Changing circumstances and strategies: A new era of business in newly independent Indonesia

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Introduction

On 27 December 1949, sovereignty was transferred from the Netherlands to Indonesia after a prolonged military and diplomatic struggle with its former colonizer, culminating in the Round Table Conference (RTC) Agreement. For many Indonesians however, the revolution had not yet reached its completion. While now politically fully independent, Indonesia still possessed an economic structure strongly resembling the one that had prevailed under Dutch rule. The economy bore all hallmarks of a colonial economy, with a sizeable portion of the modern economy still in the hands of foreign enterprises.[1] Among these foreign enterprises, those of Dutch origin naturally held a dominant position.

An important reason why investors from the metropolitan mother-country came to be so dominant in Indonesia was that they could benefit from the familiarity of legislation, institutions, procedures and language. Consequently, after the colony was opened up for private investment from 1870 onwards, a close connection evolved in the Netherlands-Indies between private business and stakeholders in politics and the bureaucracy. This connection resulted in the establishment of a powerful colonial lobby that safeguarded the interests of Dutch investors.[2] But such fertile circumstances were soon to change after the Netherlands had lost its colonial prerogatives in Indonesia. Dutch economic dominance was a thorn in the side for many Indonesians of the nationalist persuasion, who regarded this situation as a continuation of colonial rule.

At first, prospects for the Dutch business community seemed fairly promising. Indonesian government officials often publicly underscored the importance of foreign capital to the development of Indonesia.[3] Furthermore, the Financial and Economic Agreement (Finec),

[1] A portion representing 25% of GDP, Howard Dick, ‘Formation of the nation-state, 1930s-1966’, in: Howard Dick, Vincent J.H. Houben, J. Thomas Lindblad and Thee Kian Wie, *The emergence of a national economy. An economic history of Indonesia, 1800-2000* (Crows Nest, NSW: Allen & Unwin, 2002) 174.

[2] Arjen Taselaar, *De Nederlandse koloniale lobby. Ondernemers en de Indische politiek, 1914-1940* (Leiden: CNWS, 1998).

[3] However, in practice the government’s policy towards foreign capital was often far from accommodating, see: Bruce Glassburner, ‘Economic policy-making in Indonesia, 1950-1957’ in: Bruce Glassburner (ed.), *The economy of Indonesia, selected readings* (London: Cornell University Press, 1971) 70-98. This chapter offers a helpful overview of economic policy making in Indonesia in the period starting from formal independence until the nationalization of Dutch assets in December 1957.

appendixed to the RTC agreement, offered solid guarantees for continued operations by Dutch private companies in Indonesia. Nevertheless, the Finec also contained provisions less conducive to the smooth functioning of Dutch enterprise that could be invoked by Indonesia in order to further its wish to propel its economy from a colonial to a national one. First, articles 2 and 3 of Finec provided for the infringement of Dutch economic interests in the public interest, such as the welfare of the people, through expropriation, nationalization, liquidation, compulsory cession or transfer of properties. Second, article 12(d) of Finec stipulated that Dutch employers were obliged to make efforts to include Indonesians in management and staff functions (also boards of directors) of the companies as soon as possible, so that after a reasonable time the majority of the supervisory staff would consist of Indonesians.[4]

This paper examines the changing conditions for operations by Dutch private firms in newly independent Indonesia by way of two case studies that exemplify the implementation of the above-mentioned articles of Finec. Both cases are symptomatic of the process of ending Dutch economic dominance in Indonesia after its independence and the subsequent reorientation of the Indonesian economy. The first one focuses on the nationalization of the *Javasche Bank* (Java Bank) and is an example of the wider structural transformation of the colonial economy to a 'national economy' with a structure more suitable for the economic development of an independent nation. This process is known as *indonesianisasi* in its broadest sense.[5] In a more narrow sense *indonesianisasi* pertains to the gradual replacement of Dutch officials and managers in executive government and corporate positions by Indonesian nationals; this is the topic of the second case study, which focuses on large Western estates in North Sumatra.

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[4] J. Thomas Lindblad, *Bridges to new business. The economic decolonization of Indonesia* (Leiden: KITLV Press, 2008) 73

[5] J. Thomas Lindblad, 'The importance of *indonesianisasi* during the transition from the 1930s to the 1960s', *Itinerario* 26 (2002) 51.

I The central bank and foreign investment policy

In this section we discuss the Java Bank, which served two functions. On the one hand, it acted as the central bank regulating money supply and issuing currency, but it also served as a regular commercial bank.[6] The main focus of study is on the 1950s and the period of nationalization of the Java Bank in 1951 and the change of the name into Bank Indonesia in 1953. Special attention is given to the effects of the nationalization of the Java Bank on foreign investment and the supply of credits to private enterprises in Indonesia. The main sources are the annual reports of the Java Bank from 1949 and, from 1953, Bank Indonesia. Due to constraints in time, it is impossible to discuss each annual report in detail. Therefore, only information and data with direct effects on private investors and companies are mentioned here.

Nationalization of the Java Bank

During the RTC in 1949 the Dutch insisted on discussing economic and financial issues which led to the Finec agreement. This agreement contained several provisions favoring Dutch interests, such as a commitment by Indonesia that it would consult with the Netherlands if its financial and monetary policy would affect Dutch economic interests in Indonesia. As long as Indonesia had a debt to the Netherlands, the Netherlands should be consulted in advance on any alteration in the acts which were in force at the time of the transfer of sovereignty.[7] Moreover, nationalization of Dutch enterprises would only be allowed if this was considered to be in Indonesia's national interest and if the affected enterprises would give permission for this action. Even before the Finec agreement had been signed, the directors at the Java Bank pointed out that the first point could easily become a 'dead letter' if the Indonesian government wished it.[8]

[6] J. Thomas Lindblad, 'Van Javasche Bank naar Bank Indonesia. Voorbeeld uit de praktijk van de indonesianisasi', *Tijdschrift voor Sociale en Economische Geschiedenis* 1 (2004) 31.
[7] De Javasche Bank, *Annual report for the financial year 1949-1950* (Jakarta: De Javasche Bank, 1950) 10-11.
[8] Thee Kian Wie, *Recollections: the Indonesian economy, 1950-1990s* (Singapore: Institute of Southeast Asian Studies, 2003) 7; Thee Kian Wie, *Indonesia's economy since independence* (Singapore: Institute of Southeast Asian Studies 2012) 6; Lindblad, *Bridges to new business,* 73.

Therefore – in connection with the transfer of sovereignty – the central bank system was also discussed and the Finec agreement contained a few statements that only one bank of issue should be in operation in Indonesia. On 2 November, 1949, the RTC declared the Java Bank as the bank of circulation and not Bank Negara Indonesia (BNI), which had fulfilled this task since 1946. This was something not all Indonesians could easily accept, but vice-president Hatta explained that the Java Bank was more suitable than the BNI to function as a bank of circulation.[9] Nevertheless, the fact that a new government took office in Indonesia as a result of the transfer of sovereignty, meant for the Java Bank that it had to consult with this government about its operations and it was deemed important that the contact with the government continued to develop on a basis of independence for the bank of issue.[10] It comes as no surprise that nationalization of the Java Bank was one of the next steps to be taken.

One of the problems the Indonesians had to deal with was the extreme shortage of Indonesians with banking skills. This led to a remarkable initiative. In November 1949 a few members of the Indonesian delegation at the RTC went to the Netherlands to meet the directors of the Amsterdam/Incasso Bank and discuss facilities for training young Indonesians in banking. This group included vice-president Hatta, the director of BNI Margono Djojohadikusumo, Sumitro and Dasaad, a business man from Sumatra. The Dutch bankers were initially reluctant, but the Dutch minister of Finance, Lieftinck, urged the bankers to be more cooperative. Nevertheless, this trip did not lead to any results.[11] Despite this, the governments of the 1950s put high priority on achieving economic sovereignty. The government policy was to develop state enterprises which competed with Dutch firms. BNI was one example, but the Rehabilitation Bank (Herstelbank), which was set up in 1948, became the Bank Industri Negara (BIN), the industrial bank which played a prominent role in financing industrial development under the Economic Urgency Plan, prepared in Sumitro's department in 1951.[12]

[9] Lindblad, 'Van Javasche Bank naar Bank Indonesia', 31.
[10] DJB, *Report 1949-1950,* 10-11.
[11] Lindblad, *Bridges to new business*, 63; Lindblad, 'Van Javasche Bank naar Bank Indonesia', 32.
[12] Howard Dick et al., *The emergence of a national economy. An economic history of Indonesia, 1800-2000* (Leiden, KITLV Press) 85.

In December 1949 the national congress of Masyumi passed a resolution for nationalization of the Java Bank.[13] And when Yusuf Wibisono, who was a member of this political party, became the new minister of finance in April 1951 in the Sukiman cabinet, he intended to carry out the nationalization of the Java Bank as soon as possible, but mentioned that *indonesianisasi* of the personnel was not so important, as long as the reins of power ended up in the hands of the state. Wibisono made this announcement in the press without consulting the Dutch. For Houwink, the Dutch president of the Java Bank, these words were enough for him to hand in his resignation and immediately he was succeeded by Sjafruddin Prawiranegara who came from the same party as Wibisono, and had just stepped down as minister of finance in the Natsir cabinet, which was succeeded by the Sukiman cabinet. The Dutch initially attempted to retain control over the Java Bank, but eventually the nationalization of the Java Bank proceeded relatively smoothly as the Dutch accepted that control of money and credit was an essential ingredient of sovereignty.[14]

On 3 July the Sukiman cabinet installed a committee which was founded with the privilege to make preparations in order to nationalize the Java Bank. Members of this committee were: Sumitro, Mohammed Sediono, Soetikno Slamet, Sabaruddin, Oudt and Khouw Bian Tie. In order to get around difficult procedures one of the first things the committee did was advising the government to buy the shares which were in circulation from both domestic and overseas shareholders. In order to transfer the ownership, expropriation of property rights in return for adequate compensation needed to take place, according to a procedure inherited from colonial legislation, which dated from 1928.[15] To speed up this process, the government sent two officials to the Netherlands. Saubari, secretary-general at the department of finance and Khouw Bian Tie, advisor of the Java Bank. After consulting with the Dutch minister of finance, Lieftinck, a decision was made and published on 3 August 1951 which led to suspend trading of the Java Bank shares on the Amsterdam Stock Exchange.

[13] Lindblad, *Bridges to new business*, 105.
[14] Bruce Glassburner, 'Economic policy-making in Indonesia, 1950-1957', 85; Thee Kian Wie, *Recollections: the Indonesian economy*, 11.
[15] Lindblad, *Bridges to new business*, 104.

In Indonesia, Wibisono issued a statement about the government's offer to purchase privately held shares at 120 per cent of the nominal value expressed in Dutch guilders or 360 per cent, expressed in Indonesian rupiah. Foreign citizens living in Indonesia were disadvantaged and would only get 240 per cent. The purchase of these shares proceeded well, within a couple of months 97 per cent of all shares had already been acquired by the government.[16] Officially it was possible to sell these shares to the Java Bank until 15 October 1951. Finally, 8.95 million rupiah out of a total of 9 million rupiah worth of shares were traded with the bank. On 15 December 1951 the act for the nationalization of the Java Bank was promulgated and the transfer of ownership of all shares of the Java Bank from private holders to the government became an accomplished fact. The Java Bank was thereby converted from a private institution into a state-owned company. The next step after the nationalization was to develop a new bank act to replace the old one of 1922. The position of the Indonesian central bank should be brought in line with the position of Indonesia as an independent state, and the tasks and the sphere of operations had to be brought into conformity with the new theories concerning money and monetary policy.[17]

One controversial topic concerning the operation of the Java Bank was its dual function. The question was if the bank should retain its commercial credit facility in addition to the regulation of money supply. In the board of the Java Bank it was advised that the new bank should not stop with its role as a commercial bank, since the financial system of Indonesia was not stable and strong enough and there were not sufficient private banks available shortly after the transfer of sovereignty, which could fulfill this task. BNI, BIN and Bank Rakyat Indonesia (BRI) (previously Algemeene Volkscredietbank) were not in a position to provide the amount of credit which was needed for private investment.[18] For the upcoming Indonesian private companies it would be disadvantageous as well if it would be necessary for them to find different sources of capital for their business shortly after the Java Bank would be nationalized. If the central bank would stop with providing capital and funds to private companies, this could mean a

[16] Thee Kian Wie, *Indonesia's economy since independence*, 9; Lindblad, *Bridges to new business*, 108; Thee Kian Wie, 'Indonesianization. Economic aspects of decolonization in Indonesia in the 1950s', in: Lindblad and Post (ed.), *Indonesian economic decolonization in regional and international perspective*, 25.
[17] De Javasche Bank, *Report of the president and of the board of directors for the financial year 1951-1952* (Jakarta: De Javasche Bank, 1952) 12; De Javasche Bank, *Report of the president and of the board of directors for the financial year 1952-1953* (Jakarta: De Javasche Bank, 1953) 12.
[18] DJB, *Report 1951-1952*, 18-19.

slowing down of entrepreneurship and the founding of new commercial banks would take a considerable amount of time, which could harm the economic development of Indonesia.[19]

A committee Panitia Nasionalisasi (Committee for Nationalization) was formed to create a blueprint for the future of the Java Bank and to solve the debate about its role in the monetary system.[20] This committee accepted the idea that the banks should continue as a bankers' bank only without the commercial function, which could be transferred to BNI. Sjafruddin and other directors objected and they wished to retain the dual function, but with its commercial function adjusted so as to better serve the needs of Indonesia at that moment.[21] In September 1952 the new law relating to the central bank of Indonesia was submitted to parliament and was discussed at length in March and April 1953. Finally on 10 April 1953 the law was passed and on 30 June the Java Bank ceased to exist and on 1 July 1953 Bank Indonesia came into being. The transformation of the bank was greeted with enthusiasm by economic nationalists, who saw the new bank as a "symbol of sovereignty in monetary and economic respects". Foreign observers argued that the transformation was little more than a name change and a reorganization. According to Sjafruddin it was a happy compromise between theoretical desiderata and historical fact, between lofty ideals on the one hand and practical possibilities on the other. The transformation of the Java Bank into Bank Indonesia seemed to have gone far beyond a mere reorganization. The reorientation in lending activities in alignment with the national economic policy signified a fundamental break with past practices.[22]

In contrast to the Java Bank, Bank Indonesia was no joint stock company, but a public corporation. The capital of Bank Indonesia belongs exclusively to the state.[23] The line of demarcation between the government and Bank Indonesia was now somewhat vague, due to the fact that the control of the bank no longer rested with a board of directors, but with a monetary board, which consisted of three members, the Minister of Finance, the Minister of Economic Affairs and the governor of the bank. The integration of the monetary board in the organization of the bank was done on purpose, in order to remove any uncertainty about who in fact was

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[19] Ibidem, 20.
[20] Lindblad, *Bridges to new business*, 109.
[21] Lindblad, *Bridges to new business*, 110-111; Lindblad, 'Van Javasche Bank naar Bank Indonesia', 37.
[22] DJB, *Report 1952-1953*, 12; Lindblad, *Bridges to new business*, 111.
[23] DJB, *Report 1952-1953*, 13.

responsible for the general monetary policy. That responsibility lay with the government, which fact was not only reflected in the composition of the monetary board, but was also clearly established in the bank act.[24]

Foreign investment

The importance of foreign investment to Indonesia's economic development was already briefly mentioned by the president of the Java Bank, R.E. Smits, in 1949. He observed that the decline in the national income in Indonesia could be reversed with the help of carefully planned industries. In order to establish this increase of national income a considerable amount of investment and capital was necessary. Although it would be much more beneficial for the economic development of Indonesia if domestic capital was available, an initial supply of considerable sums of foreign capital to start this development was indispensable according to the Java Bank, since the domestic capital market was not functioning well and an Indonesian Stock Exchange did not exist shortly after the transfer of sovereignty. Various banks such as BNI, BIN and BRI did initially not have the necessary funds to finance large scale industrial operations either.[25]

In order to attract foreign investment, the government should make this as easy as possible and nationalization of foreign enterprises was not an option according to the Java Bank, unless full compensation would be given to the foreign companies. The benefits of foreign investment were very clear. It would bring more employment, higher production in various sectors and it would be beneficial to the whole economic development of Indonesia.[26] President Sukarno also recognized the need for foreign investment in the early years after the transfer of sovereignty. A stable and secure country was needed in order to attract citizens and foreigners to invest in the country. Sukarno defended the policy of the Sukiman cabinet which encouraged foreign investment. Various Indonesian politicians agreed with Sukarno. In September 1950 Prime Minister Natsir declared that further rejecting foreign capital could be harmful to the economy,

[24] DJB, *Report 1952-1953*, 14.
[25] Sutter, *Indonesianisasi*, 629; De Javasche Bank, *Annual report for the financial year 1950-1951* (Jakarta: Java Bank, 1951) 54.
[26] DJB, *Report 1950-1951*, 59.

and in order to improve the economic development of Indonesia it was necessary to attract foreign capital into several areas. He stated that the government would conduct a study about which fields should be open to foreign investment and which conditions would be imposed, such as the form of the enterprise, transfers and participation by Indonesians.[27]

Another proponent of foreign investment was Sjafruddin Prawiranegara. As a Minister of Finance in March 1951 he claimed that if Indonesia's living standard must rise, foreign capital had to be tolerated and increased as well. As Governor of the Java Bank, Sjafruddin wrote that the origin of the capital should not matter. He stated the need for a favorable investment climate. He suggested that private investors be left to choose the projects which offered good prospects for making a profit and becoming a useful and permanent contribution to the development of the country. Imposing many conditions would only result in making such investments unattractive. Initially Sjafruddin was not against protectionism of domestic industries, but he recommended that such industries should learn to operate eventually without protection and warned against favoring domestic production over private initiative and capital of foreign investors. He also warned against discrimination between indigenous and "nationalized citizens".[28]

Nevertheless, even after the nationalization of the Java Bank the board of the bank emphasized that foreign capital would be an important factor. Sjafruddin was aware that part of the profits earned by these foreign investments had to be transferred to the foreign investor in foreign exchange, but this did not mean that these investments were a disadvantage to the economy of Indonesia. On the contrary, foreign investments would yield a great net advantage for Indonesia in the form of employment, taxation revenue and profits reinvested in the Indonesian economy. But in order to do this, it was necessary to take steps to ensure that conditions were favorable for foreign investors.[29] Some control seemed necessary, foreign private capital in the form of loans, for instance, was not something to desire too enthusiastically, since it could burden the Indonesians with remittance obligations.[30]

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[27] William A. Redfern, *Sukarno's guided democracy and the takeovers of foreign companies in Indonesia in the 1960s* (Ann Arbor: University of Michigan press, 2010) 125-126.
[28] Sutter, *Indonesianisasi*, 1210-1211.
[29] DJB, *Report 1952-1953*, 66-67.
[30] Ibidem, 71.

Another aspect was in which direction investment should be made. The government sector, private sector and the rural sector were three different sectors and with each new investment various aspects should be distinguished, such as the profitability aspect, the national income aspect and the employment aspect. For private investors, however, the profitability aspect was the most important one, and it could not be expected that an investment project, which could be useful in the light of public interest, would attract investors unless they could see some prospect of profit. This would mean that the government would have to run these enterprises by itself.[31]

One year later, in August 1952 Prime Minister Wilopo stated that Indonesia both needed and welcomed foreign investment. He indicated that within a few months his government would issue an unofficial policy statement on foreign investment. The Wilopo cabinet initiated a detailed study on foreign investment, and began drafting policy statements and laws on foreign investment. However, none of this was finished when the Wilopo cabinet fell in June 1953, by an issue linked to returned foreign investment.[32] It took more than half a year, until February 1954, before the first official policy statement on foreign investment was made under the first Ali Sastroamidjojo cabinet by Minister of Finance Ong Eng Die. Herein, the above mentioned issues were discussed and confirmed. Indonesia needed foreign investment. Foreign enterprises were allowed to move profits abroad and, in general, all capital was permitted to return to the country of origin after it has been utilized a number of years in Indonesia. However, there were certain limits on foreign investment. The cabinet preferred investment in industrial sectors above trade, transport and banking firms. Further regulations still needed to be established, but in sum, the policy clearly indicated that foreign investment was welcome and desired.[33] However, due to various reasons, this policy did not lead to any laws and it would take another four years before the foreign investment law was promulgated.

The law of 1958 contained many elements of the previous statements and the need for foreign investment was high. According to this law, however, a council would determine whether

[31] DJB, *Report 1952-1953*, 69-70.
[32] Redfern, *Sukarno's guided democracy*, 126.
[33] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1953-1954* (Jakarta: Bank Indonesia, 1954) 183-185.

companies were allowed to operate in Indonesia and which criteria foreign investment had to deal with. This council could decide the location of enterprises, which sectors would be closed for foreign investment, whether the enterprise had to be incorporated under Indonesian law, how much capital could be repatriated and the number of foreigners to be employed in each foreign enterprise. However, foreign industrial enterprises would be given a guarantee, for a period up to thirty years, that they would not be expropriated by the state or converted into a national enterprise.[34] By this time, Sukarno had come out against foreign investment and he favoured foreign loans or grants. Nevertheless, During the Djuanda cabinet the law was promulgated in October 1958 and would remain in operation until 1965. In February 1959, however, the government nationalized the properties which were already confiscated from the Dutch. With this the government was truly sending mixed signals regarding the position of foreign investment in Indonesia and Indonesia principally sealed herself off from foreign investment, which made the foreign investment law ineffective.[35]

Credit provision

To examine the effects of this policy on the credit provision we will now take a look at various banks. The Java Bank, BNI, BIN and seven foreign banks[36] played a rather important role in the field of providing credit. For these banks combined, various data exist and will be used in the rest of this paper. Unfortunately, statistics of only the Java Bank or Bank Indonesia about the provision of credit is less widespread.[37] The funds the Java Bank would provide were meant for bridging liquidity gaps and, therefore, would be temporarily and it was stated that this would prevent that the Java Bank would be too involved in the operation of private companies, which would hinder its role as bank of issuing the currency. In order to support this, the balance sheet of

[34] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1958-1959* (Jakarta: Bank Indonesia, 1959) 282-286.

[35] Redfern, *Sukarno's guided democracy*, 129; Charles Himawan, *The foreign investment process in Indonesia. The role of law in the economic development of a third world country* (Singapore: Gunung Agung, 1980) 245.

[36] Although no guarantee can be given, it's likely that the seven foreign banks consisted of three Dutch banks (Nederlandsche Handel-Maatschappij, the Nationale Handelsbank and the Escompto Bank) two British banks (the Chartered Bank of India, Australia and China and the Hongkong-Shanghai Banking Corporation) and two Chinese banks (the Bank of China and the Overseas Chinese Bank) see: Lindblad, *Bridges to new business*, 86; Sutter, *Indonesianisasi*, 87-88.

[37] DJB, *Report 1951-1952*, 82.

the bank was split into two parts, namely one relating to the issue department and the other relating to the banking department.[38] Nevertheless, after the nationalization the Java Bank remained a commercial bank, while in 1953 the equity capital was increased from 9 to 25 million rupiah.[39]

For the years since 1953, detailed information exists about the provision of loans to various sectors. Compared with 1953, in 1954 credit contractions could be recorded in the categories of importers, sugar plantations and other plantations. In the other categories credit granting expanded.[40] The decrease in credits granted to importers could largely be attributed to the import restricting regulations promulgated by the government. When these restrictions were mitigated to some extent in the last quarter of 1954, the volume of credit increased again. One of the reasons for the diminished credit requirements to the sugar sector were higher proceeds and smoother sales. In the other plantation categories these factors too affected the volume of credit.[41] A considerable increase was recorded in the volume of credit to industrial and other enterprises. Besides a growth in the number of enterprises, the credit expansion could be accounted for by a strong increase in cost prices. The credits granted to exporters showed an increase as well.[42]

Since the middle of 1954 the various banks which were mentioned above, combined, also provide information about credit provision to both Indonesians and non-Indonesians separately.[43] A comparison of these figures of 1954 show that approximately 61% or 1,547 million rupiah had been granted to Indonesian enterprises and individuals and about 39% or 988 million rupiah was distributed to non-Indonesians. At the end of 1954 these numbers already changed to 64% and 36%, respectively.[44] Compared with 1954 in 1955 total bank loans to private companies and individuals declined further as a result of credit contraction in the sectors tobacco and sugar.[45] Credits granted to importers were higher in 1955 compared with 1954 as a result of the reversal

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[38] DJB, *Report 1950-1951*, 51; DJB, *Report 1952-1953*, 24-25.
[39] DJB, *Report 1952-1953*, 220.
[40] Appendix 2.
[41] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1954-1955* (Jakarta: Bank Indonesia, 1955) 73.
[42] BI, *Report 1954-1955*, 74-75.
[43] Unfortunately, more detailed information besides Indonesian and non-Indonesian is not given.
[44] BI, *Report 1954-1955*, 74-75.
[45] Ibidem, 171.

of the restrictive import policy.[46] The results for one year later show that the total amount of credit outstanding amounted to 3,800 million rupiah at the end of 1955. 65% or 2,471 million were granted to Indonesians and 1,329 million rupiah or 35% to non-Indonesians. It should be noted that the Indonesian sphere also includes semi-government institutions.[47]

The credit granting by banks in 1956 increased continually, although Bank Indonesia had endeavored directly and indirectly to reduce bank credits, especially in the import sector.[48] Credit expansion during 1956 was the result of the increase of credits granted to the import sector and the industrial sector. At the end of 1956 credits granted to exporters, importers, estates, industry and government enterprises and foundations amounted to: 375.3 million rupiah (9%), 1,367.2 million rupiah (35%), 559.2 million rupiah (14%), 353.5 million rupiah (9%) and 407.2 million rupiah (10%) respectively. The share of Indonesian enterprises and individuals rose to 2,596.1 million rupiah or 66% of the total at the end of 1956.[49]

Of the credits granted by the seven foreign banks, 36% was granted to Indonesian enterprises and individuals at the end of 1956, as compared with 28% at the end of 1955. This increase resulted from higher credits to national importers. The foreign banks concentrated the credit operations for the larger part on exporters, importers, and estates, while the other banks laid the emphasis on the import sector. Striking is the difference between credits granted by foreign and national banks in the exports sector.[50] Although the amount of credits granted to importers dropped in 1957, the share of this sector remained the largest with 28%. On the other hand credits to exporters increased as well as credits granted to the government enterprises and foundations, enterprises predominantly financed by the government and industries in general. Of the total amount of credits granted by foreign banks in 1957, 40% went to Indonesian enterprises and individuals. However, of the credits of the six national banks 90% went to Indonesian enterprises and individuals.[51] The overall trends were clearly visible. The shares received by

[46] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1955-1956* (Jakarta: Bank Indonesia, 1956) 78.
[47] BI, *Report 1955-1956*, 79.
[48] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1956-1957* (Jakarta: Bank Indonesia, 1957) 87.
[49] BI, *Report 1956-1957*, 88.
[50] Ibidem, 90.
[51] Appendix 3.

Indonesians increased slightly every year and the total amount of credit granted by the national banks increased, whereas for the non-national banks this amount decreased. After 1956 the national banks provided more capital than the non-national banks. A trend that was to be continued in the subsequent years.[52]

In 1958 only 24% of the total credits granted or 1,243.6 million rupiah was provided by the seven foreign banks. Of these credits 62% went to Indonesian enterprises and individuals. The share Indonesians received from the foreign banks was larger than the amount of credits these banks provided to non-Indonesians. The credits of the six national banks went almost entirely to Indonesian enterprises and individuals, namely 96%.[53] In August 1959 the Nationale Handelsbank was nationalized into the Bank Umum Negara, which brought the number of non-national banks back to six and the number of national banks to seven. In 1959 32% of the credits were granted by non-national banks. Moreover, 74% of the capital of these six banks went to Indonesian business contacts.[54] Since 1960, Bank Indonesia put more emphasis on the task to function as the central bank of Indonesia. The granting of credits to the private sector was gradually passed on to the other banks.[55] Consequently, credits provided by Bank Indonesia to this sector declined and only small credit grants remained in sugar factories, industrial enterprises and rubber manufacturers.[56] Also, it should be noted that the rise in the amount of credit to private enterprises and individuals was caused by the constantly worsening inflation in Indonesia. Prices of goods and services kept rising. This seriously affected the exploitation and investment costs of enterprises. The increase of such costs made the need for more money necessary.[57]

Of all the export products of Indonesia rubber was by far the most important one from the 1950s onward.[58] In 1949 the export of rubber amounted to 24% of total exports and in 1950 this was

[52] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1957-1958* (Jakarta: Bank Indonesia, 1958) 98-101.
[53] BI, *Report 1958-1959,* 115-116; Appendix 3.
[54] Bank Indonesia, *Report of the governor of Bank Indonesia for the financial year 1959-1960* (Jakarta: Bank Indonesia, 1960) 85.
[55] Appendix 1.
[56] BI, *Report 1959-1960*, 240-241.
[57] Bank Indonesia, *Report of Bank Indonesia for the financial year 1960-1965* (Jakarta: Bank Indonesia, 1965) 13; Appendix 6.
[58] Appendix 5.

already 42%.[59] Since the start of the 1950s the amount of rubber exported by estates stagnated, while the amount of rubber exported by indigenous enterprises remained solid. Several reasons could be given for this. The estates were vulnerable for worsening conditions, and the amount of strikes and thefts multiplied.[60] During the middle of the 1950s the market prices of rubber dropped further and the consumption of natural rubber declined, while the consumption of synthetic rubber multiplied tenfold in a short amount of time.[61] Therefore, the volume of rubber exports decreased during the second half of the 1950s, but despite this, rubber remained the most important export product.[62]

II *Indonesianisasi* and its implementation in Sumatra's plantation belt

Initially *indonesianisasi* was known as the replacing of Dutch expatriate staff with Indonesian personnel after Indonesian independence. In an early work on the topic Sutter defined the concept as: 'a conscious effort to increase the participation and elevate the role of the Indonesian – and more particularly, the "indigenous Indonesian – in the more complex sectors of the economy'.[63] Based on research in the archive of the *Algemene Vereeniging van Rubberplanters ter Oostkust van Sumatra* (General Association of Rubberplanters in East Sumatra, AVROS) at the National Archives of Indonesia, this case study examines this form of *indonesianisasi* at large Western estates in North Sumatra in the early independence period.

While Sutter's comprehensive dissertation on the topic has greatly contributed to our knowledge of the general process of *indonesianisasi*[64], it has been pointed out in the literature that it focuses predominantly on legislation and decisions taken by the Indonesian authorities, while largely ignoring actions by private firms. In addition, the perspective of Dutch firms is given only

[59] DJB, *Report 1950-1951*, 72-73; Appendix 4.
[60] Ibidem, 94.
[61] DJB, *Report 1952-1953,* 158-159.
[62] BI, *Report 1960-1965*, 154-155.
[63] John O. Sutter, *Indonesianisasi; A historical survey of the role of politics in the institutions of a changing economy from the Second World War to the eve of the general election, 1940-1955* (Ithaca, NY: Cornell University, 1959) 2.
[64] Two other informative titles in this respect are: J. Thomas Lindblad, *Bridges to new business; The economic decolonization of Indonesia* (Leiden: KITLV Press, 2008); Hans Meijer, *Den Haag-Jakarta; De Nederlands-Indonesische betrekkingen 1950-1962* (Utrecht: Aula, 1994).

scant attention.[65] Discussions of firm-level *indonesianisasi* are rarely found in the literature[66], although Van de Kerkhof's and Lindblad's[67] case studies of *indonesianisasi* in the Dutch trading company Internatio and the Java Bank form two notable exceptions.

The relatively underresearched area of *indonesianisasi* in Dutch companies is further explored by the present case study. Its intriguing aspect lies in the area and society that it focuses on: North Sumatra with its large, foreign-owned plantations. During Dutch rule these companies operated in relative isolation from the central government in a unique societal environment. These circumstances are interesting for two reasons: after Indonesian independence the semi-autonomous status of plantation society within Indonesia abruptly ceased to exist, while at the same time the implementation of 12(d) of Finec required a rigorous overhaul of labour relations at the estates.

A state within a state

According to often nostalgic sources, the opening up of North Sumatra for large-scale western export agriculture dates back to 1863 when Jacob Nienhuys arrived in Deli. Nienhuys founded the Deli Company in 1870, which was to become one of the largest agricultural enterprises in colonial Indonesia. The development of Sumatra's East Coast, as it was then labelled, was regarded as a crucial part of the pacification of the Outer Islands by the Dutch. Given a lack of funds, the colonial authorities decided to give 'an open field' to foreign investors to pursue their commercial interests in Sumatra's East Coast. Instrumental in this respect was the Agrarian Land Law of 1870, which created sufficient guarantees for investment by allowing for long-term leases of up to 99 years of large tracts of land.[68] This became the starting-shot for the 'opening' of Deli.

Development of the area in the pioneering days of the reclamation of East Sumatra's

[65] Jasper van de Kerkhof, 'Indonesianisasi of Dutch economic interests, 1930-1960; The case of Internatio', *Bijdragen tot de Taal-, Land- en Volkenkunde (BKI)*, 161 (2005a) 181.
[66] Lindblad, *Bridges to new business*, 161-166.
[67] J. Thomas Lindblad, 'From Java Bank to Bank Indonesia: A case study of indonesianisasi in practice', *Lembaran Sejarah* 8 (2005) 15-31.
[68] Ann Laura Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870-1979* (New Haven and London: Yale University Press, 1985) 15.

jungle for agricultural enterprise was largely left to private capital. The cultivation of tobacco in the Deli plantation belt was set up in thinly inhabited area with a poorly developed infrastructure. When the Deli Company started out in 1870, East Sumatra's rivers formed the main entrance to its fertile interior. Outrigger canoes, ox carts or carriers transported the tobacco to ports on the coast from where it was shipped to Penang in British Malaya for export. In the absence of investment by the colonial authorities, the chief responsibility for developing the region's infrastructure rested with the estate companies.[69] A prime example of private infrastructural development in North Sumatra is the railway network erected by the Deli Company. After its completion in 1937 the network stretched 553 kilometers, with railway lines fanning out from Medan in all directions.[70] The Resident of Sumatra's East Coast mentions in a report from 1910 that the residency distinguished itself from other areas in the Netherlands-Indies by the 'firmness and *schwung* with which all things are handled here. Here not always that yearning for the public purse (…) If something has to be done they do it themselves.'[71]

The planters were also given a free hand in labour recruitment and control. While there was an abundance of fertile land on offer in Deli, labourers to work that land were hard to come by locally, since the indigenous Batak and Malay population refused to work on the estates. This meant that the estate companies had to look elsewhere for manpower. In the late nineteenth and early twentieth century, workers were recruited from the Straits Settlements and China. Later it was realized that it was cheaper to import workers from Java. Staff personnel was recruited almost exclusively from Europe. The importation of large numbers of labourers from far away brought high costs for the planters, costs that had to be compensated for. A solution was offered by the government when it issued the 'Coolie Ordinance' in 1880. Until 1942 labour relations in Sumatra's East Coast fell under this regulation, which contained the infamous Penal Sanction that punished a breach of contract by coolies with imprisonment, fines and/or forced labour above and beyond the initial contract that commonly had a duration of three years. The Penal Sanction was

[69] T. Volker, *Van oerbosch tot cultuurgebied. Een schets van de beteekenis van de tabak, de andere cultures en de industrie ter oostkust van Sumatra* (Medan: DPV, 1928) 7, 21.
[70] J. Weisfelt, *De Deli Spoorweg Maatschappij als factor in de economische ontwikkeling van de Oostkust van Sumatra* (Rotterdam: Bronder-Offset, 1972) 44-62.
[71] J. Ballot (resident), 'Memorie van Overgave van de residentie Ooskust van Sumatra', 1910, p. 68, in: Nationaal Archief, Den Haag, Ministerie van Koloniën: Memories van Overgave, 2.10.39, inv. nr. 182.

abolished in 1931.[72] Labour conditions at private Western enterprises in Deli acquired a notoriously bad reputation for harsh punishment, widespread violence and a ruthless exploitation of cheap coolie labour.[73] However, because labour unions did not yet exist in Sumatra's East Coast, workers had to accept conditions as they were determined by the employers' organizations. There was no platform for them to negotiate with their employers. The ultimate weapon of a strike was ruled out by the Penal Sanction in exchange for legal protection by the Labour Inspection.[74] Enforcement of labor discipline and the Coolie Ordinance was regarded as an internal estate affair by the European staff personnel, to such an extent they have been called their own "lawyers, policemen, public prosecutors, judges and diplomats".[75] This was partly a situation born out of necessity, since government officials such as policemen were thin on the ground in nineteenth century Deli.[76]

Stoler carries the idea of Sumatra's plantation belt being a 'state within a state' further through the use of the memoirs of J.H. Marinus, founder and director of the Netherlands-Indies Land Syndicate from 1910 until 1927. Boasting a long and solid career as a Deli planter starting in 1886, Marinus regarded Deli as 'an entirely independent district of the Netherlands Indies, oriented exclusively toward Europe and the Straits settlements'. In the early years of the reclamation of Sumatra's East Coast, the transport of tobacco from Deli to the Netherlands was taken care of by British and German ships through the ports of Singapore and Penang. Only after Van Heutsz as governor of Aceh ordered the establishment of a port of transshipment in Sabang in 1895[77] did the KPM (Koninklijke Paketvaart-Maatschappij, Royal Packet Company) start to compete for the transport of tobacco. This meant that until the end of the nineteenth century

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[72] Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870-1979*, 25-28. The

[73] For a full discussion of conditions of coolie labour at Western enterprises in colonial Indonesia, see Jan Breman, *Koelies, planters en koloniale politiek. Het arbeidsregime op de grootlandbouwondernemingen aan Sumatra's Oostkust in het begin van de twintigste eeuw* (Dordrecht/Providence, RI: Foris, 1987) [translated as *Taming the coolie beast. Plantation society and the colonial order in Southeast Asia* (Delhi: Oxford University Press, 1989). See also: Vincent J.H. Houben, J. Thomas Lindblad *et al.*, *Coolie labour in colonial Indonesia. A study of labour relations in the Outer Islands, c. 1900-1940* (Wiesbaden: Harrassowitz, 1999).

[74] Middelbare Koloniale Landbouwschool Deventer, *Arbeidswetgeving in Nederlandsch Indië (Hoofdzakelijk voor het Gewest Oostkust van Sumatra)* (Deventer: Drukkerij Davo , 1921) 25-27.

[75] Karl Pelzer, *Planter and peasant: Colonial policy and the agrarian struggle in East Sumatra, 1863-1947* (The Hague: Martinus Nijhoff, 1978) 89. Reference found in: Stoler, *Capitalism and confrontation in Sumatra's plantation belt, 1870-1979,* 22.

[76] Volker, *Van oerbosch tot cultuurgebied,* 55. Reference found in: Ann Laura Stoler, 'Perceptions of protest: Defining the dangerous in colonial Sumatra', *American Ethnologist*, 12-4 (1985) 646.

[77] Mia Koning-van der Veen, *Dromen over Sabang* (Zaltbommel: Drukkerij/uitgeverij Avanti, 1991) 13.

planters commonly arrived in Deli straight from Singapore or Penang on foreign ships and went back home the same way, having little or nothing to do with the colonial administration in Batavia. When ill or in need of vacation, Deli planters took leave to Penang rather than the hill stations of Java where corporate men from other parts of the Netherland-Indies and government officials commonly met each other. Due to this lack of contact with the central government Deli planters did not regard their estates as being subjected to its authority in any significant way, a situation further enhanced by the physical distance between Deli and Java and the resulting lack of fast and reliable transportation and communication lines. Sumatra's East Coast even had a monetary system separate from the one in place in Batavia, geared towards the currencies in circulation in the Straits settlements such as the Straits Dollar, the Japanese Dollar and the Mexican Dollar.[78]

These circumstances particular to Sumatra's plantation belt underscore its reputation as a state within a state. Relatively free from government interference the planters were able to go about their business and conduct matters related to the procurement of land and labor as they saw fit. The main infrastructural works such as roads, railways, water mains networks, hospitals and telephone and telegraph connections were all financed with private capital. This gave planters the conviction that they 'built' Deli and that hence the region was their property.[79]

Plantation society and the colonial order of things

During its first pioneering decades of reclamation, Deli was known as a rough, frontier society with a matching macho-culture. Another defining feature of plantation society was the rigid hierarchical division based on race. Europeans occupied the positions of administrator and assistant and directed the Javanese and Chinese foremen and workers. The workforce of a typical Deli plantation generally comprised one administrator and a few assistants who were in charge of a small group of Asian overseers and a large group of hundreds of laborers. These numbers reveal

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[78] J.H. Marinus, *Veertig Jaren ervaring in de Deli-Cultures* (Amsterdam: J.H. De Bussy, 1929) 45-46. Reference found in: Stoler, 'Perceptions of protest: Defining the dangerous in colonial Sumatra', 645. Also see: C.J.M. Potting, *De ontwikkeling van het geldverkeer in een koloniale samenleving: Oostkust van Sumatra, 1875-1938* (Ph.D. diss., Leiden: Leiden University, 1997).
[79] Breman, *Taming the coolie beast*, 184-185.

the potential danger to which the European staff at the estates was exposed, for in case of conflict they would be vastly outnumbered by the Asian part of the workforce. One way to counter this threat and maintain discipline was by sheer brutality as described by Jan Breman in his book on the treatment of labor in Sumatra's plantation belt.[80] Another way was maintaining the idea of white superiority and authority through a 'conscious distancing between the races'.[81]

Instrumental in this distancing was the use of language, distinct social spaces for Europeans and Asians and other acts of submission required from the latter's side. European administrators and assistants commonly addressed the Asian foremen and laborers in a coarse form of Malay that was conducive to harsh commands rather than gentle instruction.[82] The increasingly more luxurious housing of the European personnel contrasted sharply with the shabby barracks where the workers were lodged.[83] In an interesting analysis of race relationships at Deli plantations as described in novels Clerkx cites examples of acts of submission from Asian laborers when encountering European staff. Passing each other on a road 'they (Asian laborers) took off their hats and gave us (European staff) a respectfully wide berth, only to put back on their hats when they had moved on at least ten steps behind us'.[84] Asians were not allowed to stay in or on their vehicles while passing Europeans and an Asian laborer waiting to receive his pay had to do so while squatting down. These are just a few of the numerous examples given by Clerkx and while they could possibly be regarded as acts of respectful obedience prescribed by *adat*, the explanation given by an older planter to a newcomer points in another direction: 'You may find it strange or excessive…but you must not forget, that us whites stand alone against a mass and that we can only maintain ourselves by rigid conventions, which function as a form of discipline and constraint.'[85] In another example the inexperienced young planter is reproached for greeting Asian laborers: 'For God's sake, (…), don't ever do that again, you're making an absolute fool of yourself. A white never greets a native (…)'.[86]

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[80] Breman, *Taming the coolie beast*, 184-185.
[81] Stoler, *Capitalism and confrontation*, 49.
[82] Lack of proficiency in the Indonesian language among European personnel was also problematic for labour relations in Surabaya's metal industry, see: A.G. Vreede, *Rapport van het hoofd van het Kantoor van arbeid over de arbeidstoestanden in de metaalindustrie te Soerabaja* (Weltevreden: Landsdrukkerij, 1926) 13-16.
[83] Breman, *Taming the coolie beast*, 113-116.
[84] M.H. Székely-Lulofs, *Rubber* (1931) 109. Reference found in: Lily Clerkx, *Mensen in Deli: een maatschappijbeeld uit de belletrie* (Amsterdam: AZAO, University of Amsterdam, 1960) 55.
[85] M.H. Székely-Lulofs, *De andere wereld* (1934) 56-57. Reference found in Clerkx, *Mensen in Deli*, 56.
[86] Székely-Lulofs, *De andere wereld* (1934) 56. Reference found in: Clerkx, *Mensen in Deli*, 55.

Judging from contemporary novels describing plantation society, European staff personnel at the estates lived in constant fear of their Asian subordinates. In order to protect white authority the obsession with racial distinctions went far. The plantation society 'prided itself on its white skin, and its European style'. As such, there was no place for Asians in the management of the plantations and even not for Indo-Europeans, who had 'generally speaking no chance of succeeding at the estates', some of which would not hire staff personnel of mixed-blood in the first place.[87] Although Marinus distances himself of the idea of white superiority, he smooths over the impenetrability of staff functions at Deli estates for Indo-Europeans with the rather absurd reasoning that because the indigenous population of Deli was unwilling to work at the plantations there had never been a need for staff employees who were able to 'speak their language as a native'. This was in contrast to the situation on Java, where 'complicated labour relations and the lease of land' required staff personnel that had a 'thorough knowledge of the land and its people'. [88]

The existing racial division in plantation society is highly relevant for the developments in personnel policy at the estates of North Sumatra shortly after independence. It has been suggested in the literature that racial prejudice played an important role in Dutch reluctance to comply with the implementation of article 12(d) of Finec.[89]

Changed circumstances

In the early 1950s, the planters in North Sumatra began to realize that the transfer of sovereignty by the Netherlands to Indonesia constituted a radical break with the past. The old days in which the planters' society of Deli was close to being a state within a state were definitely gone. Secondly, the new era demanded a change in personnel policy, especially with regard to supervisory staff. Already in the beginning of 1949, representatives of the *Indische*

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[87] Marinus, *Veertig jaren ervaring in de Deli-Cultures*, 47.
[88] Ibidem, 48.
[89] Jasper van de Kerkhof, 'Dutch enterprise in independent Indonesia: cooperation and confrontation, 1949-1958', *IIAS Newsletter* 36 (2005) 18.

Ondernemersbond (I.O.B.) stressed the ambition of Indonesian employees to move into staff positions at the Western estates.[90] The tradition of reserving higher positions at the plantations for Westerners could no longer be kept up. Furthermore, Western staff personnel was required to get more familiar with the customs and traditions of the Indonesian people, among whom from now on they would legally be foreigners. In a circular to the AVROS members in October 1950, acquiring a more profound knowledge of the Indonesian language was noted as a top priority. A better command of the Indonesian language was required not only for an improved contact with labourers, but also for contact and negotiations with unions and the authorities.[91] Apparently little progress had been made in this respect since a manual with instructions for plantation assistants on how to deal with coolies was published in 1913, stressing the importance of the mastering of Malay.[92]

After independence the Indonesian government remained unsatisfied with the commitment of foreign companies to the implementation of article 12d of the Finec agreement. At some companies Indonesians made up 11-30% per cent of staff, yet they tended to occupy lower positions. In a letter to the I.O.B. the Indonesian Minister of Trade and Industry Sumitro Djojohadikusumo specifies the requirements of article 12d of the Finec. He suggests that after a period of eight to ten years at least 50 per cent of the board members and management of foreign companies should consist of Indonesians. Sent almost a year after the conclusion of the Finec, the letter ends with the slightly threatening message that the Indonesian government would 'prefer to leave the implementation of article 12d of the Finec agreement to the companies' initiatives, so that it can refrain from taking legislative measures in this respect.'[93]

Consequently, the employers' organizations Algemene Landbouw Syndicaat (ALS), which represented companies in Java and South Sumatra, the Zuid- en West-Sumatra Syndicaat (ZWSS) and AVROS held an enquiry amongst their members to determine the progress that had been made with *indonesianisasi* of their staff one year after the transfer of sovereignty. Of special

[90] Arsip Nasional Republik Indonesia (National Archives of the Republic of Indonesia) (ANRI), Jakarta: *Algemene Vereeniging van Rubberplanters ter Oostkust van Sumatra* (General Association of Rubberplanters in East Sumatra) (AVROS). No. 162, March 2, 1949.
[91] ANRI, AVROS No. 162, October 10, 1950.
[92] C.J. Dixon, *De assistent in Deli. Practische opmerkingen met betrekking tot den omgang met koelies* (Amsterdam: J.H. De Bussy, 1913) 8-12.
[93] ANRI, AVROS No. 162, December 30, 1950.

interest were the measures that companies had taken or were planning to take to elevate Indonesian employees to staff positions and the concrete results.[94] The five largest AVROS companies that replied were the Rubber Cultuur Maatschappij Amsterdam (RCMA), the Société Financière des Caoutchoucs Medan (SFCM), Harrisons & Crosfield, the Hollandsch-Amerikaansche Plantage Maatschappij (HAPM) and the Société Internationale de Plantations et de Finance (SIPEF, also known as the Anglo Dutch Estates Agency. Their responses to the question how many Indonesians formed part of their staff reveal the following numbers:

Table 1. Indonesian and European stuff in several companies in Indonesia, 1950 and 1951.

	Europeans	Europeans	Indonesians	Indonesians
	1 January 1950	1 January 1951	1 January 1950	1 January 1951
RCMA	139	6	160	22
SFCM	91	-	96	6
H&C	69	2	68	14
HAPM	64	2	73	5
SIPEF	32	-	36	4

Source: ANRI, AVROS no. 162.

Immediately after the transfer of sovereignty the number of Indonesian staff at the responding companies was negligible. After a year ostensibly some progress had been made, especially at Harrisons & Crosfield and RCMA where the shares of Indonesians in higher positions jumped from respectively 3 to 20% and 4 to 14%. Overall the increase in Indonesian staff seemed promising, rising from 2,5 to 12%. However, these numbers become less imposing when the classifications of staff functions that Harrisons & Crosfield and RCMA provided are accounted for. From the 14 Indonesians that Harrisons & Crosfield classified as staff members per January 1951 none belonged to the categories of managerial or engineering staff, 4 were estate assistants and 10 were factory/field assistants. Out of the 22 Indonesians that were part of RCMA's staff 20 occupied lower administrative positions, while the remaining two were classified as planters. Based on the above sample, the members of the AVROS performed considerably worse than those of the other employers' organizations. The share of indigenous Indonesians in management positions at member companies of the ALS was 11% in 1950. At

[94] ANRI, AVROS No. 162, March 5, 1951.

41% their share in positions above the rank of overseer within ALS member companies was even more impressive. At the companies that were represented by the Algemeen Syndicaat van Suikerfabrikanten in Indië (ASSI) Indonesians made up 24,6% of the total staff.[95]

Furthermore, none of these five companies had launched initiatives such as training programs to comply with article 12d of the Finec agreement. This underscores the general view in the literature that Western firms lacked commitment to *indonesianisasi*, especially when it is considered that their most common defense against such accusations was that there were simply not enough sufficiently educated Indonesian candidates.[96] There is certainly truth to this argument. Prior to the launch of the Ethical Policy in 1901, the Dutch colonial government showed virtually no interest in educating the indigenous population of the Netherlands Indies. An increased emphasis on education in the framework of the Ethical Policy brought some improvement, but the overall record of colonial education with regard to indigenous subjects remained pitiful. This was most glaringly reflected in extremely low rates of literacy as reported in the population censuses of 1920 and 1930. The low investment in education during the late colonial era has been branded as an important 'missed opportunity'.[97]

In the early independence period, the search for suitable Indonesian candidates for staff positions at Western plantations in North Sumatra was further hampered by the fact that the majority of the graduates from the agrarian educational institutions opted for a career as a civil servant. In response to a letter from the British estate agency Harrisons & Crosfield, the principal of the *Middelbare landbouwschool Buitenzorg van het Departement van Landbouw en Visserij* noted that from the 46 soon to graduate students 31 had already signed a contract with the Department of Agriculture and Fisheries.[98]

In the absence of initiatives from individual companies, the management of the ALS, the ZWSS and ASSI decided to establish crash courses for the training of Indonesian staff employees in early December 1950. This was not an initiative entirely of their own accord. Several months

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95 ANRI, AVROS No. 162, September 29, 1950.
96 ANRI, AVROS No. 162, January 11, 1951.
97 Anne Booth, *The Indonesian economy in the nineteenth and twentieth centuries. A history of missed opportunities* (London: Macmillan, 1998) 268-270, 289.
98 ANRI, AVROS no. 162, January 6, 1950.

earlier the Indonesian chair of the *Jawatan Perkebunan* had already requested the cooperation of the employers' organizations with regard to the implementation of article 12d of the Finec agreement. The AVROS management replied that a crash course would not be sufficient for Indonesian students to be considered for staff positions at her member companies. It was argued that the considerably larger size of the AVROS' members justified higher educational requirements. It was regarded as a necessity that Indonesian candidates would continue their education in the Netherlands.[99]

In order to placate the Indonesian authorities the chair of the AVROS addressed a memorandum to the Indonesian Minister of Education, explaining the intention of the organization's members to admit young Indonesians into staff positions at their companies. He noted two conditions which prospective candidates must meet: an education equal to that enjoyed by Western staff employees and an ability to adapt to and feel comfortable in the social environment prevailing at the estates. To attain both qualities, it was deemed necessary that Indonesian candidates in possession of a *Hogere Burger School* (H.B.S.) or similar diploma would continue their education in the Netherlands, for example at the *Deventerse Landbouwschool*. Besides the presumption that the theoretical knowledge of graduates from the Indonesian agricultural education institutions would be insufficient for staff positions at Western estate companies, it was expected that they lacked the *savoir-vivre* necessary for standing one's ground in the planters' society. While ostensibly adhering to the official demands, the conviction behind the initiative can be doubted, as the memorandum proposed to send only 10 candidates to the Netherlands. Moreover, in principle these candidates were expected to bear their own travel, accommodation and study costs.[100]

As time progressed after the transfer of sovereignty, Jakarta became increasingly impatient with Western estate companies and their efforts to promote indigenous Indonesians, or *pribumi*, into leading positions within their ranks. In order to speed up the process, the Indonesian government made it increasingly difficult for Western companies to hire expatriate personnel by routinely refusing entry permits for foreigners. Furthermore, it became increasingly difficult for

[99] ANRI, AVROS no. 162, June 23, 1950.
[100] ANRI, AVROS no. 162, November 13, 1950.

foreign companies to secure re-entry permits for members of their staff. The Deli Company noted in its annual report of 1953 that suitable candidates for management positions were insufficiently available on the Indonesian labour market and that the continuation of its operations was being threatened by the refusal of re-entry permits for management personnel and visa for planters trained in the Netherlands.[101]

Conclusion

In this paper we examined the changing conditions for operations by Dutch firms in newly independent Indonesia by way of two case studies that exemplify the implementation of articles 2, 3 and 12(d) of Finec. The first case study concerned the role of the central bank and the Indonesian policy on foreign investment after the transfer of sovereignty in 1949. Although several politicians and prominent economists stated that foreign investment was necessary for the economic development of Indonesia, in reality foreign investment declined dramatically. By contrast, the amount of credits granted to Indonesians both absolutely and as a share of total credits increased. Despite these developments exporters remained active. Rubber in particular remained one of the most prominent export sectors. Export volumes began stagnating in the 1950s, which shows that further prospects for Indonesia's export looked dim. Indonesia was increasingly unable to adequately adjust to developments in the world market.

The other case study considered *indonesianisasi* of staff personnel in Sumatra's plantation belt and demonstrated that under Dutch colonial rule the share of Indonesians in higher staff positions at Western plantations in North Sumatra was negligible. The explanation for this can be sought in the dismal state of education for indigenous Indonesians in the colonial period and the unwritten rules of planters' society that reserved management positions for white Europeans. In contrast to the colonial period, the estate companies operating in Deli were suddenly confronted with a government demanding changes in their personnel policies after Indonesian independence. Despite governmental pressure and more successful examples of *indonesianisasi* from other regions, individual and collective company initiatives to train Indonesians for staff positions did

[101] Nationaal Archief (National Archives), The Hague: Deli Maatschappij, Annual Report 1953, No. 40.

not take off in any great measure in North Sumatra. In comparison to other parts of Indonesia the Deli plantations subsequently underperformed with regard to the *indonesianisasi* of their staff. Whether this was partly due to Deli's historical semi-autonomous position within the archipelago or racial prejudice is hard to ascertain, although it is likely that besides explanations found in the literature both factors played a role in the slow progress of *indonesianisasi* in North Sumatra.

Although it took some time before *indonesianisasi* of the Indonesian economy started to pick up steam, by the end of the 1950s it was in full swing and it became clear that Indonesia in the process of achieving a national economy was becoming more inward-looking and that the rules of the game had changed for foreign companies. The direct results of this process of economic transformation in the early independence period were the nationalization of Indonesia's bank of circulation, a decline of foreign funds invested in Indonesia and a gradual replacement of foreign staff with Indonesians at Western companies.

Appendices

Appendix 1. Domestic credits granted by the Java Bank, 1949-1960 (from 1953 onwards Bank Indonesia) (in thousand rupiah).

	Government of Indonesia	Government of Indonesia "Pounds Sterling Loan 1932"	Semi-government institutions	Banks	Private sector
1949	908,163	11,163	22,819		34,628
1950	2,158,416	10,366	19,026	14,667	59,999
1951	2,376,553	9,568	97,481	82,342	69,378
1952	1,730,143	8,771	31,349	29,542	200,166
1953	5,836,517		295,404	26,321	216,004
1954	6,190,154		328,182	35,939	180,888
1955	8,914,174		138,022	45,069	134,698
1956	8,008,912		191,902	259,700	283,500
1957	11,542,664		545,101	182,759	276,589
1958	20,841,327		896,672	167,395	289,641
1959	30,816,364		1,313,408	395,446	245,847
1960	27,813,325		2,679,037	5,754,367	142,046

Source: DJB, *Report 1949-1950,* 122; DJB, *Report 1950-1951*, 125; DJB, *Report 1951-1952*, 199; DJB, *Report 1952-1953*, 190; BI, *Report 1953-1954*, 158; BI, *Report 1954-1955*, 171; BI, *Report 1955-1956*, 178; BI, *Report 1956-1957*, 201; BI, *Report 1957-1958*, 221; BI, *Report 1958-1959*, 251; BI, *Report 1959-1960*, 240.

Appendix II. Movements and loans and advances granted by Java Bank, Bank Negara Indonesia, Bank Industri Negara and seven commercial banks to private business and individuals, 1951-1959.[102] *(in million rupiah) (for 1952-1953 only movements are given and for the years thereafter only the amount of credits granted are given).*

	1951	1952	1953	1954	1955	1956	1957	1958	1959
Rice hulling works		-2	7	8	4	4	10		
Home produce trade		-4	55	103	83	83	105	145	253
Exporters		+45	257	359	39	375	434	895	1,217
Importers	454	-28	516	457	867	1,367	996	877	725
Dock and transport companies		+19	111	127					
Sugar plantations	356	+89	490	444	364	318	218	155	237
Other plantations		-12	219	156	187	241	130	98	81
Industrial enterprises		+56	239	366	302	354	383	371	595
Other enterprises		-12	130	239	419	460	472	609	833
Individuals		-7	15	16	67	125	118	169	114
Banks and credit-institutions			50	60	41	55	70	235	328
Insurance companies and savings banks			7	4	17	16	19	4	7
Storage and transport companies					44	69	45	91	58
Mining					4	3	7	5	8
Total[103]	1,328	+144	2,096	2,339	2,789	3,470	3,007	3,654	4,456

[102] In 1953-1954 Java Bank was replaced by Bank Indonesia, in 1955-1956 seven commercial banks was replaced by nine foreign exchange banks, in 1956-1957 Bank Industri Negara and nine foreign exchange banks was replaced by eleven foreign exchange banks,

[103] Includes credits to government enterprises as well.

Source: DJB, *Report 1951-1952*, 84; DJB, *Report 1952-1953*, 76; BI, *Report 1953-1954*, 66; DJB, *Report 1954-1955*, 76; BI, *Report 1955-1956*, 79; BI, *Report 1956-1957*, 88; BI, *Report 1957-1958*, 98; BI, *Report 1958-1959*, 114; BI, R*eport 1959-1960*, 84.

Appendix III. Credits granted to private enterprises and individuals by 7 foreign[104] and 6 national banks, 1955-1959 (in million rupiah) (excluding Bank Rakjat Indonesia).

	1955	1955	1956	1956	1957	1957	1958	1958	1959[105]	1959
	7 non-national banks	6 national banks	7 non-national banks	6 national banks	7 non-national banks	6 national banks	7 non-national banks	6 national banks	6 non-national banks	7 national banks
Exporters	295.5	94.9	285.4	89.9	272.2	162.1	546.9	348.2	707.5	501.9
Importers	450.4	416.6	612	755.2	424.2	571.6	252.2	623.7	139.4	570.8
Agricultural estates	393.3	158.1	368.9	190.3	176.8	171.5	81.3	171.5	112.6	205.3
Industries	158.9	143.5	158.3	195.2	248.6	133.9	148	223.3	231	307.8
Others	353.1	324.7	344.1	470.4	301.1	1,070.9	215.2	2,514.2	273.6	1,470.2
Total	2789		3469.7		3532.9		5124.5		4520.1	
Total	1,651.2	1,137.8	1,768.7	1,701	1,422.9	2,110	1,243.6	3,880.9	1,464.1	3,056
Total (%)	59	41	51	49	40	60	24	76	32	68
Indonesians	458.3	952.7	643.9	1,497.1	553.7	1,897.1	764.9	3,735	1,079.9	2,880.2
Indonesians (%)	28	84	36	88	39	90	62	96	74	94
Indonesians total	1411		2141		2450.8		4499.9		3960.1	
Total Indonesians (%)	51		62		69		88		88	
Non-Indonesians	1,192.9	185.1	1,124.8	203.9	869.2	212.9	478.7	145.9	384.2	175.8
Non-Indonesians (%)	72	16	64	12	61	10	38	4	26	6
Non-Indonesians total	1378		1328.7		1082.1		624.6		560	

[104] It's likely that of these 7 foreign banks three were Dutch (Nederlandse Handel-Maatschappij, the Nationale Handelsbank and the Escompto Bank) two were British (the Chartered Bank of India, Australia and China and the Hongkong-Shanghai Banking Corporation) and two were Chinese (the Bank of China and the Overseas Chinese Bank).

[105] The Nationale Handelsbank was nationalized into the Bank Umum Negara in 1959, see: W.L. Korthals Altes, *Tussen cultures en kredieten: Een insitutionele geschiedenis van de Nederlandsch-Indische Handelsbank en Nationale Handelsbank, 1863-1964* (Amsterdam, NIBE-SVV, 2004) 431.

Total non-Indonesians (%)	49	38	31	12	12

Source: BI, *Report 1956-1957*, 89; BI, *Report 1957-1958*, 99; BI, *Report 1958-1959*, 115; BI, *Report 1959-1960*, 85.

Appendix IV. Export of rubber from Indonesia, 1949-1960 (in gross tons).

	Estate rubber	Native rubber	Value of estate rubber in million rupiah (and million dollar)	Value of native rubber in million rupiah (and million dollar)	Export of rubber as percentage of total export of Indonesia
1949	160,765	246,082	164.35	184.18	23
1950	173,101	523,001	355.15 (94.0)	928.75 (247.3)	42
1951	193,821	588,225	772.80 (215.1)	1,606.61 (438.4)	51
1952	293,063	452,060	2,257.75 (200.6)	2,520.20 (223.3)	46
1953	288,000	379,000	1,561 (138.9)	1,519 (133.9)	33
1954	238,000	472,000	1,156 (104.8)	1,857 (166.4)	31
1955	237,000	465,000	1,931 (171.9)	2,957 (259.7)	46
1956	234,000	413,000	1,712 (154.5)	2,316 (206.2)	40
1957	261,000	418,000	1,663 (145.9)	2,320 (203.6)	36
1958	207,000	369,000	1,234 (108.8)	1,744 (153.2)	35
1959	233,000	485,000	1,628(143.4)	3,130 (275.9)	48
1960	190,000	388,000	6,028 (133.9)	10,943 (243.2)	45

Source: DJB, *Report 1949-1950,* 98-99; DJB, *Report 1950-1951*, 68-69, 72-73, 94-96; DJB, *Report 1951-1952*, 123, 125, 167; DJB, *Report 1952-1953*, 117-119; BI, *Report 1953-1954*, 85-87; BI, *Report 1954-1955*, 97-99; BI, *Report 1955-1956*, 103-105; BI, *Report 1956-1957*, 114-115, 143; BI, *Report 1957-1958*, 125-128; BI, *Report 1958-1959*, 146-151; BI, *Report 1959-1960*, 116-121; BI, *Report 1960-1965*, 90-93.

Appendix V. Value of most important export products of Indonesia, 1950-1959 (in million rupiah).

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Rubber	1,301	2,483	4,778	3,080	3,013	4,888	4,028	3,983	2,978	4,758
Petroleum	560	633	2,070	2,292	2,576	2,421	2,561	3,677	3,219	2,637
Tin	185	308	981	926	700	683	725	619	431	408
Copra	230	503	641	728	657	483	513	486	239	363
Palm oil	118	144	346	380	347	305	346	347	314	273
Coffee	57	81	206	343	455	182	343	334	206	215
Tobacco	157	103	200	274	372	316	332	383	345	278
Tea	102	139	267	267	454	355	337	340	283	231
Hard rope fibers	88	52	231	196	52	71	73	49	44	37
Sugar	1	8	17	133	255	210	191	193	84	34
Pepper and other spice	13	30	122	82	193	158	151	177	112	248
Total export revenue	3,039	4,780	10,387	9,344	9,759	10,062	10,048	11,052	8,611	9,944

Source: BI, *Report 1953-1954*, 87; BI, *Report 1956-1957*, 114; BI, *Report 1959-1960*, 116.

Appendix VI. Development of consumer price index in Indonesia, 1949-1960 (1954 = 100).

1949	42
1950	51
1951	84
1952	89
1953	94
1954	100
1955	135
1956	133
1957	206
1958	243
1959	275
1960	330

Source: H.W. Arndt, ‘Banking in hyperinflation’, *Bulletin of Indonesian Economic Studies* 2 (1966) 59.

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