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CONCLUSION

In November 1945, the President of the Republic of Vietnam, Hồ Chí Minh, sent a letter addressed to ‘the President of the Republic of Indonesia’, proposing that a joint declaration of solidarity to be made by Indonesia and Vietnam in the form of a ‘Preparatory Commission Struggling for a Federation of the Free Peoples of Southern Asia’. The letter, entrusted to an American journalist named Harold Isaacs, did not reach President Soekarno.¹ It was handed to Vice-President Mohammad Hatta, who then passed it on to Prime Minister Sutan Sjahrir. Sjahrir discussed the offer with Soedjatmoko Koko, the interpreter to foreign correspondents of the Republican government, but told him that he would not reply and preferred just to ignore the letter. Sjahrir indifference sprang from his conviction that the situation in Indonesia and Vietnam were very different. The Indonesian Nationalists were up against the Dutch, who were ‘a weak colonial power and could be defeated quickly.’ Hồ Chí Minh had to contend with the French, who could and would resist him for a long time. Furthermore he looked askance at the fact that the DRV government depended on support from the Communists, which was not the case in Indonesia. In conclusion, Sjahrir argued, ‘If we ally ourselves with Hồ Chí Minh, we shall weaken ourselves and delay Independence.’²

The story of the missed opportunity for co-operation between Vietnam and Indonesia³ as a result of Sjahrir’s ‘betrayal of the greater Asian Revolution’, as Soedjatmoko Koko puts it, is tailor-made for the scope of this study. It

¹ Harold Robert Isaacs is the author of *No peace for Asia*, which has been cited widely in this dissertation. In the book, Isaacs claimed that he was Hồ Chí Minh’s ‘Shanghai friend of long ago’. In mid-November 1945, Isaacs visited Vietnam and met Hồ Chí Minh. The letter was probably given to Isaacs on this occasion. Isaacs claims that Hồ Chí Minh could not count on support from Russia, the French Communists, or the Chinese. Thwarted in this he turned to leaders of the new Nationalist revolutions in Southern Asia, including Indonesia. Harold R. Isaacs, *No peace for Asia* (Cambridge: The MIT Press, 1967) 173.

² Papanek, “Note on Soedjatmoko’s recollections of a historical movement; Sjahrir’s reaction to Hồ Chí Minh 1945 call for a Free People Federation”, *Indonesia*, 49 (1990) 141-144.

³ It was not until 1955 that Vietnam and Indonesia officially established diplomatic relationship in the wake of the Bandung Conference, whose aim was to foster closer relations between the newly independent nations.

discusses the transformation towards a national economy in both Indonesia and Vietnam within the wider context of the Nationalist struggles for Independence in the two countries. The study focuses on the twin processes of economic decolonization and nation-building, paying special attention to political and institutional factors involved in the process. It has been demonstrated in this study that, despite the differences in the political situations resulting in the adoption of divergent strategies, the Vietnamese and Indonesian leadership were in fact pursuing similar long-term goals, namely: to carry out economic nationalism. Certainly, the Indonesian determination to get rid of economic legacy of Dutch colonialism and place the economy under the strong state control and ownership, in accordance with the spirit of Guided Democracy and the Guided Economy in the late 1950s and the early 1960s, did bear some resemblance to the socialist transformation in North Vietnam in the 1950s and to the high concentration of economic power in the hands of the Ngô Đình Diệm government in South Vietnam in the late 1950s and the early 1960s.

Politically speaking, Sjahrir was right in anticipating the outcome of the Nationalist struggles in the two countries. In November 1949, the Netherlands finally acknowledged the political Independence of Indonesia. In Vietnam the story was different. Vietnam had to continue its military struggle against the French until 1954 for the Independence of North Vietnam and against the Americans until 1975 for the Independence and the unification of the whole country. If a battle to attain economic independence should be considering an integral part of the Nationalist revolution alongside the achievement of political Independence, Sjahrir's argument is obviously no longer appropriate. It is an incontrovertible fact that it was not until December 1957 that the Indonesians finally wrested economic power from the Dutch. It took another couple of years, in the late 1950s and the early 1960s, before the Indonesian government proceeded to confront the economic power of the Chinese, British and Americans. In contrast, the Independence of North Vietnam in 1954 went hand-in-hand with the full economic decolonization of French enterprises. The liquidation of most of the remaining French and Chinese enterprises in South

Vietnam in the late 1950s and the early 1960s brought of the process of the French decolonization in Vietnam to an end.

Sjahrir was well aware of and actually did point out one major difference between the leadership of Indonesia and of Vietnam. In Indonesia, the great majority of the leaders of the Republican government were Nationalists, whereas most members of the DRV government were revolutionary leaders who had espoused a Communist ideology. This seems a straightforward statement, but it does not immediately ring true of the Vietnamese situation immediately after Independence, at which time the DRV government still consisted of a considerable number of non-Communist Nationalists. However, from late 1946, and especially after its retreat to the Việt Bắc base in February 1947, the DRV government was indeed dominated by its Communist members. In 1951, the Communist Party officially declared its leadership of the country, leading inexorably to the 'partification' of the state. The intrusion of the Party members into the state apparatus was accelerated in North Vietnam after 1954, and by 1960, Party members had obtained most of the important positions in the DRV government.

Although they were marginalized as a result of the political purge in late 1946, the non-Communist Nationalist forces in Vietnam were not totally dead. They re-emerged again in South Vietnam after the partition of the country as a result of the Geneva Agreement in 1954. The Diệm government consisted of Nationalist intellectuals who had served in the colonial administration. As North Vietnam was gradually transformed into a Socialist state, South Vietnam became an anti-Communist state, supported by the United States and other capitalist countries. Nationalism in South Vietnam was not a pure strain but admixed with *personalism*, which allowed Diệm to concentrate the power in the hands of his family members and friends.

Nobody could deny that post-independence Indonesia was led by the Nationalists. The Communists did not hold any high-level positions in government until the early 1960s, despite their strong support by the population and in Parliament. Admittedly, the political influence of the Indonesian Communist Party (PKI) was strengthened significantly after the general

elections in 1955 and reached its zenith in the early 1960s, when Soekarno imposed the Guided Democracy. In contrast to North Vietnam, Indonesian Communists had to face enduring hostilities, not only from various other political parties, but also from the emerging new force of the army. Eventually, in late 1965 and early 1966, the army launched the killing campaigns targeting the Communists, bringing the history of PKI to a catastrophic end. After March 1966, Communism was banned in Indonesia. The collapse of PKI was in a stark contrast to the steady expansion of Communism in North Vietnam, where the Vietnamese Communist Party had won an unchallengeable position by the late 1950s.

The Indonesian Nationalists were not one bloc but were riven by many internal divisions and affiliations with various political parties. Three of the major political parties, which successively dominated the Indonesian government in the immediate post Independence period, were the Socialist Party (PS), the religiously (Islam)-oriented Masjoemi and the Nationalist Party (PNI). Under Sjahrir's chairmanship, PS was able to exert the strongest influence during the negotiations for Independence with the Dutch in the late 1940s. Once this had been achieved, the Masjoemi-PNI political coalition stepped in to control the Indonesian government in the early 1950s, although in different cabinets one party alternated strength with the other. Furthermore, a number of Indonesian Nationalist leaders did not even belong to any political party. Within the same party, a diversity of opinion could exist. The rivalry between and within the political parties was the main reason for the great instability in the political system and the upshot was the short time span of the successive Indonesian cabinets. The introduction of Guided Democracy in the late 1950s was an effort by Soekarno to stabilize the political structure. Aware of the precarious situation in which the country found itself, the President hoped to create a political consensus and national solidarity. In 1960, only ten political parties were legally permitted. Unquestionably, the determined, authoritarian nature of Soekarno's government under Guided Democracy did resemble both the Communist government of North Vietnam and Diêm's despotic government of South Vietnam, albeit in various degrees.

Another important difference in the leadership composition in Indonesia and Vietnam after Independence had to do with professional competence, especially in the field of economic management. With the exception of a few ministers who had been employed in the French colonial administration, all the revolutionary leaders of the DRV government had had no practical experience of organizing an economy. Although members of the Diêm government had been civil servants in the former colonial state, the majority had been low-and middle-ranking officials. Ngô Đình Diêm himself had been appointed governor of Bình Thuận province, in Central Vietnam.⁴ French policies of exclusion had prevented the Vietnamese from acquiring positions of any real responsibility in the colonial administration. By contrast, owing to Japanese policies during their occupation of the Netherlands Indies, many Indonesian leaders had had the experience of being appointed to top level positions in departmental hierarchies. They subsequently became senior leaders of the Indonesian government. Therefore, it can be inferred that, in comparison with Vietnam which continued to function under its Vichy regime, post-war Indonesia possessed more experts with some experience in economics. Nevertheless, for a country the size of Indonesia, such persons were in very short supply, especially at the lower levels.

The differences in political and professional backgrounds of the leadership of Indonesia and Vietnam had a great impact on the development of the Nationalist struggle for Independence in the two countries. As Sjahrir stated at a meeting of the Vietnam-United States Friendship Committee in New York in September 1947, Indonesia and Vietnam might follow different paths to Independence. What was important were their long-term goals for their nations and for the region.⁵ In response to the intrusion of external factor, the leaders of Indonesia and Vietnam did indeed adopt different strategies in their struggle. Nevertheless, they shared a common goal in pursuing a meaningful

⁴Denis A. Warner, *The last Confucian; Vietnam, South East Asia, and the West* (Sydney: Angus & Robertson, 1964) 89.

⁵William H. Frederick, 'Brothers of a kind; Perspectives on comparing the Indonesian and Vietnamese revolutions', in: Taufik Abdullah (ed.). *The heartbeat of Indonesian revolution*. Jakarta: Gramedia Pustaka Utama, 1997, 272.

independence, one embracing both political and economic sovereignty. They both favoured a national economic system in which the state played a leading role. Consequently, the Nationalist struggles in Indonesia and Vietnam brought about radical changes in the economic system of the two countries, at least in comparison with what happened in other Southeast Asian countries.

The Indonesian Nationalist leaders adopted a pragmatic strategy and decided to gain Independence by negotiation. This decision was based on the belief that the Netherlands was a weak colonial power. Highly aware of Dutch concerns about the future of their economic interests in Indonesia, the Indonesian leaders sought to play the card of economic concessions as the means to achieve Dutch recognition of Indonesian sovereignty. Dutch enterprises which had been seized from the Japanese by the Indonesians during the early months after Independence were gradually returned to their owners. The Indonesian pragmatic policy, indubitably assisted by American pressure judiciously exerted on the Netherlands government, resulted in the agreements reached at the Round Table Conference in November 1949. Indonesia was at long last granted its Transfer of Sovereignty from the Netherlands on 27 December 1949, excluding the territory of West Irian (West New Guinea).

In fact, Hồ Chí Minh had also tried to prevent what he knew would be a protracted and bitter war by offering economic concessions to the French. In his conversation with Harold Isaacs in mid-November 1945, Hồ Chí Minh told that he was prepared to negotiate the Việt Minh recognition of the French economic position in Vietnam in return for French recognition of Vietnamese Independence. He was willing to accept a compromise since, 'We have been paying out our life's blood for decades. Suppose it costs us a few hundred million more piastres to buy our freedom.'⁶ The majority of the economic concessions made by Hồ Chí Minh to the French in the Modus Vivendi of 14 September 1946 were similar to those made by Indonesian leaders to the Dutch in both the Linggadjati Agreement in 1947 and the *Finec* Agreement in 1949, with the exception of the stipulations about Indonesian debt obligations. In

⁶ Harold R. Isaacs, *No peace for Asia* (Cambridge: The MIT Press, 1967) 175.

Vietnam, it was the aggression of French officials, who were determined to break off relations with the Communist-controlled Vietnamese government, which frustrated the efforts to reach a peaceful settlement by President Hồ Chí Minh and the top leaders of the French government in Paris.⁷ Once the war had officially broken out in December 1946, the policies of the DRV government pertaining to French businesses underwent a radical change. Besides its military operations, the Việt Minh organized sabotage campaigns targeting the French economic installations.

The French enterprises in Vietnam were badly damaged during these economic sabotage campaigns organized by the Việt Minh. Following the pattern of the steady expansion of Việt Minh-controlled territories in the early 1950s, French mines and factories in North Vietnam gradually fell into the hands the Việt Minh and industrial installations in the cities as well as the rubber plantations in South Vietnam were under constant attack. Under such unfavourable, economically ruinous conditions, French companies thought it expedient to withdraw their operations from Vietnam, acts which were in contradiction to the calls from the French authorities for more private investment under the Bourgoin Plan. The withdrawal of the French business from Vietnam began in 1948 and became the prevailing tendency in the early 1950s. Banking corporations and manufacturing firms gradually transferred their business to other French colonies or back to France. The remaining French firms in North Vietnam moved to the South after the implementation of the Geneva Agreement in 1954-1955. The southwards evacuation of the French was accompanied by the emigration of Chinese and Vietnamese Roman Catholics.

However, it was not long before the economic position of the French and the Chinese in South Vietnam was being challenged by Diệm's economic nationalist policies. During the land reform promulgated in late 1956, major French rice plantations were transferred to Vietnamese ownership. By imposing restrictive administrative measures, Diệm's government forced the French

⁷ Stein Tønnesson, *Vietnam 1946: How the war began* (Berkeley: University of California Press, 2010) 5-6; Laying the blame for the provocation of the war on shoulders of the local French officials in Indochina has also been well documented in Philippe Devillers, *Paris-Saigon-Hanoi; Les archives de la guerre 1944-1947* (Paris: Gallimard, 1988).

companies to liquidate their businesses to Vietnamese. The French were allowed to retain the ownership of rubber plantations, because of the rising share of rubber in export revenues and a shortage of funds to compensate French owners. The expropriation of the Chinese economic interests was motivated by forcing all Chinese born in Vietnam to take out Vietnamese citizenship. In yet another repressive move, foreign nationals were banned from a number of occupations which had been in the hands of the Chinese since the colonial times. By the fall of the Diệm regime in late 1963, almost all foreign companies associated with French colonialism had been placed under control of the Vietnamese authorities.

Strikingly, at the time the French companies began to move out of Vietnam, the Dutch were strengthening their economic position in Indonesia. Dutch installations still occupied by the Indonesians were returned to their owners shortly after the Transfer of Sovereignty. With the exception of the nationalization of the central bank and of a number of public utilities, no other significant transfers of ownership from Dutch to Indonesian hands took place in the early and mid-1950s. Between 1950 and 1957, Dutch firms continued to invest in Indonesia. Therefore, independent Indonesia was again teetering on the brink of the pitfall of being a colonial economy. Dutch firms and British and American multinationals controlled the modern sector, leaving indigenous Indonesians to engage in agriculture and handicrafts. The Chinese dominated internal trade and were also engaged in mining and industry. In a nutshell, foreign business in post-Independence Indonesia remained profitable. Up to 1957, profit remittances to the Netherlands from Indonesia were still large, enough to make a considerable contribution to the Dutch national income (Appendix, Table 14).

The Dutch predominance in large parts of the Indonesian economy was abruptly subject to a radical change in December 1957, when almost all Dutch-owned companies were taken over by the Indonesian trade unions, subsequently to be put under military supervision. They were officially nationalized by the Indonesian government in 1959. The oil company BPM and Unilever escaped nationalization saved by their dual nationality as Anglo-Dutch firms.

Unquestionably, tensions arising from the continued domination of the Dutch in the Indonesian economy were an important factor in forcing this catalyst, but the immediate reason lay in the protracted dispute between Indonesia and the Netherlands over the territory of West Irian. At the Round Table Conference in 1949, Dutch and Indonesian leaders had agreed that the political status of West Irian would be determined within one year from the date of Transfer of Sovereignty. But nothing was resolved and the matter just simmered on.

The next target of Indonesian economic nationalism was the Chinese, whose businesses were expropriated in the late 1950s and early 1960s. This time, the seizure was directly orchestrated by the Indonesian authorities, claiming exigent economic and political grounds or hiding behind the banner of protecting the interests of the Indonesian people. The more subtle motivation was exposed in the prohibition of the publication of Chinese-language newspapers in April 1958, and on various social organizations, charities, trade associations, schools, shops, banks, estates, notably mining companies run by the Chinese. They were either banned outright or put under control of the Indonesian government. In 1960, Chinese and other foreign nationals were barred from trading in rural areas. Just as the ethnic Chinese in South Vietnam, their compatriots in Indonesia were forced to sell their businesses in the countryside to local people. Large companies, such as the Oei Tiong Ham Concern, fell under direct control by the Indonesian government.

Between 1963 and 1965 the take-over of the British and American enterprises was pursued in conjunction with Soekarno's deflective Confrontation policy against imperialist and colonial powers, particularly the United States and Great Britain which were heavily involved in the formation of the Malaysian Federation and the escalating war in Vietnam. British estates, insurance companies, manufacturing enterprises and facilities of Shell were seized by trade unions in September 1963 and again January 1964. In November 1964, the Indonesian government officially declared that all British firms, with the exception of the Shell, would be placed under its control. In a similar move, in March 1965, American companies, including Stanvac and Caltex and a number of manufacturing firms, insurance companies and film

import companies, were seized by trade unions. The Indonesian government officially stepped in on 24 April 1965 when President Soekarno decreed that all foreign enterprises were to be placed under government control, regardless of nationality. Until the restitution of most of British and American companies in the late 1960s, for the first time Indonesia was completely freed of foreign economic domination.

The implementation of the Presidential degree of 24 April 1965 marked the accomplishment of the Indonesian Nationalist struggle for economic sovereignty. The very radical ends to this struggle resembled the total liquidation of French business interests from North Vietnam after 1954. Nevertheless, it differed slightly from the situation in South Vietnam where rubber plantations and a small number of public enterprises still maintained in French hands and the Diêm government permitted a limited amount of new foreign investment. It can with justification be claimed that these rather trifling differences do not obscure the fact that the common goal of the Vietnamese and Indonesian leaders was to obtain a truly national economy, freed of control by foreign capital (on paper at least).

Another aspect of the economic struggles in Vietnam and Indonesia concerned the new national forms of economy established to replace their former colonial counterparts. As befitted colonial economies, the structures of the economy in French Indochina and colonial Indonesia were geared towards primary production rather than manufacturing. The majority of Dutch and French private investors were interested in the extraction of agriculture and mining products, and the colonies were regarded as a captive market outlets for manufactured goods from the metropolis. In both countries, internal trade was largely dominated by the Chinese. In the beginning, the Japanese occupation did bring some changes in the economic system of the Netherlands Indies and Indochina. Not only was there a transfer of economic power from Western companies and the Chinese to the Japanese, but the colonial economies were also diversified by the introduction of new crops and industries. Both the Netherlands Indies and Indochina grew less dependent on the world market.

A new national system of economy was introduced in Indonesia and Vietnam immediately after their Independence had been proclaimed in August and September 1945, respectively. The 1945 Constitution of the DRV favoured a moderate system of control, whereas the 1945 Constitution of the Republic of Indonesia stressed the importance of state control of the economy. It was strongly felt that important enterprises should be in the hands of the state. Private capital could participate in joint ventures and idealistic co-operatives, but would no longer wield the sceptre as it had done in the colonial era. Considering the financial and technical bottlenecks in the country compounded by the increasing Dutch military threat, this sought-after economic system faded into the realm of dreams. Bowing to reality, the pragmatic strategy adopted by the government in the late 1940s and the early 1950s was to accept the inevitable necessity of foreign control of large segments of the economy while the country settled down to pursue and nurture political Independence and economic development. Consequently, main features of the Dutch colonial economy remained largely intact in Indonesia in the immediate post-Independence period. State control was exercised only in the fields of supervision, co-operatives and the formation of a small number of state enterprises. Appeals from the Communist and various Nationalist parties asking for the nationalization of vital enterprises, which would make them state property, were consistently rejected by the Indonesian government.

The DRV government also exercised little intervention in the economy during the early years after Independence, with the exception of taking direct management of the defence industries and a number of enterprises manufacturing essential goods. Change began to infiltrate the system in 1951 when the Communist Party officially took over the policy making of the DRV. The principles of a socialist economy, akin to the socialist economic models implemented in China and the Soviet Union were gradually brought into effect in North Vietnam. Between December 1953 and July 1956 in particular, the Party carried out a radical land reform, which erased the former systems of land ownership in the Vietnamese countryside. Land reform was followed by collectivization campaigns, under which land was incorporated into agricultural

production co-operatives. The ownership of land was vested in the hands of the state, which also took control of the agricultural output of the co-operatives and its distribution. The socialist transformation in industry, handicrafts and commerce began in late 1957 after short-term plans for economic reconstruction to repair the damage resulting from the protracted warfare had been largely completed. Former French companies were grouped into state enterprises and Vietnamese private firms were encouraged to co-operate with the government in the formation of joint enterprises or industrial co-operatives. By 1960, the socialist transformation in North Vietnam had by and large been completed and the Party-state had taken control of all the important means of production and distribution.

The economic re-organization in South Vietnam also led to a concentration of economic power in the hands of the new Vietnamese government. Diệm's *personalism* required every citizen to contribute part of his/her property to the government, although in principle it did recognize private property rights. The upshot was that, under land reform a larger part of confiscated land remained government owned, while a smaller part was allocated to peasants. As did the North, the Diệm government also encouraged peasants to participate in co-operates, but it took a slightly different tack. The co-operative campaigns in the South were conducted along more voluntary lines and the southern co-operatives enjoyed a greater autonomy from the central government. Moreover, the South Vietnam government did not take control of large rubber plantations, most of which were owned by the French and American firms. In the manufacturing sector, the government established new state-owned enterprises to purchase the majority of shares or even take full control of existing foreign companies. New foreign investment was only accepted in the form of joint ventures, in which the government held at least 51 per cent of equity. All banking tasks were placed under supervision of the government-owned National Bank of Vietnam. Diệm's economic philosophy, with its strong bias towards state ownership but eschewing the elimination of private participation, did not diverge greatly from many of the economic policies of the DRV in the early years after Independence and those of the

Republic of Indonesia in the late 1940s and the early 1950s. As a consequence of the excessive dependence of South Vietnam on military and financial aid from the United States, Diệm's economic nationalism was doomed to remain an illusion, the price of which was the collapse of the First Republican regime and the loss of his own life.

A radical change in the structure of the Indonesian economy occurred in the late 1950s and the early 1960s. It was characterized by the state taking the direct control and the management of the national economy under the policy of the Guided Economy. Following the reinstatement of the 1945 Constitution of the Republic of Indonesia, its economic principles were brought into effect without fear or favour. With the exception of a number of small estates and shops, which assigned to the private sector, large Dutch, Chinese, British and American enterprises were reorganized and incorporated into new state-owned enterprises. The management of these enterprises was entrusted to various government agencies, which were merged into the existing state enterprises. Major co-ordinating bodies included the *BP Bank*² *Bank Belanda Pusat* (banking), BUD (trade), BAPPIT (manufacturing and mining), PPN (plantations) and BARPHAR (pharmacy). Each co-ordinating agency had a board of directors consisting of selected cabinet ministers, army officers and representatives of the Communist-led trade unions. Here it deviated from the situation in North Vietnam where the Party cadres took on full responsibility for the management of state enterprises and co-operatives. Moreover, whereas North and South Vietnam received aid from the Socialist bloc and capitalist countries, respectively, the Indonesian economy was increasingly geared towards self-reliance. The Indonesians did not intend to impose either Communism or Capitalism on their country.⁸ They sought to build an Indonesian kind of Socialism, an economic model based on Soekarno's own ideologies. Despite their differences, Indonesian Socialism and its counterpart in North Vietnam displayed similarities in terms of the centrally planned administration of the national economy. After a period of divergent development in their

⁸ Brian May, *The Indonesian Tragedy* (Singapore: Graham Brash, 1978) 411.

Nationalist struggles, in the early 1960s both the Indonesians and the Vietnamese obtained their primary goals of economic independence, by constructing a truly national economy. The ways in which they realized these goals had a tremendous effect on the stability of their regimes as well as the future development of their countries.

