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# **Economic Regimes in the Long Decolonization of Indonesia: The Nexus between State and Business, 1930s-1950s**

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## **Abstract**

*This article discusses the relationship between private business and government during both the late-colonial period and the immediate post-independence era. Special attention is given to the chaotic conditions during the Indonesian Revolution in the second half of the 1940s. The article argues that the relationship was strong in both periods but of a fundamentally different nature after independence as compared to Dutch colonial rule. The colonial system of institutionalized business interests was not taken over by the Indonesian nationalists. The colonial system was replaced by a system in which privilege strongly depended on political connections, favouring some, but not all businessmen. Further research is needed to unveil the specific nature of relationships between private businessmen and the Indonesian state.*

**Keywords:** *Political economy, Indonesian Revolution, private business, state*

## **Introduction**

In this article I address the question whether and how relations between major entrepreneurs and the government developed during the period of transition from colonial rule to independence. The time frame is ca. 1930s-1950s, with emphasis on the Indonesian Revolution (1945-1949). This article is a first try-out of some ideas for the economic chapter in a forthcoming volume on the long decolonization of Indonesia and therefore of a very tentative nature.

Although the economic history of Indonesia has been fairly well covered, there are still many gaps. Much economic history is concerned with the issue of growth, or the lack of it. One topic that remains to be discussed concerns the connections of the state with private

enterprises. Networks of Dutch businessmen, and to some extent their political influence, have been the topic of a few Dutch monographs, but have so far not been analyzed within the framework of change of regimes during decolonization. In both the colonial period and the early independence era, connections between business and state were close and crucial to the economic development of the nation. However, the nature of these connections was very different in those two periods. The story of Indonesian decolonization is not only that of an emerging Indonesian business class, but also that of changing relations between the state and big business: the nature of the new economic elite, their networks and access to centres of political decision-making.

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Theorization on state-business relations during the transition from colony to independence has remained fairly thin. One reason is the differences of opinion about what the state is, another reason that some characteristics of the late-colonial and early-postcolonial society have been taken for granted. The colonial state, according to a *communis opinio*, was subservient to the interests of metropolitan business, whereas the post-colonial economy was characterized by *partrimonialism* and *clientelism*. These are not entirely fictitious qualifications, but they need both more nuances and more analysis.

This article concentrates on the access of businessmen to government and policies pursued by the government to privilege certain segments of the economy. It will therefore not look at the contribution of business to economic development, but rather at the ability of business to influence politics and the power of the government to shape the business climate. I will not apply a structural view of business, but explore how its interests were mediated and promoted by organizations and personal networks. Due to the current state of research and lack of information about personal connections and informal activities, inferences can only be tentative. The argument is chronologically arranged with separate sections dealing with the late-colonial period, the decade of war and Revolution, and, finally, the 1950s.

### **State and business in colonial times**

Although the Netherlands Indies after 1870 may seem to have been a model of what John Gallagher and Ronald Robinson called 'the imperialism of free trade', with Dutch enterprises paving the way for further colonial annexation and intervention, this does not imply that the government adopted a hands-off attitude and that business was altogether free from government intervention. The relationship between the colonial government and business

was far more complicated and variable than such stereotypes suggest.

The issue touches on the nature and manifestations of the colonial state. As a concept, the colonial state is weakly developed. On the one hand, we can see it as a quintessentially exploitative polity, only partially interested in the society it rules, primarily representing Dutch business interests, in other words facilitating a 'colonial drain'. On the other hand, especially in the late colonial period, there was a strong tendency of the colonial state to develop into mature government - a big state (Darwin, 1999) - taking up the responsibility for the livelihood of the common (Indonesian) people and developing policies for the common good.

In the first decades of the twentieth century, up to the Pacific War, the colonial government continuously expanded its activities. The relationships between state and business were intensified (Locher-Scholten, 1996). It is often suggested that this was triggered by the onset of the economic depression of the 1930s (Baudet & Fennema, 1983: 41). But even before that did the government manifest itself in the regulation of business, in particular after the launch of the Ethical Policy in 1901. From that moment onwards, the government became much more pro-active. It interfered with the treatment of labourers, the provision of health care and even wages.

Government and business were intertwined in several respects. In the first place, the government itself was involved in trade and industry. There were remnants of old government monopolies, such as the trade in opium and salt. As late as in 1929 these monopolies supplied about 10 per cent of government income.<sup>1</sup> In 1907 the Department of Government Enterprises was instituted, in order to make state-owned enterprises such as the Ombilin coal mines in West Sumatra and the Banka Tin mines more profitable.

<sup>1</sup> *Statistisch jaaroverzicht van Nederlandsch-Indië*, Vol. 7, 1929: 441.

Secondly, there was a strong connection between the large trading companies and agricultural estates on the one hand and government on the other. This manifested itself in various ways. The Dutch economic sphere took the form of an intricate network of interests. Informally, entrepreneurs met at the club and at other social occasions, often visiting each other, which outside urban areas implied that visitors were invited to stay for dinner and spend the night. More formally, a tightly-knit network of commissioners emerged. Businessmen operated as commissioners in each other's enterprises. Taselaar asserts that a 'core elite' of directors and commissioners had on average almost six positions on boards of various firms between 1913 and 1939 (Taselaar 1998: 54). Moreover, the businesses formed a separate group in the People's Council (Volksraad), the so-called Economische Groep. Many associations filled positions in advisory councils of the government, and were involved in both formulation and implementation of policies pursued by the colonial government.

Thirdly, this does not mean that the entrepreneurs in the Netherlands Indies constituted a homogenous class. The various sectors of the Netherlands Indies economy often operated separately, and their interests sometimes clashed. This was visible in the employers' organisations emerging from the late nineteenth century. For a long time, they were grouped according by sector. Best organized were the sugar estates, represented by Beniso, the Suikersyndicaat, JSWB and VJSP. Rubber business in Deli combined in AVROS (Algemeene Vereeniging van Rubberplanters ter Oostkust van Sumatra), but this was much less powerful than the sugar organizations. Coffee and tea planters organized in separate associations.

These business organizations and the colonial state were not always hand-in-glove. Relations became more strained especially after the First World War. Over the years, the

colonial government had started to intervene more actively in society. Regular annual expenditures rose from 135 million guilders in 1900 to 275 million in 1914 and further to 891 million by 1920 (Creutzberg, 1976: 64-6). Revenues lagged behind, however, which the government tried to compensate by levying additional taxes. In particular during the First World War, the colonial government had faced an increasing deficit. By contrast, the business firms had made good profits. To get a share the government introduced new taxes after the war – although tax reforms were materializing too slowly to retain profits in the colony (Van Anrooij, 1979: 121). Another matter of concern was the production of foodstuffs. In 1918, the government tried to reduce the area under sugar cultivation by as much as 20 per cent, which of course affronted the sugar business.

The entrepreneurs of course resented the meddling of the government. Businessmen saw themselves threatened in their freedom of action (and making profit). Moreover, there was growing labour unrest. The firms were very concerned about the new taxes in the Netherlands Indies and felt restricted in their freedom of action. This signalled the end of the liberal period. It developed into the foremost incentive to organize and form an umbrella organization for all enterprises operating in the colony. In 1921, the large firms combined into the Ondernemersraad voor Nederlandsch-Indië (ORNI, Employers' Council for the Netherlands Indies), established in The Hague for the purpose to look after the common interests of entrepreneurs in the Netherlands Indies. Not much later, in November 1922, it was followed by the Indische Ondernemersbond (IOB, Indies' Employers Association), based in the Netherlands Indies and conceived as an extension of ORNI. The board of IOB stressed that it was not a *strijdorgaan* against labour unions or the government. The motivation was, as stated in a circular in 1921: 'In increasingly dubious ways

does the State intervene in economic relations. On the one hand It appropriates a growing part of the profits of the agricultural industries and on the other hand It obstructs the acquisition of these profits by more and more severe and detailed regulations.<sup>2</sup>

Both the Ondernemersraad in the Netherlands and the Ondernemersbond in Batavia attempted to influence decision-making. For example, they exerted pressure on the Governor-General to appoint more members in the Volksraad from the community of entrepreneurs 'according to their significance for the Indies society and its development'.<sup>3</sup> And indeed, Governor-General Fock acknowledged the significance of the entrepreneurs and promised to look after their wishes.<sup>4</sup> Board members of IOB often had meetings with the directors of the departments (ministries) of the colonial government, offering their opinions, especially about the government's tax policies.

Lastly, the big firms and estates formed a tightly-knit network in various ways. One was the development, from the late nineteenth century, of organizations representing a specific sector. Thus the Java sugar estates and the Deli rubber plantations were organized in business associations. But next to those interest organizations, Dutch business was characterized by a dense network of dual functions. Baudet and Fennema analyzed this network and discovered that banks in particular formed the central nodes of the network. The same trading banks had leading positions in the business associations in the Netherlands and the Netherlands Indies. Connections with

the government did exist, in informal ways and by former businessmen who went into politics, but interlocking positions between government and business did not exist (Baudet & Fennema, 1983: ch. 7).

Although the colonial state had expanded its realm of regulations during and after the First World War, it swiftly retreated in the 1920s. Therefore, the real shift only occurred during the years of the worldwide depression in the 1930s. The government then abandoned its liberal policies and intervened ever more closely into economic relations. State interventions were aimed to protect Western, above all Dutch business interests. The Crisisinvoerordonnantie of 1933, for instance, protected imports from the Netherlands against cheap Japanese products. It also tried to protect Dutch interests against a gradual reorientation of the Netherlands Indies economy. In the preceding decades, the share of Dutch imports entering the Netherlands Indies had successively declined, reaching a mere 12 per cent by 1933 (Lindblad, 2001: 138).

The idea that the colonial government primarily served the interest of Dutch business needs to be qualified. Firms of other nations had similar rights and duties. In this respect the colonial government adopted a strictly legal attitude. Foreign firms could fairly easily acquire licences to start business in the Dutch colony. Interestingly, they rarely joined the primarily Dutch employers' organizations. This held especially true for the Japanese, who apart from a few exceptions, remained aloof of the Dutch networks. The Netherlands Indies economy was increasingly steered by 'gentlemen's agreements', in particular during the 1930s (Jonker & Sluyterman, 2000: 241). For non-Westerners it was almost impossible to enter into this network of trust.

The absence of a strong Indonesian business class was of course conspicuous. Only in the 1920s and 1930s did a generation of Indonesian entrepreneurs emerge. The fact that they only emerged late in the day and

2 Nationaal Archief (NA), The Hague: ORNI, no. 66. Circulaire van Suikersyndicaat in Soerabaja, gericht tot de Vorstenlandsche Landbouwvereniging, het Deli Planterscomité, en de Algemeene vereeniging van rubberplanters ter Oostkust van Sumatra, 11 July 1921.

3 NA: ORNI, no. 66. Overzicht van de werkzaamheden van den Ondernemersraad voor Nederlandsch-Indië in de maand december 1922, p.2; motie ALV.

4 NA: ORNI, no. 66. Bureau IOB to ORNI, 17 May 1923.

that they remained few, cannot be ascribed to an incapability of Indonesians to become capitalist entrepreneurs; it had structural causes. In particular the colonial banking system served the Dutch enterprises. As Anne Booth remarks, 'segmentation in the financial sector was probably more marked than in any other market in the colonial economy' (Booth, 1998: 301). Since Indonesians had no easy access to investment capital, it was difficult to establish a large-scale business. For this reason some sectors came in the hands of rich Chinese or Europeans. This was the case with textile manufacturing in West Java. For lack of credit, Indonesian-controlled production could not be mechanized. By contrast, the Chinese entrepreneurs could take them over because of their strong family networks and credit systems (Robison, 1986: 26).

The idea that all businesses were owned by Europeans is false. Joep á Campo's analysis of legally incorporated enterprises before the First World War demonstrates that more than 16 per cent were in the hands of Chinese businessmen in particular, but there were some Indonesian businessmen, too (A Campo, 1996: 77). However, Dutch (and other foreign) enterprises had several advantages. They had the most capital at their disposal and could deploy a greater dynamic than most Indonesian businessmen. Their networks and the institutionalization of their interests guarded them against the vagaries of cut-throat competition. Such advantages were only partly due to political support. The banking system was dominated by Dutch firms, and it was easier for Dutchmen to get credits. Moreover, they were financially backed by companies in the Netherlands.

On the other hand, the lack of experience and business education among Indonesian entrepreneurs, and their difficult access to credit and investment capital made them lag behind the foreign entrepreneurs. As a result, big Indonesian entrepreneurs were

few. They only very slowly emerged in the 1920s and 1930s, although some of them had roots in a more distant past. The big *krettek* company Sampoerna had started out in 1913, but was only registered as a trade corporation in 1928 (Lindblad, 2007: 65). In the 1930s, more followed, the most renowned being Agus Musin Dasaad, who in his youth had come from Sulu and pursued commercial education in Singapore (Post, 1997). Dasaad owned several trading companies and in the years before the Japanese invasion acquired textile and batik factories (Twang, 1998: 138). He was not alone: others included Djohan Djohor en *Haji* Abdul Ghany Aziz.

As the first large Indonesian businessmen, they had an extremely strategic position at the moment when the Dutch were removed from economic life by the Japanese.

The idea that colonial governments were completely subservient to the economic exploitation cannot be sustained. Business organizations could exert a strong influence on colonial economic policy as long as governmental and business interests converged (Taselaar, 1998: 504). But interests of government and business regularly clashed in the early twentieth century. Motivated by developmental ideas - as partly exemplified in the Ethical Policy - but also under pressure of growing political movements, the government tried to improve the conditions at estates and factories.

## War and Revolution

The Japanese occupation and the Indonesian Revolution formed a period in which different economic regimes emerged. We should be short here about the Japanese period. Most Dutch enterprises and factories - about 300 - were taken over by Japanese firms. Besides, Japanese firms set up new factories.<sup>5</sup> Many Indonesians were employed in the management

<sup>5</sup> NA: NEFIS, no. 3063. Outline of the enterprise of Taiwan Chikusan Kogyo Kabushiki Kaisha (Taiwan Cattle-Breeding Products Co. Ltd.)

of the Japanese enterprises. Others were able to profit from the new political conditions and expand their business. One of them was the South Sumatran *Haji Achmad Bakrie*, who started a trading firm in Lampung in 1942. Dasaad also succeeded in consolidating his position, partly thanks to his connections to Indonesian nationalist leaders and various functions he fulfilled during the Japanese occupation, for instance as a member of the city council of Batavia. He helped Soekarno to come from Padang to Jakarta in mid-1942, and donated 200 guilders to the Tiga A movement (*Pandji Poestaka*, 25 April 1942). He became leader of the Kantor Pengeroes Pabrik Tenoen (Kigyo Tosei Kai), which had to coordinate textile production in East Java on behalf of the military authorities. He was head of the Perserikatan Perniagaan Indonesia (PPI), established in August 1942 to unite Indonesian business, a continuation of the pre-War Indonesische Handelsvereniging (*Pandji Poestaka*, 18 July 1942; *Tjahaja*, 26 August 1942). With remarkable candour, Hatta emphasized at a meeting of PPI in August 1942 that Indonesian business had to organize itself, especially with the prospect of large numbers of Japanese businessmen coming to Indonesia (*Tjahaja*, 28 August 1942).

In 1945, Hatta would again take a lead in organizing Indonesian business. On 20-24 July 1945 he organized a conference of Indonesian *pribumi* businessmen in Bandung, the Permoesjawaratan Kaoem Ekonomi Indonesia seloeroeh Djawa. The predominant opinion was that the new economy had to be styled on a different basis from before. Capitalism was too much associated with colonialism, and developing the new economy in an independent Indonesia would demand a much larger involvement of the state. One result was the establishment of the Persatoean Tenaga Ekonomi Bangsa Indonesia (PTEBI, Union of

Indonesian People's Economic Power), which later became known as PTE (Post, 2009: 77).

The legacy of the Japanese occupation was an experience with state-led economic activity, but the period also saw rise of an Indonesian business elite with strong connections to the political leadership. It was this group that would lead the most important businesses, often in close cooperation with the Republican government during the Revolution. One important development in the revolutionary period was the central role that the government played in the economy, not only as a source of credit, but also as an entrepreneur in its own right. Developments during the Japanese occupation, in particular the establishment of PTE, signalled that Indonesian leaders wanted a stronger involvement of government in the businesses. This was visible at several different occasions. For instance, in the parts of Java and Sumatra under Republican rule, Dutch plantations and factories that had been operated by the Japanese during the occupation came into Indonesian hands. This was a start of what became a strong Indonesian tradition of state-owned business.

The government also extended its activity to trading firms. In 1947 the Republic established a government trading firm, the Central Trading Company (CTC), in Bukittinggi. Its task was to provide the Indonesian army with equipment and to give the smuggling trade a legal façade. In August 1948, the CTC became a limited liabilities company, but activities were discontinued as a result of the Dutch conquest of the Republican capital Yogyakarta in December 1948 and the imminent dissolution of the Republic. A year later the CTC was reactivated, now financed by the Bank Negara Indonesia, which owned 99 per cent of the shares. The one other per cent was held by the firm's director, Teuku Abdul Hamid Azwar. The board of directors consisted of high civilian and military officials (Panglaykim & Palmer, 1969: 6; Thee, 2003: 254-60).

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in Bali. This firm had four plants and 1850 employees in Bali and Lombok.

The economic policy of the Republic during the Indonesian Revolution was worrisome and problematic, but the Republican leaders attempted to stimulate Indonesian businessmen by other means than through setting up state companies. Examples include the Merdeka group, publisher of the daily newspaper *Merdeka*, established by the journalist Burhanuddin Muhammad Diah, who had been heading the foreign news section of *Asia Raya*. Others followed, for instance Wartono who started a cigarette factory in Central Java, and the Wings group based on a soap factory in Surabaya (Lindblad, 2007: 67). Other businessmen became involved in the precarious external trade of the Republic. Among them was Dasaad, who gave large amounts of money to Soekarno and established a close friendship with the President. His firm, the Dasaad Musin concern, became one of the leading businesses in the new Republic.

Illustrative of the situation in the Republic was the establishment, in early 1948, of the American-Indonesian Concern. The American businessman Matthew Fox owned 51 percent of the shares and the Republic the other 49 percent. Several large American concerns participated in the company, such as General Motors and Bell Telephone. The Republic committed itself to purchase American products, in particular textiles and machinery, to an amount of \$ 500 million over five years, and to provide commodities like rubber and copra for an annual amount of \$ 250 million. The Republic offered oil concessions in Jambi and Siak as collateral to Union Oil (Homan, 1983: 128-30).<sup>6</sup>

The agreements gave rise not only to deep concerns among the Dutch, but also in Republican circles. Dasaad had thought that

he would become the sole agent for this new concern, but discovered he had to share his position with two other companies. He protested against what he called the monopolization of trade by the concern. Due to his great prestige in Republican circles, his protests did cause a long delay in the ratification of the contract. Only after a debate lasting seven hours did the Indonesian parliament, the KNIP, agree to the deal.<sup>7</sup> But as was the case with CTC, little came from the contract with Fox as a result of the demise of the Republic in late 1948 (Homan, 1983: 131).

The relations of the Republican government with private firms had a profound impact on the things to come. In the first place, those Indonesian businessmen who had emerged in the 1930s and who had profited from the Japanese occupation became very influential during the Revolution. They succeeded in collecting many contracts and in gaining a prestigious position with the political leadership.

The legacy of the revolutionary period was on the one hand the crystallization of a tight nexus between a few central players in the economy and government circles, and at the same time a great deal of experience had been accumulated in state-owned or state-led enterprises.

We should be brief about the Dutch side, but their experiences offer a useful contrast to the Indonesian side. Many Dutch factories and plantations had been damaged by the Japanese occupation and the revolutionary war. Most estates in Java, if still in operation after the Japanese war, were occupied by the Republic, and only recovered during the first Dutch military intervention that took place in July 1947. Dutch firms and estates with business in Indonesia tried to influence political-decision making, but their lobby

<sup>6</sup> *Nederlands-Indonesische Betrekkingen* (NIB), Vol. XII, no. 307. Ambassadeur Kleffens in Washington aan chef Directie Verre Oosten, Elink Schuurman, 24 December 1947). Also no. 13388-9. Details on Indonesian reactions in: NA: Sinninghe Damsté, no. 16. Sinninghe Damsté in Batavia aan J. van Oldenborgh in Den Haag, ondervoorzitter ORNI, 29 June 1948.

<sup>7</sup> NIB, Vol. XX, no. 297. Aantekening van wnd. chef directie politieke zaken van ministerie Buitenlandse Zaken [Vigeveno] voor wnd. secretaris-generaal [Boon], 17 October 1949.

activities were concentrated to the Netherlands, where many of the companies had their headquarters. This was instrumental in the period up to the Dutch offensive of July 1947, which aimed at occupying the economically vital areas in Java and Sumatra. This succeeded to a large extent. However, the influence of business on the strategies during the second Dutch military intervention, in December 1948, was far less. This time the aims were predominantly political, whereas the interests of companies with estates in Central Java in particular were considered secondary.

It was at the same moment that many among the Dutch entrepreneurs changed their minds about the political future of Indonesia and gradually embraced the idea of a quick transfer of sovereignty in order to get on with their business. Their interests again became central to the negotiations that started in August 1949.

### The 1950s

At the transfer of sovereignty on 27 December 1949 a new dual economy emerged. One part consisted of the Dutch enterprises whose continued operations were guaranteed by the financial and economic agreement with the Indonesian government (Finec), concluded in November 1949. The other part of the economy was made up of Indonesian businesses struggling to gain access to markets dominated by the Dutch firms. Bound by the Finec and for lack of a strong Indonesian class of entrepreneurs, the cabinets of the early 1950s had to tolerate the predominance of Dutch firms in the most important sectors of the economy.

Most politicians had an aversion against the dominance by foreign business, and were advocates of a strong economic role of the state. The Communists, of course, propagated state enterprises, but were decimated after the Madiun affair. The PNI supported the cooperatives, following Hatta's ideas, but

they failed to materialize on an appreciable scale. Masyumi advocated a stronger role for Indonesian entrepreneurs whilst also attaching importance to economic planning (Robison, 1986: 37-8). The majority of Indonesians, too, was opposed to the continuing dominance by *modal asing* and there were regularly calls for nationalization of the Dutch firms. This went against the opinion of prominent economists such as Sumitro Djojohadikusumo, who more strictly adhered to classical economical theory and realized saw the need for foreign investment and market forces (Robison, 1986: 39; Thee, 2003).

Economically, Indonesia did not do too bad in the first post-independence years. Thomas Lindblad characterizes Indonesia's achievements in foreign trade as 'impressive' (Lindblad, 2008: 39). The average annual growth of Gross National Product (GNP) amounted to 6 per cent over the years 1951-1957. Many of the problems were political. The Indonesian government was bound by the Finec agreements but tried to stimulate the development of a *pribumi* business class. As Sutter in the 1950s, and more recently Lindblad, have demonstrated, this was done by a range of policies, including nationalization, decreeing a larger percentage of Indonesian employees in the management of foreign firms, limiting the entry of new Dutch personnel, establishing state enterprises, stimulating equity ownership, control of imports and exports through taxation and exchange rate manipulation, and by providing easy credits to *pribumi* Indonesian businessmen (Sutter, 1959: 2; Lindblad, 2008: 3).

The business atmosphere in Indonesia changed enormously after the transfer of sovereignty. Dutch entrepreneurs often complained about the increasing regulations that they deemed harmful for the operation of their business. Clearly, the Dutch businesses had a harder time than may have been suggested by the Finec agreements. The Dutch employers

had lost the natural protection of the colonial government and realized that their interests would be less secure than before.<sup>8</sup>

On the local level too, employers were confronted by new problems. One of them was 'illegal occupations' – Indonesians who built their houses on estate ground. They were also visited by delegations of labour unions, which at times operated very assertively, if not outright aggressively. One administrator in South Sumatra, Hans de Boer, remarked in his memoirs: 'Of course we hadn't seen anything like this before the war.'<sup>9</sup> The main focus of the entrepreneurs, it seems, was on the local authorities. Confronted by new problems such as labour strikes, aggressive union leaders, government regulations, corporate taxes, problems with hiring personnel, illegal occupation of estate ground, corrupt local administrators, and crime, they often had problems of getting access to the central government. During the 1950s, many company delegations paid visits to ministers and the President.

The ties between Dutch business and the Indonesian government were not necessarily bad, but had become much more fickle than before, and the distance had become much greater. To a large extent, Dutch businessmen tried to continue their business and mode of operation as much as possible as under the colonial regime. The nature of entrepreneurship remained largely the same. The leading businessmen, most of them veterans with much experience in the Netherlands Indies, formed a close elite group, and preferred to be amongst each other.

Dutch firms and estates were still organized in the old associations such as ALS, AVROS, BENISO, FEDERABO, NIVAS, NIVIG, ZWSS

and many more. These associations operated next to the two older business organizations under slightly modified labels: the Employers' Council for Indonesia (Ondernemersraad voor Indonesië, ORI) in The Hague, and the Indies' Employers' Association for Indonesia (Indische Ondernemersbond voor Indonesië, IOB), both originally dating from the early 1920s. IOB had now moved office to the Netherlands and operated at a great distance from the political centre in Indonesia. Both IOB and ORI faced nationalist sentiments in Jakarta and had become far less powerful than before 1950. Confronted by increasing demands from employees and trade unions, a new umbrella organization was established, the Foundation for Central Social Employers Consultative Committee (Stichting Centraal Sociaal Werkgeversoverleg, CSWO), founded in 1952 to discuss labour problems. CSWO often met with the central and regional disputes committee (Panitia Penyelesaian Perselisihan Perburuhan Pusat, P4P and Panitia Penyelesaian Perselisihan Perburuhan Daerah, P4D) to discuss demands by trade unions and to avert labour unrest.

In the Jakartan nationalist rhetoric of the time, Dutch businesses formed one block. In actual fact, however, they were a disparate lot with sometimes widely diverging interests. The big trading firms were primarily concerned about the exchange rate system en import and export regulations, whereas agricultural business looked primarily to land titles. All, however, were confronted with demands by the Indonesian government and pressure from trade unions to increase the number of Indonesians in leading positions in their firms, the so-called *Indonesianisasi*. Reports of estate administrators being threatened, assaulted or even murdered by their labourers are legion.<sup>10</sup> Yet, despite the increasing difficulties of the

8 NA: ORNI, no. 92. 14-daagse mededelingen; OBI, no. 51, 1 January 1951.

9 'Zo iets hadden wij voor de oorlog natuurlijk nog nooit gehad.' NA: Losse Aanwinsten, no. 169. Memoires van Hans de Boer, planter in Indië 1910-1955, p. 52.

10 NA: Ministerie van Buitenlandse Zaken: Nederlands Commissariaat, Medan (Indonesië), (1947) 1950-1957, no. 140. Reports on estates in North Sumatra.

Dutch firms and estates, much also went well. They continued to make good profits and the Indonesian government made many concessions to Dutch business interests, especially with regard to the containment of labour unrest.

The government had assumed a strong role in guiding the economy during the revolutionary years, and continued to be very active in business after 1949. It was part of government policy to stimulating Indonesian business. It did so by extending credit to Indonesian trading firms, and by state-owned industries. At first, especially the state-owned CTC was ordered to challenge the predominance of the big Dutch firms. One of the directors from the beginning, Teuku Mohamad Daud, later remembered how difficult this task was: 'We were little more than inexperienced *orang kampung* [village people] who knew nothing about international business. Our experience had been only in smuggling and barter trade.' (Thee, 2003: 257). The CTC attracted experienced businessmen from the Chinese-Indonesian business community, especially from the Kian Gwan firms. Their Chinese background was cause of some concern with the board of directors, but they proved to be loyal Indonesians. Of course the CTC had difficulties in breaking the dominant position of the Dutch firms, but eventually succeeded in expanding activities and open offices in Singapore, Penang, Tokio, Osaka, New York, London and Amsterdam. Its main business was the export of rubber and the import of consumer goods and machines, most of the latter on behalf of state-owned firms such as Pelni (Pelajaran Nasional Indonesia) in interisland shipping and the national railways.

The government, in its attempt to Indonesianize the economy, bought up Dutch estates and factories, which were then administered by the central national organization for agricultural estates, PPN (Pusat Perkebunan Negara) and the State Industrial Bank BIN (Bank Industri Negara) (Thee, 1996: 318). The state thus

became involved in plantation agriculture, cement production, textiles manufacturing and automobile assembly. The state also nationalized some public utilities such as the post services, telephone and electricity companies, port installations and railways. Distribution was handled by Usindo (Usaha Industri Indonesia), which also was responsible for the delivery of raw materials to state-owned enterprises (Panglaykim & Palmer, 1969: 6). BIN had been set up in 1951 the purpose of financing crucial businesses in mining and industry as well as agricultural estates. BIN owned many firms and financed many others. The factories established with support from BIN often remained in the hands of the state, because no private Indonesian entrepreneurs could be found to take over them (Robison, 1986: 41).

During the first years after the transfer of sovereignty, the public sector expanded rapidly. This was not a total break with the colonial past, but it certainly deviated from the Dutch practice in terms of scale. Outside state enterprises, the government's policies were mainly financial (Glassburner, 1971: 93). Exchange rate manipulation and credit became the chief instruments for stimulating Indonesian business. In April 1950 then minister for Prosperity, Djuanda, launched the Benteng Programme as a part of the first Economic Urgency Plan (Rentjana Urgensi Perekonomian). The Bank Negara Indonesia (BNI) provided capital to Benteng firms. As is well known, the Benteng policy did not meet with much success (Lindblad, 2009: 135). This was not only a matter of inefficiency and manipulation by the recipients, who often resold their licenses to other firms, often of Chinese origin, which nullified the attempt to create a strong *pribumi* business class. Much of the Benteng budget was used by the PNI leadership to buy allegiance to the party. Especially the cabinets headed by Ali Sastroamidjojo (PNI) (July 1953 – July 1955, March 1956 – March

1957) used the issue of licences as a means of political patronage (Glassburner, 1971: 87).

Several historians have pointed at the crucial relationship between business and government, but a thorough analysis of the extent and the political impact of such connections is still lacking. Observers such as Bruce Glassburner and J.M. van der Kroef highlighted the 'strong dependence relationship between government and the entrepreneur' (Glassburner, 1971; Van der Kroef, 1960). Van der Kroef pointed out that entrepreneurs became dependent on the financial support of the state. That this is true, is plausible, but to what extent remains largely unknown as the history of Indonesian firms in the 1950s still needs to be written.

Some Indonesian businessmen were indeed successful. A new figure was Soedarmo Sastrosatomo, who after a medical education headed the Foreign Section of the Ministry of Information during the revolution and became close to Soekarno. He was posted in New York and established a close relation with Matthew Fox. After returning to Indonesia Soedarmo in 1952 established the Soedarmo Corporation with a loan of Rp. 100,000 from a local businessman in Tasikmalaya. He received an import licence and, sharing profits with Fox, concentrated on the distribution of American machinery of Remington and RCA (Radio Corporation of America) (Anwar, 2001: 184). In 1953 he acquired a majority share in a small Dutch shipping company, ISTA, with financial support from Sultan Hamengku Buwono IX in Yogyakarta.

The large entrepreneurs of the 1950s were part of the business-political elite that had emerged in the 1930s, the Japanese period or the revolution and who made use of the strong links to the political leadership. One of the foremost *pribumi* entrepreneurs was, again, Agoes Moesin Dasaad, who had started his business in the 1930s and who had developed, partly thanks to his connections to the Republican leaders, into a tycoon. Dasaad

was an exponent of a new type of entrepreneur. In colonial times, the economic lobbies were to a large extent institutionalized; businesses could further their interests by combination. In post-independence Indonesia personal ties became crucial. The relations between business and the state were highly personalized. We witness an institutional breakdown in the economic sphere discernible in other domains of society, too. Different from the colonial period, Indonesian businesses were in the 1950s not organized in by sector since the most important firms were still controlled by Dutch capital.

On the other hand, the ambitions of the state were diffuse. It focused primarily on the development of a national industry, the creation of an indigenous class of businessmen and the improvement of welfare. Industry remained largely the domain of state enterprises and foreigners, the Indonesian businessmen concentrated on trading firms.

The nexus between state and business was diffuse. The problem is, that we do not know exactly how these connections operated. One of the problems was that the 'state' did not operate as one single centralized entity. The Benteng programme was abused for buying a political clientele, and used by would-entrepreneurs for individual gain. Although there were several preferred businessmen, the type of cronyism that was to develop in the 1970s was still far away.

The situation of course changed dramatically after the takeover of Dutch enterprises in December 1957. About 700 enterprises were occupied, including some 500 plantations. The seized firms were quickly placed under direct supervision by regional army commanders, as decreed by General Nasution on 13 December 1957 (Feith, 1962: 584). In addition, the army was the only centrally led organisation capable of coordinating such a huge process. The economy of large firms now entered an entirely new phase that at first appeared fairly dismal. Formal nationalization, following in 1959,

made the government, especially the armed forces, the primary force in big business. Sale to private entrepreneurs was deemed impossible due to the lack of wealthy businessmen (Booth, 1998: 173). Although some have argued that the emergence of big state enterprises had been a pragmatic solution to the problems created by massive nationalization, the main factor was the unwillingness of the government to hand over the seized firms to private businessmen (Panglaykim & Palmer, 1969: 179).

The nationalization of Dutch firms and supervision by army agencies also uncovered the exposed the of the system of clientelism. Some businessmen were annoyed by army predominance. One of them was Soedarpo Sastrosatomo, who later remembered: 'When Soekarno nationalized all Dutch business and expelled the Dutch in 1958, it was in theory a good opportunity for us to develop. The trouble was that those in power now thought that everything should be done by the government.' On Soedarpo's proposal to improve the shipping industry, Vice-president Leimena remarked that it was not the purpose of a nationalist government 'to create strong capitalists' (Thee, 2003: 155). Faced with increasing regulation by Jakarta, Daud, member of the board of directors of CTC, considered the situation as 'intolerable' (Thee, 2003: 260).

Indonesian leaders, Soekarno most prominently among them, embraced a centralistic model with little leeway for liberal democracy and business. The following years saw the emergence of control institutions to supervise the state-owned enterprises, such as BUD (Badan Urusan Dagang), Bappit (Badan Penjelenggara Perusahaan Industri dan Tambang) and PPN-Baru (Pusat Perkebunan Negara-Baru). They were modelled after the already existing PPN, which had been created during the Revolution (Lindblad, 2009: 184). By the Law on State Enterprises no. 19/1960, all nationalized firms were rearranged into nine *bhaktis*, in which also the oldest state

enterprise, CTC, was incorporated as Tri Bhakti (Panglaykim & Palmer, 1969: 8, 17).

## Conclusion

The purpose of this article was to assess changes in state-business relations during the long decolonization of Indonesia. A crucial, *continuous* characteristic of the Indonesian economy in the twentieth century was the close connection between state and business, institutionally and also individually between big business and the political leadership. This is true for both the colonial and the post-colonial period. Our intention was to see business not simply as *business as capital*, but to view it within a political-institutional framework.

The economic face of Indonesia changed dramatically since the 1920s. The liberal colonial economy of the late nineteenth and early twentieth century, had which rested on an intimate linkage between economic and political interests, went through several phases of political intervention in the economy structure, and finally ended up with an inefficiently led economy under army control in the 1960s and a system of economic cronyism and clientelism in the 1970s. What remained was the close connection between the men in power and the entrepreneurial elites, although its nature had changed enormously over the years.

The picture that emerges from the above is far more complicated than could be expected at first sight. Of course in economic terms, the transfer of sovereignty in 1949 was not the same kind of watershed as in political terms. In that respect, the proclamation of independence in 1945 or maybe even the Japanese invasion in 1942 were much more meaningful. Indonesian politicians were then urged to formulate a nationalist economic strategy. This gave rise to the close connection between a small group of big entrepreneurs and the political leadership in Yogyakarta.

In colonial times, the Dutch businesses were strongly connected to the political constellation of colonial rule. There was a strong legal basis for the economic exploitation of the Netherlands Indies. The nexus was continuously invoked by the entrepreneurs and their organizations, but it was not without frictions. Business interests were organized into sectoral and general employers' or business associations, with sometimes conflicting interests and differences of opinion with the government. This was exposed when the economy came under pressure during the First World War and during the worldwide economic depression of the 1930s, when government increasingly intervened in the economy. However, the chief foundation of Dutch business in the Netherlands Indies was not government protection or forms of clientelism, but rather mutual loyalty, tight networks and credit facilities. In other words, the institutional structure was a crucial pillar of Dutch business.

As in politics, the end of the Japanese occupation created a vacuum in economic control. The Indonesian government took the former Dutch businesses under its wings and established quasi-state-ownership. This set the pattern for a tradition of state-owned businesses that extended into the post-colonial period. Another pattern was formed by the rise of a business elite profiting from its connections to political leaders.

The economic regime of the 1950s continued in several respects the trends set in during the Revolution, but also saw a return to the economic patterns of the colonial period. The fact that the economy retained its colonial pattern of ownership accounts for the modest dimensions of clientelism and cronyism that developed in the 1950s. Big commercial and industrial interest remained restricted to a few, apart from the hundreds of would-be businessmen who abused the Benteng licence system.

Meanwhile, the colonial system of institutionalized business interests was not copied or taken over by the Indonesians. The system of credit, the limited diversification of Indonesian business, the personalized form of communication and the weak control of the central government impeded the formation of combined business interest. What resulted was not a free for all but a free for some, which depended strongly on political connections – not to *the* state, but to specific persons and political parties. The attitude of the businessmen in the 1940s and 1950s was basically different from the Dutch in the colonial period. They were much more improvising and more relying on personal networks outside the economic sector than Dutch businessmen had been before the war. Although we could perceive this as a breakdown of economic institutions, it was also a fundamental change in the nature of the business networks, both among entrepreneurs, between sectors, and with the state. What resulted was a pattern of personalised linkages between officials and entrepreneurs of a fairly haphazard nature, which would only later harden into New Order cronyism.

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