarta: Pustaka Sinar Harapan, 1996) 15, 26.

Planning Council (Dewan Perantjang Nasional, DEPERNAS) was established in the place of BPN. Chairman of DEPERNAS was Professor Mohammad Yamin, leading a committee of seventy-seven members.[26] The composition of DEPERNAS reveals that its members had been chosen by Soekarno for political considerations rather than for their technical expertise. Muhammad Yamin himself was the former Minister of Justice, best known in Indonesia as a poet and a romantic historian. The Secretary-General was a distinguished civil servant, M. Hutasoit, who had worked as Secretary-General of the Ministry of Education and had been largely responsible for the development of public education in Indonesian since independence.[27]

The immediate task of DEPERNAS was to devise an overall national development plan, to be completed within one year. Exactly one year after it had been set up in August 1960, DEPERNAS did finish drafting an Eight-Year Development Plan (1961-1968) and shortly thereafter submitted it to the cabinet and MPRS. The Plan was a massive opus of 5,000 pages, consisting of eight parts, seventeen volumes and 1,945 paragraphs, symbolizing the 17 August 1945, the date of the Proclamation of Independence. All projects were divided into two categories. The A-projects concentrated on increasing the production of foodstuffs, textiles and materials which could be used in industry, laying the foundation for the building up of such heavy industry as steel, aluminium and the manufacture of metal products. It also included what were known as 'mental construction' projects, which encompassed the press, scientific research and tourism. The bulk of the expenditure on the A-projects would be financed by B-projects, which focused on the exploitation of the rich natural resources of Indonesia. Whereas the investment needed for the B-projects was not discussed, the total cost of the A-projects was Rp. 240 billion. Half of that sum would have to be in foreign currency, equivalent to the sum of US$ 2.5 billion.[28]

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[26] H. Muhammad Yamin, *Pemandangan terhadap saran-saran para menteri dalam Sidang Kabinet R.I., tanggal 25, 27, dan 29 Oktober 1960 tentang Rantjangan Dasar Undang-Undang Pembangunan Nasional Semesta Berentjana 1961-1969.* Jakarta: s.n., 1960, pp.1-5.

[27] Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs* 34 (1961), 115

[28] Information about the Eight-Year Plan can be found in: The United State Economic Survey Team to Indonesia, *Perspectives and proposals for United States economic aid; a report to the*

In December 1963, the Indonesian government established a National Development Planning Council (Badan Perentjanaan Pembanguna Nasional, BAPPENAS), which integrated into DEPERNAS. BAPPENAS played a role as the highest government level in the field of overall national development planning. It was personally led by President Soekarno but its daily tasks were supervised by Suharto. BAPPENAS consisted of eight Planning Bureaus, covering financial planning, welfare planning, defence and security, law and home affairs, development, distribution, planning of the building up the spirit of the Revolution and international relations. BAPPENAS was also responsible for making recommendation and giving advice and guidance to private enterprises, as well as for making evaluations of development projects carried out by the private sector.[29] In March 1965, another Consultative Body for National Development Planning (Musjawarah Perantjang Pembangunan Nasional, MUPPENAS) was established. It was composed of seventy members and work in tandem with four government advisory committees. Its primary task was to draft a Three-Year Plan (1966-1968) to finish these projects which had been devised by DEPERNAS in the Eight-Year Development Plan. The plan was approved by MPRS in July 1965, although, as were the previous Five-Year Plan (1956-1960) and Eight-Year Development Plan (1961-1968), larger parts of the Three-Year Plan were never been fully realized. MUPPENAS was dissolved early in 1966.[30]

The transformation of economic institutions in Indonesia in the late 1950s and the early 1960s was part of a wider trend towards the full achievement of Guided Democracy and the Guided Economy. The essence of this process was a high degree of concentration of state power in the hands of President Soekarno. Governing and executive responsibilities were granted to the military and the complex administrative apparatus. Soekarno was

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President (New Haven: Yale Southeast Asia Studies, 1963); Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs*, 1961, 115-130; and Humphrey, 'Indonesia's National Plan for economic development', *Asian Survey*, II (1962) 12-21.

[29] For the organization of BAPPENAS and its task see: Suharto, *Badan Perentjanaan Pembangunan Nasional (BAPPENAS)* (Jakarta: Sekretariat, 1964).

[30] For the organization of the MUPPENAS and its Three -Year Plan, see: Suharto, *Kesimpulan-kesimpulan dan kertas-kerdja- kertas-kerdja, rapat paripurna ke III MUPPENAS* (Jakarta: Sekretariat MUPEENAS, 1965).

simultaneously President, Premier, Commander-in-Chief of the armed forces and Chairman of the National Front, of the National Advisory Council GPRS and of the National Planning Board. The constant structural changes made in the economic institutions in the early 1960s were evidence of the constant efforts by President Soekarno to retool the whole system of the politics and economy to fit his concept of Guided Democracy and Guided Economy. Predictably, the unremitting changes had negative consequences on the effectiveness of the administrative system, particularly that branch involved in economic management. The co-ordination between government departments was extremely weak and many of them had to cede the power they had previously wielded, a sort of ritual self-immolation. Even more detrimental were the problems arising from personal frictions and profound disagreements. Because of the President's personal antipathy to Professor Sumitro, who had participated in PRRI, many of the latter's excellent students, economists trained at Western universities, were deliberately overlooked by the government. This repudiation of Western economic knowledge is also seen in the fact that no foreign experts were invited to consult with DEPERNAS in the creation of the Eight-Year Development Plan. This change of tacks took in stark contrast to the earlier situation, when Sumitro had made the most of contributions by Western economic experts in the formulation of his Economic Urgency Programme and the Five-Year Development Plan. Admittedly, despite these xenophobic feelings, in April 1960 the Indonesian government did ask the US International Co-operation Administration (ICA) to provide economic and financial consultants and two economic experts, Bernard R. Bell and Oscar A. Ornati, were introduced but their appointment was apparently not a success. They were not integrated efficiently and were only consulted on specific technical matters.[31]

While these changes were taking place, the armed forces were gaining extensive access to all economic departments, especially at the regional level.

[31] Guy Pauker, 'The Indonesian Eight-Year Overall Development Plan', *Pacific Affairs* 34 (1961) 116.

After the take-over of the Dutch-owned enterprises in late 1957, followed by that of British and American firms in early 1960s, the influence of the army spilled over from administrative sphere into direct participation in business. A considerable number of profitable foreign firms were placed under the direct management of the military. In some aspects the intrusion of the armed forces into the apparatus of economic management in Indonesia in the late 1950s and the early 1960s was can be compared to the 'partification' of the state apparatus by the Communist Party in Vietnam which emerged in the early 1950s. The major difference is that, whereas the Vietnamese Communist Party ultimately attained the outright power in North Vietnam, the Indonesian army had to share its power with emerging Communist rivals and was always subordinated to President Soekarno. Both the Communists and the army officers were highly disciplined and committed to the meaningful independence of their country. Their weak point was not their lack of patriotism, which cannot be faulted, but their failure to realize that managing an economy always requires both extensive economic knowledge and concomitant experience, requirements which the Communist leaders and army commanders of Indonesia and Vietnam could not immediately provide.

2. Ideological basis of Guided Economy

As stated earlier, the idea of an economy operated under direct guidance by the state in Indonesia was not an innovation but had been laid down in the Constitution of 1945. During the revolutionary period, and especially in the initial years after the Transfer of Sovereignty, Article 33 of the 1945 Constitution (which became Article 38 in the Provisional Constitution of 1950) was often referred to in discussions both in Parliament and in public discourse. Calls were made on the government demanding the immediate implementation of state control of the economy. A number of Nationalist as well as the Socialist-inclined parties also accorded Article 33 top priority in their programmes for the economy. The stumbling block was that the economic and social conditions which would have enabled the state to take full responsibility for running the economy were still acutely lacking, hence the leaders of the successive Indonesian governments in the late 1940s and the early 1950s were forced to interpret the economic objectives of the Constitution in terms of a gradual process and a long-term plan. Demands for economic development which was coupled with political and economic stability had the highest priority and, as Indonesia was still struggling to get on its feet, this meant a continued foreign presence. As a result, private enterprises, especially those owned by foreign corporations, continued to dominate the modern sector of the Indonesian economy until the late 1950s.

The blatant failure of the attempts to achieve *Indonesianisasi* in the early 1950s engendered a nationwide frustration with the advisedly moderate measures taken to achieve economic nationalism. In these fraught circumstances, the radical Nationalist views espoused by such political parties as PNI, Murba, PRN, and especially PKI won a ready audience and increasingly gained support from the public, as well as from the President. In fact, President Soekarno had betrayed his sympathy for the Communists as early as April 1954, when he sent his good wishes to the fifth congress of PKI. However, it was not until February 1957 that his support of the PKI was publicly expressed. When explaining his *konsepsi* of the new system of government, President Soekarno suggested the unprecedented inclusion of PKI in the formation of a new cabinet. He unequivocally asked, ‘Can we continue to ignore a group which has received the votes of six million human beings in the elections?’.[32] Despite the massive numbers quoted, the proposal was not accepted and throughout the whole period of Guided Democracy, only two PKI leaders, its chairman Aidit and vice-chairman Lukman, were ever appointed to posts in Soekarno’s cabinets. Nevertheless, in view of their high positions, it would be sage to assume that they exerted some influence on government decision making. Perhaps the Communist influence at lower levels, where such PKI-affiliated organizations as SOBSI and BTI successfully rallied a large number of worker and peasant associations struggling to defend their interests, was more effective.[33]

[32] Quoted from Feith, *The decline of constitutional democracy*, 542.
[33] In July 1962, BTI claimed 5.7 million members, one-quarter of all Indonesian adult peasants. Later in the same year, SOBSI claimed nearly 3.3 million members. PKI itself had over 2

Unquestionably there is evidence that PKI-led movements made some political capital out of the anti-corruption campaigns. Yet policy recommendations were vague and did little to reduce the chaos.[34]

In its turn, PKI was the strongest supporter of President Soekarno and his scheme of Guided Democracy. Its most prominent slogan during the transition to Guided Democracy between 1957-1959 was 'a realization of the *konsepsi* 100 per cent'. At the sixth congress of the party in September 1959, after President Soekarno gave a speech addressing his approval of PKI attitudes, Chairman Aidit affirmed that PKI supported the resurrection of the 1945 Constitution. He went on to stress that one of the indispensable conditions for the establishment of the Guided Democracy system was Soekarno's leadership of the state.[35] At the same congress, PKI adopted a new programme which contained several points similar to its 1954 programme, especially those touching on anti-imperialism, anti-feudalism and the form the government should take. One striking feature of the new programme was that it paid a great deal of attention to detail and widened the scope of the interests and activities of the party. Although, on the occasion of its seventh congress in April 1962, PKI again adopted a new programme, its contents were based mainly on its 1959 programme. In fact, the 1959 programme continued to serve as the official guidelines of PKI until the party was banned in March 1966.

By the time the new PKI programme was adopted in September 1959, most Dutch enterprises had been formally nationalized. The stress in the programme was therefore not on nationalization as it had been in the 1954 programme, but on the next step in formation of a people's democratic state. The new state was to be based on the masses and on a national united front of peasants and workers, led by the working class. In this people's democratic state, PKI assumed that the people's government would have to carry out

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million members by the end of 1962, making it the largest Communist party in any non-Communist nation. Ricklefs, *A History of Modern Indonesia*,327.

[34]J. M. van der Kroef, 'Indonesian Communism and the changing balance of power', *Pacific Affairs*, 57 (4) (1964-1965) 369-370.

[35]Rex Mortimer, *Indonesian Communism under Soekarno; Ideology and politics, 1959-1965* (Singapore: Equinox Publishing, 2006) 80; Sundhaussen, *The road to power*,427.

democratic reforms, including such measures as the abolition of feudalism, the distribution of land to the peasants free of charge, the defence of national industries and the improvement of the living conditions of the workers. The Indonesian economy should be developed in such a way that top priority be given to the state sector, particularly stressing the area of state-owned enterprises. Nevertheless, it stated that the government should not do anything to stand in the way of participation of national capitalists in business, especially in industry and trade. When it came to land reform, its tune was rather different. The programme demanded that all land owned by foreigners and Indonesian landlords be confiscated without compensation and distributed to the peasantry on an individual basis. This ukase did not apply to modern and large-scale estates, which it thought should not be distributed among the peasantry, but placed under state control.

Besides such general objectives, the new programme contained a specific request about the economy, based on 'a Marxist analysis of the concrete situation and the balance of forces'. Under the slogan 'For economic improvement', owners of foreign estates would be required to cultivate rice on estate lands in order to increase the output of this staple. The owners should also help the peasants with seeds, fertilizer and implements. Protective tariffs which would benefit national enterprises and give them protection against foreign competition were also demanded, as was price control. Changes in foreign investment legislation were also insisted on to make sure that the foreign exchange earnings of the foreign oil companies were retained in the country and that the people and the armed services would be guaranteed adequate supplies of oil. All mining concessions which had not yet been taken up should be withdrawn and exploited by the government itself. Imports and exports and all important enterprises should be under full government control. Communications, especially outside Java, should be improved. The section on 'for better living conditions' asked for a general improvement in the working conditions and living standards of workers and peasants. This could be realized by taking such measures as raising wages, eliminating crop mortgages, reducing interest rates on loans, as well as by legalizing ownership of land taken by peasants from foreign estates. Small enterprises should be given special protection by the government in the form of credit and tax cuts.[36]

The high priority in the 1959 PKI programme on state control and ownership of businesses, finance, land and mining reflected the recent institutional changes in Indonesia. It is noteworthy that the programme was drafted after President Soekarno had officially implemented Guided Democracy and the Guided Economy. At this state, although Soekarno's theories of Guided Economy did not emerge full-grown in 1959 and were by no means identical to those of PKI, the resemblance between the two is unmistakable. During the discussions about the introduction of Guided Democracy and the return to the 1945 Constitution, President Soekarno had often emphasized the importance of state leadership in the economy. The cautious PKI application of Marxist theories to Indonesia can be seen as a reconciliation with the President's concept of socialism, based on his own ideology of the *Pantjasila*. As from 1960, after Communism had become part of NASAKOM, PKI views were officially integrated into the state ideology as formulated by Soekarno. NASAKOM was the ideological basis of Soekarno's new national front and signaled the co-operation between the three principal political currents in the country, Nationalism (Nasionalism), Religion (Agama) and Communism (Komunisme).Occasionally this concept was broadened to NASAKOMIL, the last three letters referring to the military and their participation in the government. In the early 1960s, the PKI leaders tended to speak more often under the aegis of Soekarno's ideologies and doctrine than those of their own party programme.

When President Soekarno inaugurated the Guided Economy, he was somewhat vague about its main aim: the general drift was an Indonesian sort of socialism, a just and prosperous society (masjarakat adil dan makmur).[37] As did

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[36] Van der Kroef, *The Communist party of Indonesia*, 185-198.

[37] 'Djawaban Presiden Soekarno atas pertanjaan2 para anggota tentang 'Demokrasi Terpimpin' pada sidang Dewan nasional ke-VI, tanggal 5 Djuni 1958'.in Soekarno, Roeslan Abdulgani, Djuanda, *Demokrasi Terpimpin* (Jakarta: Dewan Nasional RI, 1958).

other Indonesian intellectuals, he identified the Guided Economy with a planned economy and thought the new system as a viable alternative to economic liberalism, which he was convinced ought to be abandoned.[38] A planned economy, in the view of President Soekarno, was an integral element in Indonesian Socialism. In a speech in front of the National Council in July 1958, he stated that Indonesian Socialism had to exhibit a planned and orderly character. All fields, including economy, finance, culture, defence and others, had to be planned. There ere no two ways about it; the Indonesian economy was to be a planned economy.[39] The objectives of the Guided Economy became more specific in July 1959, following the official re-enactment of Article 33 of the 1945 Constitution and the *Pantjasila*. In the programme of the *KabinetKerdja*, the first of its three short-terms goals was '[…] to obtain an adequate supply of food and clothing for the people'.[40] This part of the programme was known as the *Sandang-pangan* (clothing-food) Programme. The *Sandang-pangan* Programme was intended to be completed within two years, by the end of 1961, but, in effect, providing people with an adequate supply of clothing and food remained the primary task of Soekarno's government throughout the entire period of Guided Democracy.

On Independence Day of 17 August 1959, President Soekarno delivered a speech entitled 'The Rediscovery of Our Revolution', which was soon adopted by MPRS as a basic guideline of state policy in Indonesia. In the speech, now labelled Manipol (Manifesto Politik), President Soekarno set out the principles, tasks, social powers, character and enemies of the Indonesian Revolution. The principal tasks were to free Indonesia from all kinds and every vestige of imperialism and to achieve three aims: a Unitary State of the

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[38] See Indonesian intellectual discussion on Guided Economy in H.Moh. Djambek, *Doktrin Ekonomi Terpimpin dan Pembangunan; kuliah ilmiah pendidikan kader revolusi angkatan Dwikora* (Jakarta: Jajasan Serbaguna, 1965); Mohammad Hatta, *Ekonomi terpimpin* (Jakarta: Fasco, 1960); 'Demokrasi Terpimpin', Jakarta, 15 August 1958.

[39] 'Pidato Presiden Soekarno tentang 'Demokrasi terpimpin' dalam sidang Dewan Nasional ke-VIII tanggal 23 Djuli 1958'.in Soekarno, Roeslan Abdulgani, Djuanda, *Demokrasi Terpimpin* (Jakarta: Dewan Nasional RI, 1958)

[40] T.K.Tan, 'Soekarnian Economics', in T.K. Tan (ed.), *Soekarno's Guided Indonesia* (Melbourne: Jacaranda Press, 1976) 34.

Republic of Indonesia with a territory stretching from Sabang to Merauke, good friendship between the Republic of Indonesia and all the states of Asia-Africa in the creation of a New World, free from imperialism and colonialism and a just and prosperous society. This ideal society would be called 'Socialism à la Indonesia', a distinct form of Socialism in tune with the conditions, nature, customs, culture and psychology of the Indonesian nation.[41] Soekarno's Socialism was therefore not identical to the orthodox international Marxist theories of Socialism which were being implemented in North Vietnam.

No one doubted that it was to be an uphill struggle and that if these socialist goals were to be attained, plenty of groundwork had to be undertaken and efforts made to retool the whole system of politics, economy and society. New instruments, tools and apparatus would replace those which did not match the ideology of Guided Democracy. In the field of economics, retooling was carried out in all branches of production and distribution so as to ensure that (in a rather mixed metaphor): 'The steering-wheel turning towards the realization of Article 33 of the 1945 Constitution, using the rails of Guided Economy'. All instruments vital to production and distribution should be under the control of the state or at the very least under the state supervision. *Manipol* also stressed the efforts which had to be made to mobilize and organize all funds and forces, including foreign funds, if progressive countries were willing to help realize the programme of the Indonesian government. Any foreign funds and forces contributed could be channelled towards industrial development, for instance, in medium-size industry which was open to private initiative. To deal with the land problem, Manipol continued, the government should abolish the proprietary right (*hak-eigendom*) to land inherited from Dutch colonialism and the right to own landed property would be exclusively for Indonesians. It was unacceptable in independent Indonesia to have land owned by foreigners, especially the Dutch.[42] President Soekarno's command immediately resulted in

[41] Roeslan Abdulgani, *Pantjawarsa Manipol* (Jakarta: Panitia Pembina Djiwa Revolusi, 1964) 22.
[42] In colonial times, foreigners were not legally allowed to own land. All land without certified ownership (*eigendom*) remained 'free domain of the state' or state land. The colonial government granted a title of long-lease (*eftpacht*) of up to 75 years to foreign planters. Nevertheless, an Indonesian national with dual nationality could acquire a right of ownership.

the promulgation of a Basic Agrarian Law in September 1960, which effectively replaced the Dutch system of land rights then still in operation. The right of ownership (*eigendom*) previously acquired by a foreigner or an Indonesian national with dual nationality was converted into the right of use (*hak pakai*). Only Indonesian nationals holding single nationality could apply for ownership (*hak milik*) of land.[43]

In *Manipol* it was stated that Indonesia opposed Dutch imperialism, considering that the Dutch still possessed West Irian. It was also stated that the take-over of Dutch enterprises marked an important step in the context of struggle for the liberation of West Irian. However, as *Manipol* emphasized, not all Dutch capital had been taken over and not all Dutch enterprises had been nationalized. If the Dutch remained 'stubborn' in the matter of West Irian, 'all the Dutch capital, including that in mixed enterprises, would bring its story to a close on Indonesian soil!'. The enemies of the Indonesian revolution, said the President, were not only the Dutch imperialists, other imperialists were also lurking around and they were trying to deceive the Republic of Indonesia by tacitly offering support to counter-revolutionaries and by perpetrating economic sabotage. In this respect, the *Manipol* affirmed that the owners of foreign non-Dutch capital present in Indonesia had to obey requirements set by the government. If such capitalists did not use it according to Indonesian regulations or illegally gave assistance to counter revolutionaries or those committing economic sabotage, the Indonesian people would one day treat them as they had dealt with Dutch companies.[44]

The retooling and re-ordering of the economic system were said by President Soekarno to be essential to providing supplementary contents to his

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Like many other colonial laws, this land law, promulgated in 1870, continued to be in force in post-independent Indonesia, until September 1960.

[43] For more information about the Basic Agrarian Law of September 1960 and its implementation in Daryono, 'Transformation of land rights in Indonesia; A mixed private and public law model', *Pacific Rim Law & Policy Journal* (July 2010) 418-457; Jude Wallace, 'Indonesian land law and administration', in: Tim Lindsey (ed.), *Indonesia; Law and society* (Singapore: The Federation Press, 1999) 191-223.

[44] *Political Manifesto Republic of Indonesia of 17th August 1959* (Jakarta: Department of Information RI, 1959).

cabinet programme, which was devoted to only the most urgent needs of the Indonesian people, namely: clothing and food. In these efforts, the domestic struggle against Dutch economic interests loomed very large, since for the time being the government had decided not to bring the West Irian issue up before the United Nations. In this respect, President Soekarno asserted, the shifting of the tobacco market from Amsterdam to Bremen, the abolition of property rights of the Dutch in Indonesia and the take-over of Dutch enterprises were all linked up with the government struggle to liberate West Irian. It is therefore important to keep in mind when studying the Indonesian economy in the years after 1959 that the government was ready to sacrifice the immediate economic well-being of the country in order to uphold political ideals and national pride. On 18 August 1962, three days after the Dutch agreement to withdraw from West Irian,[45] President Soekarno made a pledge that now the West Irian issue was resolved, he would devote special attention to the economic front.[46] After a few months of preparation, on 28 March 1963, President Soekarno made public his further thinking about the Guided Economy, known as the Economic Declaration (Deklarasi Ekonomi) or *Dekon*.

Inside Indonesia itself, *Dekon* was considered to be the economic counterpart of the Political Manifesto and was often called the 'Economic Manifesto'. It assumed that the growth of the Indonesian economy would take place in two stages. The first stage would be a period in which an economic structure would be created that was 'national and democratic in character, unsullied by vestiges of imperialism and feudalism'. In the second stage, the chief task would be to establish a socialist economy, an economy free of the exploitation of man by man (*exploitation de l'homme par l'homme*). In socialist

[45] Under pressure from the United States, on 15 August 1962 the Netherlands and Indonesia signed the New York Agreement on West Irian which was put under a temporary trusteeship of the United States before being transferred to Indonesia in May 1963. Under the Act of Free Choice, in 1969, the leaders of West Irian, now New Guinea, decided to join the Republic of Indonesia. For more information about the negotiations over the West Irian, see: P.J. Drooglever, *An act of free choice; Decolonization and the right to self-determination in West Papua* (Oxford: Oneworld Publictions, 2009).

[46] 'The year of triumph', *Review of Indonesia* 7 (1963) 28. For Indonesian version see: Roeslan Abdulgani, *Pantjawarsa Manipol*, 305-350.

Indonesia, it was asserted, each person would be ensured 'work, food, clothing and housing as well as a proper cultural and spiritual life'. *Dekon* also clearly underscored that Indonesia was still in the first stage of its revolution and that the second stage could not begin until the first one has been completed. For the strategic direction of economic development, *Dekon* stressed, all efforts had to be devoted to expanding production by exploiting the abundant natural resources of the country to the full. This meant that agriculture, estates and mining had to be prioritized, while a firm foundation was being laid for industrialization.

In the struggle to complete the national democratic stage, the three basic potentials of the economy, the state, co-operatives and private business, had to be fully mobilized. While the state continued to hold the leading position in the economy and co-operatives were being encouraged to unite and assist the working masses in all their livelihoods, more possibilities for economic participation needed to be opened up to national entrepreneurs, who could play an important role in developing industries. The private sector could serve as an auxiliary factor to the state sector. Operating in wider parts of the economy, state-owned enterprises should become the main source of capital for further development. Should insufficient capital be raised from domestic sources, *Dekon* stated, credit could be sought from abroad. Foreign investors would be repaid on the basis of production-sharing, obtaining a proportion of the output produced by the projects they participated in. It was clearly hammered home that ownership and management of the joint enterprises must remain in the Indonesian hands.

Aware of the inefficiency and mismanagement of state-owned enterprises, partly attributable to the geographical distance between the centralized administration in Jakarta and the regions, Dekon urged for deconcentration (*dekonsentrasi*). Accordingly, the region or branch of the state enterprises would be granted a degree autonomy and, importantly, sufficient individual responsibility. This deconcentration was intended to operate only in matters concerning the region or branch itself. It had to be carried out 'without sacrificing centralization in planning and final control, which resides in the hands of the center.' *Dekon* also unequivocally delineated that deconcentration in management did not fall under local autonomy and that Indonesia must remain a unified economic and political entity.

Besides its basic economic strategy, *Dekon* outlined a short-term programme for the next two years. The major tasks to be achieved by the programme were to resolve the question of *sandang-pangan* goods, which was becoming a serious problem. To accomplish this, *Dekon* specified that 'the government must possess and control an "iron stock" of rice.' Inn essence this meant that the government must be able to control the supply and distribution of rice. The aim was to establish a basic stockpile of rice in order to control the rice price in the market, and it was also acknowledged that measures were needed to increase production. *Dekon* stressed the task of also increasing productive capacity in other fields in order to meet the basic needs of the people. Imports were acknowledged to be necessary, but only for essential consumer goods and for the raw materials needed for investment. The import of luxury goods should be reduced as much as possible. Another measure to increase production was through taxation, and *Dekon* promised that the government would conduct a radical overhaul of taxes and budget policies so as to improve benefits to producers.[47]

By introducing *Manipol* and *Dekon*, President Soekarno had so far thrown the emphasis on the struggle against the economic exploitation of (Dutch) imperialism and on state control of the economy. In passing, he indicated the objective of economic self-sufficiency when he stressed the importance of 'national funds and forces' in the realization of his cabinet's programme. To achieve this they would be aided by abetted import restrictions. In his Independence Day speech of 17 August 1963, he expressed his great pleasure in witnessing the growing desire of the Indonesian people to build the national economy by their own effort, which he chose to refer to as economic

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[47] Soekarno*, Deklarasi Ekonomi; Diutjapkan oleh Presiden Soekarno di Istana Negara, Djakarta, tanggal 28 Maret 1963,* (Jakarta: Departemen Penerangan R.I., 1963).

patriotism.[48] Then, on 17 August 1964, in his famous Independence Day speech 'Tahun "Vivere Pericoloso"' (Year of Living Dangerously), President Soekarno officially introduced a new principle of the Guided Economy, namely *berdiri diatas kaki sendiri* (standing on one's own [two] feet). Initially, this slogan referred to self-reliance in rice.[49] But in another speech entitled *Berdiri Diatas Kaki Sendiri* before MPRS in April 1965, he extended the scope of self-reliance to all fields of the Revolution. MPRS lost no time in adopting Soekarno's concept, now termed *Berdikari*, as the new foundation for national economic policy.

Berdikari grew out of the President's conviction that the Eight-Year Development Plan was not working because the B-projects, designed to provide finance for the A-projects, were so heavily dependent on the co-operation with foreign firms. He now changed tack, averring that the revolutionary development of Indonesia should be based instead on its abundance of natural resources and 'the extensive use of funds and forces' present in the country. President Soekarno now called for a *banting stir* (turn of the wheel) to achieve *Berdikari*. Taking North Korea as his model of a successful self-sufficient economy, which had already solved the problem of *sandang-pandang* and had become 'an industrial country', Soekarno was anxious that Indonesia would not be left behind. If it was to achieve similar economic self-reliance, Indonesia had to accomplish five urgent economic tasks, namely, completing projects on nation and character building, solving the *sandang-pangan* problem as soon as possible, continuing projects which were already under construction or deemed economically very important to the strategy of the country, overcoming obstacles to development by exploring and encouraging the strength of the Indonesian people and exploiting natural resources to produce more goods and solving the problem of the foreign capital already invested in Indonesia, so that Indonesia could achieve full independence in the field of economy.

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[48] His speech was titled 'Genta suara revolusi Indonesia' (The resounding voice of the Indonesian revolution). See: Roeslan Abdulgani, *Pantjawarsa Manipol*, 353-398.
[49] Roeslan Abdulgani, *Pantjawarsa Manipol*, 443.

With these new thoughts in mind, President Soekarno requested that the people embrace a new Programme of Economic Struggle (Kebidjaksanaan Ekonomi Perdjuangan), which had to be based on the Berdikari principle. *Berdikari* in fact became the ideological foundation for the later Three-Year Plan (1966-1968). Soekarno ordered various changes which he deemed necessary in government economic policies. In the field of international trade, exports were to be encouraged and imports restricted to goods, which could not be procured in Indonesia. The President decided that importing would be carried out only by the government. Private entrepreneurs were prohibited take part in any importing unless in the name of the government. Among these private entrepreneurs, licences would only be granted to producer-exporter candidates who were willing to export under government guidance. The task of the Revolution imposed on private entrepreneurs was just one element of the socialist economy of Indonesia. In the new economic climate, it was decreed that co-operatives would be reorganized into two types, production co-operatives and distribution co-operatives. Turning to the financial sector, Soekarno stated that Indonesia had to utilize 'all funds and forces' existing in the country, from co-operatives and private enterprises to farmers, workers and the armed forces efficiently. State-owned enterprises would be the major motor to generate development. Measures had to be taken to fight mismanagement and abuse of authority. Managerial expertise, managerial skills, leadership and co-operation between managers and workers all had to be honed and improved. The regions should have more autonomy and authority to create their own financial resources. In order to reduce inflation and keep it under control, President Soekarno declared that the government budget should be directly under his control.[50]

In an undelivered message appended to this speech, Soekarno stated that the principle of *berdiri diatas kaki sendiri* had been an idea he had nurtured since 1932, when he used the slogan 'self-help' in an attempt to inspire the

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[50] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari)*; Amanat politikPresiden/Pemimpin Besar Resolusi/Mandataris MPRS pada pembukaan Sidang Umum ke-III Madjelis Permusjawaratan Rakjat Sementara, tanggal 11 April 1965* (Jakarta: B.P. Prapantja, 1965) 18-25.

Nationalist movement against Dutch colonialism.[51] Regardless of the conceptual difference between ‘self-help’ and ‘self-reliance’, if this statement was true, it is difficult to understand why Soekarno had made such strenuous efforts in earlier years to lure investment and capital from Western countries, particularly the United States. Almost half of the Rp. 240 billion of the A-projects was expected to be provided by the B-projects, which in turn could only be financed by an influx of foreign capital, either to be used to develop untapped natural resources or in the form of loan. Immediately after the Eight-Year Development Plan was launched, President Soekarno went to meet President Kennedy, who offered to assist Indonesia to finance the Plan. In 1962-1963, rumours were spreading in Indonesia, based on a report by the US economic mission for Indonesia led by D.D. Humphrey, that the US government would provide Indonesia with some $ 400 million in aid.[52] The production-sharing possibility offered by *Dekon*, followed by the issuing of a series of regulations on foreign investment in May 1963, was intended to give the signal that the economy of Indonesia had been liberalized.

Disappointment was rife in Indonesia when realization dawned that the Humphrey mission’s report was no more than a recommendation and not an official commitment. President Kennedy’s aid policy came under considerable attack in Congress. Therefore, in 1963 the American government could offer only very little credit, about $ 17 million in March and $ 50 million in August, channelled through IMF.[53] Meanwhile, help was coming from the other side in the Cold War. The Soviet Union was trying to increase its influence in Indonesia. Its first loan to Indonesia was $100 in 1956 but this was increased to $ 250 million in January 1960, the bulk of it intended for the purchase of Soviet military weapons.[54] By 1962, Soviet loans had expanded to $ 700-800 million.[55]

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[51] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari),34.

[52] The report was issued in mid-1962, recommending US assistance of 200-235 million and multilateral finance of $ 125-155 million. D.D.Humphrey, *Indonesia, perspective and proposal for United States aid; A report of the President of the United States* (New Haven: Yale University Press, 1963).

[53] Usha Mahajani, *Soviet and American aid to Indonesia, 1949-1968* (Ohio: Ohio University Center for international Studies, 1970) 22, 24.

[54] NA, *Notes on repayment obligations of Indonesia*, MEZ, inventory number 123.

Chinese-Indonesian relations were also improved. In 1960, China granted Indonesia $ 46 million and another $ 30 million in October 1961.[56] By April 1960, the total loans from the Communist countries to Indonesia amounted to $ 563 million, almost equivalent to the accumulated loans of $ 607 million from the US. To cap it all, the loans from the Communist countries were offered at a low interest rate of 2.5 per cent against the 5 per cent asked by the US.[57] Even though strongly opposing government policies on foreign investment, by late 1963 PKI decided to follow the Peking line.[58] Relations between the US and Indonesia hardened after the death of President Kennedy. President Johnson supported Great Britain in the formation of Malaysia, to which Soekarno was adamantly opposed. In early 1964, the US government decided to abandon a proposal to lend $ 250 million to Indonesia. Humiliated by the American attitude, in a public speech attended by US Ambassador Jones in March 1964, Soekarno openly stated 'Go to hell with your aid'.[59] Hence, *Berdikari* was officially born in the tensions of the Cold War. Its main target was against the US, not the Soviet or the People's Republic of China. In fact a strong case can be made to argue that it was born of failure to implement *Dekon* which was used to attract investment and financial aid from Western countries.

The adoption of *Berdikari* imbued Guided Democracy and the Guided Economy with important additional substance. The ultimate goal of the Indonesian Revolution had been expanded and was now more than establishing a just and prosperous society, it was also expected to forge a 'self-reliant' economy. Forming a trio with *Manipol* and *Dekon*, Berdikari established the basic guideline on which the national economic policy could be based. These three documents complemented each other and fused to create the main philosophy and aim of the Guided Economy. Although they are often associated

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[55] Mahajani, *Soviet and American aid to Indonesia*, 15; Guy J. Pauker, 'The Soviet challenge in Indonesia', *Foreign Affairs*, 4 (1962) 3.
[56] David Mozingo, *Chinese policy toward Indonesia 1949-1967* (Jakarta: Equinox Publishing, 2007) 189.
[57] NA, *Notes on repayment obligations of Indonesia*, MEZ, inventory number 123.
[58] Mozingo, *Chinese policy toward Indonesia*, 217-218.
[59] Mahajani, *Soviet and American aid to Indonesia*, 26-27.

with the person of President Soekarno, they were not based on concepts thought up by the President alone nor were they entirely new concepts in Indonesian political thought. When it was all said and done, *Manipol* did not introduce many new elements at all. The essence of *Manipol* was USDEK, an acronym, whose letters referred to the five essential elements of the Indonesian state philosophy: the Constitution of 1945 (Undang-Undang Dasar 1945), Indonesian Socialism (Sosialisme à la Indonesia), Guided Democracy (Demokrasi Terpimpin), Guided Economy (Ekonomi Terpimpin) and Indonesian identity (Kepribadian Indonesia). Needless to say, these terms had all been favoured topics of discussion in Indonesian political discourse since Independence. When Soekarno 'rediscovered the Revolution', he simply restructured and systematized themes, which turning them into a weapon to attack the previous political and economic system.[60]

Dekon was drafted by the Cabinet and the Supreme Advisory Council after many marathon meetings chaired by Soekarno with the active participation of Djuanda and other experts, technocrats in finance, trade and agriculture, and not forgetting the army leadership.[61] It was often criticized by moderate groups, which argued 'there is nothing new in it' and 'all of this had been said repeatedly and yet the situation has not gotten better but the contrary'.[62] Nor was Berdikari Soekarno's own idea. He himself stated that had had been given this idea by the leader of North Korea, Kim II Sung, '[…] in order to build a democratic state, the foundation of an independent economy of the nation must be established. Without the foundation of an independent economy, we can neither attain independence, nor found the state, nor subsist'.[63] The general

[60] D.E.Weatherbee, *Ideology in Indonesia; Soekarno's Indonesian revolution*. New Haven, Conn.: Yale University Press, 1966, p. 33.

[61] Roeslan Abdulgani, *Nationalism Revolution and Guided Democracy*, 57.

[62] See Aidit's analysis of the Dekon in: D.N. Aidit, *Dekon (Economic declaration) and conditions for its implementation; Lecture presented to Indonesian Scholars Association, 11 May 1963'*, (Washington, D.C: US Department of Commerce, 1963).

[63] Soekarno, *Berdiri diatas kaki sendiri* (Berdikari)*; Amanat politikPresiden/Pemimpin Besar Resolusi/Mandataris MPRS pada pembukaan Sidang Umum ke-III Madjelis Permusjawaratan Rakjat Sementara, tanggal 11 April April 1965* (Jakarta: B.P. Prapantja, 1965) 18. This

sentiment applauding anti-imperialism and anti-feudalism in favour of a *gotong-rojong* economy emphasized in Manipol, Dekon and Berdikari had been an almost universal element in Indonesian political ideology since Independence. Looking at the views of the political parties, it is not difficult to recognize that there was plenty of common ground between Soekarno's ideologies and those of PNI, PKI, Murba, NU, PRN as well as various other nationalist parties. Demands that power be balanced against the increasing influence of the army drove Soekarno closer to the Nationalist and Communist-influenced parties, which were drumming up considerable support among the population.

President Soekarno indubitably bore the ultimate responsibility for the system. Nevertheless, as T.K. Tan puts it, under the system of highly centralized control, the whole success or failure Guided Democracy fell into the hands of those who directed it.[64]This fact was also perceived by leaders of the Indonesian government. In his explanation of *Manipol* in 1963, Roeslan Abdulgani, Deputy-Chairman of the Supreme Advisory Council, emphasized the importance of 'the role of the executors'. He quoted a statement issued by the Supreme Advisory Council that, 'although the political manifesto is very important because it has given the answer to the basic problems of the Revolution and has also put forward the basic efforts for the completion of the Indonesian Revolution, nevertheless, its realization depends very much on the persons, who will be given the task of executing it'. The people charged with the execution of Manipol, Roeslan Abdulgani explained, were those who had been given a share in the authority of the state.[65] Military officers were explicitly part of the executors of the state ideology and policy, if not the most powerful ones.

3. Take-over and Nationalization

quotation had been mentioned (in English) in his speech 'Year of Living Dangerously' on 17 August 1964, see: Roeslan Abdulgani, *Pantjawarsa Manipol*, 444.

[64] T.K.Tan, 'Soekarnian Economics', 31.

[65] H. Roeslan Abdulgani, 'MANIPOL& USDEK; Clarification concerning Manipol-Usdek', in Soekarno, H.Roeslan Abdulgani, *The resounding voice of the Indonesian Revolution (President address of 17 August 1963)* (Jakarta: Department of Information RI, 1965) 127-129.

In *Manipol*, it was stated that the cause of and context for the take-over of Dutch firms was the Indonesian struggle for the liberalization of West Irian. This struggle had been being waged since the mid-1950s, after negotiations by successive Indonesian cabinets with the Netherlands had collapsed. In an attempt to maintain its *laatste parel in de Gordel van Smaragd* (Last Pearl in the Emerald Girdle), the Netherlands refused to countenance the transfer of sovereignty of West Irian to Indonesia.[66] The failure of the Indonesian government to involve the United Nations in the dispute signalled a further deterioration in Dutch-Indonesian relations, of which the final result was a unilateral abrogation of the Round Table Conference Agreement in February 1956. Nevertheless, with the exception of a number of electricity and gas companies, the subsequent second Ali and Djuanda Cabinets did not express any desire to confiscate or nationalize Dutch companies. One of the reasons for their reticence was that that they knew the government could not afford to pay for this nationalization.

In August 1957, a group of Asian and African nations once again attempted to put the conflict over West Irian back on the agenda of the United Nations General Assembly. From that time, the West Irian issue appeared almost daily in Indonesian media. On 28 October, President Soekarno launched the 'Campaign to Liberate West Irian', followed by a four-day boycott of Dutch firms throughout Indonesia. A few weeks later, at another mass rally in Jakarta, President Soekarno announced that, if the resolution of the United Nations about West Irian issue failed again, the Indonesian government would take measures to 'startle the world', including nationalizing vital Dutch businesses. As expected, the General Assembly meeting of 29 November did not obtain the required two-thirds vote on the resolution.[67]

The next day as the news spread in Jakarta, an attempt was made to assassinate Soekarno. Although the President escaped unharmed, two people

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[66]Meijer, *Den Haag-Djakarta*, 251.
[67] Lindblad, *Bridges to new business*, 182

were killed and at least thirty were wounded.[68] This attempt certainly added fuel to the tensions. On 1 December 1957, the Djuanda Cabinet met and agreed on a set of reprisals. A nationwide strike against Dutch enterprises was announced on the radio by Minister of Information Soedibjo. On the morning of 3 December, the KLM representative in Indonesia, A.H. Duyf, was informed that the KLM landing rights in Jakarta had been rescinded. The nationwide 24-hour strike took place as planned on 2 December and on 3 December, the Secretary-General of Justice announced that no more visas would be issued to Dutch nationals. All financial transfers to the Netherlands were blocked. The next day, a prohibition was announced on Dutch newspapers and films.[69]

The seizure of Dutch enterprises began on 3 December 1957, when a delegation of trade unions affiliated with PNI and PKI entered the head office of the KPM shipping company in Jakarta. There, they read out a proclamation declaring that the workers were taking over the company. When the KPM directors refused to sign the proclamation, they were forced to leave their offices. All employees were then ordered to gather in front of the KPM building where the union leader again read out the proclamation. The KPM flag was lowered and replaced by the Indonesian national flag and the plain red union flag. The KPM facilities on shore and about forty ships (out of total of ninety-six) were taken over. Most of the other ships had already been moved to Singapore and other foreign ports before the seizure.[70]

The seizure of KPM set the pattern for a series of similar take-over of Dutch companies throughout the country over the next few days. The management of three Dutch banks, namely the *Escomptobank,* the *Nationale Handelsbank* and the *Cultuurbank* passed into the hands of a trade union committee, All-Indonesian Union of Bank Employees (Serikat Buruh Bank Seluruh Indonesia, SBBSI). On 4 December 1957, the assets of the 'Big Five'

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[68] Lindblad, *Bridges to new business*, 182.
[69] Meijer, *Den Haag-Djakarta*, 583.
[70] Meijer, *Den Haag-Djakarta*, 584; *Berita Negara Republik Indonesia*, 1 January 1958; Lindblad, *Bridges to new business*, 182-183; Bondan Kanumoyoso*, Nasionalisasi perusahaan Belanda*,61-63.

(Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindeteves) and of the NHM (Nederlandsche Handel-Maatschappij) were also seized.[71] BPM and Unilever escaped the take-over in view of their joint Anglo-Dutch ownership.[72] On 5 December, the Indonesian Minister of Justice ordered all Dutch nationals who were not employed to leave Indonesia within the next few months.[73] On 13 December 1957 Nasution as Martial Law administrator, tightened the prohibition on any further take-over and put the enterprises already seized under military command, presumably to circumvent Communists gaining control of these assets through the local trade unions which had carried out actual take-over. Finally, on 19 December 1957, Prime Minister Djuanda issued an announcement officially placing Dutch-owned enterprises under control of the Indonesian government. By that time, the total number of companies seized had reached 700, 500 of them estate enterprises.[74]

For one year after the take-over in December 1957, the Indonesian government hesistated about the future legal status of the Dutch companies. Only in December 1958 was it decided that the companies should be nationalized and permanently placed under government. A law on the nationalization of Dutch enterprises was finally promulgated on 31 December 1958. It laid down that Dutch-owned enterprises within the territory of the Republic of Indonesia were nationalized and were declared the full and free property of the State of the Republic of Indonesia. The amount of compensation 'will be determined by a committee whose members are appointed by the government'. In its preamble, the law specified three factors which were directly connected with nationalization: the framework of the liberation of Irian

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[71] van der Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930-1960; The case of Internatio', *Bijdragen tot de Taal-,Land-en Volkenkunde* 2/3 (2005) 201; Meijer, *Den Haag-Djakarta*, 584.

[72] Aden, *Oil and politics in Indonesia,* 177.

[73] This measure supposedly affected about 50,000 individuals, many of mixed European and Indonesian descent. Between December 1957 and August 1958, a total of 33,600 Dutch people left the country. In mid-1959, there was only about 6,000 Dutch people in Indonesia, most of whom (3,500) were under contract to international companies; another 1,600 were working on commission. The rest were Indonesian Dutch.Meijer, *Den Haag-Djakarta*,584; Lindblad, *Bridges to new business,* 183; Leslie H. Palmer*, Indonesia and the Dutch* (London: Oxford University Press, 1962) 108.

[74] Sundhaussen, *The road to power*, 327; Lindblad, *Bridges to new business*, 184.

Barat, the abrogation of the Round Table Conference agreements and the intention to derive the greatest possible benefit for all Indonesians and to improve the security and defence of the state.[75]

The promulgation of the law on the nationalization of Dutch-owned enterprises, laid the foundation for the final expulsion of Dutch businesses from Indonesia. The number of Dutch enterprises affected by this law was very large. On 21 November 1958, Colonel Suprajogi had already submitted of list of enterprises to Parliament, which the Central Military Authority handed over to the relevant government ministries in preparation for the actual nationalization. The list included seventy-seven agricultural enterprises, ninety-two industrial and mining enterprises, thirty-one banks and insurance concerns, thirty-two trading enterprises and some other businesses.[76] In comparison to the total number of Dutch enterprises seized in December 1957, the military certainly retained more than half of enterprises for itself. In February 1959, the Djuanda Cabinet issued an ordinance on the determination of Dutch-owned tobacco agrarian enterprises to be nationalized. A list of thirty-eight tobacco enterprises was provided, of which twenty-two were located in North Sumatra, fourteen in East Java and two in Central Java. The principal proprietors were the Deli Company, the Oud-Djember Company and the Senembah Company.[77]

The ordinance on the nationalization of tobacco enterprises became the prototype for a series of similar ordinances relating to the nationalization of estate enterprises. By May 1959, some 277 plantations of various types and sizes had been nationalized.[78] Dutch trading and manufacturing firms, about forty, including the 'Big Five', were nationalized in June 1959. A report issued by the Association of Employers in Indonesia (Ondernemersbond voor Indonesia) in July 1959 indicated that 248 Dutch companies had so far been

[75] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 291-295.
[76] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 221.
[77] 'Government Ordinance No.4 year 1959 (Statutes 1959 No.7) concerning nationalization of Dutch-owned tobacco agricultural enterprises', *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 304-306.
[78] J.A.C. Mackie, 'Indonesia's government estates and their masters', *Pacific Affairs*, 34 (1961-1962) 342.

nationalized, of which ninety-two were engaged in mining, seventy-seven in estate agriculture and thirty-two in trading, just to mention the largest categories. These 248 companies were said to represent a value of \$ 1.5 billion.[79] Nationalization was continued in 1960 and neared its conclusion by the end of the same year. So far such Anglo-Dutch ventures as BPM and Unilever had escaped unscathed. On 28 July 1960, Colonel Suprajogi, now Core Minister for Production, reported to the cabinet that 489 Dutch companies had been nationalized to date, including forty trading firms, 161 industrial and mining companies, 216 in the estate sector, nine in electricity and gas concerns, eleven livestock breeding companies, ten in charter firms, two printers, twelve involved in railways, two in banking, fourteen in assurance and twelve in maritime services. Approximately another 100 enterprises were awaiting nationalization.[80]

The principal motivation behind the rapid nationalization of Dutch enterprises was the interventions by PKI and SOBSI. Between February and December 1959, SOBSI and its various affiliated trade unions repeatedly sent appeals to the government urging that the law on the nationalization of Dutch-owned enterprises be passed. In August 1959, for instance, SOBSI sent a resolution to the government calling for an immediate nationalization of all Dutch enterprises, noting that the government had so far only focused on the nationalization of tobacco companies, corporate farms, gas and electricity companies, estates and railway companies in Java and Madura. Dutch capital in the oil sector remained free ‘to play its role in raking the riches of the Indonesian soil.’ SOBSI urged the government to nationalize all Dutch companies, including oil companies, making them state property under government supervision. The resolution named various important enterprises which still had not yet been nationalized or transferred to state ownership. These included printing (Kolff and Van Dorp), manufacturing (Nimef and Molenvliet), shipbuilding (VPV), pharmaceutical companies (Rathkamp and

[79] Lindblad, *Bridges to new* business, 197-198.
[80] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 348.

Van Gorkom), trading (Borsumy, Lindeteves and Internatio),[81] banking (NHM) and the railway company DSM in North Sumatra.[82] One month later, on 30 September 1959, SOBSI was again urging the nationalization of all Dutch companies, including the joint ventures with non-Dutch foreign capital, such as BPM. The government had no choice but to put all vital enterprises, such as transport, mining, electricity and estates, under its control and ownership.[83] Similarly, on 4 December 1959, at a congress in Solo in the presence of President Soekarno, PKI passed a resolution calling for the nationalization of all the remaining Dutch enterprises and the expulsion of the Dutch from Indonesia.[84]

Various occupational associations also exerted pressure on the government to pursue the nationalization of Dutch enterprises as vigorously as possible. For instance, in April 1959, when news spread that the government would not nationalize oil companies because of the dearth of experts compounded by financial difficulties, the Technicians' Association of Yogyakarta sent a detailed proposal to the Indonesian government insisting on a reorganization of oil companies after nationalization. It emphasized the importance of the oil sector to the economic growth and national security of Indonesia. Since a large number of experts and employees working for Dutch Shell companies were non-Dutch, it argued, the Indonesian government could also employ foreign experts after nationalization. The Technicians' Association also asserted that the Indonesian technical experts in their organization could also handle the job.[85] A similar proposal was put forward by the Indonesia Pharmaceutical Importers' Association in February 1959, urging the

[81] It seems that the SOBSI made a mistake since the 'Big Five' had already been nationalized in June 1959.
[82] ANRI, Resolution of the SOBSI, 14 August 1959, KP, inventory number 1528.
[83] ANRI, Declaration of the SOBSI, 30 September 1959, KP, inventory number 1528.
[84] ANRI, Resolution of the PKI, 4 December 1959, KP, inventory number 1528.
[85] ANRI, Proposal of the Technicians' Association of Yogyakarta to the President of the Republic of Indonesia, 20 April 1959, KP, inventory number 1528.

government to allow its members to participate in the nationalization of Dutch pharmaceutical companies.[86]

The Dutch attitude towards the take-over and nationalization by the Indonesian government was predictably fierce. The Dutch government protested and stated that no transfer of ownership had been acknowledged and that this non-recognition also applied to what was produced by these firms.[87] Nevertheless, since the Indonesians promised to pay damages, with its hand tied, all the Dutch government could do was to provide mediation in order to reach some sort of satisfactory outcome. The issue of compensation was primarily a matter between the Indonesian government and Dutch individuals. One of the first to protest was KPM, demanding 120 million guilders in compensation for ships seized. Prime Minister Djuanda retorted by claiming that for some time KPM had already been busy liquidating its operations in Indonesian waters.[88] Some estate companies fought against the seizure by bringing a lawsuit against those foreign companies which were marketing produce from their former plantations in Indonesia. In early 1959, two Dutch tobacco companies, the Deli Tobacco Company and the Senembah Company, appealed to a German court for property rights to the tobacco harvest of 1958, which had been shipped to Bremen by a Germany company.[89] They asked the German court for an injunction which would oblige the German company to deliver the tobacco to them. The German court refused to hand down the injunction on the grounds that the Dutch tobacco companies had forfeited their property rights at the time of the take-over.[90] The *Handelsvereeniging "Amsterdam"*, although it did adopt the same stance as the Dutch government

[86] ANRI, Proposal of the Technicians' Association of Yogyakarta to the Minister of Health, 6 February 1959, KP, inventory number 1528.

[87] NA, Internationaal advies inzake Indonesische nationalisaties, EZ, inventory number 60.

[88] Lindblad, *Bridges to new business,* 184.

[89] In early 1958, the Indonesian government cooperated with four Bremen tobacco-importing firms to establish the German-Indonesian Tobacco Trading Company (Deutsch-Indonesische Tabak-Handelsgesellsehaft, MBH) in Bremen. Most of the 1958 tobacco harvest on the Dutch tobacco plantations was shipped to Bremen by this company.

[90] Martin Domke,'Indonesian nationalization before foreign courts', *The American Journal of International Law*, 54 (1960) 305-322.

on the seizure, warned that it would take legal action if the Indonesian authorities traded in products originating from its estates.[91]

The official Dutch claim for compensation amounted to 1,260 million guilders. This estimate was based on the total of the material and capital investment by the Dutch companies in Indonesia between 1950 and 1957. It consisted of privately owned real estate (140 million guilders), small enterprises (120 million guilders), pensions (capitalized 112 million guilders), loans since 1950 (218 million guilders), lend-lease silver (20 million guilders), taxes (650 million guilders), plus interest of 5 per cent per month for the eight-year period (1950-1958).[92] In some circumstances, the Dutch also claimed an additional payment of 887 million guilders, which was broken up into various parts. The main components were interest accumulated up to 1962 and the repayment of Indonesian bonds (237 million guilders), payment of pensions (290 million guilders), loss of redemption and interest on two state loans (220 million guilders) and an outstanding debt on interstate loans (110 million guilders).[93] The Indonesian government again rejected the claim, arguing that the Dutch firms had long ago repatriated their capital to the Netherlands.[94] As a result of the diplomatic crisis, trade relations between Indonesia and the Netherlands ground to a halt in the late 1950s and early 1960s. When relations were restored in 1963, Dutch exports to Indonesia amounted to only 27 million, rising to 43 million guilders in 1964. The imports from Indonesia to the Netherlands were 55 million in 1963 and 344 million in 1964, of which tin ore (170 million guilders) and petroleum (88 million guilders) were the major players.[95] By comparison, Dutch exports to Indonesia in 1956 were 315 million, whereas the reverse trade was 454 million guilders in 1957 (Table 7, Chapter 3).

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[91] NA, Report of the N.V. Handelsvereeniging "Amsterdam", November 1958, EZ, inventory number 123.

[92] NA, Netherlands delegation in the joint Netherlands Indonesian committee on outstanding financial problems, EZ, inventory number 128.

[93] NA. Economisch-financiele betrekking met Indonesie, EZ, inventory number 127.

[94] Lindblad, *Bridges to new business*, 185.

[95] NA, Trade relation with Indonesia, 8 April 1965, EZ, inventory number 128.

Although the prime target of the take-over and subsequent nationalization were Dutch property, a number of non-Dutch enterprises were also seized under various circumstances. In May 1959, the Norwegian owner of the *A/S Norsk-Sumatra Plantage Kompagni* in Kota Pinang, Deli, reported to the General Association of Rubber Planters in East Sumatra (Algemeene Vereeniging van Rubber Planters ter Oostkust van Sumatra, AVROS) that, between June and August 1958, his estate had ben raided several times and then finally taken over by 'rebel forces'. The majority of the buildings, among them the factory, smokehouses, office and practically all accommodation, had been destroyed, incurring an estimated loss to the estate of nearly Rp. 8 million. Several attempts were made by the government forces to clear the area of rebel occupation, but the estate was still in the hands of the rebels and was now being tapped under their direction.[96] Another case was that of the Belgian-and French-controlled Netherlands N.V., which was also brought under the targets of the nationalization law. The company was owned by a Belgian national, I.E. Schurmans, but it had originally been registered in the Netherlands. In desperation, Schurmans applied to the Indonesian Minister of Foreign Affairs in Jakarta for recognition as a non-Dutch enterprise and appealed to the Belgian authorities to intervene in the dispute. Nevertheless, according to the Dutch ambassador in Belgium, J. M. Devers, all companies in Indonesia registered in the Netherlands were likely to be treated as Dutch companies.[97]

A similarly gloomy situation outlook faced the Chinese businesses in Indonesia. After the Kuo Ming Tang government in Formosa had supported the PRRI uprising in Sumatra, the Indonesian government began to pay more attention to the situation of the Chinese in the country. In the early months of 1958, Communist and Nationalist groups were constantly urging the government to take radical action against the Kuo Ming Tang adherents in

[96] ANRI, Sumatra Norsk-Sumatra Plantage Kompagni, Medan, 11 May 1959, KP, inventory number 259.
[97] NA. Letter of J.M. Deversto to the Minister of Foreign Economic Affairs, Brussels, 19 January 1959, EZ, inventory number 123.

Indonesia, accusing them of siding with PRRI.[98] The first retaliation was in the form of a government prohibition of the publication of Chinese-language newspapers and magazines in April 1958. On 18 September, the government banned fifty-two Chinese organizations in the Jakarta area considered to have links with the Taiwanese government, among them trade associations, sports groups, women‘s and youth organizations, cinemas and schools as well as the Great Eastern Bank in Jakarta. Finally, in October 1958, decrees were issued placing all schools, business enterprises, estates, industries, insurance companies, banks, shops and mining companies owned by Chinese, who were not citizens of countries maintaining diplomatic relations with Indonesia under government control. It is noteworthy that the measures taken against the Nationalist Chinese were virtually the same as those taken against the Dutch. On 22 September 1958, a high military authority in Jakarta openly declared that, 'the action against Chinese enterprises will be the same as that against the Dutch'.[99]

Table 11: Number of trading firms considered to be foreign owned in Indonesia until February 1959

	Big	Average	Small	Total
Chinese	177	14,654	44,956	59,787
Dutch	139	65	10	214
Indian/Pakistan	73	461	424	958
British/American	58	19	19	96
German/Swiss	14	3	2	19
Other Europeans	13	15	6	34
Other Asian	5	279	736	1.020
Indonesian Chinese	42	222	56	320
Indonesian others	46	25	8	79
Other	23	23	27	73
Total	590	15,766	46,244	62,600

Source: *Dua Tahun Kabinet Karya, April 1957-April 1959* (Jakarta: Kementerian Penerangan R.I, 1959) p. 245.

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98 B.H.M. Vlekke (ed.), *Indonesia's struggle 1957-1958* (The Hague: Netherlands Institute of International Affairs, 1959) 56.

99 Vlekke (eds.), *Indonesia's* struggle, 58-59.

The anti-Kuo Ming Tang Chinese actions taken by the Indonesian government in 1958 extended into general anti-Chinese resentment in Indonesia in the next few years. This time, the government complaints were based on the fact that Chinese traders in various rural areas were controlling the market in important products. An investigation conducted by the Ministry of Trade in early 1959 allegedly showed that 94 per cent of the total 62,600 trading firms, especially medium and small businesses throughout Indonesia were owned by Chinese. Only few of their owners had Indonesian citizenship (Table 11).

Another investigation provided even more impressive figures. By November 1959, there were 167,000 foreign enterprises in Indonesia, and this was excepting enterprises in the service sector, such as hotels, the media and cinema. Of these, about 125,000 were trading firms, the majority owned by Chinese.[100] They completely controlled the gold trade and monopolized the salt fish market, which was an important source of protein for the Indonesian people. Government policies on price control and distribution were being disrupted by monopolistic manipulations and speculation.[101] The inevitable upshot was that in July 1959, Minister of Trade, Rachmat Muljomiseno, announced a regulation banning foreign nationals engaging in rural trade, requiring them to have transferred their businesses to Indonesian citizens by 30 September 1959. In November 1959, President Soekarno issued a similar decree which stated that, as of 1 January 1960, foreign nationals engaging in retailing, distribution and brokerage would be banned from rural areas in Indonesia. They could close their shops altogether, sell them to Indonesian citizens or move their businesses to the cities and towns. Although this measure unquestionably also affected the Arab and Indian traders, its principal target was the Chinese. The Indonesian government hoped that the Chinese-run businesses in the rural areas would be taken over by co-operatives or transferred to private Indonesian individuals.[102]

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[100] *Berita Negara Republik Indonesia*, 15 November 1959.
[101] *Berita Negara Republik Indonesia*, 15 January 1960.
[102] *Berita Negara Republik Indonesia*, 15 August 1959; Thee, 'Indonesianization', 35.

Despite heated interventions by the Chinese government which created serious diplomatic tension between Peking and Jakarta,[103] thousands of Chinese left Indonesia for the Chinese People's Republic throughout 1960. By early 1961, the total number who had ultimately left Indonesia swelled to 119,000.[104] Their departure seriously dislocated the distribution trade in a number of areas, not only in Java but also in Kalimantan.[105] Some traders encouraged by Chinese diplomatic officials in Jakarta refused to abandon their rural businesses. As the ethnic Chinese in South Vietnam had done, the most common way for ethnic Chinese in Indonesia to escape the seizure of their assets by the local authorities was to transfer ownership of their property to Chinese relatives who were Indonesian citizens. This became a very common practice when it came to large companies, as soon as it became apparent that the Indonesian authorities were not going to restrict their discriminatory actions to small traders. One of the best examples which illustrates this prevailing tendency can be seen in the desperate efforts made by the managers of the Oei Tiong Ham Concern, which was eventually confiscated by the Indonesian government in July 1961, but not without a fight after a period of resistance.

In 1924, when Oei Tiong Ham died his concern was inherited by nine of his thirteen sons.[106] A lack of strong leadership, the world economic depression of the 1930s and the increasing intervention in the economy of the colonial government all conspired to harm the growth of the company. However, the decisive blow which hastened the steady decline of OTHC was the hostile attitude towards capitalism adopted by the Indonesian government after Independence. Viewed as the symbol of the success of the Chinese,

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[103] See the Chinese reactions against the Indonesian measure to expel the Chinese from the rural areas in Mozingo, *Chinese policy toward Indonesia*, 164-171; *Indonesian Observer*, 1 April 1961. But Chinese relations with Indonesia soon recovered because the Chinese government was keen to increase its influence in Indonesia for fear that Indonesia would incline towards the US or the Soviet Union.

[104] Mozingo, *Chinese policy toward Indonesia*, 175; Ricklefs, *A History of Modern Indonesia,* 324.

[105] *Berita Negara Republik Indonesia*, 15 January 1960.

[106] Nevertheless, one of the nine sons, Oei Tjong Swan, sold his share to other brothers and left for Europe. Since 1930, there had been only 8 shareholders. Oei Tjong Hauw, Oei Tjong Tjiat, Oei Tjong Yan, Oei Tjong Ik, Oei Tjong Ie, Oei Tjong Bo, Oei Tjong Hiong, Oei Tjong Tjay. In 1950, Oei Tjong Hauw died and his share was transferred to his son, Oei Ing Swie.

nefariously acquired through their collaboration with Dutch colonialism, the businesses of OTHC met with serious obstacles thrown up by the Indonesian government. The *Benteng* Programme with its discriminatory measures in favour of indigenous groups certainly speeded up the decline of the Kian Gwan trading company, which also had its work cut out competing with Dutch firms, especially the Lindeteves.[107] Although the owners of OTHC tried to cultivate contacts with Indonesian political leaders, as among them Sumitro Djojohadikusumo, and helped finance both PSI and PNI, the hardening political situation in post-Independent Indonesia frustrated their efforts. Besides the four brothers who had studied abroad and did not return to Indonesia and the three appointed to the head offices in New York, Singapore and Amsterdam, other members of the Oei family left Indonesia one after the other in the course of the 1950s. By the time of the take-over, none of the Oei brothers was in Indonesia and the management had been entrusted to Tjoe Soe Tjong, who was not a member of the family. Nevertheless, in order to deal with the Indonesian authorities, who were seriously concerned about the nationality and property, in late 1959 the shares in OTHC were transferred to three brothers, Oei Tjong Yan (50 per cent), Oei Tjong Ik (37 ½ per cent), Oei Ing Swie (12 ½ per cent), of whom two, Tjong Yan and Tjong Ik, were Indonesian citizens.[108]

On 10 July 1961, an economic court in Semarang decided to confiscate all the OTHC property which had an estimated value of Rp. 4 billion. The confiscation order was based on a court examination of OTHC by the public prosecutor Daan Soelaiman on 26 June 1961. The Indonesian authorities discovered that the owners of OTHC had violated Article 16 of the Economic Penal Code, requiring foreign nationals in Indonesia to register their property with the LAAPLN, which controlled foreign exchange. It transpired that the Oei brothers had not report their property, which they had inherited from their father, Oei Tiong Ham. In separate charges, as a foreign resident, Oei Ing Swie, the director of OTHC in 1952 had sold Kian Gwan shares to a value of

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[107] KKA, *New Nation*, 24-25 August 1971, OTHC, inventory number 10.

[108] KKA, Letter of Oei Tjong Tjay to Oei Tjong Ie, Oei Tjong Bo and Oei Tjong Hiong, Amsterdam, 9 April 1959, OTHC, inventory number 12.

16,210,000 guilders without the authorization of LAAPLN. In February 1958, he again booked his stocks from the Bank Indonesia to Amsterdam on behalf of OTHC in the name of Oei Tjong Yan, who was also a foreign resident. This involved a nominal amount of 6,812,574 guilders and it was not reported to LAAPLN.[109] Although the Oei family contested the charge of the Semarang court, which involved them in a legal dispute with the Indonesian government until very recently, the history of OTCH officially ended in July 1961.[110]

While not letting up on the anti-Chinese business during the next few years, the Indonesian government now embarked on other campaigns against British and American companies. The West Irian dispute, the vehicle which rallied Indonesian masses to demand the closure of Dutch business in Indonesia, had been resolved by the end of 1962. To keep alive the spirit of 'continuing Revolution' against imperialism and colonialism, which had escalated into a conflict between the NEFO and OLDEFO,[111] President Soekarno thrust his country into a Confrontation (*Konfrontasi*) with the neigbouring country Malaysia. Whatever ulterior motives he might have had, it seems that Soekarno viewed the formation of the Federation of Malaysia on 16 September 1963 as a British neo-colonialist project and a threat to the security of his country. The *Ganjang Malaysia* (Crush Malaysia) campaign included attacks on British and American property, because Great Britain was considered the intellectual author behind the Malaysia scheme, and the United States was its accomplice. As had

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[109] KKA, *Suara Merdeka*, 27 June 1961, *Sinar Indonesia*, 27 June 1961, OTHC, inventory number 12.

[110] In their defence, the Oei family argued that there was 'no obligation existed at all, requiring non-residents to report their assets located in Indonesia to LAAPLN'. Furthermore, in 1952, Oei Ing Swie and Oei Tjong Yan still had Indonesian citizenship. Therefore, they were not obliged to report their transactions to LAAPLN. Letter from Oei Tjong Tjay to the Ambassador of the United Kingdom to the Republic of Indonesia, dated 14 October 1961, and Letter from Tan Swan Bing to Oei Tjong Tjay, dated 29 October 1996, OTHC, inventory number 3.

[111] NEFO-OLDEFO was Soekarno's simplified concept of world order, first introduced by him in 1961 at a conference of non-aligned states held in Belgrade, Yugoslavia. Soekarno argued that the world was divided into two conflicting and irreconcilable camps, the New Emerging Forces (NEFO) consisting of the Socialist countries, the newly independent countries and the progressive peoples in the capitalist countries against the Old Established Forces (OLDEFO), consisting of the imperialists, the capitalists and the colonially minded people. Soekarno aligned Indonesia with the NEFO by organizing the Games of the New Emerging Forces (GANEFO) in Jakarta in November 1963.

happed to the Dutch businesses during the West Irian Campaign, the economic interests of the British and Americans in Indonesia became a principal target for attack. The Indonesian government also broke off trade relations with Malaysia and Singapore, its two foremost commercial partners in Southeast Asia.[112]

On the day of the formation of the Malaysia Federation, there were mass demonstrations in Jakarta and Medan, which led to serious fighting and the destruction of the British embassy, consulates and houses.[113] The seizure of British firms commenced one day later, on 17 September 1963. The Jakarta office of four British companies, Harrisons & Crosfield, J.A. Wattie, Dunlop Rubber and Commercial Union Assurance Company, were taken over by the trade unions of their employees associated with SOBSI. Likewise, workers at the Shell Oil Company at Plaju in South Sumatra seized the refinery but the Shell refinery at Balikpapan was taken over by the military commander of East Kalimantan, Colonel Soehardjo.[114] On 18 September 1963, the Governor of West Java, Mashudi, issued a decree, providing a list of British firms in East Java which were to be placed under the supervision of his provincial government. The list included estates of the P&T Lands, J.A. Wattie, Harrisons & Crosfield and Ross Taylor, as well as the facilities of Dunlop Tyre enterprise, BAT (British and American Tobacco) and the Shell Oil offices in Bandung and Cirebon.[115]

Most of the take-overs were non-violent. Foreign managers were forced to leave their offices and their work was transferred to Indonesian staff. On 19 September, President Soekarno issued decrees forbidding any further take-overs and demanding the enterprises seized be transferred to the appropriate ministries. Supervisory teams were appointed and given the task of safeguarding security and ensuring the smooth operation of these firms. All

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[112] A.C. Mackie, *Confrontasi; The Indonesia-Malaysia dispute, 1963-1966* (Kuala Lumpur: Oxford University Press, 1974) 182.

[113] Mackie, *Confrontasi*, 182-187.

[114] Besides the main refinery at Plaju, Shell had 5 smaller refineries: 1 near Balikpapan (East Kalimantan), 1 in Tarakan (Northeast Kalimantan), 1 in Pangkalan Brandan (North Sumatra), 1 in Cepu (East/Central Java) and 1 in Wonokromo (East Java). See: Redfern, *Soekarno's Guided Democracy*, 165-166.

[115] Willian A. Redfern, *Soekarno's Guided* Democracy, 215-216.

arrangements were declared to be temporary as the government was planning to return the firms to the foreign owners. Well-aware of the economic importance of oil companies, President Soekarno demanded the immediate return of the Plaju refinery to the Shell Oil Company, and he took the opportunity to instruct the regional authorities firmly that they were to prevent any further take-over of Shell facilities. His instructions were certainly listened as the oil fields and refineries at Plaju were handed back to their Shell managers the next day, 20 September 1963. More remote and with the army behind him, Colonel Soehardjo delayed the return of the Balikpapan refinery until late December 1963. With the exception of these sensitive Shell properties, no other firms were immediately returned to British owners.

In January 1964, a new wave of take-overs of British firms began. This time it was initiated by workers and trade unions, their greatest stimulation being PKI influence. *Konfrontasi*, *Manipol*/*USDEK* and *Dekon* continued to serve as basic sources of inspiration for the take-overs, the immediate flash-point was the behaviour of the British colonial authorities in Hong Kong who refused point blank to the issue licences for the export of military equipment to Indonesia and, adding insult to injure, detained two Indonesian pilgrim ships in December 1963.[116] On 20 January 1964, SOBSI members hoisted the red flag at Shell Oil company headquarters in Jakarta. The walls of the Shell office building were plastered with signs reading 'Indonesian property'. Unilever workers in Jakarta seized the switchboard and bolted the main doors of the factories, after first warming British staff to stay away from the building. On 22 January, workers took over the Jakarta office of BTA. On the same day, the offices of the Maclaine Watson trading firm in Jakarta and Makassar were also taken over by the unions to which its employees belonged. In North Sumatra, on 22 January, various trade unions leaders entered the main office of Harrisons & Crosfield in Medan, and the office and estates of the Anglo-Sumatra Estate Agency and Guthries were also simultaneously seized. In Surabaya, on 24 January, SOBSI-affiliated unions attempted take-overs of three British-owned

[116] Redfern, *Soekarno's Guided* Democracy, 282.

firms in Surabaya, Unilever, BAT and Fraser & Neave. On 31 January, Third Deputy Prime Minister, Chaerul Saleh, issued a circular placing the British companies seized under the control and supervision of the relevant ministers.[117] The total number of British enterprises taken over in January 1964 was seventy-eight.[118] The Indonesian authorities ignored all claims to property rights to the British companies as well as by the British government.

The government supervision was declared to be a temporary measure and was claimed to be necessary for the purpose of safeguarding the continued operation of British companies. Despite this reassurance, on 26 November 1964, President Soekarno issued a decreed placing all British firms under government control. The decree was supplemented by a list of enterprises to be controlled by relevant ministries. The Ministry of Estates took over Harrisons & Crofssfield, Guthries, P&T Lands, J.A. Wattie, Anglo Sumatra, C.V. Perindo, Groemit/Reids, P.T. Indreswari and Ross Taylor. Dunlop Rubber was transferred to the Ministry of Basic Industries. The Ministry of People's Industries took over the management of Unilever, the mining company Archa, BAT, Limun F&N and a textile factory called Nebritex. Maclaine Watson was placed under the Ministry of Trade. The Ministry of State Revenues, Finance and Audits controlled the companies OCEAN, Semarang Sea and Fire and Union of Canton. The Chartered Bank was transferred to the Ministry of the Central Bank.[119] The list did not include the Shell, since this oil company was still under the British management.

Once the take-over of British companies had been completed at the end of 1964, American companies, led by the oil companies Stanvac and Caltex, were the most important foreign companies remaining in Indonesia. By 1965, the *Konfrontasi* against Malaysia and the British had escalated into a confrontation against all 'imperialist' and colonial powers of the world. This

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[117] Redfern, *Soekarno's Guided* Democracy, 283-300.
[118] Oey Hong Lee, *Indonesian* government, 332.
[119] 'Semua perusahaan Inggris dikuasai', *Madjalah perekonomian nasional*; *Untuk melaksanakan Dekon menudju ekonomi sosialis Indonesia* (Jakarta: Jajasan Penerbitan Pembina Perekonomian Nasional, 1965) 33.

escalation was marked by the withdrawal of Indonesia from the United Nations in January 1965, as well as its exodus from IMF, Interpol and the World Bank in August 1965. The anti-imperialist alliance with the People's Republic of China culminated in President Soekarno's famous proclamation in August 1965 of the Jakarta-Phnom Penh-Hanoi-Peking-Pyongyang axis. Diplomatic relations with the US had been steadily deteriorating since early 1964, when the US government had cut off financial aid to Indonesia, which was greeted by the President's response: 'Go to hell with your aid' on 25 March 1964. US support for Malaysia during *Konfrontasi*, as well as increasing US involvement in Vietnam symbolized plain unvarnished imperialism and added fuel to the anti-US rhetoric in Indonesia. Between February and mid-April 1964, the government of Indonesia took over thirteen foreign companies, eleven of them American-owned, including the Goodyear Tire and Rubber Company and the United State Rubber Corporation (USR). Next to fall victim were the big three foreign oil companies, Caltex, Stanvac and Royal Dutch Shell, which were taken over on 19 March 1965. In April, the remaining American companies, including the Union Carbide Battery Plant, American and Foreign Insurance Association (AIFA), National Cash Register and some American film companies were all taken over. Finally, on 24 April 1965, appealing to the rationale of *Berdikari*, President Soekarno issued a decree stating that all foreign enterprises would be put under the government control, regardless of nationality.[120]

Although most British and American companies were eventually returned to their former owners in the early years of the New Order, the Presidential decree of 24 April 1965 can be considered the culmination of the efforts by the '1945 Generation in Indonesia to liberate their country from economic control by foreigners. These efforts had begun just after Independence, but reached a climax in the late 1950s with the take-over and eventual nationalization of Dutch enterprises and in the early 1960s with the seizure of British and American companies, which happened alongside the

[120] Redfern, *Soekarno's Guided* Democracy, 492.

extended expropriation of Chinese businesses. Various explanations can be offered for these extraordinarily radical actions by the Indonesian government. Tensions in diplomatic relations, in which foreign companies were used as pawns, were certainly an important factor, especially in the case of Dutch, British and American firms. However, the confiscation of the Chinese businesses and their infrastructures had nothing to do with foreign relations, except for the charge of alleged Taiwanese government support of the PRRI rebellion. They were taken over directly by the government. In contrast, the seizures of the Dutch, British and American companies were all initiated by the military and trade unions affiliated with PKI. The Indonesian government claimed to be passive observe in these events, unable to take any action, except to follow up the seizure in order to 'supervise' and 'safeguard' the continued operations of the companies. Passive though it probably was, why was Soekarno's government so loath to return the seized enterprises to their foreign owners?

4. Business Engagement

Whether or not the take-overs had been clandestinely planned by the Indonesian government, it would seem that these attempts to attain the final elimination of foreign control of the economy were inevitable, an essential part of the transition of Indonesia into an independent national economy. The other side of the coin was the elevation of Indonesians to the commanding role in the economy. The rhythm of this intertwined process depended largely on the political developments. When the country decided to adopt the policies of Guided Democracy and the Guided Economy followed by martial law, sooner or later it was on the cards that foreign control of the economy would have to be eliminated, by hook or by crook. In a speech one day after the take-over had begun, on 4 December 1957, the Governor of the Bank of Indonesia, Sjafruddin Prawiranegara, criticized the seizure, stating that, 'I completely agree with the liquidation of all Dutch property in Indonesia, but everything should be carried out according to a systematic plan and not just prompted by burning passions which might [eventually] only rebound on the people themselves'.[121]

In fact, soon after the imposition of martial law, it is clear that the military had already been making some preparations for a take-over of the economy. On 24 August 1957, the Ministry of Defence issued an instruction, identifying companies, departments and agencies considered vital to the military, which SOB asserted should be under military jurisdiction. In fact, all companies, departments and facilities relating to transportation, posts, the media, hospitals, oil, gas, electricity and printing were vital to the military, or so the military thought. Four major Indonesian banks, *Bank Indonesia*, *Bank Negara Indonesia*, *Bank Industri Negara*, and *Bank Rakjat Indonesia*, together with mining enterprises, some manufacturing enterprises and estates were all scheduled to be put under military authority. At that point, the instruction did not yet go so far as to indicate any measures to bring foreign enterprises under military control.[122] The sudden take-over of Dutch enterprises by local trade unions in December 1957 certainly had an impact on the military thinking about what its primary intentions were. Probably driven by fears that PKI might attempt to bring these enterprises under its own control, thereby strengthening its economic resources and political position, the army quickly stepped in and assumed control of the enterprises seized.[123] The Indonesian government definitely did not wish these enterprises to fall into the hands of either PKI or the army. On 19 December 1957, Djuanda, in the name of both Prime Minister and Minister of Defence, announced government control of all Dutch enterprises.

As a conciliatory measure, various government bodies were installed to control the seized Dutch enterprises. Members of these bodies consisted of judicious mixture of relevant ministers, army officers and representatives of trade unions. Dutch banks were managed by the Central Supervisory Council

[121] Quoted from Karl J.Pelzer, *Planters against peasants*, 160.
[122] ANRI, *Instruction of Ministry of Defence*, KP inventory number 1267.
[123] Sundhaussen, *The road to power*, 328.

for Dutch Banks (Badan Pengawas Bank-Bank Belanda Pusat, BP Bank2 Belanda Pusat), the estates by the Centre for New State Plantations (Pusat Perkebunan Negara Baru, PPN-Baru), trading firms by the Government Agency for Commercial Enterprises (Badan Urusan Dagang, BUD), while the supervision of manufacturing and mining firms and pharmaceutical enterprises was placed under respectively the Government Agency for Manufacturing and Mining Enterprises (Badan Penyelenggara Perusahaan Industri dan Tambang, BAPPIT) and the Central Body for Administration of Dutch Pharmaceutical Companies (Badan Pusat Penguasa Perusahaan2 Pharmasi Belanda, BARPHAR). There were three more supervisory agencies established during the course of 1957-1958, two for the insurance companies, namely, the Supervisory Board for Life Insurance (Badan Pengawas Assuransi Djiwa) and the Supervisory Board for Dutch Insurance Companies (Badan Pengawas Perusahaan2 Assuransi Kerugian Belanda) and the Central Supervisory Board for Dutch Contracting Companies (Badan Pusat Pengawas Perusahaan2 Pemborongan Belanda, BP5B) for contracting services.[124] All former Dutch companies adopted Indonesian names and most of them became state-owned enterprises.

In February 1959, by the time the nationalization law had been effectively executed, all these agencies were placed under one umbrella body, called the Board for the Nationalization of Dutch Enterprises (Badan Nasionalisasi Perusahaan Belanda, BANAS). Members of BANAS consisted of all ministers responsible for economic affairs, the Governor of *Bank Indonesia* and the Minister of Health, whose function was probably to supervise the pharmaceutical enterprises. It was chaired by Prime Minister Djuanda, assisted by two deputies, Soetiko Slamet from *Bank Indonesia* and Minister of Economic Stabilization, Colonel Soeprajogi.BANAS had the authority to decide which Dutch companies would be transferred to the government supervisory agencies and which were to be managed by provincial governments, or left to

[124] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 352-356;

the private sector.[125] BANAS also extended its coordination to existing state corporations, such as PELNI, *Bank Indonesia* and GIA. In total, BANAS supervised about twenty groups of state-owned enterprises and banks.[126] In December 1960, BANAS was dissolved and replaced by a Central Co-ordination Board (Badan Pusat Cordinasi), which functioned as a co-ordinating, planning and supervisory staff for the First Minister Djuanda. From a historical distance, it seems that the running of the Central Co-ordination Board left a great deal to be desired, especially after the death of Djuanda. In the meantime, the government supervisory agencies for state-owned enterprises expanded apace, absorbing a considerable number of Chinese, British and American enterprises. By examining some particular supervisory agencies, it is possible to see how the foreign companies were integrated into the existing Indonesian sectors, if not vice-versa. The consequences of this forced marriage will be discussed below.

Banking was perhaps the sector most urgently in need of control if a tremendous outflow of money from Dutch banks to other foreign banks was to be prevented and if credit was to be made available to state enterprises. As said, all Dutch banks in Jakarta were placed under the control of *BP Bank2 Bank Belanda Pusat*. This body was composed of representatives of high-raking military staff, as well as bureaucrats from financial and economic departments, the ministry of finance and the *Bank Indonesia*. Their branches in the regions were controlled by the Regional Supervisory Council, which was composed along the same lines as the Central Board. A supervisory team, *Team Pengawas*, was stationed in each bank. Henceforward, all the transactions of Dutch banks had to be handled through Indonesian banks with the prior consent of the Indonesian authorities. Dutch nationals also needed a permit from the local authorities to withdraw their money.[127]

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[125] *Nederlands Tijdschrift voor Internationaal Recht* 6 (1959) 301-302.
[126] R.M. Sarwoko and R. Hendro Koosman, *Kumpulan ketentuan-ketentuan dan pengumuman-pengumuman BANAS*, Vol. II (Jakarta: Badan Nasionalisasi (BANAS), 1961) 234, 238.
[127] Bank Indonesia, *Report for the year, 1957-1958*, p. 95. *Government statement on the struggle for West Irian; delivered by Prime Minister Djuanda in the plenary meeting of parliament held on Monday, January 27, 1958* (Jakarta: Ministry of Information RI, 1958) 16-17, 48.

The nationalization of Dutch banks eventually took place in 1960. The *Handelsbank* was converted into State General Bank (Bank Umum Negara). The *Escompto Bank* was liquidated and its activities were immediately taken over by the State Commercial Bank (Bank Dagang Negara). The assets and liabilities of the NHM were transferred to the Bank for Co-operatives, Smallholders and Fishermen (Bank Koperasi, Tani den Nelayan).[128] Several rearrangements were simultaneously introduced in the state banks. The Post Office Savings Bank was renamed the State Savings Bank. The State Industrial Bank (Bank Industri Negara) was merged with the Development Bank of Indonesia (Bank Pembangunan Indonesia), which was established in May 1960 with a special task of helping the government finance its Eight-Year Development Plan. The working licences of all foreign banks, including the Overseas-Chinese Banking Corporation (OCBC), Bank of China, Hong Kong and Shanghai Banking Corporation and the British-owned Chartered Bank were gradually withdrawn throughout 1963 and 1964. In March 1964, the Chinese government volunteered to turn over the assets of Bank of China to the Indonesian government as a gift to strengthen its relations with Indonesia.[129] The assets of the Chartered Bank were taken over by the *Bank Negara Indonesia* and the *Bank Umum Negara* in February 1965. The two other banks withdrew their businesses from Indonesia. To consolidate the centralized control of the banking system, in preparation for financing the Three-Year Plan (1966-1968), in August 1965 all seven state banks were integrated into one body, called the *Bank Tunggal* (Sole Bank).[130] In 1960 and 1965, besides the state banks, there were twenty-two regional development banks, nineteen small local banks (both as joint enterprises between the government and private parties) and twenty-two private national banks.[131]

On 10 December 1957, the Minister of Agriculture, Sadjarwo, announced the formation of the Centre for New State Plantations (Pusat

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[128] Lindblad, *Bridges to new business*, 198.
[129] Mozingo, *Chinese policy toward Indonesia*, 209-210.
[130] These 7 state banks were Bank Indonesia (Central Bank), BKTN, Bank Negara Indonesia, BUGNEG, *Bapindo*, BDN, *Bank Tabungan Negara* (BTN, Savings Bank Indonesia).
[131] Bank Indonesia, *Report for the year*, 1960-1965, pp.58-62

Perkebunan Negara Baru, PPN-Baru), which was then merged with the existing PPN, established under the old Republic of Indonesia.[132] PPN-Baru was immediately entrusted with the management of 542 Dutch estates, three-quarters of all Indonesian plantations.[133]A rapid *indigenization*of the administration of Dutch estates immediately followed, although a number of Dutch managers were allowed to stay on after signing documents limiting their rights to the estates.[134] In most cases, senior Indonesian employees of former Dutch enterprises were promoted to key jobs as managers or overseers, and army officers served as supervisors. The new managers were selected from influential groups in the *daerahs* (regions), particularly those who had close ties of interests and affinity with the existing regional authorities, the *pamong pradja,* and army officers.[135]A six-month course was organized to train senior middle school graduates to take over supervisory positions.[136] As the result of all these efforts, 90-95 per cent of the personnel on the rubber estates in North Sumatra had been *Indonesianized* by 1960.[137]

The nationalization after 1959 brought other significant changes. Individual estates were grouped into 'Units', which formed legally distinct state enterprises. The Unit served as the provincial branch of PPN-Baru (now again named PPN), whose head office and general managerial board were stationed in Jakarta. All major decisions were taken by the Jakarta office after it had received recommendations from the provincial branches. The Units carried out general supervision, provided technical advice, determined the annual budgets as well as the planting and production schedules for each estate.[138] The offices of units could be concentrated in one centre, for instance, Surabaya where the

[132] At the time of incorporation, the 'old' PPN was in charge of 35 estates. Its director, Saksono, continued to head the PPN-Baru.Mackie, 'Indonesia's government estates', 338.
[133] Mackie, 'Indonesia's government estates', 338; Pelzer, *Planters against peasants,* 163.
[134] Pelzer, *Planters against peasants*, 163.
[135] Mackie, 'Indonesia's government estates', 340, 344.
[136] Lim Kim Liat, 'The prospects for the Deli tobacco industry', in Douglas S. Paauw and Lim Kim Liat, *Prospects for East Sumatran plantation industries; a symposium* (New Haven: Yale University, 1962) 5.
[137] Dahlan Thalib, 'The estate rubber industry in the East Coast of Sumatra', in Paauw and Lim, *Prospects for East Sumatran plantation industries*, 53.
[138] Mackie, 'Indonesia's government estates', 343.

office of all sugar units in East Java was located, or situated in the region of estates concerned.[139] In both cases, this brought about a major structural change in the administration of the former Dutch estates. The Dutch estate companies were now broken up and fused into regional units under the centralized administration of the PPN head office in Jakarta. In total, PPN managed ninety-two units, including fifty-two rather small ones for sugar, sixteen huge ones for rubber and seven for tobacco.[140] In May 1962, the sugar factories and rubber estates belonging to OTHC were transferred to the management of PPN, while its other businesses were handled by a joint committee composed of members from the Department of Attorney General and the Department of Trade.[141]

The administration of the estates taken over between 1963 and 1965 generally followed the pattern explained above of grouping them either by geography or previous ownership. At first, overall charge of British estates was entrusted to a supervisory team in the Ministry of Agriculture and Agrarian Affairs. In March 1964, the team developed into the Central Control Board of British Estates (Badan Pusat Penguasaan Perusahaan Perkebunan Milik Inggris), chaired by the Co-ordinating Minister of Agriculture and Agrarian affairs, Sadjarwo. In September 1964, all the seized British estates were grouped into five units, known as *Dwikora*. Each *Dwikora* unit was led by managers appointed by Sadjarwo and these managers were responsible for supervising, controlling and managing the estates in its group. These five *Dwikora* units were either geographically and/or company-based. *Dwikora* I was compoased of all the Harrisons and Crosfield estates in North Sumatra, *Dwikora* II was a mixture of other estates in Sumatra, *Dwikora* III was a mixture of estates primarily in Java, *Dwikora* IV made up almost exclusively of the P&T Lands estates and *Dwikora* V was a cluster of estates in East Java. In November 1964, a Central Board of Directors of *Dwikora* (Badan Pimpinan Umum Dwikora, BPU-Dwikora) was established, which took over the

[139] Mackie, 'Indonesia's government estates', 343
[140] Lindblad, *Bridges to new* business, 204.
[141] KKA, *Letter of Moch Soejoedi to Bill (Oei Tjong Bo)*, dated 12 May 1962, OTHC, inventory number 12.

management of the estates in the *Dwikora* structure. The BPU-*Dwikora* was made up of four directors. The first director was in overall charge of the *Dwikora*, while the other three directors were responsible for production, marketing and finance, respectively. Each *Dwikora* unit also had a board of directors, and one senior director was in overall charge of all the component units. This board of director was advised by a supervisory board, whose members included the governor and representatives of the army, trade unions and the National Front.[142]

Most estates belonging to Goodyear and USR were turned over to the government state-owned rubber plantation unit, known as the State Rubber Plantations (Pusat Perkebunan Karet Negara, PPN Karet) in the Ministry of Agriculture. But the Wingfoot South Estate was sold to two private firms, namely Hapinis and Oriental Tyre. In March 1965, the government changed the name Goodyear to the Estate Company *Ampera* I (Perusahaan Perkebunan Ampera I) and the name USR to the Estate Company *Ampera* II (Perusahaan Perkebunan Ampera II). Following the Presidential decree of April 1965, the estates owned by the Belgium firm SOCFIN in North Sumatra were organized into two units, one in Aceh administering eighteen estates and another called PPN No.5 in charge of ten estates. These estates were later grouped with other Belgium-owned estates into four units called *PPN-Expera*. There were two *Expera* units in Sumatra and two in Java. The *Expera* units appeared to have been administered separately from the other government estates although, as on other estates, the top layer of management was appointed by the central government.[143]

The administration of the Dutch trading firms seized was placed under BUD. Reorganization took place after the promulgation of the nationalization law, with immediate effect for more than forty Dutch trading firms. The 'Big Five' were reorganized into state enterprises under new names. Borsumij, Geo. Wehry, Internatio, Jacobson van den Berg and Lindeteves became respectively

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[142] Redfern, *Soekarno's Guided* Democracy, 342-347.
[143] Redfern, *Soekarno's Guided* Democracy, 507, 558.

the Indonesian Development Industrial and Trading Corporation (Indevitra), Satja Negara Trading Corporation (Satja Negara), Judha Bhakti Corporation, Indonesian Estates and Industrial Supply Corporation (Indestins) and the Triangle Corporation. Another Dutch-owned trading enterprise, Mirandolle and Voute, was transformed into the Estate and Plantation Company Mira Sari (Perusahaan Dagang dan Perkebunan Mira Sari, Mira Sari). These six leading Dutch companies, with two Indonesian state trading enterprises, the Central Trading Company (CTC) and the Indonesian Industrial Enterprise (Usaha Industri Indonesia, Usindo,) formed the 'Big Eight'. A military officer, usually with the rank of major or colonel, headed the management in each of these trading companies.[144]

In 1960, the Law on State Enterprises opened the way for a further reorganization and regrouping of all these enterprises. Seven of the Big Eight, the exception being Mira Sari, were incorporated into other small Dutch firms and a government agency, named the Foundation for the Import of Essential Raw Materials (Jajasan Bahan Penting, JBP), to form nine state trading corporations, called *Bhakti* (loyal service). *Indevitra* became *Budi Bhakti*, *Satja Negara* turned into *Aneka Bhakti*, *Judha Bhakti* into *Fadjar Bhakti*, *Indestins* into *Tulus Bhakti*, the Triangle Corporation into *Marga Bhakti*, the CTC into *Tri Bhakti*, *Usindo* into *Djaja Bhakti*, the JBP into *Sedjati Bhakti*, while a company called *Java-Staal Stokvis* plus a number of other small Dutch firms formed *Sinar Bhakti*.[145] Although the government did make attempts to specialize these state trading corporations, their activities overlapped and sometimes were even in competition with each other. Seven of the nine *Bhakti*, *Budi Bhakti*, *Aneka Bhakti*, *Marga Bhakti*, *Djaja Bhakti*, *Fadjar Bhakti*, *Tulus Bhakti* and *Tri Bhakti*, were primarily concerned with inter-island trade and the import and export of consumer goods and the distribution of domestic manufactured

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[144] J. Panglaykim, Ingrid Palmer, *State trading corporations in developing countries; with special reference to Indonesia and selected Asian countries* (Rotterdam: Rotterdam University Press, 1969) 69, 35; Lindblad, *Bridges to new* business, 197.

[145] Panglaykim, *State trading corporations in Indonesia; First years's performance, 1961* (PhD dissertation, University Indonesia, Jakarta, 1963) 55; Panglaykim, Palmer, 'State trading corporations', 17.

products. *Sedjati Bhakti* handled the import of essential goods, while *Tulus Bhakti* operated exclusively in the import of technical articles.[146] In 1965, the nine *Bhakti* were again dissolved and regrouped into six *Niagas* (trading companies), namely *Aduma Niaga*, *Aneka Niaga*, *Pantja Niaga*, *Satya Niaga*, *Dharma Niaga* and *Pembangunan Niaga*.[147]

Although the formal organizational structures of the state enterprises varied widely, that did share some general lines. All the corporations were placed under the supervision of a General Management Board for State Trading Corporations (Badan Pimpinan Umum-Perusahaan Dagan Negara, BPU-PDN) in the Ministry of Trade. Each trading corporation had a board of managing directors, which often consisted of three or four directors, each assigned to a particular field of business, for instance finance, marketing, exports or imports. The directors were assisted by several general managers, who were assumed to have a specialist knowledge of a particular aspect of the company. Under the general managers came the heads of various departments, the names and number of which varied among the specialized corporations. Below the departments, there might be sub-departments, divisions or sections in some cases. For instance, *Budi Bhakti* and *Marga Bhakti*, which operated primarily in agricultural and consumer goods, both had a department for the export of agricultural products. This department was not broken up into divisions in the former company, but was in the latter. *Budhi Bhakti* had a department of internal supervision and statistics and a division of public relations and law, which *Marga Bhakti* did not have. The departmentalization of *Tulus Bhakti* was primarily organized on the basis of main trade categories, such as machinery, electrical equipment and other technical equipment.[148]The regional and overseas branches of the corporations were headed by their own managers. The management of the state trading corporations was largely centralized when they were dealing with essential imports. There were some 'free list' articles which

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[146] Panglaykim, *State trading corporations in Indonesia*, 100.
[147] Panglaykim, *State trading corporations in Indonesia*, 102.
[148] Achmad Sanusi, *The dynamics of the nationalization of Dutch-owned enterprises in Indonesia; a political, legal, economic developmental and administrative analysis* (PhD dissertation, Indiana University, 1963) 438-444.

the regional branches were allowed to import directly. These articles could also be imported by private importers.[149]

Just as with government attempts to achieve a functional specialization of state trading corporations, the integrated units of former Dutch trading companies engaged in production were transferred separately to other government bodies. The estate units were incorporated into the above-mentioned *PPN-Baru*, while textile mills and mines were transferred to the respective bodies of the Ministry of Industry and Mining. The Bureau of State Industrial Enterprises (Biro Urusan Perusahaan-Perusahaan Industri Negara, BUPIN) was in charge of industrial enterprises and the Bureau of State Mining Companies (Biro Urusan Perusahaan-perusahaan Tambang Negara, BUPTAN) ran the field of mining. In April 1958, BAPPIT was established to take over the management of state enterprises in manufacturing and mining. BAPPIT had its central office in Jakarta and branches in Bandung, Surabaya and Medan. By 1960, BAPPIT controlled 240 companies, of which forty-eight were in machinery and the electrical industry, twenty-one in the chemical industry, twenty-one in the printing and publishing industry, eighty-nine in general industry and sixty-one in mining.[150]

Under BAPPIT, the companies were classified into groups; important companies were managed by the central government, while less important ones were controlled by the regional governments. Small industries, such as bread factories, cinemas, tile works, were left to private sectors. All former Dutch companies were transformed into limited liability companies or PT (Perseroan Terbatas) with new Indonesian names. For instance, the joint mining enterprise *Gemeenschappelijke Mijnbouw Maatschappij Billiton* was changed into Belitung Tin-Mining Corporation (Pertambangan Timah Belitung). BUPTAN

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[149] Panglaykim*, State trading corporations in Indonesia*, 23; Sanusi, *The dynamics of the nationalization*, 438-444.

[150] Bisuk Siahaan, *Industrialisasi di Indonesia; sejak hutang kehormatan sampai banting stir* (Jakarta: Pustaka Data, 1966) 323.

then appointed an Indonesian engineer, M.E.A. Apitule, to head the firm.[151] The *Pertambangan Timah Belitung* and two other government tin enterprises, *Tambang Timah Bangka* and *Tambang Timah Singkep*, constituted almost the entire tin production in Indonesia, although their production declined dramatically in the late 1950s and early 1960s.[152] Likewise, by 1958 more than 90 per cent of the coal output in Indonesia was being produced by two government coal-mines, the *Bukit Asam* and *Umbilin*, both in Sumatra. When the *Oost-Borneo Maatschappij* handed over its coal-mines at Batu Panggal and Sigihan in East Kalimantan to the state-owned *Sebuku*, the Indonesian government had gained full control of all coal-mining in the country.[153]

In all 179 industrial enterprises were taken over by BAPPIT. In 1964, these manufacturing firms were split up into 121 state companies, which were then rearranged into units defined by regions. The largest unit was that of East Java with forty-two state companies, followed by that of Central Java with twenty-six, while the Jakarta and West Java units contained eighteen state companies each. The Indonesian government did not interfere much in the organization of British and American manufacturing firms, including BAT, Unilever, Fraser & Neave, Nebritex, Goodyear Tire and Rubber, Procter and Gamble and Colgate-Palmoilve Peet after the take-over. The only step which was taken was that a government supervisory body was established in each firm but, rather than introducing any radical change, their function was mainly to keep the operations of the companies up and running. Most of these companies were later returned to their former owners.

The situation in the oil sector where BPM had successfully escaped the take-over of December 1957 by transferring its ownership to the British-owned Shell Indonesia was different. On 10 December 1957, the military controlled-ETMSU was renamed the National Oil Company (Perusahaan Minyak

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[151] At the time of the take-over, the Indonesian owned 62 ½ of the company's shares. *Kabinet Karya; Djuanda, Hardi, Idham, Leimena, mendjelang genap 1 tahun usianja (9 April 1957-9 April 1958)* (Jakarta: Ministry of Information RI, 1958) 208.

[152] Bank Indonesia, *Report for the year1958-1959*, p. 255.

[153] Bank Indonesia, *Report for the year*, *1958-1959*, p. 258; Bank Indonesia, *Report for the year*, 1960-1965, p. 226.

Nasional, Permina). An army official, Colonel Ibnu Sutowo, was appointed President-Director of the company, while two other directors were bureaucats from the Ministry of Industry and Ministry of Trade. In late 1960, the Netherlands Indies Petroleum Company (Nederlandsch Indische Aardolie-Maatschappij, NIAM), a 50-50 joint venture with BPM, which held the concessions at Jambi (South Sumatra) and Bunyu (Kalimantan), adopted an Indonesian name, the Indonesian Oil Mining Company (Pertambangan Minyak Indonesia, Permindo). Its head office was moved from The Hague to Jakarta. *Permindo* was then taken over by a newly established state oil enterprise, Indonesian Oil Mining Enterprise (Pertambangan Minyak Indonesia, Pertamin). The third state-owned oil company set up under the Minister of Basic Industries and Mining Chairul Saleh was the National Oil and Gas Corporation (Pertambangan Minyak dan Gas Nasional, Permigan). *Permigan* was designated to manage the Shell oil fields in Cebu, which had been taken over by Colonel (later General and President) Soeharto in 1957. These facilities were quite small, but were substantially expanded in 1962, when Shell sold all its installations in the Cepu area to *Permigan*. Under the terms of a Work Agreement of 1963, the three foreign oil companies, Caltex, Shell and Stanvac, continued to operate in Indonesia, but under the provisional supervision of the Indonesian government. The Indonesian control over oil sector was intensified in early 1965, after these oil companies had been either purchased or taken over by the government. The government body responsible for the supervision of the oil sector was the Bureau of Oil and Gas (Biro Minyak dan Gas Bumi, Biro Migas) established by Saleh in November 1959.[154]

The centralized operation of the Indonesian economy in the late 1950s and the early 1960s required a good system of transportation and distribution. Unfortunately this was in a very precarious state. Transport facilities had deteriorated since the liquidation of KPM and the forced departure of Chinese traders from rural areas in 1959-1960 pushed the distribution system almost to the point of collapse. The take-over of KPM had not provided PELNI with any

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[154] Aden, *Oil and politics in Indonesia,* 159-217

more facilities and equipment. In fact it was floundering. Although it had to take responsibility for 10,000 Indonesian employees of KPM, none of the KPM ships was handed over to PELNI. The confiscated ships actually had to be returned to KPM as a result of intervention by the insurance company Lloyds of London, which had insured the KPM fleet.[155] After 1958, inter-island shipping was handled primarily by PELNI, with the assistance of several smaller private shipping firms. In January 1958, the number of ships owned by PELNI was only nineteen, the majority from Hong Kong. Another fifteen vessels of the State Salt and Soda Company (PGSN) were also put at the disposal of PELNI. A number of vessels belonging to private national shipping companies, a total of 104 ships, amounting to 44,000 tons, were mobilized and co-ordinated.[156] Under an agreement signed with Japan on 8 December 1957, a few days after the take-over of KPM, the Indonesian authorities hoped to obtain twenty-six ships. It was also reported that about twenty Japanese shipping companies were willing to donate ships to Indonesia, which would mean in effect that the Japanese ships could effectively replace the KPM vessels. Besides helping with ships, the Japanese government also offered a loan of $ 225 million, repayable within twenty years.[157]

All in all, military managers held dominant positions in the management of the administrative and co-ordinating bodies of BUD, BAPPIT, PPN, Bhakti and the majority of state-owned plantations. Some of the *Bhakti*s were managing reasonably well and even won the confidence of business relations abroad, but they were the exceptions to the rule. The volume of production of major agricultural crops suffered a serious decline under the Guided Economy. They were undermined by a potent cocktail of mismanagement, corruption, arbitrary dismissal of well-trained, non-military staff already available on the respective enterprises and vehement conflicts between military managers and labourers prevailed. In PPN, to name just one

[155] Dick, *The Indonesian interisland shipping,* 23-24; Marks, 'The lost decades?', 80-83.
[156] *Government statement on the struggle for West Irian; delivered by Prime Minister Djuanda in the plenary meeting of parliament held on Monday, January 27, 1958* (Jakarta: Ministry of Information RI) 48.
[157] *Berita Negara Republik Indonesia*, 15 January 1958.

instance, the operation of the large and inefficient central office absorbed 25 per cent of the profits of the estate members.[158] By 1962, conditions had deteriorated into such a state of chaos technically and financially, most of the former Dutch plantations and industrial enterprises had done bankrupt.[159] Some of these corporations even became a financial burden on the government. By now, understandably, foreign investors were very chary of putting their money into Indonesia and the chaos and huge inflation in the financial sector also made donors of foreign aid also think twice before committing their funds, the government had to find an increasingly share of financial resources from the oil sector, especially the two state oil companies, *Pertamin* and *Permina*. Another distinct feature of the Guided Economy was its permanent hyper-inflation, remaining around 100 per cent per annum from late 1960 to 1965.[160] The price of some public services, for instance, railway, bus and air fares had jumped by 400 and 500 per cent by the end of 1963. Public utilities such as electricity, tap water and post and telegraph tariffs also had to battle with a rate of inflation of no less than 400 per cent.[161] The impact of these price increases was soon felt in the market for most of the staples. By the end of 1965, the price of rice was believed to be rising at an annual rate of 900 per cent.[162] The forced marriage between foreign companies and Indonesian sectors ultimately failed, leading to in the collapse of the system of the Guided Economy.

Conclusion

By mid-1965, almost all foreign enterprises operating in Indonesia had been effectively brought under the control of the Indonesian government. The leading

[158] F.Runturambi, *Problim management ekonomi di Indonesia* (Jakarta, Sumber Tjahaja, 1963) 33.

[159] Earnst Utrecht, *Indonesian army; a socio-political study of an armed, privileged group in the developing countries,* Vol.I (Townsville: James Cook University of North Queensland, 1979) 100.

[160] Ricklefs, *A History of Modern Indonesia,* 328; Dick, Houben, Lindblad, and Thee, *The emergence of a national economy*, 192.

[161] Oey Hoong Lee, *Indonesian* government, 106; Eric Chetwynd, 'The Indonesian stabilization attempt of May 1963; A study of politics and economic development in Indonesia' (MA thesis, American University, 1966) 84-85.

[162] Ricklefs, *A History of Modern Indonesia,* 338.

forces behind this radical move were trade unions, the military and the government itself. Generally speaking, it was the trade unions, which seized the advantage offered by the political and diplomatic crisis and initiated the seizure of Dutch, British and American enterprises. By virtue of the martial law declared shortly thereafter, the military assumed the control of the companies seized, although for the time being the management remained in the hands of trade unions. Finally, the Indonesian government, which certainly did not wish the foreign enterprises to fall in the hands of either the military or the PKI-affiliated trade unions, claimed its authority over all enterprises seized. Nevertheless, it was only in the case of the Chinese businesses that the Indonesian government set in train confiscation or forced liquidation, adducing as its rationale that it was protecting the interests of the Indonesian people. Although, on occasion, it did not shun political and economic allegations to bolster its case, most of the take-overs occurred without violence and foreign managers had little choice but to surrender their positions to subordinate Indonesian staff members or sell their businesses to the Indonesians.

With the exception of a number of small estates and shops, which were left to private sectors, large foreign firms were reorganized and incorporated into new state-owned enterprises. Management was entrusted to a whole string of ever-changing government agencies, whose job was to co-ordinate with the existing state enterprises. Each co-ordinating agency had a board of directors consisting of the relevant ministers, army officers and representatives of trade unions. Although most former foreign enterprises continued their operations, the high cost incurred by inefficient centralized management, conflicts between military managers and labourers and the poor co-ordination between the state enterprises were major contributions to the stagnation of the Indonesian economy in the early 1960s. The already depleted financial resources of the new nation were brought to the point of exhaustion by the military expenditures required to maintain the West Irian conflict and *Confrontasi* campaigns against Malaysia. Budget allocations for the armed forces in the early 1960s made up about 25 to 35 per cent of the government expenditure and no less than 50 per cent of the state budget (Appendix, Table 13). Had these funds been rallied and used in investment projects, the economic picture of Guided Democracy would have been a great deal brighter.

The expropriation of Dutch and other foreign businesses occurred in the framework of the Guided Economy. The foundations of this economic model were laid in the 1945 Constitution, which strongly emphasized state control of the economy. During the periods of the revolutionary struggle and Parliamentary Democracy, state control was exercised only in a fairly limited way, restricted to supervision, co-operatives and the formation of a small number of state-owned enterprises. The Guided Economy swung the pendulum in the opposite direction and stressed state ownership, while the co-operative sector also still continued to be encouraged. In 1960, Indonesia had 27,301 co-operatives involving more than 5 million people. The number of co-operatives rose to 50,158 co-operatives in 1962 and 62,376 in 1964 with the corresponding increase in membership from 10 million to 12 million, respectively.[163] The conversion of foreign firms into state-owned enterprises, coupled with the abolishment of the colonial agrarian law and a radical retooling of the economic management apparatus, signaled the dismantling of what remained of the economic structure of Dutch colonialism in Indonesia after Independence. By the end of 1965, the transition to an independent national economy in Indonesia had been completed. Although the price for this economic transformation was high, the efforts made under the Guided Economy paved the way for the economic development of Indonesia in the future.

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[163] Bank Indonesia, *Report for the year*, 1960-1965, p. 322.