

Sukarno's Guided Democracy and the Takeovers of Foreign Companies in Indonesia in the 1960s

by

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Chapter One: Introduction

I. Some Photographs.

In the Goodyear Tire and Rubber Company archives at the University of Akron, Ohio, there is a series of photographs of a signing ceremony held in Jakarta, Indonesia, on 14 February 1967.¹ From captions on some of the photographs we learn that the signing ceremony featured the execution between Goodyear and the government of Indonesia (the “GOI”) of an agreement “for the return of the Indonesian Company by the Republic of Indonesia to Goodyear International Company.” The agenda of the ceremony included a speech by Mr. Sullivan Kafer, Vice President of Goodyear International Corporation, the formal signing of legal documentation, and much handshaking and mixing. The agreement itself was signed by Mr. Barli Halim, the Secretary General of the Ministry of Basic and Light Industry and Power, on behalf of the GOI, and by Mr. Kafer on behalf of Goodyear. The ceremony took place in a large room, with several rows of white chairs for some 30-40 guests facing a large table at which the documents were signed. Witnesses to the ceremony standing behind the signing table included Colonel Agus Sujono, identified as the Director General of Chemical Industries, and Mr. S. Alim, identified as the chairman of the “Supervisional Board of Goodyear appointed by the Government,” and other identified attendees of note included Colonel Barkah Tirtadidjaja (Inspector General of the Ministry of Basic and Light Industry and Power), and Dr. Pamungkas (a high ranking official from the Ministry of Finance). Behind the signing table was a giant map of Indonesia with the following words in large letters emblazoned at the top, clearly visible for all to see: *Pembangunan Semesta untuk Bidang Industri*,

¹ GYA, Property Box 12 and Audio Visual Box 3.

roughly translated as ‘National Industrial Development.’² The conspicuous positioning of this map with its slogan suggested that the “return of the Indonesian Company” would somehow contribute to Indonesia’s national economic development. Indeed, the series of photos conveys a positive feeling, a sense that something good has happened, with smiles and handshakes all around.

What the photos do not contain is an explanation of the mysterious circumstances surrounding this event. What was the “Indonesian Company” that was returned by the Indonesian government to Goodyear? Had it previously belonged to Goodyear, and, if so, how and why had it been taken away? What had happened to it? Why was the GOI now returning it to Goodyear? And what was the “supervisional board” appointed by the GOI? As we shall see, the unidentified “Indonesian company” was actually Goodyear’s tire factory located in Bogor, a small town just outside Jakarta. Established in the mid-1930s, it was taken over by the GOI in March 1965, and was controlled by the GOI for about two years until its return to Goodyear in late April 1967. The “supervisional board” was the GOI-appointed team of Indonesians established to operate the factory while under government control. ‘Why and how’ Goodyear’s factory, along with almost every other foreign company in Indonesia, was taken over by the GOI is the subject of this dissertation.

II. The Big Picture: The Takeover of Foreign Companies and Elimination of Foreign Investment in Indonesia from 1963-1965.

In fact, the takeover of Goodyear’s tire factory mirrored the experience of almost every other foreign company with operations in Indonesia. In a 28 month period from

² The phrase is actually a slogan somewhat typical of the many slogans used in Indonesia to encourage economic development. It is difficult to translate exactly, but the general concept is the promotion or encouragement of industrial development throughout the entire country (hence the map of the entire country below the slogan). For an excellent discussion of the history and connotations of the term *pembangunan*, or ‘development,’ see the introduction to Ian Chalmers and Vedi Hadiz, eds., *The Politics of Economic Development in Indonesia: Contending Perspectives*, Routledge Studies in the Growth Economies of Asia, no. 9; (London: Routledge, 1997).

September 1963 to December 1965, at least 90 foreign companies of various nationalities, ranging from British to American to Belgian to Malaysian, were taken over by the GOI. Collectively these 90 plus companies, which included oil companies, plantations, manufacturing plants and a handful of enterprises in other fields (see Chapter Three for a general description and Appendix A for a list), accounted for virtually all existing foreign direct investment in Indonesia. Moreover, in May 1965 further foreign direct investment in Indonesia was prohibited by law. In essence, the entire foreign investment sector in Indonesia was seized by the GOI and the country closed itself off from private foreign investment in what was the pinnacle of economic nationalism in modern Indonesian history. As we shall see, there were a few major exceptions to this elimination of foreign investment, principally two large oil companies, but even these were put under nominal GOI supervision and were the subject of repeated threats of takeover.

The principal questions this dissertation seeks to answer are what companies were taken over, how were these enterprises taken over, and why? Why does a country elect to seize virtually all foreign direct investment and then prohibit any future foreign investment? Moreover, what is the significance of these events, and how do they fit into modern Indonesian history? Answering these questions requires us to look closely at the last few years of the Guided Democracy era in Indonesia (1959-1966), particularly the period from mid-1963 to early 1966, a time of great political, social and economic fragmentation and distress.³

To summarize briefly, I argue that the elimination of foreign investment in Indonesia during this period was the result of a complex confluence of Indonesian domestic political struggle and instability, foreign relations, and domestic economic policy. Moreover, the takeovers occurred in separate waves that until 1965 were not the result of a grand plan of the Indonesian government to eliminate all foreign investment but instead were targeted at specific groups and ad hoc in nature. I argue that the year 1963, with the outbreak of Konfrontasi against Malaysia (see below), proved to be the key watershed in Indonesia in each of these three areas, a year which saw incipient trends

³ As described further in Chapter Two, the Guided Democracy era was preceded by the period of Parliamentary Democracy (1950-59) and followed by the New Order period (1966-98).

(in some cases, only just visible on the surface) develop and accelerate rapidly by 1965 to the point where a culmination of sorts was reached in all three areas. Indeed, I view 1965-66 not just in terms of the familiar political struggle resulting in the collapse of Sukarno's Guided Democracy and the change to a new regime, but also as the climax to a long-term deterioration of the Indonesian economy and to Indonesia's stridently anti-imperialist foreign policy. Of course, these trends and culminations were interrelated and fed off one another. Moreover, I suggest that foreign investment was one of the few areas located at the intersection of these three trajectories.

In terms of domestic politics, prior to 1963 political power was shared primarily by President Sukarno and the Indonesian army in an uneasy, competitive alliance. Beginning in early 1964 the communist party of Indonesia (the PKI) went on the political offensive and became a much more visible and volatile political factor, giving rise to what has frequently been described as a triangle of power among President Sukarno, the PKI and the Indonesian army. Indonesian politics after 1963 became very polarized and radicalized, as underlying differences rose to the surface in the wake of the PKI's dynamic offensive. Central to the PKI's apparent increasing influence was its focus on nationalism, a focus that really began to pay dividends when Konfrontasi against Malaysia exploded in 1963 (a good example of how domestic politics and foreign relations were increasingly intertwined during the last few years of Guided Democracy). The PKI's increasingly assertive stance led it to take a principal role in the takeovers of British companies in early 1964, forcing the GOI to intervene – in essence, these companies were caught up in domestic political conflict. President Sukarno, as the dominant individual during Guided Democracy, the core around which Guided Democracy was constructed, also was closely involved in the takeovers. Initially, with the exception of the Malaysian companies in 1963, President Sukarno appeared to oppose taking over foreign companies, but by late 1964 the President came to be at the forefront of the takeover movement. The army, the third leg of the triangle, appeared to be little involved in the takeovers, though army officers were certainly aware of what was going on and at times opposed further takeovers. It was, of course, the PKI's conflict with the Indonesian army that was the dominant political feature in 1965, resulting in the destruction of the PKI, the emergence of open political conflict between President

Sukarno and his opponents, led by General Suharto, and the eventual downfall of President Sukarno and Guided Democracy. To a limited extent, the final push in late 1965 to take over the foreign oil companies became entwined in the domestic political power struggle.

A second important feature of political life in the last few years of Guided Democracy was the emphasis on continued revolution, ideological indoctrination, and mass mobilization. This resulted in the heavy politicization of daily life and a very surreal atmosphere, ripe with intrigue, over the last two years of Guided Democracy. This trend was led by President Sukarno himself, and generally supported by the PKI, though the ultimate aims of the PKI did not coincide with Sukarno's. The push toward revolution and politicization was evident before 1963, but again accelerated noticeably in that year and thereafter. Similarly, mass mobilization – demonstrations, strikes, rallies, etc. – became very frequent after 1962. Both government and society were highly politicized, and revolutionary slogans, legitimated by Sukarno but after 1963 increasingly voiced by the PKI, became a common feature of political life. Revolutionary politics and mass mobilization certainly impacted foreign companies, as three of the five waves of takeovers by the GOI were actually precipitated by physical seizures (or threats thereof) of those companies by mass labor organizations, frequently but not always led by the PKI-controlled labor federation SOBSSI and also by labor groups linked to the PNI political party.

With respect to international relations, it is also evident that many of the takeovers of foreign companies were closely linked to Indonesia's foreign relations. Foreign affairs under Guided Democracy was the domain of President Sukarno, who rejected Indonesia's 'independent and active' foreign policy in favor of an increasingly strong anti-imperialist one that emphasized the worldwide struggle between countries of the Newly Emerging Forces, or 'NEFOs' (which included Indonesia and other underdeveloped ex-colonial nations), and countries from the Old Established Forces, or 'OLDEFOs' (which were generally western European nations and the United States). This policy led to Indonesia's withdrawal from the United Nations and other international agencies in 1965, and also to an alliance of strange bedfellows with the Peoples Republic of China. In many cases, the foreign companies simply were pawns in – or hostages of - Indonesia's foreign relations,

a means through which the GOI tried to exert pressure on foreign governments. In particular, the takeovers of British and Malaysian companies were clearly linked to the conflict known as ‘Konfrontasi’ or ‘Confrontation’ between Indonesia, on the one hand, and Great Britain and Malaysia, on the other, that arose with the creation of Malaysia in 1963. The takeover of Malaysian companies in 1963 was a retaliatory measure by the GOI to punish Malaysia for its role in Konfrontasi, and Konfrontasi also figured prominently in the takeover of British enterprises in 1963 and 1964. Konfrontasi, as well as Sukarno’s increasing emphasis on the anti-imperialist NEFO/OLDFO conflict, also resulted in the deterioration of the Indonesian–United States bilateral relationship, which was the prime reason for the takeovers of American companies in early 1965.

In addition to domestic politics and foreign relations, economic policy contributed to the virtual elimination of foreign direct investment in Indonesia by the end of 1965. Since independence in late 1949, Indonesia had made some attempts to build a viable, sustainable and independent economy. The role of foreign capital figured prominently in this construction of a national economy, largely because most of the ‘modern’ sectors of the economy (plantations, industry, high finance, etc.) were foreign-owned. With the seizure and subsequent nationalization of Dutch enterprises in 1957-59, however, much of this modern sector fell into Indonesian hands in a process one scholar has recently described as “economic decolonization.”⁴ Under Guided Democracy, the Indonesian economy was deemed to be a ‘Guided Economy’ with an increased emphasis on economic nationalism and a decided shift to state-led economic development, all under the rubric of ‘Socialism ‘a la Indonesia.’ In late 1960, a highly politicized Eight Year Development Plan was promulgated, but by 1962 it was clear that this plan was not working, as economic growth had stagnated and inflation, common in Indonesia before the Guided Democracy era but since 1959 increasingly serious, was a major problem. In mid-1963, President Sukarno, with the urging and support of the United States, finally agreed to an economic stabilization program, but this collapsed in the wake of the outbreak of Konfrontasi. This program would in fact be the last major effort under Guided Democracy to address economic problems. Two years later, in April 1965

⁴ Thomas Lindblad, *Bridges to New Business: The Economic Decolonization of Indonesia* (Leiden, Holland: KITLV Press, 2008).

President Sukarno publicly wrote off the Eight Year Development Plan and launched a new program of economic self-reliance known as BERDIKARI, an acronym for *berdiri di atas kaki sendiri*, or ‘standing on your own feet.’ While its outlines were vague and implementation almost non-existent, BERDIKARI did result in the prohibition on further foreign investment as well as the takeover in 1965 of remaining foreign companies in Indonesia. Hence, the final wave of takeovers in 1965 was driven by this official change in economic policy; foreign investment would no longer play a role in Indonesia’s economic development and construction of a national economy. It was the pinnacle of economic nationalism in independent Indonesia.

However, I do not mean to suggest that the takeovers of foreign companies were part of some strategic, long-term plan by the GOI to rid Indonesia of foreign investment. In fact, I argue that quite the opposite occurred, that the takeovers occurred in separate, distinct waves, with each wave having its own reasons and logic, variously rooted in the intersection of domestic political struggle and instability, foreign relations and economic policy described above. The very ad hoc nature of the takeovers, as well as their downright messiness and inconsistency and the large divergence between the reasons for the takeovers and their actual implementation, makes the whole sequence of events difficult to unwind and understand. Given the nature of politics under Guided Democracy, one is tempted to see in the complexity and confusion of events some greater, long-term plan and organization, but this appears not to have been the case. It was only in April 1965, with the introduction of the BERDIKARI policy, that the takeover of existing foreign direct investment and the prohibition of future foreign investment became officially sanctioned. Hence, a large part of this dissertation is devoted to exploring these separate waves of takeovers and the varying reasons behind them.

I also argue that the implementation of the takeovers was heavily influenced by the nature of the business concerned, most especially with respect to the precious foreign exchange revenues generated by the companies. Even within the separate waves of takeovers, individual firms were often treated quite differently. There were three principal sectors in which foreign investment operated in the early 1960s. The first was oil; three foreign oil companies produced and refined the vast majority of oil in Indonesia

and generated huge foreign exchange earnings for the GOI, which resulted in the GOI dealing very carefully with them. This oil company exceptionalism resulted in the official buy-out of Shell Oil at a price of \$110 million, and the takeover of the other two oil companies was mostly nominal. The end result was fraught with irony; oil, perhaps more than any other commodity, is something that a nation can claim as its very own since oil comes from the country's own soil, yet the Indonesian oil sector was the least nationalized of all the sectors. The second sector in which foreign investment operated was in plantations or estates, principally rubber and palm oil. The foreign exchange revenues generated by these firms were much less than the oil companies, but nevertheless important enough that there was significant infighting within the GOI over their control. The last major sector (though smaller than the first two) was the manufacturing sector. Virtually all these foreign companies produced for the Indonesian domestic market and thus did not generate any foreign exchange revenues. Consequently, their treatment was quite different than the other two groups. How much access to the revenues generated by these companies was a reason for their takeover is impossible to assess, but it seems fairly evident that all foreign companies, regardless of actual wealth, were seen by many Indonesian individuals and groups, both within and outside the GOI, as potential pots of gold, as the source of endless riches that could be exploited, not necessarily just for personal gain or enrichment but also sometimes with the idea of keeping the gold away from a particular person or group. On the individual level, such persons included GOI ministers, lower-ranking civil servants, army officials, provincial officials, as well as officials from the various political parties and other groups, and even Indonesian employees of the foreign company; on the group level it may have been GOI ministries or departments, provincial level governments, political parties or the army. Hence, after the foreign companies were taken over, control over them was contested by various individuals and groups.

Another focus of this dissertation will be on describing and analyzing precisely how the foreign companies were taken over. To this point, I have used the rather loose term of 'takeover' to signify that the owners lost control over their companies, thus each company was 'taken over' by another party. In legal parlance, the terms commonly used are either (i) nationalization or expropriation, or (ii) confiscation, the difference being

that in a nationalization or expropriation the seized companies are paid for by the government, but in a confiscation no compensation is paid. Having witnessed firsthand the potential financial ramifications from the nationalization of Dutch companies in 1958-59, GOI officials were careful to avoid the characterization of the takeovers as nationalizations, expropriations or confiscations because of the compensation obligation such terms implied, instead claiming that the company was under government ‘supervision’ or ‘control’ or ‘management,’ all fairly ambiguous terms that gave the government plenty of leeway in determining what to do with them.⁵ By 1965 the GOI was actively attempting to separate ownership from management control, insisting that the loss of management control by the foreign owners did not mean loss of ownership of the business. I argue, however, that the takeovers clearly constituted confiscations, with the one exception of Shell Oil, which was a nationalization paid for by the GOI. Usually the GOI implemented the takeover by displacing the top level of owner-appointed managers, many of whom were foreigners, and appointing its own top tier level of management to run the company. In general, the companies were placed under the authority of the ministers who had jurisdiction over the relevant sector (e.g., plantations were given to the Ministry of Estates), and these ministers were given great discretion over how to execute the takeovers. Usually a ministry takeover team was installed at the company, and it was this team that usurped control/authority from the owner-appointed management, who were allowed to stay on for different lengths of time. Often Indonesian employees at all levels were left in place, but in the revised organizational structure were situated below the GOI-appointed managers. In addition, contact with the foreign company’s head office and ownership was almost always severed.

Another recurring theme the takeover story highlights is ministerial competition and the existence of sharp divisions within the central government. Throughout the takeover period, there appeared to be much division among GOI officials about how to handle the question of foreign businesses and their operations in Indonesia. Often the GOI did not speak with one, united voice on this matter, and it is sometimes extremely

⁵ The Indonesian words GOI officials used to describe these various states were *pengawasan* (from the root word *awas*) meaning supervision, *penguasaan* (root word *kuasa*) meaning control, and *pengurusan* (root word *urus*) meaning management.

difficult to assess who spoke officially for the GOI, as different ministers pursued different policies and agendas. Until the implementation of the BERDIKARI policy, the general policy was that the rights of foreign companies were to be respected, and while it is clear that some officials supported this policy, others did not. Divisions within the GOI and ministerial competition were especially noticeable in the constant infighting among the ministers over control of the seized companies; this state of affairs was certainly not unique to the takeovers, as other commentators have noted the GOI was disunited and factionalized. Adding to the confusion was the general absence of enforceable law (whether common law or by civil codes), which often resulted in vague and sometimes contradictory decrees issued by President Sukarno, ministers or other authority figures that served as both the de facto law of the land as well as GOI policy. Hence, the story of the takeovers is also in part a study of ministerial bureaucracy.

Closely related to this point was the apparent weakness of the central government relative to other institutions. Often during the various waves of takeovers, the central government seemed paralyzed, unable to take action against actors outside the government or to make regional governments enforce its policies. For example, in January 1964 there were different responses by different provincial governments to labor union takeovers, and at least in one case – North Sumatra - the provincial authorities clearly refused to execute the central GOI's orders. As one observer has noted, by 1964-65 a system of “de facto federalism” was in place in which “the central government’s capacity to implement its policies in the daerah [local areas] depended largely on a process of virtual bargaining with the local authorities.”⁶ Similarly, the apparent strength of the PKI forced the GOI to take a compromise position regarding British companies in February 1964; it is evident that many officials within the GOI did not wish to antagonize labor unions and their backers, particularly the PKI. Moreover, as we shall see in the discussion of American plantations, some GOI officials favored the takeover of these estates as a pre-emptive measure to prevent the PKI and its affiliated groups from seizing

⁶ J. A. C. Mackie, "Integrating and Centrifugal Factors in Indonesian Politics since 1945," in *Indonesia: the Making of a Nation*, ed. J. A. C. Mackie (Canberra: Research School of Pacific Studies, Australian National University, 1980), p. 675.

them. Thus the story of the takeovers also illustrates the limits of the central government's power.

III. Historiography and Sources.

Surprisingly, there is almost no historiography on the takeover of foreign companies in Indonesia in the 1960s. This is likely due in large part to the focus of academic literature on Indonesia during this period 1963-65 on domestic political matters, especially the jockeying for political power among President Sukarno, the Indonesian army and the PKI. Indeed, as we shall see in Chapter Seven, the September 30 Movement of 1965, which triggered the destruction of the PKI as well as the open political struggle between President Sukarno and his opponents and Sukarno's eventual downfall, remains one of the most controversial and discussed events in modern Indonesian history. The attention the domestic political conflict has garnered thus has tended to obscure other developments in Indonesia during the latter part of the Guided Democracy period (1959-66). As I shall reiterate in the next Section, one objective and benefit of this project is to explore what else was happening in Indonesia during this period and to shift attention away from those important but all-consuming events.

With respect to the takeovers of foreign companies, insofar as I am aware there is no existing study of these events and to date they have received little attention in the academic literature (foreign or Indonesian). The most comprehensive account is a one and a half page description in an excellent recent volume on Indonesian economic history, but this short summary does not do justice to the full story.⁷ Other accounts occasionally reference these events in a paragraph or two, but with little depth or actual understanding of what happened, and often with factual errors. For example, in a 90 page chapter on Indonesia in an edited volume directly concerned with economic nationalism

⁷ H. Dick et al., *The Emergence of a National Economy: an Economic History of Indonesia, 1800-2000*, Asian Studies Association of Australia Southeast Asia Publications Series (Honolulu: Allen & Unwin and University of Hawaii Press, 2002), pp. 187-9.

in Southeast Asia, the takeovers merited but a single short paragraph.⁸ Similarly, the takeovers have received little attention in what few volumes exist on individual company histories, with the exception of the oil industry and Unilever.⁹

In short, the takeover of foreign companies in Indonesia in the 1960s is a largely unknown and untold story, and hence this study fills a large gap in the literature. Moreover, the gap filled here is not just the one of the confiscations, but also more broadly the story of what happened to foreign investment in Indonesia under Guided Democracy. In addition, for historians of Indonesian economic history, the takeover of foreign companies and virtual elimination of foreign capital in the 1960s provides an interesting contrast to the seizure and nationalization of Dutch enterprises in Indonesia from 1957-59 (discussed in Chapter Two, Part III). While there are certainly numerous similarities, there are also significant differences, principally the motivations behind the takeovers. Whereas the seizure and nationalization of Dutch companies was more a matter of economic and political decolonization, the events of the 1960s were more closely intertwined with international relations, economic policy and domestic political conflict and struggle.

In piecing together a narrative to reveal this untold story, I have used a variety of sources. First, both the British embassy and the United States embassy in Jakarta closely monitored the takeovers of foreign companies, no doubt because many of the companies seized were British and American. In some cases, embassy officials were eyewitnesses to these events, and in other cases even became closely involved as representatives of the respective governments with access to GOI officials. Moreover, in some cases the intra-company correspondence between company representatives in Indonesia and company headquarters was sent through the American or British embassy, thus leaving a fine record of events. Many of these records are now available in the national archives in both

⁸ See p. 197 of Ralph Anspach, "Indonesia," in *Underdevelopment and Economic Nationalism in Southeast Asia*, ed. Golay, Anspach, Pfanner, and Ayal (Ithaca, N.Y.: Cornell University Press, 1969). Similarly, in an article on British investment in Indonesia, the takeover (and subsequent return) of British companies received a scant three paragraphs; see pp. 59-60 of Richard Payne, "British Investment in Indonesia," in *Repression and Exploitation in Indonesia*, ed. John Taylor (Nottingham: Spokesman Books, 1974).

⁹ The takeovers in the oil sector have received by far the most attention, but there is still no comprehensive account or one that places the takeovers in the context of foreign investment generally. Outside the oil sector, the only individual company histories I am aware of that deal with the takeover of a company other than in passing are two volumes on Unilever. The literature on both the oil companies and Unilever will be cited in the following Chapters.

countries.¹⁰ A second major source is the many decrees the GOI issued in connection with the takeovers.¹¹ During Guided Democracy, decrees issued by President Sukarno, his ministers, and other officials (usually in the form of decisions or occasionally implementing regulations) effectively served not only as the legal basis for GOI actions (especially given the overall lack of legislation) and guideline for future action but also as functional policy statements (especially given the absence of the same). Thus, decrees are particularly important in trying to determine the GOI's intent with respect to the takeovers; as far as I am aware, there are no accessible records of minutes of meetings of GOI officials (if indeed such records exist) in which policy was debated and choices made, such as those frequently found in the United States or Great Britain. However, as we shall see, often the implementation of the decrees varied from what was stated in the decrees.

Other important sources include company records, interviews with individuals involved in the takeovers, and various scattered records and reports found in different Indonesian archives. In the case of companies, Unilever company archives and Goodyear company archives were especially helpful, and other companies shared some of their non-archival records with me.¹² I also interviewed a number of people involved with the takeovers, including GOI officials and individuals (foreign and Indonesian) from the affected companies. These interviews enabled me to have a broader picture not only of what actually happened but also of the overall context, something that is often hard to extract from archival sources. In addition, there were a number of reports and documents in archives in Indonesia that were very helpful, including a number of internal GOI reports. In particular, there were reports from the agricultural ministries that provided some insight into actions the ministries took. There were also numerous governmental reports from the early New Order period that detailed the return of the companies and

¹⁰ These include the United Kingdom National Archives located in Kew, London (hereafter abbreviated as UKNA), the United States National Archives located in College Park, Maryland, USA (hereafter USNACP), and the Lyndon Johnson Presidential Library in Austin, Texas, USA (hereafter LB JL).

¹¹ Insofar as I know, there is no central repository for these decrees. Rather, they are disseminated among numerous archives in Indonesia (such as ANRI and BKS-PPS referred to below), and some can also be found in the British and American national archives; some were also published in GOI (and other) publications.

¹² The Unilever archives I consulted are located in Port Sunlight, England (hereafter UA), and the Goodyear company archives are at the University of Akron, Ohio, USA (hereafter GYA).

provided a wealth of information on what companies were actually taken over.¹³ Finally, I also occasionally use newspapers, both foreign and Indonesian, for sources, but as many news reports were inaccurate they must be treated with great caution.

IV. Approach and Structure.

While one of my aims is to understand why a country seizes and effectively eliminates foreign investment, I also believe that answering this question requires us to take a detailed look at how these companies were taken over. Thus, while the bigger question is what motivates a country to take the drastic step of confiscating foreign investment, wholesale instances of which are fairly rare, though individual expropriations or confiscations of foreign companies still occur in the world today, careful attention must be paid to how it was done. I argue that in Indonesia the process was very much an ad hoc one, coming in separate waves, each of which had its own distinct reasons and logic, and it was not until the final wave in 1965 under the guise of BERDIKARI that the GOI finally took a pre-meditated approach to eliminating foreign investment in whole. The following Chapters are structured along these lines: Chapter Two provides general background on Indonesia, especially in the three areas of political developments, foreign affairs and economic matters, while Chapter Three investigates foreign investment in Indonesia before the takeovers began in 1963. Chapters Four through Seven then examine closely the various waves of takeovers, each beginning with a short overview and then a section devoted to analyzing the broader picture before scrutinizing the nitty-gritty of the takeovers.

My approach is also conditioned by the historiography of the Guided Democracy era of Indonesian history. There is as yet no comprehensive study of the Guided Democracy period, and most accounts tend to focus on the politics of the period,

¹³ These can generally be found in the National Archives of Indonesia in Jakarta, or *Arsip Nasional Republik Indonesia* (hereafter ANRI). Another useful archive containing materials on the foreign estates is the Sumatra Planters Association or *Badan Kerja Sama Perusahaan Perkebunan Sumatra* (hereafter BKS-PPS) in Medan, North Sumatra, an organization previously known as AVROS that was a trade group representing the interests of large privately-owned estates.

especially for 1965. While this dissertation does not aim to correct this lack of a comprehensive study of the period, it does aim to take a closer look at the last three years of the period, certainly some of the most explosive years in the history of independent Indonesia. More importantly, I broaden my lens well beyond the political arena and examine economic affairs and foreign relations, an approach made necessary by the topic of foreign investment in Indonesia. In particular, I seek to demonstrate how 1965 in Indonesia was not just the culmination of the domestic political struggle but also the apogee of Indonesia's anti-imperialist foreign policy as well as the apogee (or nadir) of economic chaos, and how the climaxes in each of these areas related to the others. To these we could add a fourth climax with respect to foreign investment. I focus less on the Sukarno-PKI-army triangle and more on ministerial politics and bureaucracy below the Presidential level.

As I argue that the takeover and elimination of foreign direct investment in Indonesia was the result of a complex confluence of Indonesian domestic political struggle and instability, foreign relations and domestic economic affairs, Chapter Two outlines the trends in these three areas prior to circa 1963. Established as an independent nation in late 1949 after a long period of colonial rule, Indonesia's first decade and a half of independence was a fascinating period of nation-building in which a brand new nation sought to establish its own identity and norms. The Chapter will not attempt to be a comprehensive survey of the period, but instead paint broad brushstrokes, with particular emphasis on matters relevant to foreign companies. As we shall see, the period generally can be easily broken down into the two very distinct periods of Parliamentary Democracy (1950-59) and Guided Democracy (1959-66), each with its own very different characteristics in the three areas of domestic politics, economic policy and growth, and foreign relations, especially with respect to the role of President Sukarno. The Chapter thus provides historical background in these three areas so that the trends from 1963-65 can be set in context.

Chapter Three analyzes the foreign investment regime of the new nation from 1950 to early 1963 in order to set the stage for the takeovers of 1963-65. The Chapter provides a definition of foreign direct investment and examines the ambivalent position it occupied in Indonesia after independence. The first part investigates GOI policies

towards both new and existing foreign investment during this period, with notable changes under Guided Democracy. It scrutinizes the foreign investment law of 1958 and notes the misconception in the literature on foreign investment that this law was repealed in 1959; in fact, it would remain in place until 1965. The second part of Chapter Three surveys existing foreign investment in Indonesia at the beginning of 1963, with emphasis on the very different sectors of oil, estates, and manufacturing/other, particularly with respect to their foreign exchange generating capacity. It was this ability to generate precious foreign exchange, I argue, that explains the very different treatment of the companies in these sectors during and after the takeovers. In particular, I note the extremely high revenue generating capacity of the big three foreign oil companies and their very strong position in the Indonesian economy that resulted in their special treatment by the GOI, what I call the principle of oil company exceptionalism.

Chapter Four assesses the initial waves of takeovers in 1963. In fact, there were two separate, distinct series of takeovers, one involving a handful (five) of British companies and another that eliminated all Malaysian companies. The Chapter traces the incipient conflict within Indonesia in 1963 between the economic stabilization program and the watershed event of Konfrontasi against Malaysia, with Konfrontasi winning out in September. The outbreak of Konfrontasi would have deep ramifications in each area of domestic politics, economic performance and foreign affairs. I argue that the takeovers of both the few British firms and all the Malaysian enterprises were directly linked to the outbreak of Konfrontasi with Malaysia. However, I show that with respect to the British companies it was a non-governmental actor, the DPS-KBKI labor federation, which precipitated the takeovers, and that GOI policy clearly was against the takeovers of the British companies. Thus, while linked to Konfrontasi, this wave of takeovers was the result of domestic political instability. I also explore the dichotomous events at Shell Oil company, whose treatment both exemplified oil company exceptionalism and showed the limits of this principle. In contrast to the takeovers of British firms, I argue it was the GOI that took the initiative in seizing Malaysian companies, and that these seizures were tools of foreign policy in that they were intended as retaliation against the formation of Malaysia.

Chapter Five investigates the creeping confiscation of British enterprises over the course of 1964. Here again I argue it was the actions of a non-governmental entity, this time the PKI, that precipitated the GOI takeover of all British enterprises in Indonesia by the end of 1964. The Chapter describes how, beginning in early 1964, the PKI went on the political offensive in an attempt to expand its influence, and one of the aspects of this offensive was the seizure in January 1964 of some British firms by the PKI-controlled labor federation SOBSI in a direct challenge to President Sukarno's handling of Konfrontasi. The GOI reaction to the seizures was to place these enterprises under GOI control and supervision, likely intended as a short term measure, and thus the initial wave was driven by domestic political conflict. However, the nebulous nature of supervision and control (the GOI explicitly avoided the use of terms like expropriation and nationalization and refused to clarify the status of the companies) and the placing of these enterprises under different GOI ministries led to the gradual ministerial assumption of control over the companies during the course of 1964. The estates, with their foreign exchange producing revenue stream, were the first to be taken over and were the subject of intense infighting between two GOI ministers. Only in late November 1964 did President Sukarno, the de facto highest authority in the country, while explicitly avoiding mention of nationalization or expropriation or confiscation, finally decree that the British companies were under GOI control for the long-term as well as which minister would control the revenue-generating estates. This decree was one of the first in a series of measures in which President Sukarno took an active interest in the position of foreign investment and also was one of several measures that heralded a new plateau of anti-imperialism and isolation in foreign affairs.

Chapter Six examines the phase of takeovers of American companies in early 1965. The Chapter situates the takeovers by asserting that 1965 was a climax in Indonesia's anti-imperialist foreign policy and traces how relations with the United States deteriorated as a result of this policy. In this case, there is clear evidence that President Sukarno himself was actively pushing for the takeover of some American enterprises, despite the existing GOI policy against takeovers. Hence, while the GOI takeover of American companies was triggered by the threat or actual seizure of the companies by labor unions and other groups, I argue that the seizure of American companies was

primarily a reflection of Indonesia's foreign relations. The Chapter also highlights oil company exceptionalism, as each of the big three foreign oil companies was placed under nominal government control that did not interfere significantly with owner-appointed management or operations. The Chapter shows how, even as the GOI was claiming it was not nationalizing the companies but instead was characterizing its actions as assuming management control - but not ownership control - over the companies, it was also contradictorily negotiating a buyout of the two large American rubber companies that generated significant foreign exchange.

Chapter Seven explores the final wave of takeovers in 1965 that resulted from President Sukarno's promulgation of the doctrine of self-reliance known as BERDIKARI. I argue this doctrine of self-reliance, though hazy in its outlines and very limited in its implementation, was intended as a major change in economic policy, primarily because the Indonesian economy in 1965 reached a pinnacle (or nadir) of deterioration and chaos. The policy represented a climax in economic policy-making, as Indonesia would now only rely on itself in its search for economic independence. The implementation of BERDIKARI led directly to the takeover by the GOI of all remaining foreign companies in Indonesia as well as the prohibition on future foreign direct investment. The Chapter also analyzes the final GOI push to takeover the remaining foreign companies in the last few months of 1965. Its backdrop is the collapse of Sukarno's Guided Democracy, featuring the destruction of the PKI and the struggle for political power between President Sukarno and his opponents, led by General Suharto, that was precipitated by the September 30 Movement. This climax of domestic political confrontation was the third pinnacle of 1965, along with similar apogees in foreign relations and economic affairs. Reflecting oil company exceptionalism, the GOI bought out Shell Oil for a price of \$110 million, but was unable to takeover the other two foreign oil companies despite extreme pressure. Furthermore, reflecting both the attitude of the GOI Minister of Estates as well as the revenue generating capacity of the estates, the government agreed to pay compensation to all non-British foreign estate owners. By the end of 1965, with the very important exception of two foreign oil companies, there was no foreign investment remaining in Indonesia.

Finally, Chapter Eight argues that 1965 was the pinnacle of economic nationalism in Indonesia. It ends with a short discussion of the drastic reversal of policy by the new government in 1966-67 in actively promoting foreign investment in Indonesia and returning many of the taken-over companies.

Chapter Two: Indonesia From 1950 to the early 1960s

This Chapter describes Indonesia from 1950 to the early 1960s, circa 1962. It does not purport to provide a comprehensive review of the period, but rather to provide an overview of the major events of the period from 1950 to 1962 with an eye toward their impact on foreign investment. The Chapter focuses on the period after 1949 because 1950 was the first full year of Indonesia's existence as an independent nation. As I argue in this dissertation that the elimination of foreign investment in Indonesia from 1963-65 was the result of the complex interplay of domestic politics, foreign relations, and economic policy, the emphasis of the Chapter will be on these three aspects. By laying this groundwork, I hope to show in subsequent Chapters how each of these three areas changed rapidly from 1963-66, a period when trends just visible before 1963 were accelerated tremendously, and how these changes in turn resulted in great changes to the foreign investment regime. As Part I describes, politically the entire time span covered by this dissertation – from 1950 to 1966 - can be conveniently broken down into two distinct periods. The first is known as the period of Parliamentary Democracy, which lasted from 1950 to 1959 (with a transitional period from 1957-59) and was characterized by the domination of political affairs by political parties, and the second is known as the period of Guided Democracy, which lasted from 1959 until 1966 and was characterized in political terms by an uneasy partnership between President Sukarno and the army.¹ Part II analyzes Indonesia's foreign relations and notes how the change to Guided Democracy resulted in a clear shift in Indonesian foreign policy from an independent and active approach to a more aggressive, strongly anti-imperialist approach led by President Sukarno. Part III examines Indonesia's economic structure and policy-making, noting in particular the challenges posed by the economic structure inherited from the Dutch

¹ The period of Guided Democracy in turn was followed by the New Order (1966-1998), in which the army and particularly General-turned-President Suharto played a dominant role.

colonial period and Indonesian attempts to change this structure and promote economic growth. Despite a major structural change with the takeover and subsequent nationalization of Dutch enterprises in 1957-59, the economy generally declined under Guided Democracy as politics and foreign policy were emphasized at the expense of sound economic policy.

I. The Political Setting.

A. Independence, a New Nation, and Parliamentary Democracy, 1950-1959.

1. Independence.

The Netherlands ‘grant’ of independence to her Dutch East Indies colony on 27 December 1949 signaled the effective end of an over 300 year period during which the Dutch maintained some form of political presence in the archipelago now known as Indonesia. This presence essentially began with the establishment in 1619 by the Dutch East India Company (the VOC) of an outpost in the newly conquered and renamed Batavia (now Jakarta, located in western Java), which soon became the capital of the Dutch eastern empire. At this time, the archipelago – comprised of thousands of islands among the larger ones of Sumatra, Java, Borneo, and Celebes (now Sulawesi) – consisted politically of hundreds of larger and smaller polities. The archipelago was far from a unified state in the early seventeenth century; in fact, never before in the history of the islands had a single polity been able to exercise hegemony over it.² Over the next 200 years, while the VOC did establish outposts in various parts of the archipelago (most

² For a general history of Indonesia, see M. C. Ricklefs, *A History of Modern Indonesia Since c. 1200*, fourth ed. (Stanford, CA.: Stanford University Press, 2008). For shorter, excellent summaries of Indonesia from the pre-colonial period to the early 1960s, see Herbert Feith, "Indonesia," in *Governments and Politics of Southeast Asia*, ed. George McTurnan Kahin (Ithaca and London: Cornell University Press, 1964), George McTurnan Kahin, "Indonesia," in *Major Governments of Asia*, ed. George McTurnan Kahin (Ithaca, N.Y.: Cornell University Press, 1963). Some Indonesian nationalists would argue that the classical era kingdom of Majapahit (at its peak in the 14th century) controlled most of the area of what is now Indonesia, but this is incorrect.

notably, the Molucca islands in the east), it was principally in Java that the VOC slowly began to exercise a more significant political role as well as expand the area under its control.

However, it was not until the end of the Java War (1825-1830) that the Dutch government (the VOC having gone bankrupt in 1799) was in a position of virtually complete control over Java and the period of Dutch colonialism began in that island. It was primarily in Java that the Dutch instituted the forced ‘cultivation system’ practice from 1830 to 1870, under which Javanese peasants were required to produce export crops for the Dutch. This system, at least from the Dutch point of view, was incredibly successful, providing the Dutch treasury in the Netherlands with as much as 33% of its revenue in various years. Java thus became the centerpiece of Dutch colonialism in the 19th century. In contrast to Java, Dutch control over the ‘outer islands’ (i.e., outside Java) was very limited prior to the 1820s and was only imposed gradually from the 1820s to about the first decade of the 20th century. It was only circa 1910 or so that the Dutch managed to gain more or less unimpeded control (control being exercised in various degrees) over all the islands that would eventually emerge in 1949 as Indonesia.

Thus, the period of Dutch high colonialism, during which the Dutch colonial government was, for the most part, able to impose its will and brand of colonialism over all the archipelago’s peoples in an entity known as the Dutch East Indies, began only in the first decade of the 20th century. Put another way, it was only around 1910 that what would become the Indonesian nation – from Sumatra in the west to West Irian in the east – was united, under central political control, for the first time in its history. Not coincidentally, this period, which would end in 1942 with the Japanese invasion, also witnessed the rise of anti-colonialist sentiment as well as the beginnings of nationalism. Led by a tiny, newly emerging western-educated elite, the nationalist movement peaked in the public sphere in the late 1920s, after which the Dutch forcibly repressed it. This tiny elite for the first time began to conceive of an independent nation of islands known as Indonesia, comprised of the islands under Dutch colonial control. However, the movement was fractured, united considerably more by its anti-Dutch, anti-colonial emphasis than any other ideology. One of the nationalist movement’s leaders was a young engineer named Sukarno (later the first president of Indonesia), who recognized

that the acute diversity of the indigenous people of the Dutch East Indies required some kind of strong unifying philosophy beyond bitter anti-Dutch, anti-colonial feelings, and from the late 1920s to 1966 would be at the forefront of attempts to forge national unity and consensus.³

It was also during this period of high colonialism, from c. 1905 to 1940, that significant non-Dutch foreign investment began to enter the Dutch East Indies. In fact, as we shall see in Chapter Four, virtually all foreign companies that were taken over from 1963-65 made their initial investments in Indonesia (at the time, the Dutch East Indies) during this period. Initially, the main focus of investment was the plantation sector, primarily rubber and later palm oil. British, American, and Belgian firms were the principal sources of investment, and Java and Sumatra (especially the North Sumatra plantation belt, centered around the city of Medan) were by far the two main locations of this investment. In addition to agricultural estates, oil was also a sector of investment; the big three oil companies which dominated the Indonesian oil sector in the first two decades of independence all got started during this period. Finally, industry and manufacturing was a much smaller sector of investment by non-Dutch firms. Most of the investment here, however, did not begin until the 1930s, when the colonial government – for the first time – through a decided policy change began to encourage foreign investment in this sector as a consequence of the depression and the threat of Japanese competition.

Dutch colonialism in the East Indies, which one Dutch Governor-General famously predicted in the late 1930s would last another 300 years, came to a swift, abrupt end in March 1942 with the Japanese invasion and occupation. Dutch political control was irrevocably severed as the Japanese demonstrated that the white colonialists were not invincible after all. Most of the Dutch were interned, and the Japanese assumed control of the machinery of government, in the process elevating and bringing into government many more indigenous people. The Japanese also encouraged mass mobilization and

³ For more on Sukarno, see the excellent bibliography by John Legge, *Sukarno: A Political Biography*, third ed. (Singapore: Archipelago Press, 2003). Sukarno's first major attempt to unite the three major ideological strands of nationalism, Marxism and Islam as the basis for a new nation state was published in 1926; see Sukarno, *Nationalism, Islam and Marxism*, trans. Warouw and Weldon (Ithaca, N.Y.: Translation Series, Modern Indonesia Project, Southeast Asia Program Cornell University, 1969).

nationalism through a range of activities and forums. Sukarno, collaborating with the Japanese, became the voice and leader of Indonesian nationalism during this period. However, the Japanese occupation also brought great economic suffering and hardship for millions, as the economy was redirected to serve Japanese needs and unemployment and hunger became widespread. In the first half of 1945, with the empire slowly collapsing around them, the Japanese further encouraged Indonesian nationalism, permitting the establishment in March of a ‘Body to Investigate Indonesian Independence’ and then in August the establishment of an ‘Indonesian Independence Preparatory Committee.’ During meetings of the first body on 1 June 1945 Sukarno made his famous declaration on the five principles of *Pantja Sila*, which became the basis of the 1945 constitution adopted in August after independence was declared. Shortly after the Japanese surrender, on 17 August 1945, Sukarno and another well-known nationalist leader named Mohammad Hatta, in front of a small crowd at a house in Jakarta, declared that the new nation of Indonesia was free and independent of Dutch colonial rule.

Sukarno’s declaration of 17 August kicked off a bitter and tragic four year war (known as the Indonesian Revolution or War of Independence) between the Dutch, who refused to recognize the demise of their colonial empire, and the newly formed but weak Republic of Indonesia. This devastating war had a major effect in shaping Indonesia’s post-revolutionary government and also became a defining event in Indonesian history and with respect to Indonesian national identity, and the bitterness it engendered would last for decades.⁴ Suffering was great on the Indonesian side, as economic disruption (leading to more hunger and starvation) and social change initiated by the Japanese occupation continued and accelerated for another four years, leading to great chaos. The weak Republican government was often divided and factionalized, with numerous competitors struggling for power, and Sukarno acting mostly from the sidelines; this pattern would continue in the early years of independence. Although perhaps not clear at the time, in retrospect it was evident that the powerful uniting factor of Dutch colonialism and intransigence barely disguised vast differences within the Republic. Repeated

⁴ There is a large body of literature on Indonesia’s revolutionary war; see especially the classic by George McTurnan Kahin, *Nationalism and Revolution in Indonesia* (Ithaca, N.Y.: Cornell University Press, 1952). See also Benedict Anderson, *Java in a Time of Revolution: Occupation and Resistance 1944-1946* (Ithaca, N.Y.: Cornell University Press, 1972).

attempts by the Dutch and the Republic to negotiate a solution were unsuccessful, and the Republic itself was divided over how to deal with the Dutch. It was during this war that the Indonesian army began to coalesce and evolve as an organization (during the colonial period, of course, there was no Indonesian army, just a colonial army known as KNIL (*Koninklijk Nederlandsch-Indisch Leger*, or Royal Netherlands Indies Army), with limits on how far indigenous people could rise in the officer ranks), leading to its future outlook as the guardian of the Indonesian state.

Resolution of the conflict was finally achieved under an agreement known as the Round Table Conference Agreement (the RTCA), signed in the fall of 1949 and the result of the Round Table Conference in Holland which lasted from August to November.⁵ Neither side was satisfied with the final product, and in less than a decade and a half most of its provisions would crumble. Nevertheless, the compromise was enough to end the fighting. Four issues (two political and two economic) that were resolved in favor of the Dutch side and were basic to Dutch acceptance of Indonesia's independence were particularly galling for the Republican side and would be contentious in the years to come. First, it was agreed that the new nation would be structured as a very loose federal system known as the United States of Indonesia, with great autonomy for its constituent members, of which the Republic of Indonesia was only one of many. This new nation would also retain a variety of ties to Holland.⁶ Second was the status of the large half-island in the eastern part of the archipelago known as West Irian. The Indonesian side insisted that it become part of the new nation, but the Dutch refused, largely on the grounds that racially, ethnically and culturally it was different from the other islands. The compromise was that West Irian would remain temporarily with the Dutch, but that its status should be resolved by further negotiations within the next year. The third issue was over the amount of Dutch debt that Holland insisted the new nation should assume responsibility for. This debt was supposedly incurred by the Dutch colonial government, but it also included monies used to finance Dutch efforts during the Indonesian

⁵ An official English language version of the Round Table Conference Agreement, signed on 2 November 1949, can be found in United Nations Treaty Series, Volume 66 (No. 894).

⁶ The Republican side favored a much more tightly knit ‘unitary’ system which would give the Republic more power and influence. Because of Dutch intransigence on this issue, for years after the RTCA the term ‘federalism,’ no matter in which of the many iterations it can appear, has had negative connotations in Indonesian politics.

Revolution (meaning that the Dutch were insisting that Indonesia pay for the costs incurred by Holland to fight the war!). The amount of this debt was bitterly contested, and finally was agreed to be 4.3 billion guilders, about US\$1.13 billion, an enormous sum for that time. The fourth issue was the status of Dutch and other foreign investments in Indonesia: would they be seized by the new government or would the companies be allowed to continue operations as they had under the colonial period? The Republic finally agreed to recognize and restore the rights, concessions and licenses of these companies as they existed under colonial law as of the date of the transfer of sovereignty. Covered by this provision were the numerous foreign investments that eventually would be taken over from 1963-65.

Thus, on 27 December 1949, the date sovereignty was transferred by the Dutch to the Republic of the United States of Indonesia under the RTCA, the archipelago stretching from northern Sumatra in the west to the Moluccu islands in the east was united and independent for the first time in history. Indeed, it had only been united once before, for just over 30 years under Dutch colonial rule. Indonesia would be a textbook study of nation-building: could such a diversity of people and culture exist in one nation? How should this nation be constructed, and who should have political power? For many Indonesian nationalists, the future was open and full of possibility.

2. Parliamentary Democracy, 1950-57.

Upon independence in late 1949, the new nation of Indonesia faced a myriad of problems in the political arena. Perhaps the most basic one was that of political unity: could a new nation with the heterogeneity of Indonesia stay together? The diversity of Indonesia has been well-documented and here I shall just highlight it. First, there was the geographic diversity; the new nation was comprised of over 10,000 islands (including the big five (by population) of Sumatra, Borneo, Java, Sulawesi and Bali) stretching over 3,000 miles. This geographic spread contributed to Indonesia's ethnic diversity – over 300 different ethnic groups have been documented. Despite the spread, the island of Java was by far the most dominant in terms of population; out of a total population of about 85

million, at least 60% lived on Java.⁷ Thus, there was an immediate question as to what the balance of power would be between Java and the other islands, especially because at the time the other islands were generating far more economic revenue than Java, which was consuming far more revenue than it produced (see Part III on the economy below). There was also great religious diversity among the islands; though some 85% of Indonesians were Muslim, there were various and sometimes competing stands of practice and claims to orthodoxy as well as significant minorities of Hindus, Buddhists and Christians. Finally, in part reflecting these overlapping divisions, there also obvious political divisions within the new nation, with a multitude of outlooks reflected by a multitude of parties.⁸ Hence, maintaining unity in the face of this vast diversity would be a major concern for Indonesian leaders.⁹

Compounding the unity question was the question of the new nation's preparedness for independence. First, of course, throughout the colonial period indigenous people had been denied any sort of significant political role; what experience Indonesians did have was gained principally during the wartime conditions of the revolution. In addition, as the number of Indonesians who served in the colonial service was extremely low, there was the problem of a general lack of administrative experience. For example, as of 1940 of the 3,000 or so higher ranking civil service positions, fewer than 10% were held by Indonesians; the number of Indonesians in the middle administrative ranks was much higher, but most of these positions had little decision-making power.¹⁰ There was also the initial problem of a lack of trained, educated Indonesians. A miserable record on secondary and higher education was a direct legacy of Dutch colonial rule - in 1940, less than 2,000 indigenous people were enrolled in

⁷ The figure of 85 million is an educated guess. The Dutch colonial government in a 1930 census 'estimated' the population at 60 million; independent Indonesia's first census in 1961 indicated the population was 97 million. See Alex Hunter, "Notes on Indonesian Population," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971), p. 183. By 1963, the population was about 100 million.

⁸ For more background, see Ricklefs' *History of Modern Indonesia*, Feith's "Indonesia," and Kahin's "Indonesia". See also Ruth McVey, ed., *Indonesia*, Survey of World Cultures, 12 (New Haven: Southeast Asia Studies, Yale University, by arrangement with HRAF Press, 1963).

⁹ Already in 1948 the Darul Islam movement, soon to become a 'rebellion' upon independence, had broken out in West Java. This movement would continue to plague Indonesia until 1962.

¹⁰ Kahin, "Indonesia," p. 553. These numbers probably increased during the Japanese occupation, but the number of Indonesians holding decision-making positions was still very low.

secondary education in the colony, and less than 650 were enrolled in colleges in Indonesia.¹¹ For that matter, in 1950 there was no middle class to speak of in Indonesia (other than a very small Chinese one). Instead, there was a tiny educated elite sitting atop a vast lower class, with a wide gulf between them.

Of immediate and paramount interest in late 1949 was what form of government would be adopted, and how would this new government actually ‘govern’?¹² Under the RTCA, the new nation had agreed to a fairly loose federal structure, but within nine months after independence this structure was rejected in favor of a ‘unitary state’ which provided for a much stronger and more centralized federal government. By 17 August 1950, all the individual republics under the old structure had merged into one government, and a new provisional constitution had been agreed to.¹³ This provisional constitution of 1950 established a western-style parliamentary system in which the role of the single-house legislature and the Prime Minister were paramount. The role of the President (filled by Sukarno) was largely ceremonial, and his major power was to appoint the Prime Minister, who then formed the cabinet and government. The Prime Minister and cabinet ministers responsible for government policy were responsible to the parliament (not to the President), which was appointed according to a formula agreed to before the separate states formed the unitary government. Finally, the 1950 constitution specifically noted that the constitution itself was provisional in nature and prescribed the formation of a Constituent Assembly that would draft and promulgate a new constitution.

The locus of power under the 1950 constitution and hence under Parliamentary Democracy in the office of the Prime Minister as well as the parliament meant that the political parties were extremely important, because they were the ones who contested for the coveted position of Prime Minister (appointed by Sukarno, as President) and also were the ones most heavily represented in the parliament. The great problem was that there was a large number of political parties in Indonesia, and none commanded

¹¹ Kahin, “Indonesia,” p. 549.

¹² For an outstanding analysis of political events during the period of Parliamentary Democracy, see the classic by Herbert Feith, *The Decline of Constitutional Democracy in Indonesia* (Ithaca N.Y.: Cornell University Press, 1962).

¹³ For an English language text of the 1950 constitution, see "The Provisional Constitution of the Republic of Indonesia," (Ministry of Information, Republic of Indonesia, 1956). See Feith, *Decline of Constitutional Democracy*, pp. 71-99, for a discussion of the unitarian movement and the making of the 1950 constitution.

anywhere close to a majority in the parliament; the appointed parliament had members from over 20 parties, and the 1955 parliamentary elections were contested by well over 30 parties. There were, however, two larger parties in the early 1950s that were most adept at forming coalitions, the Nationalist Party of Indonesia (known as the *Partai Nasional Indonesia* or PNI) and the Masyumi Party, a modernist Islamic party, and power was generally shared by these two. Cabinet positions were rationed among parties whose support was necessary to achieve a working majority; needless to say, there were often deep conflicts and disagreements among the parties in a coalition. Reflecting the unstable nature of these coalitions, from August 1950 (when the new structure took effect) until March 1957 (when martial law was imposed and cabinets were thereafter appointed by President Sukarno), six different cabinets were formed, each led by a Prime Minister (appointed by President Sukarno) from either the PNI or Masyumi.

The parliamentary elections of September 1955, the only relatively free and fair national elections Indonesia would have until 1999 after the fall of the New Order, confirmed the diversity of political opinion in Indonesia.¹⁴ Of the over 30 parties that contested the election, only four were able to garner more than 3% of the vote (voting was done according to party, not for individuals under single-member constituencies). These four were the PNI (22% of the vote), Masyumi (21% of the vote), *Nahdatul Ulama* (18% of the vote) and the Indonesian Communist Party (the PKI, with 16% of the vote). The PNI, large, loosely structured, and factionalized, with many members in the government bureaucracy, was known as a Java-based party of the Javanese bureaucratic elite (the *priyayi*).¹⁵ It was closely identified with President Sukarno (though it was not Sukarno's party – he remained unaffiliated with any party after independence); the main thrust of its ideology was nationalistic, and later it would adopt 'Marhaenism' (a Sukarno inspired type of proletarianism) as one of its principal ideological tenets. Both Masyumi and *Nahdatul Ulama* (the NU) were Islam-based. The Masyumi, which was organized by the Japanese during the occupation, had strong support outside Java and was

¹⁴ On the 1955 elections, see Herbert Feith, *The Indonesian Elections of 1955* (Ithaca, N.Y.: Modern Indonesia Project, Southeast Asia Program, Cornell University, 1957).

¹⁵ For a comprehensive look at the PNI, see Eliseo Rocamora, *Nationalism in Search of Ideology: The Indonesian Nationalist Party, 1946-1965* (Quezon City, Philippines: University of the Philippines, 1975). See also Angus McIntyre, "Divisions and Power in the Indonesian National Party, 1965-66," *Indonesia* 13 (1972), Eliseo Rocamora, "The Partai Nasional Indonesia 1963-1965," *Indonesia* 10 (1970).

considered to be ‘modernist’ in its outlook, much more liberal politically and economically than the NU. The NU was established in 1926, forced to join Masjumi during the occupation and then broke away from Masyumi in 1952, and drew most of its support from East and Central Java. It was an alliance of Islamic clerics and was considered much more traditional in outlook than Masjumi.

Of the four largest parties, the PKI was by far the most disciplined and best organized.¹⁶ Having been virtually wiped out twice before, in 1926-27 and then again during the Indonesian revolution in 1948 in what was called the ‘Madiun Affair’, the PKI, similar to a phoenix rising from the ashes, emerged again in the 1950s. The principal stimulus for this rise was the ascendancy in early 1951 of a core group of four very young men to the leadership (the politbureau) of the PKI. This group, which would lead the PKI until 1965, was comprised of D.N. Aidit (the top leader of the PKI), M.H. Lukman, Nyoto, and Sudisman. Recognizing the unique conditions of Indonesian society and that the traditional communist emphasis on class conflict would be too provocative politically, the Aidit leadership instead adopted a united-front approach that included as many elements of society as possible and emphasized nationalism and the dangers of imperialism and colonialism. Promoting a strong sense of nationalism and democracy and harping against the evils of imperialism and colonialism, together with concerted efforts to build mass front organizations such as SOBSI (the largest labor federation in Indonesia) and the BTI (*Barisan Tani Indonesia*, the largest farmer/peasant organization in the country), enabled the PKI to gain significant support (primarily in East and Central Java) such that within a few years it garnered 16% of the national vote in the 1955 elections and an even greater percentage of the vote in some regional elections in 1957. This strategy also was tailor-made for political alliances; in the first half of the 1950s, the PKI aligned itself with the PNI against Masjumi, which viewed the PKI as a great threat, and starting around 1956 the PKI began an unofficial alliance with President Sukarno.

¹⁶ Much has been written about the PKI. For the 1950s, see especially Donald Hindley, *The Communist Party of Indonesia, 1951-1963* (Berkeley: University of California Press, 1964). For the early 1960s, the best work is Rex Mortimer, *Indonesian Communism under Sukarno: Ideology and Politics, 1959-1965* (Ithaca, N.Y.: Cornell University Press, 1974). Also useful is Justus van der Kroef, *The Communist Party of Indonesia: Its History, Program and Tactics* (Vancouver: University of British Columbia Press, 1965).

Several of the smaller parties were also noteworthy. The first was the Indonesian Socialist Party (the PSI), a very small party that nonetheless exercised very great influence. The party was headed by Sutan Sjahrir, another well-known Indonesian nationalist, and was known for its very rational, moderate outlook, particularly with respect to economic affairs. Many of its leaders were western educated, including the noted economist Sumitro Djojohadikusomo. In the 1950s, this party was at times aligned with Masjumi, and it did not have a good relationship with President Sukarno. The second smaller party was the Murba party, known as nationalist communists. Established in 1948, its leaders were followers of Tan Malacca, the communist revolutionary (also a member of the Comintern) who played a major role in the early period of the Indonesian Revolution but was killed in 1949. Many of these men were also very active and influential during the Revolution, serving as leaders of mass organizations, and were known for their strong nationalism.¹⁷ The party had a very small mass following, however. It was also an ardent enemy of the PKI, despite its shared communist outlook. It was perhaps due to Murba's revolutionary heritage, as well as its lack of mass following, that a number of Murba members or supporters, including Chaerul Saleh and Adam Malik, were later brought into the cabinet by President Sukarno.

Two major elements were, for the most part, relegated to the political sidelines during this period. The first was President Sukarno, by this time recognized as the 'father' of the nation and leader of the Indonesian Revolution. Sukarno did serve as President, but the office of the Presidency had a fairly weak and ambiguous role under the 1950 constitution. Aside from ceremonial duties, its main function was to appoint the formateur of the cabinet, usually the same person as the Prime Minister. The President also had the power to appoint the Vice President (although Mohammad Hatta in 1945 became Vice-President and served in that position until his resignation in December 1956), but the Vice-President had even fewer powers than the President. President Sukarno, of course, did not disappear entirely from the scene, but for the most part allowed the cabinet and the parliament to be the loci of power. The second element that

¹⁷ Feith, *Decline of Constitutional Democracy*, pp. 131-2. For more on Tan Malacca, see chapter 12 of Anderson, *Java in a Time of Revolution*.

for the most part stayed on the sidelines was the army.¹⁸ The army, which had played such a critical role in the Indonesian Revolution, was disorganized, bloated and factionalized, and trying to professionalize itself by shedding extra personnel and reorganizing its command structure. As a result of its revolutionary war heritage, the army saw itself as the guardian of the Revolution and the State, but its political role was quite undefined. It did make a few forays into political affairs, such as the murky ‘October 17 Affair’ of 1952, and also causing the fall of the Ali cabinet in 1955 because it refused to accept the government’s choice of army chief of staff, but in general the army was far more concerned with its own internal affairs.

As we shall see, however, this political structure under Parliamentary Democracy, with the parties and the parliament playing a central role and President Sukarno and the army playing a much smaller role, would flip-flop in the next few years, and under Guided Democracy it would be an uneasy alliance between President Sukarno and the army that held power.

3. Decline of Parliamentary Democracy, 1957-59.

A widespread sense that Parliamentary Democracy was not functioning properly, together with a series of regional rebellions that traumatized the new nation, helped nudge President Sukarno and the army into an unofficial partnership that jettisoned Parliamentary Democracy and ushered in the new period known as ‘Guided Democracy.’¹⁹ As Lev has pointed out, Guided Democracy emerged after a variety of conflicts, some longstanding and fundamental to the nation, climaxed from 1957-59. The first was the conflict between Java and the outer islands, which resulted in the wrenching rebellion of 1957-58. This conflict was rooted not only in the “opposing economic

¹⁸ There are numerous excellent works on the army during this period. See especially Harold A. Crouch, *The Army and Politics in Indonesia*, Revised ed., *Polities and International Relations of Southeast Asia* (Ithaca: Cornell University Press, 1988), Ruth McVey, "The Post Revolutionary Transformation of the Indonesian Army, Part I," *Indonesia* 11 (1971), Ruth McVey, "The Post Revolutionary Transformation of the Indonesian Army, Part II," *Indonesia* 13 (1972), Ulf Sundhaussen, *The Road to Power: Indonesian Military Politics, 1945-1967* (Kuala Lumpur: Oxford University Press, 1982).

¹⁹ For the best comprehensive look at the transition from Parliamentary Democracy to Guided Democracy, see the classic by Daniel Lev, *The Transition to Guided Democracy: Indonesian Politics, 1957-1959*, Modern Indonesia Project (Ithaca, N.Y.: Southeast Asia Program, Cornell University, 1966). For shorter summaries, see Kahin’s “Indonesia,” pp. 636-58, and Feith, *Decline of Constitutional Democracy*, chapter 10.

interests of the over-populated importing areas of Java and the under-populated exporting areas of the outer islands,” but also political and social resentment of Javanese domination of the nation. The second basic conflict was between the army, which had grown increasingly frustrated over the divisions and lack of progress during the parliamentary period, and civilian/party leaders, specifically over the political role the army would play. Based primarily on its contribution during the Indonesian Revolution, the army, despite the high degree of factionalism within it, sought a much greater role in politics than afforded it under Parliamentary Democracy, and it was the army that played a key role in the collapse of the parliamentary system. To this one might add that President Sukarno, the acknowledged father of the country and, together with Vice-President Hatta, probably the two men who commanded the most national respect, was also on the sidelines of power. A third basic conflict was a great lack of consensus among the political parties over the nature of the state, including such basic questions as its form and ideological basis, a conflict magnified by the pre-eminent role of the parties in the parliamentary system. Even before the 1955 elections, there were great political divisions among the parties, especially the PKI and Masjumi and NU, and a basic source of ideological disagreement was whether the state would be a secular or Islamic-based regime. These various disagreements, of course, represented deeper social, religious and political differences that were present in Indonesia well before independence; the differences went far deeper than mere political squabbling.²⁰ As the 1955 election results emphatically testified, with four parties each getting between 22% and 16% of the vote, there remained great differences of opinion among the voting public. Finally, there was the question of the low level of effectiveness of the central government, largely caused by the conflicts described above. The high expectations upon independence, perhaps unrealistic, simply were not being met in the eyes of many. The very visible inertia in the parliament, resulting from factionalism and the inability of any one party to maintain a coalition for long, had become commonplace. Even the second Ali Sastroamidjojo (PNI) cabinet and the newly elected parliament, both of which entered office in early 1956 after the 1955 elections, seemed unable to bridge these differences. As one observer noted,

²⁰ Lev, *Transition to Guided Democracy*, pp. 3-10 (quoted language from p. 3).

creating effective governmental power proved very difficult, and “effective governmental power was the essential and all-too lacking prerequisite.”²¹

In late 1956, President Sukarno became openly critical of the parliamentary system. In February 1957, Sukarno offered an extremely vague alternative with his *Konsepsi* speech, which proposed a ‘*gotong-royong* cabinet’ (*gotong royong* meaning mutual help) comprised of all the political parties, plus a ‘national council’ made up of representatives of functional groups (such as worker’s groups, women’s groups, etc.) that would advise the cabinet. Meanwhile, from September to November 1956 factionalism in the army stemming in part from a proposed massive reorganization resulted in numerous attempted coups, none of which were remotely successful.²² On 1 December 1956, Vice-President Hatta vacated his office because of long-standing differences with President Sukarno. Later in December, in South Sumatra, Central Sumatra and North Sumatra, military officers took charge of the local governments in a series of peaceful coups. Over the next few months, the central government, led by Prime Minister Ali Sastroamidjojo of the PNI, appeared unable to resolve the situation (except in the case of North Sumatra). Then, in early March 1957, apparently in a very negative response to Sukarno’s declaration of his *Konsepsi*, the army territorial commander of Eastern Indonesia in Makassar, South Sulawesi, declared a state of martial law for the region, and his chief of staff issued a ‘Charter’ which made various demands, political and economic, on the central government.²³ This was clearly beyond the capacity of the Ali government to deal with, and at army chief of staff General Nasution’s suggestion of compromise, on 14 March 1957 the Ali government resigned and President Sukarno declared martial law over the entire country.

The imposition of martial law in March 1957 was a critical component of the army’s rise to power in the following years.²⁴ Under martial law, which would remain in

²¹ Kahin, “Indonesia”, p. 631.

²² The army factions were led by A.H. Nasution, the chief of staff of the army, pitted against the group led by Zulkifli Lubis and Simbolon. Nasution, who was forced to resign as army chief of staff in 1952 because of the 17 October Affair, was reinstated in 1955 and was behind the army restructuring effort. Zulkifli Lubis was Nasution’s deputy chief of staff. See Feith, *Decline of Constitutional Democracy*, pp. 500-7.

²³ See Feith, *Decline of Constitutional Democracy*, pp. 520-48.

²⁴ For an excellent description of the impact of martial law, see Lev, *Transition to Guided Democracy*, pp. 59-74. See also Feith, *Decline of Constitutional Democracy*, pp. 578-9; Sundhausen, *Road to Power*, pp. 122-3; and Mortimer, *Indonesian Communism under Sukarno*, pp. 104-5.

effect until 1 May 1963, the army's legal powers and authority were extensive, having increased greatly at the expense of civilian administration. The army was able to insinuate itself into civilian regional administration throughout the country, and it also established its own martial law administrative structure. However, as Lev noted, it did not "attempt to assume responsibility for running the state," but rather intruded or withdrew as it saw fit, and in effect held the power to intervene as it deemed necessary, though intervention differed from region to region.²⁵ It also used the power to restrict the activities of the various political parties, such as the outright banning of party activities (done in some regions in 1960 to PKI branches), limiting demonstrations and rallies, and, in 1957, by outlawing strikes in vital enterprises (strikes were usually organized by labor unions, which were linked to the parties – see Section B3 below). The army even tried to create its own mass organizations, such as the National Front for Liberation of West Irian in 1958. In addition, it was also able to gain much greater economic power by using martial law to take initial control over the Dutch enterprises seized in December 1957 (See Part III, Section C below). Thus, politically, economically and administratively, the army's role in the functioning of the nation increased dramatically under martial law.²⁶

To return to 1957, after the imposition of martial law President Sukarno in April appointed his own cabinet headed by Djuanda Kartawidjaja as Prime Minister, a non-party pragmatic man with great administrative skill. In May 1957, a 'national council' (*Dewan Nasional*) was appointed as per Sukarno's *Konsepsi*, but this body, which was chaired by Sukarno, was only another vehicle by which Sukarno could assert his power and authority.²⁷ These moves thus represented a clear interjection into politics and power by the President. Hence, by the end of first half of 1957, both the army's and Sukarno's power and influence had greatly expanded. The political parties, of course, were not happy with these moves, but there appeared to be little the parties could do about it. Moreover, the die was far from cast insofar as the loss of the parties' power and influence was concerned.

²⁵ Lev, *Transition to Guided Democracy*, p. 60.

²⁶ Crouch, *Army and Politics in Indonesia*, pp. 24, 33.

²⁷ Feith, *Decline of Constitutional Democracy*, p. 580; Lev, *Transition to Guided Democracy*, pp. 23-8.

The de facto expansion of power by Sukarno and the army was not enough to prevent the simmering regional crises from erupting in early 1958 into a full-scale regional rebellion and the greatest regional challenge to central authority in the history of independent Indonesia.²⁸ In December 1957, a number of prominent Masjumi leaders, including Sjafruddin Prawiranegara (ex Finance Minister and Governor of Bank Indonesia) and Burhanuddin Harahap (the Prime Minister from August 1955 to March 1956), left Jakarta and joined the regionalists. Then, in the midst of the economic jolt caused by the takeover of Dutch companies in early December 1957 (see Part III, Section C below), in mid-February 1958 the PRRI Revolutionary Government, headed by Sjafruddin, was proclaimed in West Sumatra, with groups in North Sumatra and Sulawesi joining in. The rebels were not looking to secede from Indonesia, but rather to change the power relationship between the regions and the center, and also to effect various changes in the leadership of the central government (including a demand that Hatta be brought back into government and allowed to form his own cabinet, and a demand that Sukarno be limited to duties prescribed to the president under the constitution). However, the PRRI/Permesta rebellion, as it became known, was quickly contained by the army with minimum casualties; by July, most of the rebel towns had been taken and the rebels had been reduced to a small guerilla force.

The defeat of the rebellion had several immediate effects. First, it enhanced the prestige and power of the army, which had acted swiftly and effectively in ending it. It also enabled the central army command to become much more unified internally, as dissident military officers were cleaned out and Nasution's position as head of the army was further established. Second, it ended any further thoughts of regional separatism, and strengthened the central government vis-à-vis the regions. Third, it discredited completely the two political parties principally associated with it, the Masjumi and the PSI, both of which were viewed with suspicion by Sukarno even before the rebellion.

²⁸ There were numerous reasons behind the rebellion, including uneven economic relations caused by an unrealistic exchange rate, ethnic tensions, internal army problems, and general disagreement over how the country was being managed. The sequence of events has received much attention, but insofar as I know, there is as yet no comprehensive account available in English. For shorter analyses, see Lev, *Transition to Guided Democracy*, and Feith, *Decline of Constitutional Democracy*.

Finally, it clearly strengthened the emerging Sukarno-army alliance, at least with respect to the role of the political parties.²⁹

The final blow to Parliamentary Democracy was the failure of the Constituent Assembly to agree on a new national constitution.³⁰ The Constituent Assembly was elected in December 1955 (in a separate national election after the 1955 parliamentary elections) for the sole and express purpose of drafting a new constitution to replace the provisional constitution of 1950. The body began deliberations November 1957, but by early 1959 was unable to reach the required two-thirds majority consensus. The primary issue concerned the ideological foundation of the state; Masjumi and the NU were vying for Islam to be the basis of the state, while other parties supported the secular *Pantja Sila*, Sukarno's conception from 1945, as the philosophical basis of the state. Another important issue was over the nature of the center-region relationship, with Masjumi favoring more regional autonomy. In early 1959, talk began to center over returning to the 1945 constitution, one that was hastily drafted at the close of the Japanese occupation and effectively only in place for a few months. However, the Constituent Assembly, hopelessly deadlocked, was unable to agree on this either, as this constitution unequivocally prescribed *Pantja Sila* as its basis. With the strong encouragement and support of army leader Nasution, on 5 July 1959 President Sukarno, using authority he clearly did not have, by decree declared the abolition of the Constituent Assembly and the restoration of the 1945 constitution. The period of Parliamentary Democracy, constructed upon the foundation of the 1950 provisional constitution, was dead.

B. Guided Democracy to Circa 1962.

The period of Guided Democracy (1959-1966) was fundamentally different in its power structure and political relationships from the period of Parliamentary Democracy. With the exception of the PKI, the political parties were essentially emasculated. The parliament was no longer relevant, and there were no popular elections; instead, political

²⁹ Feith, *Decline of Constitutional Democracy*, p. 588; Lev, *Transition to Guided Democracy*, chapter four.

³⁰ For a comprehensive look at the Constituent Assembly, see Adnan Buyung Nasution, *The Aspiration for Constitutional Government in Indonesia: A Socio-legal Study of the Indonesian Konstituante, 1956-1959*, 1st. ed. (Jakarta: Pustaka Sinar Harapan, 1992). See also Lev, *Transition to Guided Democracy*, chapter six.

power was shared in an uneasy, competitive alliance between President Sukarno and the army. Individually, President Sukarno was by far the single most powerful individual, and institutionally the army was the most powerful. Moreover, it was only in early 1964 that the PKI became increasingly visible and volatile and really began asserting itself in its drive for political power. Ideology, with an emphasis on continuing the revolution, was heavily promoted by President Sukarno, and permeated society. In the following pages, I shall first describe the official organs of government under Guided Democracy, followed by the actual structure of political power. I then turn to the role of ideology and mass actions, and finish with an analysis of government bureaucracy and power, including a discussion of a few ministers important in the takeovers of 1963-65.

1. Structure of Government.

In describing the structure of the government of Indonesia, the best place to start is the 1945 constitution, which President Sukarno in early July 1959 decreed was back in force.³¹ The document is fairly basic and skeletal, providing the simplest of backbones on which to hang more meat and flesh. The striking feature of the 1945 constitution, in comparison with the provisional 1950 constitution, is the dominant role of the Presidency, which has much greater power and authority than under the 1950 constitution. Indeed, it is this executive office, rather than the parliament, which becomes the center of decision-making. Undoubtedly it was for this reason that Nasution and Sukarno pushed for a return to the 1945 constitution, as power would theoretically be centered in the hands of President Sukarno and out of the hands of the political parties. The 1945 constitution provides for eight institutions of offices: (i) the *Madjelis Permusjawaran Rakyat* (the MPR, or ‘People’s Consultative Assembly’), (ii) the Presidency, (iii) the Vice-Presidency, (iv) the *Dewan Perwakilan Rakyat* (the DPR or Parliament), (v) the *Dewan Pertimbangan Agung* (‘Supreme Advisory Council’), (vi) ministers of state (the offices are not specified), (vii) a Supreme Court, and (viii) a financial audit board.

³¹ For an English translation of the 1945 constitution, see "The Indonesian Revolution: Basic Documents and the Idea of Guided Democracy," (Department of Information, Republic of Indonesia 1960).

Under the 1945 constitution, the MPR is the highest authority in the land, as it represents the people, in whom sovereignty resides. The MPR, which is supposed to meet at least once every five years, is charged with determining the broad policy lines of the state and electing the President and the Vice-President, and only the MPR can amend the constitution. The MPR is comprised of two separate groups: the DPR, and delegates from regional territories and other non-specific groups. The practice under Guided Democracy was rather different; a provisional MPR (known as the MPRS) was appointed by President Sukarno, not elected, and essentially served as a rubber stamp body for President Sukarno's policies. It met three times: first in November-December 1960 (during which among other things, it approved the Eight Year Development Plan), in May 1963 (during which it, among other things, appointed Sukarno President for life and approved DEKON, an economic doctrine – see Chapter Four), and in April 1965 (during which, among other things, it approved the adoption of BERDIKARI as state economic policy, see Chapter Seven).

Despite the role of the MPR as the theoretical holder of the highest authority of the state, it is clearly the Presidency which on paper wields the most power under the 1945 constitution. The President, elected by the MPR for five year terms, holds executive authority, and can both make legislation (which must be approved by the DPR) and reject laws passed by the DPR. In addition, only the President can issue government regulations necessary to implement the laws and in emergency circumstances may issue regulations instead of laws (thus, there is a two tiered system of lawmaking, with laws approved by both the President and the DPR, and implementing regulations, which effectively take the place of laws, issued only by the President). As we shall see, in practice President Sukarno often issued decrees and regulations that were never subject to DPR approval (the difference among laws, regulations and decrees was very vague). The President appoints and dismisses ministers, who are responsible to the President alone, and in theory the President also holds authority over the armed forces. The President also holds numerous other powers, including the power to declare martial law. Of the vast powers granted to the President, only a few are checked by another institution. In theory, the President is responsible to the MPR (which meets only once every five years), and the DPR has the power of refusing to pass laws issued by the President, a power substantially

weakened by the President's exclusive right to issue regulations and decrees. In theory, DPR approval must be obtained for declarations of war and peace, for treaties with other countries, and for the state budget. In practice, under Guided Democracy, President Sukarno exercised these wide powers of the Presidency to the fullest, with little resistance from the MPR or DPR, which were both appointed by him.

The DPR's primary function is in the area of statute-making. As described in the previous paragraph, it can initiate its own legislation, which must be approved by the President, it can also block legislation approved by the President, and it has approval powers over declarations of war, treaties and budgets. Its composition, structure and voting procedure and the like are not prescribed by the constitution, other than the requirement of meeting once per year, and that it cannot be dissolved by the President. In fact, under Guided Democracy there were never any elections for the DPR, which was appointed by President Sukarno and was beholden to him, and the DPR would play a very limited role.

Under the 1945 constitution, the principal role of the ministers, whose offices are not specified by the constitution, is to serve the President. The President appoints and dismisses them, and the ministers are responsible to the President only, not the DPR. For the first years of Guided Democracy, President Sukarno appointed a 'First Minister', who chaired the cabinet meetings and performed the day-to-day routine matters (Sukarno appointed himself as 'Prime Minister,' to be in overall charge of the ministers and cabinet). This position of First Minister was filled by Djuanda Kartawidjaja, who had acted as Prime Minister in the two years before July 1959. There was a wide array of cabinet positions and restructurings; after the appointment of the initial cabinet in July 1959, there were five major cabinet reshuffles through February 1966. There was also a body known as the *Pimpinan Kabinet* (cabinet leadership) and various iterations of a body known as 'core ministers,' whose basic function appeared to be to coordinate policy, but this "failed to produce close cohesion, partly because the holders of ordinary portfolios have often been reluctant to accept instructions from the deputy first ministers placed above them."³² In practice, President Sukarno provided the overall policy

³² Feith, "Indonesia," p. 237. The *Pimpinan Kabinet* was originally comprised of Sukarno and Djuanda, and later included Minister Leimena (from February 1960) and Minister Subandrio (from March 1962). In

outlines, but often left it up to his ministers to implement these general guidelines. As Feith observed, the principal feature of the cabinet was the “great power which individual ministers may and do wield within their departments”; there were few institutional or legal checks on the ministers within the departments, and ministers often stocked their ministries with assistants loyal to them rather than with professional administrators. Contributing to the dispersal of power among the ministers was the failure of the cabinet to meet regularly, and “few important decisions [were] taken by the cabinet as a body.”³³ In fact, as we shall see, there was constant bickering and conflict among the ministers, and there was great competition to be appointed as a minister, not only for the prestige but also for the patronage possibilities. President Sukarno, of course, could and did intervene in ministerial affairs, either directly or by indirect means such as reshuffling the cabinet, and there were often dismissals and appointments of ministers in addition to the reshuffling. The size of the cabinet would continue to increase under Guided Democracy so that by 1965 there were over 75 ministers, though not all of them had their own departments. The ministers’ roles and government bureaucracy will be discussed further in Section 4 below.

The roles of the other institutions in the 1945 constitution are very limited. The main function of the Vice-President, also chosen by the MPR for a five year term, is to assist the President and to assume the Presidency should the President be unable to execute his duties. In fact, a Vice-President was never appointed under Guided Democracy – the office remained vacant after Hatta left it in December 1956. Under the

November 1963, the *Pimpinan Kabinet* was replaced by the *Presidium Kabinet*, comprised of Subandrio, Leimena and Chaerul Saleh as Deputy Prime Ministers. In March 1962, the ‘core minister’ group was eliminated and ‘First Ministers’ in charge of broad areas were named; in November 1963, these ‘First Ministers’ were renamed ‘Coordinating Ministers’ and placed in charge of specified groupings of ministries known as ‘Compartments.’ The July 1959 cabinet was known as the Kabinet Kerdja, or ‘Work Cabinet’; the February 1960 cabinet was known as the Second Work Cabinet; the March 1962 cabinet was known as the Third Work Cabinet; the November 1963 cabinet was also known as the Fourth Work Cabinet; the September 1964 Cabinet was known as the ‘Dwikora Cabinet,’ or ‘People’s Two Commands Cabinet’ (a reference to Konfrontasi); and the February 1966 cabinet was known as the ‘Perfected Dwikora Cabinet.’ Beginning with the 1959 Work Cabinet, all cabinets were non-party, so their members had to drop any political party affiliations. Descriptions of cabinet structures and lists of ministers can be found in P.N.H. Simanjuntak, *Kabinet-Kabinet Republik Indonesia: Dari Awal Kemerdekaan Sampai Reformasi* (Jakarta, Indonesia: Penerbit Djambatan, 2003).

³³ Feith, “Indonesia,” p. 237. Mackie further suggests that that the “cabinet as a full committee of ministers virtually ceased to be a meaningful body since about 1961.” J. A. C. Mackie, *Problems of Indonesian Inflation*, Modern Indonesia Project, Cornell University (Ithaca, N.Y.: Southeast Asia Program, Dept. of Asian Studies, Cornell University, 1967), p. 13.

1945 constitution, the Supreme Advisory Council also has strictly an advisory role to the President, who is not required to follow its suggestions. Under Guided Democracy, this body was appointed by President Sukarno, and it included representatives from political parties and other groups, and was actually led by Sukarno himself. The powers of the Supreme Court are not specified by the 1945 constitution, which leaves the matter to be determined by statute. This Supreme Court under Guided Democracy had virtually no authority at all insofar as acting as a check on other governmental institutions. Finally, the only function of the financial audit board is to audit the budget, and for our purposes it played no role.

Thus, on paper the office of the Presidency is the key position of power under the 1945 constitution, with President Sukarno the head of state and key decision-maker. Immediately after decreeing the return to the 1945 constitution on 5 July 1959, President Sukarno, taking advantage of his newly found authority, sought to install the organs prescribed by the constitution. On 9 July 1959 he appointed the new ‘Work Cabinet’ headed by First Minister Djuanda, and later in the month he appointed the Supreme Advisory Council and the National Planning Council. The National Planning Council, known by its acronym DEPERNAS (*Dewan Perantjang Nasional*), was a non-constitutionally prescribed body which Sukarno charged with the task of drafting an economic development program. Comprised of 74 members, DEPERNAS was led by Mohammad Yamin, a strong nationalist who was not an economist by training, and will be discussed more in Part III below. The elected parliament of 1955 remained in office until early March 1960, when it rejected Sukarno’s draft budget and as a result was dissolved by him. It was replaced in 1960 by the Sukarno-appointed *Gotong Royong* (mutual help) DPR (appointed in June) and the Sukarno-appointed provisional MPR (appointed in August, known as the MPRS), which of course were further blows to the political parties. Sukarno also immediately strengthened the position of the central government vis-à-vis the regions in the fall of 1959 by instituting measures that reversed the trend toward regional autonomy, principally by abolishing elections for regional leaders and instead having them appointed by the central government, with a concurrent

expansion of their powers.³⁴ This also served to weaken the influence of the political parties.

2. Structure of Political Power.

While on paper the Presidency seemed to hold the reins of power and authority, in the early years of Guided Democracy power was shared between President Sukarno and the army. As many observers have pointed out, the most critical political relationship of the period was the one between President Sukarno and the army, “a ‘stable conflict’ relationship characterized by both common endeavor and continuing competition and tension between more or less equally matched partners.”³⁵ This cooperative but competitive marriage of convenience continued the arrangement begun around 1957 when Sukarno and army chief of staff and leader General Nasution colluded, for different reasons, in jettisoning Parliamentary Democracy. As Feith noted, there was a rough, though occasionally fluid, division of power, with each side generally leaving the other to its own devices in its allotted sphere. President Sukarno was in charge of ideology, foreign affairs, and in most ‘public politics’, while the army was predominant in regional government, the nationalized Dutch companies, some areas of GOI administration, and in internal security. Both President Sukarno and the army accepted the arrangement essentially because each needed the other, at least initially, and there was little choice. Sukarno, a long time proponent of Indonesian independence and the acknowledged father of the country and leader of the Revolution, was a source of instant legitimacy. The army lacked this legitimacy, and in fact there was much opposition to outright army rule. Sukarno, for his part, was in no position to challenge the army’s monopoly over force.

³⁴ See chapter nine in John Legge, *Central Authority and Regional Autonomy in Indonesia: A Study in Local Administration, 1950-1960* (Ithaca, New York: Cornell University Press, 1961). By issuing a presidential decree (not subject to parliamentary approval), President Sukarno was effectively able to overturn Law no. 1 of 1957 made by the elected parliament of 1955. This was one of the first examples of Sukarno ‘decreeing around’ parliament-approved legislation.

³⁵ Herbert Feith, “Dynamics of Guided Democracy,” in *Indonesia*, ed. Ruth McVey (New Haven, Conn.: Yale University, 1963), p. 325. This highly informative piece contains one of the best analyses of the early period of Guided Democracy; a portion of it was updated in Herbert Feith, “The Politics of Economic Decline,” in *Sukarno’s Guided Indonesia*, ed. T.K. Tan (Brisbane: Jacaranda Press, 1967). See also Kahin, “Indonesia,” Feith’s “Indonesia” and Lev’s *Transition to Guided Democracy*. Also informative are Oey Hong Lee, *Indonesian Government and Press During Guided Democracy*, Hull Monographs on Southeast Asia (Hull, England: Centre for Southeast Asian Studies, University of Hull, 1971), Jeanne S. Mintz, *Mohammed, Marx, and Marhaen: the Roots of Indonesian Socialism* (London: Pall Mall Press, 1965).

Moreover, Sukarno had clearly needed army support to end Parliamentary Democracy, and army support was thus necessary to the continuation of Guided Democracy; the best Sukarno could do was to try to control the army leadership. While this would prove impossible, the army was still divided enough over a variety of issues (including what political role it should play) that Sukarno could exploit this factionalism to his benefit. In addition, Sukarno, while wildly popular among the masses, did not have a party of his own and lacked an organizational following.³⁶

The competitive nature of the Sukarno/army relationship boiled up at times, a reminder that below the surface of cooperation there was much maneuvering. One of the areas of contention was the PKI, which was effectively allied with Sukarno against the army (see following paragraphs). For example, in August 1960, after the PKI in July released a statement extremely critical of the cabinet and the army, regional army commanders in South Kalimantan, South Sulawesi and South Sumatra banned PKI activity. Sukarno responded by banning all party activity for three months, after which the PKI was allowed to resume limited activity in two of these areas (and in the third area in 1961). Another area of conflict was over the continuance of martial law. Sukarno pressed the army to end it, and as we shall see in Chapter Four Sukarno finally in November 1962 announced it would be lifted in May 1963.³⁷ President Sukarno also purposefully fostered divisions among the branches of the armed forces (the army, navy and air force) as well as within each branch. The best example of this was the July 1962 Sukarno appointment of General Achmad Yani to replace General Nasution as army chief of staff (the commander of the most powerful military force in Indonesia, the army); Nasution was theoretically ‘elevated’ to the position of chief of staff of the armed forces, but this was an administrative position, without operational authority over any of the individual branches of the armed services, and the move was clearly a demotion.³⁸ This jousting between Sukarno and the army would continue in the second half of Guided Democracy.

³⁶ Feith, “Dynamics of Guided Democracy,” pp. 327-30.

³⁷ Feith, “Indonesia,” p. 246; Crouch, *Army and Politics in Indonesia*, p. 54.

³⁸ Crouch, *Army and Politics in Indonesia*, pp. 51-4. Yani was seen as more pliable than Nasution, less likely to be directly confrontational towards Sukarno.

With the predominance of the Sukarno-army partnership, the political parties were essentially emasculated in the early years of Guided Democracy, and they played a much smaller role in comparison with the Parliamentary Democracy period. The elected parliament of 1955 was replaced in 1960 by the MPRS and DPR, which were both appointed by Sukarno and thereafter functioned as rubber stamp bodies. Thus, the parliament, which prior to Guided Democracy had been a bastion of political party power, was no longer a locus of power and decision-making. Likewise, beginning in 1959 the cabinet was non-party, meaning ministers had to resign from the political parties. Martial law was also used by the army to restrict party activities. There were also more formal limitations on the parties. For example, in late 1959 President Sukarno issued a regulation which resulted in the ‘simplification’ of the parties in the next year by (i) forcing them to accept as one of their basic principles the 1945 constitution and *Pantja Sila*, (ii) limiting membership to Indonesian citizens only, and prohibiting acceptance of foreign aid, (iii) requiring parties to have branches in at least 25% of the provinces (and in 25% of the regional government subdivisions below the provincial level), and (iv) providing the President with authority to ban a party if it participated in rebellions/revolts.³⁹ In August 1960, in part because of the role some of their top leaders played in the 1957-58 rebellion but primarily because Sukarno saw them as enemies, the Masjumi and the PSI were banned, and in early 1962 much of their top leadership was arrested. By April 1961 the number of political parties legally permitted to operate was reduced to eight, though later increased to 10 (the big three of the PNI, NU, and the PKI, plus seven much smaller ones). Attempts by the parties to combat this reduction in their influence were short-lived; for example, in 1960 a ‘Democracy League’ was created to fight these changes, but it lasted only a few months.

However, President Sukarno did not seek to destroy entirely the influence of the parties, but instead to use their remaining limited influence to check the power of the army. This was especially important because Sukarno did not have his own party and organizational following. The party best suited to this tactic was the PKI, as it was the best organized and had the largest mass following through its various front groups. In return for PKI support for his policies (ranging in form from simple positive statements

³⁹ Legge, *Central Authority and Regional Autonomy*, pp. 224-5.

of support to organizing mass demonstrations), Sukarno afforded the PKI protection from the army, which increasingly saw the PKI as its biggest domestic rival. As we have seen, the PKI adopted a nationalistic united front approach in the 1950s in expanding its domestic base of support, and this strategy easily lent itself to a tacit alliance with Sukarno under Guided Democracy, especially with Sukarno's emphasis on nation-building (see next section). According to one commentator, by 1959 or so the President saw the PKI as "the most energetic and consistent supporter of his militant nationalist creed, a useful counterweight to the army in the political system, and the most effective mass mobilizer behind the patriotic campaigns he held dear."⁴⁰ For the PKI, such an alliance meant not only protection from the army but also the chance to gain a measure of legitimacy by publicly identifying with Sukarno, as well as the possibility of participation in the cabinet and government.⁴¹

Nevertheless, the Sukarno/PKI alliance relationship should not be interpreted to mean that the PKI was anywhere close to achieving political supremacy in 1962. It certainly had a significant following; as we saw previously, in the 1955 elections the PKI had received about 16% of the national vote, and in a limited number of regional elections in 1957 it significantly increased its share of the vote (in Java, its vote went from 21% in the 1955 national elections to 29% in the 1957 regional elections). By early 1963, its membership was over 2 million, and membership in PKI front organizations was estimated to be over 12 million, which would certainly have made its mass organization membership larger than that of any other party.⁴² Yet despite its size and its universally recognized effectiveness of organization, in 1962 the PKI was very much dependent on President Sukarno, a dependency that Sukarno recognized and exploited. In the words of a close observer, the PKI, along with the other political parties, had been "domesticated."⁴³ By this the author meant that the PKI had been effectively blocked

⁴⁰ Mortimer, *Indonesian Communism under Sukarno*, p. 79. For more of the Sukarno/PKI alliance under the early years of Guided Democracy, see Hindley, *The Communist Party of Indonesia*, chapter 12.

⁴¹ Hindley, *The Communist Party of Indonesia*, pp. 284-5.

⁴² Hindley, *The Communist Party of Indonesia*, pp. 223, vii.

⁴³ See Donald Hindley, "President Sukarno and the Communists: the Politics of Domestication," *The American Political Science Review* 56, no. 4 (1962). See also Hindley, *The Communist Party of Indonesia*, pp. 285-6. There is a debate over Sukarno's intentions for the PKI; was he trying to help it eventually seize the reins of power, or was he just using it to balance the army? See Legge, *Sukarno*, pp. 362-70, 396, and

from assuming power in Indonesia; it did not hold any important cabinet positions, it could not win through elections because there were no elections, and its activities had been gradually restricted by both Sukarno and the army. It was the price the PKI paid for its dependency alliance with President Sukarno.

However, as we shall see in the following chapters, in late 1963 the PKI's relationship with Sukarno would begin to evolve. The PKI would play a much more visible and volatile role in Indonesian politics. Its ideological identification with Sukarno would in many ways become stronger, but it also increasingly would challenge the status quo.

3. Ideology and Mass Action.

Two outstanding features of political life under Guided Democracy were the permeation of ideology in politics and society and the use of mass action or mass organizations. President Sukarno was the main source of ideology under Guided Democracy. One of the most important ideological themes that Sukarno promoted was that the Indonesian Revolution was not yet complete and must continue; as one commentator noted, this theme of the unfinished revolution provided the "central dynamic of the Guided Democracy regime."⁴⁴ Complementing the emphasis on ideology under Guided Democracy was prevalence of mass action, in particular demonstrations and political rallies. Mass actions, which seemed to increase in frequency beginning in 1962 with the West Irian campaign, were rarely spontaneous, however; they were almost always led by mass organizations, of which the National Front and labor unions were prominent. These two features of ideological penetration and mass action often overlapped, with mass organizations frequently citing various aspects of ideology as the reason for their actions. Indeed, one of the main functions of the National Front, one of the most important mass organizations, was to mobilize the masses and inculcate and promote GOI ideology. These mass organizations were often characterized by an educated leadership and a mass following of mostly uneducated, working class members.

also Peter Hauswedell, "Sukarno: Radical or Conservative? Indonesian Politics 1964-5," *Indonesia* 15 (1973).

⁴⁴ Mortimer, *Indonesian Communism under Sukarno*, p. 166.

As we shall see in the following Chapters, mass organizations played a key role in the takeovers of foreign companies.

Beginning in 1959 with the introduction of Guided Democracy, the GOI and especially President Sukarno really emphasized ideology (and political indoctrination) to the point where it and the various slogans, symbols and imagery espousing it pervaded society and government and became a dominant characteristic of political life.⁴⁵ President Sukarno was the undisputed source of most of the ideological formulation (though this would change somewhat from 1963-65 as many of Sukarno's ideas were indistinguishable from the PKI's); his speeches, especially the all-important annual independence day speeches on 17 August (the day in 1945 on which Sukarno declared independence from the Dutch), were a main point of dissemination of these slogans and symbols. Ideology and its slogans permeated down to almost every bureaucratic nook and cranny and also dominated public announcements. Even religious and cultural organizations were forced to support the GOI's ideological formulations, and public criticism of them was virtually impossible.⁴⁶ Dissemination of ideology was further aided by the press, whose "chief purpose...under Guided Democracy was to support and advance the policies of the Government, and to serve the state."⁴⁷ The press was relatively free during Parliamentary Democracy, but under Guided Democracy gradually lost its independence to government restriction; it "became saturated by the ideals, slogans and shibboleths of the regime's ideology,"⁴⁸ and by early 1962 each newspaper was "obliged to devote a large part of its four pages to unabridged government declarations, most of them heavily repetitious and dealing with ideology rather than policy."⁴⁹ Increasingly, slogans and symbols, especially those pushing Sukarno's

⁴⁵ On ideology in general under Guided Democracy, see Herbert Feith, "Indonesian Political Symbols and their Meaning," *World Politics* 16, no. 1 (1963), Justus van der Kroef, "An Indonesian Ideological Lexicon," *Asian Survey* 2, no. 5 (1962), Donald E. Weatherbee, *Ideology in Indonesia: Sukarno's Indonesian Revolution*, Southeast Asia Studies, no. 8 (New Haven, CT.: Yale University 1966).

⁴⁶ Feith, "Indonesia," pp. 222, 235. As we saw in the previous section, the remaining political parties were also forced to recognize as one of their basic principles the 1945 constitution and the doctrine of *Pantja Sila*; many of Sukarno's ideological formulations under Guided Democracy would involve these two, such that the parties were in effect forced to accept these reformulations as well.

⁴⁷ Lee, *Government and Press during Guided Democracy*, p. 116.

⁴⁸ Lee, *Government and Press during Guided Democracy*, p. 138.

⁴⁹ Feith, "Dynamics of Guided Democracy," p. 369.

concept of continuing the unfinished revolution, replaced specific, considered planning,⁵⁰ with clearly detrimental effects. Another feature of this pervasiveness of ideology and its symbols and slogans was its continued evolution; as we shall see, new ideas, slogans and acronyms were continually popping up.⁵¹

There is a dizzying array of slogans, symbols, words, and concepts that were promoted during Guided Democracy. I shall list only a few here by way of example; later in this Chapter and in the following Chapters, more that pertain to the takeovers of foreign companies will be discussed. In general, as Feith has described, there were at least five broad areas of emphasis, the first two more important than the others.⁵² Most important was the theme mentioned previously that the Indonesian Revolution had yet to be finished, and that the country should return to the spirit of the Revolution, the spirit of change and dynamism. The second was the emphasis on national unity and solidarity, an appeal that the nation should stay together in spite of its many differences (geographic, social, ethnic, economic, etc.). These first two categories were broad enough to encompass and justify a great number of ideas and concepts. A third category stressed the demands of the people. Perhaps the most famous slogan of this category was AMPERA, an acronym for *amanat penderitaan rakyat*, roughly translated as ‘message of the people’s suffering’; this populist slogan emphasized how the Indonesian people had suffered and/or been exploited. A fourth theme was the idea that Indonesia and its people should have their own identity or personality, free especially from pernicious foreign influences. Finally, the fifth theme centered around national strength and prestige,

⁵⁰ Legge, *Sukarno*, p. 376.

⁵¹ One may wonder why the GOI and Sukarno invested such a great deal of time and energy in articulating and implementing national ideology. Feith has posited three basic reasons; (i) it helped keep the government in power by strengthening control over the bureaucracy, controlling the flow of information, and limiting opposition; (ii) it legitimized the government and heightened its prestige, and (iii) it allowed for more manipulation, so that attention was focused on shared interests and values, such as nationalism, instead of divisive issues (see Feith, “Indonesian Political Symbols,” pp. 85-91). Elsewhere, Feith has suggested that such an emphasis allowed Sukarno and other “solidarity makers” to remain in power at the expense of “administrators,” who focused more on efficient administration and economic growth (see Feith, “Politics of Economic Decline,” pp. 47-9). Kahin further suggests that such emphasis also helped to gloss over economic problems (Kahin, “Indonesia,” pp. 668-9). Mortimer also provides several: it legitimized the role of leaders who rose to power based on their role in the Indonesian Revolution, it focused attention on strengthening the claims of the center over the regions, and it diverted attention from divisive issues (Mortimer, *Indonesian Communism under Sukarno*, p. 166).

⁵² Feith, “Indonesia,” pp. 232-5, and Feith, “Indonesian Political Symbols,” pp. 81-2. The following discussion of five themes is taken principally from these two pieces.

emphasizing Indonesia as a leader in the region and a nation of which Indonesians should be proud.

Some of the most basic slogans under Guided democracy were MANIPOL/USDEK and NASAKOM. Perhaps the most important was MANIPOL, an acronym for the Political Manifesto, articulated in Sukarno's independence day speech of 1959 in which he publicly initiated the introduction of the 1945 constitution and the advent of Guided Democracy. The MANIPOL speech also touched on broad policy of the new regime as well as its short term and long term goals, and together with USDEK was subsequently endorsed in 1960 by the newly appointed MPRS as the basic outline of national policy. The acronym USDEK, often mentioned together with MANIPOL, identified five basic tenets or themes of MANIPOL: the 1945 constitution (the 'U', which included *Pantja Sila*), Indonesian Socialism (the 'S'), Guided Democracy (the 'D'), Guided Economy (the 'E'), and the Indonesian personality (the 'K').⁵³ Another important acronym was NASAKOM, short for nationalism (*nasionalisme*, or 'NAS'), religion (*agama* or 'A'), and communism (*komunisme*, or 'KOM'). This term had its roots in Sukarno's 1926 essay formulation of the unity of nationalism, Islam and communism as the ideological basis for Indonesia in its struggle against colonialism. However, as Legge points out, its function in the 1960s was to preserve Sukarno's position as a balancer and arbiter of its different component parts,⁵⁴ and it was also often used by the PKI to seek more representation in government or on councils or other official positions.⁵⁵ Most of these terms were rather vague, open to interpretation and debate, often intentionally.

Turning to mass organizations, one of the most active was the National Front.⁵⁶ Established in August 1960 by President Sukarno, it was originally conceived as a large,

⁵³ For more on the meaning of Manipol, USDEK and many other slogans, see Weatherbee, *Ideology in Indonesia*, and van der Kroef, "Indonesian Ideological Lexicon."

⁵⁴ Legge, *Sukarno*, pp. 391-2.

⁵⁵ Mackie also notes that NASAKOM was "initially put forward in 1960 as a formula for allocating party representatives" in the many non-elected bodies of the GOI and other consultative bodies, such as the MPRS, DPR, National Front, etc. J. A. C. Mackie, *Konfrontasi: the Indonesia-Malaysia Dispute, 1963-1966* (Kuala Lumpur: Oxford University Press, 1974), p. 86.

⁵⁶ The National Front should not be confused with the National Front for the Liberation of West Irian, which was started in early 1958 by General Nasution and dominated by the army. Its purpose was to build broad political support, but Sukarno and the political parties opposed it; it never developed into an effective force and lasted only until 1960, when it was in effect superseded by the National Front. See Lev, *Transition to Guided Democracy*, p. 67.

single national political party that would eventually replace the independent political parties, somewhat similar to the Chinese Communist Party of the Peoples Republic of China; its function was to serve as an agent to rally and mobilize the masses behind GOI ideology and programs. In his 1960 independence day speech given just after the establishment of the National Front, Sukarno said the front was “to channelize the revolutionary unity of the people into an anti-imperialist National Front under the leadership of Bung Karno, to serve as a base for arousing mass action,” and its duty was to “to build up and channel the whole of the potential of the people” in order to “complete the Revolution.”⁵⁷ From March 1962 until the end of Guided Democracy, there was a cabinet level ministerial position for the National Front.⁵⁸ Initially only individuals and mass organizations were allowed to join; political parties were excluded (though members could join as individuals), and Sukarno was also wary of excessive army influence. The organization initially had little impact, but it was galvanized by the 1962 West Irian campaign (see Part II below) and from then on was a significant force as an agent of mass mobilization. Perhaps not coincidentally, in January 1962 the political parties were allowed to join. They quickly did, hoping to use the body as a means to regain some of their lost power, and apparently the political parties and the army both competed for power and influence within the organization. However, according to one observer of the PKI, the PKI very quickly became influential in the National Front’s leadership and “supplied most of the popular constituency of the Front,” which in turn provided the PKI “with a respectable base from which to launch its mass demonstrations and displays of revolutionary fervor.”⁵⁹ By 1964, the PKI appeared to be the dominant organization within the National Front’s national leadership; a CIA report of February 1964 estimated that the PKI or its front organizations held 80% of the national executive council seats and dominated all other levels of the organization. While the PKI may have been influential on a national level in the front, the army did retain some influence at the provincial level, as a number of army officers, including in West Java and in East

⁵⁷ An English language copy of the speech, entitled “Like an Angel that Strikes From the Skies (the March of Our Revolution),” can be found in *Toward Freedom and Dignity of Man: A Collection of Five Speeches by President Sukarno*, (Department of Foreign Affairs, Republic of Indonesia, 1961).

⁵⁸ See Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 231, 242, 252, 272.

⁵⁹ Mortimer, *Indonesian Communism under Sukarno*, pp. 101, 196.

Kalimantan, were the heads of the organization's provincial branches. In March 1964, the National Front's position and stature were increased significantly when important bodies of regional government officials known the *Tjatur Tunggal* (these bodies were at three levels of regional government – provincial, regency and city), comprised of the provincial governor (or regent or mayor, as the case may be), local army commander, local police chief and local public prosecutor, were expanded from four to five members to include the local National Front leader and were renamed the *Pantja Tunggal*. Many of these new National Front appointees were PKI members or nominees.⁶⁰ To summarize, as a political party the National Front was not successful, but as a mobilizer of masses it was quite effective, and although technically it was an official GOI organization, by 1964 it was heavily influenced by the PKI and GOI control over it appeared nominal.

Labor unions were another influential group of mass organizations. As numerous commentators have shown, labor unions in Indonesia were of a highly political nature, frequently engaging directly in political activities, and most were associated with political parties.⁶¹ Labor groups in Indonesia were generally structured as large federations of individual unions, and the federations were linked to the political parties in two ways; first by shared ideas, principles and outlooks, and second by leaders of the federations becoming members of the associated parties. Leadership of the unions generally played a dominant role over the rank and file members,⁶² although by no means were individual members of the labor unions required to be members of the associated political party.

⁶⁰ Lev, *Transition to Guided Democracy*, pp. 205, 216, 221-3; Feith, "Indonesia," p. 238; Mortimer, *Indonesian Communism under Sukarno*, pp. 101-2; Rocamora, *Nationalism in Search of Ideology*, pp. 285-6, 318-9; Kahin, "Indonesia," pp. 639, 658-9, 667-8; Weatherbee, *Ideology in Indonesia*, pp. 47-51; Hindley, *Communist Party of Indonesia*, pp. 279, 282; Crouch, *Army and Politics in Indonesia*, p. 34; Sundhausen, *Road to Power*, p. 152; Mintz, *Mohammed, Marx and Marhaen*, pp. 196-7; the CIA report, dated 7 February 1964 and entitled "The Power Position of Indonesia's President Sukarno," can be found at the LB JL, National Security Files, Country File Indonesia, Indonesia Memos, Volume I (11/63-4/64, Box 246) (p. 2).

⁶¹ For more on labor unions, see Sayuti Hasibuan, "Political Unionism and Economic Development in Indonesia: Case Study, North Sumatra" (University of California, Berkeley, 1968), E. D. Hawkins, "Indonesia," in *Labor in Developing Countries*, ed. Walter Galenson (Berkeley, CA.: University of California Press, 1962), E. D. Hawkins, "Labor in Transition," in *Indonesia*, ed. Ruth McVey (New Haven, CT.: Southeast Asia Studies, Yale University, in arrangement with HRAF Press, 1963), John Moes, "Trade Unionism in Indonesia," *Far Eastern Survey* 28, no. 2 (1959), Henry Richardson, "Industrial Labor Relations in their Political Setting," *Industrial and Labor Relations Review* 12, no. 1 (1958), Iskandar Tejasukmana, *The Political Character of the Indonesian Trade Movement* (Ithaca, N.Y.: Cornell Modern Indonesia Project, 1958).

⁶² Hawkins, "Indonesia," p. 98.

Labor groups assisted their associated political parties in various ways, such as by campaigning and providing manpower for demonstrations and rallies.⁶³ In the late 1950s, it was estimated (there are no reliable figures available) that there were over 3 million union members. There were over 150 national unions, plus hundreds of local unions, and there were over 10 union federations.⁶⁴ By the early 1960s, of these 10 plus federations SOBSI and KBKI, which we shall turn to next, were by far the largest and the second largest, respectively.

SOBSI (*Sentral Organisasi Buruh Seluruh Indonesia*), by far the largest of the labor federations, was indisputedly under PKI control and the PKI's most important mass organization.⁶⁵ Founded in 1946, by the late 1950s it was the best organized and best disciplined labor federation in Indonesia. A classically structured front organization, most of SOBSI's top leadership were members of the PKI, including the secretary general and leader of SOBSI, Njono (who was a very high ranking member of the PKI and became SOBSI's top leader in 1950). By 1960, most of SOBSI's officials and the officials of its member unions were also PKI members, though probably only a small number of the unions' rank and file membership had joined the party. Within SOBSI there were dozens of member national unions (plus hundreds of local unions), and by the end of 1962 SOBSI claimed over 3.7 million total members (from its member unions), over 50% of the estimated total national union membership at that time.⁶⁶ Two prominent union members of SOBSI were SARBUPRI, the largest estate workers union in the country, and PERBUM, the largest oil workers union in the country. SOBSI was known as a strong defender of its workers interests, but its primary role was to support politically the PKI in a variety of ways.⁶⁷ As we shall see, SOBSI would play a key role in the takeovers of British companies in early 1964 and in the takeovers of American companies in 1965.

⁶³ In 1957, striking in vital enterprises was outlawed by the army under its martial law powers, thus depriving the unions of a major weapon.

⁶⁴ Tejasukmana, *Political Character of Indonesian Trade Movement*, pp. 25-7.

⁶⁵ For an excellent overview of SOBSI, see Hindley, *Communist Party of Indonesia*, chapter 13. See also van der Kroef, *Communist Party of Indonesia*, pp. 202-212, and Tejasukmana, *Political Character of Indonesian Trade Movement*, pp. 28-33, 53-5, 80-1, 93-102.

⁶⁶ Hindley, *Communist Party of Indonesia*, pp. 133-5, 154.

⁶⁷ Hindley, *Communist Party of Indonesia*, pp. 147-151.

The KBKI (*Kesatuan Buruh Kerakyatan Indonesia*) was by far the second largest labor federation in Indonesia and was affiliated with the PNI.⁶⁸ It was initially quite small, but grew dramatically in the late 1950s so that by 1958 it claimed a membership of about 1 million, with dozens of member labor unions. It was the KBKI action which triggered the seizure of Dutch companies in December 1957 (see Part III, Section C below). Its spectacular growth was attributed in part to Ahem Erningpradja, who led the organization from late 1954 until 1962.⁶⁹ Ahem was appointed by President Sukarno as Minister of Labor from July 1959 (the first cabinet appointed under Guided Democracy) until August 1964, which greatly raised the KBKI's prestige and also allowed Ahem to throw patronage opportunities to KBKI members. This also had the effect, however, of making the KBKI more independent from the PNI leadership, whose relations with its mass organizations were not nearly as close as the PKI's and whose relationship with KBKI was already strained at times.⁷⁰

In 1962 the KBKI split into two competing groups, the DPP-KBKI and the DPS-KBKI, the latter of which would play a key role in the takeovers of some British enterprises in September 1963 (see Chapter Four).⁷¹ The third national KBKI congress in late June 1962 had initially been unable to elect new leadership; Ahem was finally re-

⁶⁸ There is little literature on the KBKI. The best source is Rocamora, *Nationalism in Search of Ideology*, pages cited below. See also Tejasukmana, *Political Character of Indonesian Trade Movement*, pp. 36-7, 106.

⁶⁹ Before joining KBKI in 1954, Ahem was a vice president of SARBUPRI (serving since at least 1950) as well as a member of the national council of SOBSI (Tejasukmana, *Political Character of Indonesian Trade Movement*, p. 37). He was a member of the parliament appointed in 1950 under Parliamentary Democracy, where he was active in labor matters and at times was highly critical of foreign capital; yet he was also quoted in 1950 as claiming that foreign investment was not an issue for SARBUPRI, although after leaving SARBUPRI he advocated the termination of the RTCA (see 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 Elections (1940-1955)" (Cornell University, 1959), pp. 715-9; see also Tejasukmana, *Political Character of Indonesian Trade Movement*, p. 123). Ahem joined the PNI in the mid-1950s, and became a member of the Parliament that was elected in 1955, presumably appointed by the PNI (Hawkins, "Indonesia," p. 100). He was also appointed by Sukarno to the National Council in July 1957 as a labor representative (Lev, *Transition to Guided Democracy*, pp. 27, 205). In 1960, Ahem assisted Sukarno in a failed attempt to create an organization encompassing all Indonesian labor federations, which was essentially intended to help control the unions; the attempt failed because of SOBSI's reluctance to join, and Ahem was subsequently attacked by the PKI and SOBSI for his role in this (Rocamora, *Nationalism in Search of Ideology*, pp. 284-5, and van der Kroef, *Communist Party of Indonesia*, pp. 210-1).

⁷⁰ Rocamora, *Nationalism in Search of Ideology*, pp. 102-5, 260-2, 282.

⁷¹ The details of the split are set forth in Rocamora, *Nationalism in Search of Ideology*, pp. 297-303, from which this paragraph derives.

elected as the general chairman, but not until a compromise was reached. The compromise involved the appointment of A.M. Datuk, one of KBKI's leaders and best organizers as well as the KBKI representative to the Supreme Advisory Council, to the position of a Deputy Chairman of KBKI. Datuk was apparently unpopular with some of the leaders of the PNI, especially from the conservative wing of the party, and the entire Datuk appointment issue reflected a split between the conservative elements of the PNI and its more liberal elements, in particular the more radical leaders of the PNI-linked mass organizations. As part of the compromise, Datuk was not appointed to this position, though he remained part of the national leadership. Datuk then appealed to President Sukarno, who gave Datuk his support. Under pressure from both Sukarno and Datuk, Ahem, without consulting conservative PNI chairman Ali Sastroamidjojo, then appointed Datuk to the position, which led in early October to the expulsion of Datuk from the KBKI by his opponents. This dispute over Datuk's role then led to an open split in the KBKI; in late October, Ahem announced the formation of a new leadership council called DPS-KBKI which included Datuk but excluded those leaders who had sided against Datuk, the so-called DPP-KBKI leadership. In November, Ahem as Minister of Labor publicly stated that there was only one officially recognized KBKI, the group led by the DPS-KBKI. There was, of course, fierce competition between these two leadership branches for the allegiance of the KBKI officials and member unions over the next year. Finally, on 13 January 1963, the DPP-KBKI leadership officially expelled Ahem, Datuk and the other DPS-KBKI leaders from the KBKI, and a few days later Ahem was also expelled from the PNI. However, by this point some of the most important KBKI leaders had already sided with Ahem; reflecting a general feeling among many leaders of PNI-linked mass organizations, these leaders felt that the PNI was too conservative. Another major reason for their support was that President Sukarno himself initially supported Ahem and Datuk, though this would wane in the following months. Thus a stalemate emerged between these two leadership groups which continued throughout much of 1963. The turning point appeared to be the 10th party congress of the PNI in late August 1963, by which point it was clear that the Ahem group lacked support within the PNI. Sometime after this party congress Sukarno withdrew his support for the Ahem

leadership, and by the end of 1963 the DPP-KBKI leadership had won back the support of most KBKI officials and local union leaders.⁷²

4. Ministerial Government and Bureaucracy.

I would like to conclude this brief examination of politics generally during the early years of Guided Democracy by looking at government bureaucracy, in particular its power and authority as well as the ministers who would play a critical role in the takeovers of foreign companies. Under Guided Democracy, the power and authority of government and bureaucracy seemed to grow tremendously, as the GOI increasingly intruded on everyday life with batches of new regulations and decrees. However, as Feith has observed, there were clear distinctions between the scope of government power ("how many aspects of the people's activities are affected by its decisions"), the weight of government power ("how intensely its decisions affect these aspects"), and the concentration of government power ("how widely the making and implementing of decisions is shared"). The scope of government power and authority grew tremendously under Guided Democracy, but the weight of government power – the actual impact of the apparently greatly expanded scope of authority - varied significantly. In addition, while in principle government power remained highly concentrated in the hands of President Sukarno and his supporters, it too varied a great deal.⁷³

GOI administration grew rapidly after independence, and during Guided Democracy was not a monolithic, unified entity but instead a highly politicized and divided bureaucracy, particularly among its upper ranks. The size of the government bureaucracy increased greatly, the number of civil servants rising from 145,000 in 1930 (under the Dutch colonial regime) to 600,000 in 1953 to 807,000 in 1960.⁷⁴ A major reason for this dramatic increase was the lack of available opportunities for well-educated Indonesians (as we saw previously, the number of Indonesians who finished high school was very low under the Dutch colonial regime), and thus the government became a major

⁷² In 1964, after most of the local branches and unions had sided with the DPP-KBKI group, the name of the DPP-KBKI faction (together with its supporting unions and members) was changed to KBM, short for *Kesatuan Buruh Marhaenis*. The DPS-KBKI was rendered insignificant by early 1964 and petered out. The KBM grew rapidly in 1964-65 and as we shall see in Chapter Six played a significant role in the takeovers of American companies in 1965.

⁷³ Feith, "Dynamics of Guided Democracy," pp. 372-80.

⁷⁴ Feith, "Indonesia," p. 225.

employer of Indonesians who held secondary degrees. Government employment was also one of the major avenues to gain social status and opportunity.⁷⁵ Moreover, government employment, particularly for the ministers at the higher levels, was a major source of patronage opportunities as well as graft and corruption, with many departments and agencies competing for scarce resources, especially as the size and apparent authority of the GOI grew. Under Guided Democracy, GOI administration was “sprawling” and “ramshackle,” and because the administrative structure was not well organized with sharply drawn lines of responsibility between various competing departments and agencies, there were frequently numerous departments involved in various decisions, leading to great overregulation. “Each of these various agencies issues regulations and tries to force clients to come to it for licenses and approvals. In addition, a single agency frequently enforces several redundant sets of regulations because one set has been superimposed on another, often in the name of coordination and planning.”⁷⁶ Compounding these divisions at all levels of bureaucracy was the competition in the bureaucracy between the ‘administrators’ (those relatively few trained individuals who were more pragmatic and technically skilled, concerned with building up efficient administration and economic development) and the ‘solidarity-makers’ (those more concerned with nationalism, political unity, cohesion and finishing the Indonesian Revolution; they had often played important roles during the Revolution).⁷⁷ During Guided Democracy, the solidarity-makers in the bureaucracy, despite their deficiencies in technical skills, had greater influence than the administrators, reflecting generally the importance of politics over administration. With the decline of the political parties, the bureaucracy also became an arena where politics were increasingly played out. Intrabureaucratic conflict increased to the point where there were few barriers between politics and administration, and “policies actually implemented were most frequently the result of battles between politician-bureaucrats...”⁷⁸

⁷⁵ Hindley, *Communist Party of Indonesia*, pp. 13-14; Feith, “Indonesia,” pp. 224-6.

⁷⁶ Feith, “Indonesia,” p. 256.

⁷⁷ Feith, “Indonesian Political Symbols,” pp. 93-5, and “Politics of Economic Decline,” pp. 47-49. The solidarity-maker vs. administrator distinction is described nicely by Feith in *Decline of Constitutional Democracy*.

⁷⁸ Feith, “Politics of Economic Decline,” pp. 52-3.

The relationship between President Sukarno and his ministers often did not seem to enhance unity within the GOI bureaucracy. As we saw previously, under the 1945 constitution the President appointed the working cabinet and its component ministers. However, as cabinet positions were much sought after because of their prestige and patronage opportunities, the army and the political parties and other interest groups also fought and competed for these positions, and President Sukarno was often forced to accede to their demands. Thus, there was an array of ministers with different interests, though generally Sukarno (and the army, depending on the issue) was the ultimate arbiter and authority. As one observer noted, “politics at the center became increasingly a matter of rivalries and conflicts between politico-bureaucratic cliques, in which the prizes were prestige, influence, and the spoils of office.”⁷⁹ These rivalries were usually centered in the Presidential Palace around Sukarno’s inner circle; “to a large extent Guided Democracy was government by access to the ruler and his court, with all the palace intrigue which that entailed.”⁸⁰

In fact, throughout Guided Democracy, many of the officials Sukarno relied on most were those with no independent power base and thus were not in a position to challenge him. These men “formed a diverse group of intelligent and able politicians who were highly skilled in elite-level political maneuvering but could not provide Sukarno with the organized grass-roots support he needed to maintain the balance with the army.”⁸¹ They included, among others, First Minister Djuanda, Johannes Leimena from the small Protestant Party (holding positions such as Deputy First Minister or Second Deputy Prime Minister), Chaerul Saleh (see below), Subandrio (Foreign Minister and also later First Deputy Prime Minister), and Muhammed Yamin (a radical nationalist who chaired the National Planning Council, which devised the Eight Year Development Plan). A number of these men were also linked to the small Murba party, the ‘national communist’ party led by followers of Tan Malacca. Because they generally lacked great support outside the government, they often tried to cultivate power bases within the bureaucracy, further contributing to intra-government turf battles. Ministers Subandrio

⁷⁹ Mortimer, *Indonesian Communism under Sukarno*, p. 127. See also Feith, “Indonesian Political Symbols,” p. 80.

⁸⁰ Legge, *Sukarno*, p. 377.

⁸¹ Crouch, *Army and Politics in Indonesia*, p. 48.

and Chaerul Saleh in particular became great rivals for power after Minister Djuanda's death in late 1963.

Conflicts, competition and divisions within the GOI bureaucracy – between President Sukarno and his ministers, between the different ministers and their respective departments, and even within the individual ministries themselves – as well as the limited scope of government power meant that there was often a great difference between the language of a rule/decree/regulation and how it was actually implemented or enforced in practice.⁸² As we saw earlier, while President Sukarno set the overall policy, he was often extremely vague as to how it should be implemented, leaving it up to the ministers, who wielded great power within their departments, to implement it. Given the variety of interests and divisions within the GOI and the at times limited scope of actual government power, this naturally resulted in great diversity in how such policy was carried out in practice. Especially within the context of the takeovers of foreign companies, we must examine carefully the wording of the relevant decree or rule, which essentially represented official GOI policy, and see how that rule/decree was actually implemented. Of course, because of the variety of opinion within the GOI and the multitude of conflicting regulations and decrees, it is often hard to state with certainty what official GOI policy was. Hence, significant attention will be devoted to each of these in the following Chapters.

Turning to discuss several of the ministers who played key roles in the takeovers of foreign companies, we start with Chaerul Saleh, a well known nationalist with large political aspirations.⁸³ Born in 1917 in West Sumatra to a prominent family (and distantly related to Vice-President Mohammed Hatta), he was, by colonial standards, very well-educated, having attended Dutch primary and secondary schools in Sumatra, and then law school in Jakarta. He was very active in student and youth organizations.

⁸² Feith, "Dynamics of Guided Democracy," pp. 377-8.

⁸³In the following pages the backgrounds of Chaerul Saleh, Sadjarwo, Azis Saleh and Adam Malik will be discussed. More ministers will be introduced later as the story unfolds. For an excellent short biography of Chaerul Saleh, see pp. 434-5 of Howard Palfrey Jones, *Indonesia: The Possible Dream* (New York: Harcourt Brace Jovanovich, 1971). For more on his background, see Anderson, *Java in a Time of Revolution*, p. 415; Legge, *Sukarno*, pp. 225-7; Feith, *Decline of Constitutional Democracy*, pp. 55, 82, 185, 516; Lev, *Transition to Guided Democracy*, pp. 21-2, 53, 243, 281; Kahin, *Nationalism and Revolution*, pp. 113, 138, 172, 177; Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 184-5, 201-3, 208-9, 229-32. See also pp. 192-8 of Jean Bush Aden, "Oil and Politics in Indonesia, 1945 to 1980" (Cornell University, 1988).

During the Japanese occupation he was a member of both a Japanese-controlled youth organization (*Angkatan Muda*) and an underground organization. Along with Adam Malik (see below), he played a leading role in the famous kidnapping of Sukarno and Hatta in August 1945 by a youth group determined to force the two to declare independence. During the Indonesian Revolution he was a member of Tan Malacca's *Persatuan Perjuangan* group (many of whose leaders would later form the Murba party) and was arrested and jailed with Tan Malacca and other supporters in 1946 by the Republic. Eventually released from jail, toward the end of the Revolution he became the leader of the West Java People's Brigade (*Laskar Rakyat Djawa Barat*), a group of Tan Malacca's followers which opposed settlement with the Dutch; after the Revolution, this group (now renamed *Tentara Rakyat*, or 'People's Army') continued to resist openly the authority of the new state. He was captured and jailed in 1950, then in 1951 released, thanks to the intervention of Mohammed Yamin, but was exiled from Indonesia. From 1952 until 1956 Saleh lived in various countries in Western Europe (Holland, Switzerland, and West Germany), apparently surviving off GOI scholarships and maintaining close contact with Indonesian students there. In 1956 Sukarno met him again in West Germany, where the two had some kind of rapprochement, and soon after this he returned to Indonesia.

After Chaerul Saleh returned to Indonesia, President Sukarno brought him into the government, and Saleh quickly rose to political prominence. In April 1957, in the first cabinet appointed under martial law, Sukarno appointed him Minister of Veterans Affairs. In the July 1959 cabinet, the first appointed under Guided Democracy, Sukarno appointed him to the newly created positions of Core Minister for Development, which was the key post for economic development within the inner cabinet, and Minister of Basic Industry and Mining. As Core Minister for Development, he was responsible for coordinating the activities of the Minister of Peoples Industry, the Minister of Basic Industry and Mining (Saleh himself), the Minister of Agriculture (Sadjarwo, see below), and the Minister of Transmigration, Cooperatives and People's Villages. He kept both these positions in the cabinet reshuffle of February 1960, but then lost the position of Core Minister in the March 1962 cabinet reshuffle (he would regain this position in November 1963 under the new term Coordinating Minister for the Development

Compartment), though he stayed on as Minister of Basic Industry and Mining. In 1962 President Sukarno also appointed him as the head of the MPRS, a position he kept until 1966. Saleh was also the designated leader of the *Angkatan 45* ('Generation of 45'), comprised of individuals active in the Indonesian Revolution, though this group never became a significant political force. Saleh was closely linked to the Murba Party, though he denied being a member. Saleh had no organized political following of his own, but instead sought to build up political support within the bureaucracy, where he was well positioned to do so. In the last few years of Guided Democracy he became a close confidante of President Sukarno.

Much less is known of Sadjarwo, another minister who played a key role in the takeovers of foreign estates. From 1950 (if not before) until 1957 or so he was a leading member of the Indonesian Peasant Front (*Barisan Tani Indonesia* or BTI), a large PKI-controlled peasant organization. He was the Minister of Agriculture in the first cabinet of independent Indonesia (from January 1950 until September 1950, before the 1950 provisional constitution took effect), and held the same position in the first Ali cabinet (PNI) from late August 1953 until August 1955. Because of opposition from Masjumi and the NU, he was not appointed to the second Ali cabinet (from 1956 until March 1957). However, he was re-appointed as Minister of Agriculture in April 1957 in the first cabinet appointed by Sukarno under martial law, and he remained in the cabinet continuously as either Minister of Agriculture or Minister of Agrarian Affairs until the end of Guided Democracy in 1966. From 1959 until 1964, Sadjarwo's ministerial position was generally placed under the authority of the Core Minister for Development (who was usually Chaerul Saleh). By 1957 Sadjarwo had dropped out of the BTI and joined the PNI; as the cabinets beginning in 1959 were explicitly non-party, in 1959 he dropped out of the PNI also. However, he apparently remained active in the PNI, but was not a major party leader. In early 1959 he also became the second deputy chairman of *Petani*, a fairly small PNI-linked peasant organization. As Minister of Agrarian Affairs, Sadjarwo played an important role in formulating the Basic Agrarian Law of 1960 (see Part III below). He was generally thought of as sympathetic to the PKI, though after 1963 this changed. Back in 1949 and 1950 Sadjarwo was highly critical of the portion of the RTCA providing for the return of foreign estates, though as Minister of Agriculture in

1950 he actually helped restore foreign estates to their owners. As we shall see in Part III, Section C below, he also was quick to react in placing Dutch-owned estates under GOI control in 1957-58.⁸⁴

Dr. Azis Saleh was a high ranking army officer who was Minister of Peoples Industry during the takeover of foreign companies from 1963-65. In 1952, Dr. Saleh was deputy chief of staff of the army and was heavily involved in the failed '17 October Affair' as one of the individuals pushing for change. He was also a founding member of the IPKI (*Ikatan Pendukung Kemerdekaan Indonesia*, or 'League of Upholders of Indonesian Independence'), a small army-controlled political party set up by General Nasution (it received less than 2% of the vote in the 1955 parliamentary elections). As the representative of IPKI, Colonel Saleh was appointed to the April 1957 cabinet as Minister of Health. He was then appointed Minister of Agriculture in both the July 1959 cabinet and the February 1960 cabinet. However, beginning with the March 1962 cabinet he was appointed Minister of Peoples Industry, which he held until 1966. The position of Minister of Peoples Industry fell under the Coordinating Minister for Development (or Coordinating Minister for Development Compartment), and hence from November 1963 until early 1966 Minister Azis Saleh was nominally under the authority of Minister Chaerul Saleh.⁸⁵

Lastly, we turn to Adam Malik, whose story is much better known because he became a major figure in the early New Order period, first as Foreign Minister and subsequently reaching the office of Vice-Presidency in the late 1970s.⁸⁶ Indeed, Malik was one of the few ministers/politicians able to survive and prosper in both Sukarno's Guided Democracy and the subsequent New Order period. In brief, he was born in 1917 in North Sumatra and at an early age was active in politics and nationalist movements. He was not well-educated, having only completed primary school (though this was in a

⁸⁴ Lev, *Transition to Guided Democracy*, pp. 21-2, 149, 281-2; Hindley, *Communist Party of Indonesia*, pp. 172, 255, 263; Feith, *Decline of Constitutional Democracy*, pp. 339, 467-8; Rocamora, *Nationalism in Search of Ideology*, pp. 245-6, 263, 337; Sutter, *Indonesianisasi*, pp. 664, 697; Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 106, 138, 185, 203, 210, 230, 241.

⁸⁵ Lev, *Transition to Guided Democracy*, pp. 21, 157, 281; Feith, *Decline of Constitutional Democracy*, pp. 262, 264; Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 185, 202, 209, 230, 240, 251; Sundhausen, *Road to Power*, pp. 89, 105.

⁸⁶ See Adam Malik, *In the Service of the Republic* (Singapore: PT Gunung Agung, 1980). For a shorter biography, see Jones, *Indonesia: The Possible Dream*, pp. 430-1, and also Ruth McVey, "In Memorium: Adam Malik," *Indonesia* 39 (1985).

Dutch language school). In the late 1930s he co-founded the Antara news agency, where he worked for a number of years as editor; during the Indonesian Revolution Antara became the mouthpiece of the Republic and in the early 1960s the official national news agency of Indonesia. He was also very active during the Revolution. Along with Chaerul Saleh, whom he knew well, Malik played a leading role in the famous kidnapping by a youth group of Sukarno and Hatta in August 1945. Like Chaerul Saleh, Malik was a follower of Tan Malacca and member of Malacca's *Persatuan Perdjuangan* group during the Revolution, and was also imprisoned for a short time. He was a founding member of the Murba party, the bitter enemy of the PKI, and one of its leading members in the 1950s and 1960s. He was a member of the parliament elected in 1955, and in the 1950s he also continued to work at Antara. From 1959 until early 1963 he was appointed by President Sukarno as the Indonesian ambassador to the USSR (which would provide Indonesia with much aid during this period), and he was also very active in the resolution of the West Irian issue in 1962 (see Part II below). In 1963 he returned to Indonesia, and in November that year was appointed by President Sukarno to the cabinet as Minister of Trade. Like Chaerul Saleh, he also became a close confidante of President Sukarno after 1963, though this relationship soured in 1965.

II. Foreign Relations, 1950 – c. 1962.

For most of the 1950s, foreign relations did not occupy center stage in Indonesia. Under Parliamentary Democracy, the country followed an 'independent and active' approach in foreign policy that was essentially one of non-alignment with the two Cold War power blocks. Perhaps the pinnacle of this policy was the first and only Afro-Asian conference of 1955, in which some 29 nations from Asia and Africa were hosted in Bandung, West Java, by the GOI in a conference emphasizing solidarity among the newly independent nations of those areas. The single biggest foreign policy issue during this period was the status of West Irian, which under the RTCA was to remain initially with the Dutch but whose ultimate status was supposed to be determined by negotiation within a year. However, under Guided Democracy Indonesia's foreign policy, formulated

and controlled by President Sukarno, underwent several dramatic changes. First, it went from a relatively low profile area to an extremely high profile area, as foreign policy concerns would play a dominant role during Guided Democracy. The second change, which was a principal reason for the first change, was that the policy itself shifted from an ‘independent and active’ policy to a strongly nationalist, anti-colonialist, anti-imperialist policy in which the world was viewed as divided between the two camps of ‘newly emerging nations’ and ‘old, established, imperialist nations.’ In articulating this vision, President Sukarno actively pursued an aggressive policy of brinksmanship, which led the country to the brink of war with the Dutch over West Irian before being settled peacefully in 1962, and then actually into war with the British and Malaysians in 1963. Another feature of Sukarno’s foreign policy was the great increase in foreign aid, which increased dramatically from 1956 to 1963, after which it slowed precipitously; by the end of 1965, Indonesia had some \$2.4 billion in foreign debt alone, an incredibly high figure for that time.

A. Parliamentary Democracy: Independent and Active Foreign Policy.

For most of the 1950s, domestic affairs, rather than foreign affairs, were the primary concern of Indonesian policymakers. As Indonesia in 1950 was a brand new nation, the emphasis on domestic affairs – on nation-building – was quite natural. As sketched out in this Chapter, Indonesia simply had too many internal issues to resolve before it could get heavily involved in international affairs. Such a priority did not, of course, mean that Indonesia could shut itself off from the outside world, and the GOI had little desire to do this. Instead, the GOI pursued what came to be known as an ‘independent and active’ foreign policy which featured non-alignment in the Cold War struggle. For Indonesia itself, the dominant foreign policy issue was the status of West Irian, for many Indonesians a continuing reminder of their colonial heritage and struggle against colonialism.⁸⁷

⁸⁷ For Indonesia’s foreign policy generally in the 1950s and 1960s, see Ide Anak Agung Gde Agung, *Twenty Years Indonesian Foreign Policy, 1945-1965* (The Hague: Mouton & Co., 1973), Michael Leifer, *Indonesia’s Foreign Policy* (London: George Allen & Unwin, 1983), Franklin B. Weinstein, *Indonesian*

Indonesia's independent and active foreign policy clearly reflected its colonial heritage and long struggle for independence, as well as the desire not to be drawn into the Cold War between the United States and the Soviet Union. In short, a principal goal was to safeguard Indonesia's independence and freedom. Its principles were perhaps best set forth in two articles published in the influential *Foreign Affairs* magazine in the 1950s by Mohammad Hatta, Indonesia's Vice-President until December 1956.⁸⁸ In a 1953 article, Hatta described the objectives of Indonesia's foreign policy as (i) "to defend the freedom of the people and guard the safety of the state," (ii) "to obtain from overseas those articles of daily necessity required for increasing the standard of living of the population...", (iii) "to obtain capital equipment to rebuild what had been destroyed or damaged...", (iv) to "strengthen principles of international law and to aid in achieving social justice on an international scale, in line with the UN Charter...", (v) to have good relations with its neighbors, especially former colonial countries, and (vi) to "seek fraternity among nations through the realization of the ideals enshrined in Panchasila [*Pantja Sila*]...." In brief, "Indonesia will pursue a policy of peace and of friendship with all nations on a basis of mutual respect and non interference in each other's structure of government." Moreover, "Indonesia has not aligned itself with either the American bloc or the Russian bloc in the existing conflict," and "it is not prepared to participate in any third bloc designed to act as a counterpoise to the two giant blocs." Indonesia was not neutral in the sense of impartiality, but rather was committed to international solidarity and peace; it "plays no favorites between the two opposed blocs and follows its own path through the various international problems." Hence the policy was 'independent,' but was also 'active' because of Indonesia's effort "to work energetically for the preservation of peace and relaxation of tension generated by the two blocs." In a 1958 article, Hatta, no longer Vice-President, in response to questions about changes in Indonesia's foreign policy, reaffirmed these general principles, claiming Indonesia was still following the active and independent policy, pushing for peaceful coexistence, and would not set up a third block

Foreign Policy and the Dilemma of Dependence: from Sukarno to Soeharto (Ithaca, N.Y.: Cornell University Press, 1976).

⁸⁸ See Mohammad Hatta, "Indonesia's Foreign Policy," *Foreign Affairs* 31, no. 1 (1953), Mohammad Hatta, "Indonesia between the Power Blocks," *Foreign Affairs* 36, no. 1 (1958).

to counter the two Cold War blocks. The article also laid out Indonesia's claim to West Irian.

In practice Indonesia did implement these general principles of the independent and active approach, trying to maintain an even-handed, independent approach to the two Cold War power blocks. If anything, Indonesia tilted slightly in favor of the United States for much of the 1950s, though the relationship was tense at times.⁸⁹ The United States government at the time viewed the world strictly through the lens of the Cold War and its foreign policy was designed around containing the spread of communism, and hence it was not happy with Indonesia's stated policy of non-alignment. The US government was extremely worried about the perceived rise of communism and the PKI in Indonesia and its chief objective was to keep Indonesia from falling under communist control. Thus it provided Indonesia with a substantial amount of aid, mostly economic but also military.⁹⁰ The American focus on blindly preventing Indonesia from falling into the communist camp led to limited covert American support for the rebels in the 1957-58 rebellion, which until 1965 was certainly the low point in Indonesian-United States relations and something the Indonesians would not soon forget.⁹¹ Friction also developed over the

⁸⁹ There is much literature on the Indonesian-United States relationship in the 1950s and 1960s. See *Foreign Relations of the United States, 1961-1963: Volume XXIII, Southeast Asia*, (United States Department of State, United States Government Printing Office, Washington DC, 1994), *Foreign Relations of the United States, 1964-1968: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, (United States Department of State, United States Government Printing Office, Washington DC, 2001), Frederick P. Bunnell, "The Kennedy Initiatives in Indonesia, 1962-1963" (Cornell University, 1969), Frederick P. Bunnell, "American 'Low Posture' Policy toward Indonesia in the Months Leading up to the 1965 'Coup,'" *Indonesia* 50 (1990), Lee Kwang Foo, "The US and the Indonesia-Malaysia Dispute, 1963-1965: American Response to Regional Conflict" (Cornell University, 1980), Paul F. Gardner, *Shared Hopes, Separate Fears: Fifty Years of U.S.-Indonesian Relations* (Boulder, Colo.: Westview Press, 1997), Marshall Green, *Indonesia: Crisis and Transformation, 1965-1968* (Washington, D.C.: Compass Press, 1990), Jones, *Indonesia: The Possible Dream*, George and Audrey Kahin, *Subversion as Foreign Policy: the Secret Eisenhower and Dulles Debacle in Indonesia* (Seattle: University of Washington Press, 1995), Soo Chun Lu, "US Relations with Indonesia, 1953-1961" (Ohio University, 1997), Bradley R. Simpson, *Economists with Guns: Authoritarian Development and US-Indonesian Relations, 1960-68* (Stanford, CA.: Stanford University Press, 2008), John Sullivan, "The United States and the "New Order" in Indonesia" (American University, 1969).

⁹⁰ From 1950 to 1965, the US provided Indonesia with some \$650 million in aid, consisting of \$387 million in loans and \$264 million in non-reimbursable grant money. Of the total of \$650 million, about \$68 million was in military aid. US aid declined precipitously after 1963 when Konfrontasi escalated; in 1964 the total was \$40 million, while in 1965 the number was actually negative (presumably because Indonesia made debt payments). See Bunnell, *Kennedy Initiatives*, p. 123. See next section for a discussion of foreign aid in general.

⁹¹ See chapters 4-5 of Lu's *US Relations with Indonesia*, and the Kahins' *Subversion as Foreign Policy*, for the United States and the 1957-58 rebellion.

continued US support for the status quo in the West Irian conflict, a position that favored the Dutch side. Relations would eventually improve under the careful guidance of US Ambassador to Indonesia Howard Jones, who arrived in Indonesia in March 1958 but managed to weather the dip in relations caused by US support for the rebels. Jones was considered sympathetic to President Sukarno and Indonesia, and would serve as US Ambassador until mid-1965, developing as close a relationship with President Sukarno as any foreign diplomat had.⁹²

Indonesia also tried to maintain an independent relationship with the communist 'block,' and relations were similarly tense at some times and cordial at others. Diplomatic relations were established with the Peoples Republic of China in 1950 but throughout the 1950s were not particularly close.⁹³ In 1956 President Sukarno visited the PRC on one of his world tours, an experience that profoundly impressed Sukarno because China seemed to demonstrate that national unity and economic progress could be achieved without democracy but with a strong leader, and some of the PRC's techniques for doing this, especially mass mobilization, seemed transferable to Indonesia.⁹⁴ However, clouding relations between the two throughout the 1950s and 1960s was the presence and status of a numerically-small but economically-influential minority of foreign Chinese (citizens of the PRC and a smaller number who favored Taiwan) as well as Indonesians of Chinese descent. The issue of the strong economic presence of Chinese in Indonesia will be discussed in Part III below; the PRC objected to the poor treatment that this group often received in Indonesia. With respect to the status of overseas-born Chinese, the PRC followed a policy of considering such persons as citizens of the PRC. In 1955, though,

⁹² Jones' excellent first hand account of his experiences is found in *Indonesia: The Possible Dream*.

⁹³ For Chinese-Indonesia relations in Indonesia in the 1950s and 1960s, see Peter Hauswedell, "The Anti-Imperialist International United Front in Chinese and Indonesian Foreign Policy 1963-1965: A Study of Anti-Status Quo Politics" (Cornell University, 1976), Hong Liu, "The China Metaphor: Indonesian Intellectuals and the PRC, 1949-1965" (Ohio University, 1995), Ruth McVey, "Indonesian Communism and China," in *China in Crisis, Volume 2: China's Policies in Asia and America's Alternatives* ed. Tang Tsou (Chicago: University of Chicago Press, 1968), David P. Mozingo, "China's Policy Toward Indonesia," in *China in Crisis, Volume 2: China's Policies in Asia and America's Alternatives* ed. Tang Tsou (Chicago: University of Chicago Press, 1968), David P. Mozingo, *Chinese Policy toward Indonesia, 1949-1967* (Ithaca, N.Y.: Cornell University Press, 1976), Sheldon Simon, *The Broken Triangle: Peking, Djakarta, and the PKI* (Baltimore: The Johns Hopkins Press, 1968).

⁹⁴ Mozingo, *Chinese Policy*, pp. 149-151, and Agung, *Twenty Years of Indonesian Foreign Policy*, pp. 251-2. This visit was in October 1956, just before Sukarno became publicly critical of Parliamentary Democracy and a few short months before martial law was introduced in March 1957 and Sukarno appointed a new cabinet.

the PRC dropped this policy with respect to Indonesia when it signed a dual nationality treaty with the GOI in which it was agreed that Indonesians of Chinese descent must choose between the two countries within a two year period; the treaty, however, was not ratified by the Indonesian side until 1960.

In the case of the Indonesian-Soviet Union relationship,⁹⁵ relations were cool until 1956, when the USSR announced its policy of peaceful coexistence, which in theory recognized that nations were entitled to have independent foreign policies. Henceforth the relationship became quite cordial, especially as it was bolstered by a massive infusion of Soviet aid from circa 1956 to 1963.⁹⁶ In the context of the growing Cold War, the Soviet Union was clearly trying to gain influence in Jakarta and, if not trying to bring Indonesia within the communist sphere, at least trying to keep Indonesia neutral in the conflict. However, as events would later demonstrate, at least from the Indonesian point of view there was little ideological affinity with the Soviets; the relationship was based primarily on economic and military aid, which peaked during the West Irian conflict in 1961-2 and thereafter began to decline. By then the communist block had split into the Soviet and the PRC camps, and both vied for Indonesia's friendship.

The Afro-Asian Bandung Conference hosted by Indonesia in April 1955 was perhaps the high point of Indonesia's independent and active foreign policy.⁹⁷ It was the first and only Afro-Asian conference, and it was the forerunner of the non-aligned movement, which officially kicked off in 1961 with the Conference of Non-Aligned Nations at Belgrade, Yugoslavia.⁹⁸ The GOI, especially Prime Minister Ali Sastroamidjojo, was the prime initiator and organizer of the Bandung Conference. It was the first major meeting of leaders of these nations (29 nations were represented), and the first time many of their leaders met one another. Its primary purpose was to encourage solidarity among nations from Africa and Asia, especially newly independent ex-

⁹⁵ The USSR-Indonesian relationship is covered in J. Soedjati Djiwandono, *Konfrontasi Revisited: Indonesia's Foreign Policy under Soekarno* (Jakarta: Centre for Strategic and International Studies, 1996).

⁹⁶ Djiwandono, *Konfrontasi Revisited*, pp. 90-4. By the end of 1965, Indonesia's debt to the USSR amounted to \$990 million, all incurred from 1956 to 1965 (with only a small amount incurred after 1963). See next section for more on foreign aid.

⁹⁷ For more on the Bandung Conference, see George McTurnan Kahin, *The Asian African Conference: Bandung, Indonesia, April 1955* (Ithaca, N.Y.: Cornell University Press, 1956), J. A. C. Mackie, *Bandung 1955: Non Alignment and Afro-Asian Solidarity* (Singapore: Editions Didier Millet, 2005). See also Agung, *Twenty Years of Indonesian Foreign Policy*, pp. 219-47.

⁹⁸ Mackie, *Bandung 1955*, p. 19.

colonies, and “to make ‘the voice of Asia’ heard in world affairs at a time of dangerous Cold War crises in Asia.”⁹⁹ Hence, there was much discussion regarding nationalism, colonialism, and neo-colonialism. Another topic of great interest was non-alignment - of exploring alternative political paths in a world increasingly divided by the Cold War. However, the conference was unable to reach consensus on the non-alignment question, as there were a large group of countries present which were aligned with Western nations, and a smaller group led by India and Indonesia which favored non-alignment. The conference certainly provided an opportunity for many leaders to understand each other better; in particular the PRC delegation, led by Foreign Minister Zhou Enlai, made a strong impression with its conciliatory approach. The conference ended with the issuance of a communiqué which contained 10 general principles that the participants were able to agree upon.¹⁰⁰

If the Bandung Conference was the highlight of the ‘independent and active’ foreign policy, the most important and immediate foreign policy issue for Indonesia in the 1950s was the status of West Irian.¹⁰¹ As we have seen, under the RTCA Indonesia very reluctantly agreed that West Irian would remain temporarily with the Dutch, but that its status should be resolved within the next year. As efforts to resolve West Irian’s status continually failed, the issue began to gain traction with the general public in Indonesia, and President Sukarno in particular was an avid proponent of incorporating West Irian within Indonesia. For Sukarno, who had advocated incorporation since the first year of independence, as well as other Indonesian leaders, West Irian was not only a continuing reminder of Dutch colonialism but also a strong rallying point for Indonesian nationalism and unity. From 1950 to 1955, representatives from Holland and Indonesia met four times in bilateral discussions to resolve the issue, but no agreement was reached. Indonesia then turned to the United Nations for resolution. Four times between December 1954 and November 1957 Indonesia tried to get the UN involved by attempting to place

⁹⁹ Mackie, *Bandung 1955*, p. 16.

¹⁰⁰ These included principles such as respect for fundamental human rights, respect for sovereignty of all nations, non-interference in the internal affairs of other countries, etc. See appendices in Kahin, *Asia Africa Conference*, for the final communiqué and the 10 principles.

¹⁰¹ For a comprehensive account of the conflict over West Irian, see C. L. M. Penders, *The West New Guinea Debacle: Dutch Decolonisation and Indonesia 1945-1962* (Leiden: KITLV Press, 2002). See also Agung, *Twenty Years of Indonesian Foreign Policy*, chapters three and four, for a discussion of the West Irian issue in the 1950s.

the issue on the UN agenda, and all four times the attempt failed to garner the two thirds vote required for UN consideration. In the meantime, largely due to the West Irian issue, relations with the Dutch had reached a low point. In February 1956, when it was clear that the latest meeting between Indonesia and Holland to resolve various issues would not produce any agreement, Indonesia unilaterally abrogated the RTCA.¹⁰² In August 1956 Indonesia repudiated the remainder of the debt owed to the Dutch under the RTCA, though by this point most of the debt had already been paid.¹⁰³ After the fourth Indonesian attempt to get the UN to consider the West Irian issue failed in late November 1957, labor unions in early December began seizing Dutch enterprises in Indonesia, a process that led to the nationalization of all Dutch companies in Indonesia and a major restructuring of the Indonesian economy (see Part III, Section C below). However, this move did not lead to resolution of West Irian's status, and as Guided Democracy began West Irian was still under the control of the Dutch.

B. Guided Democracy: Brinksmanship and Anti-Imperialism.

Under Guided Democracy Indonesia's foreign policy changed drastically from a fairly passive and neutral 'independent and active' approach to a much more militaristic, aggressive, strongly nationalist approach that focused heavily on combating the evils of imperialism and neo-colonialism.¹⁰⁴ This change was initiated and led by President Sukarno, who under Guided Democracy formulated, articulated and implemented foreign policy.¹⁰⁵ Though his vision would be continually refined, by the end of 1962, if not

¹⁰² Parliament finally approved abrogation of the RTCA in April 1956. Also in February 1956, Indonesia unilaterally withdrew from the largely forgotten Dutch Indonesian Union in what amounted to a primarily political gesture.

¹⁰³ One source (Dick et al., *Emergence of a National Economy*, p. 171) says that 82% of the \$1.1 billion debt was already paid off, but another (Lindblad, *Bridges to New Business*, p. 179) says it was 90%.

¹⁰⁴ For an excellent summary of this change and foreign policy generally under Guided Democracy, see Frederick P. Bunnell, "Guided Democracy Foreign Policy 1960-1965: President Sukarno Moves from Non-Alignment to Confrontation," *Indonesia* 2 (1966). See also Bunnell, *Kennedy Initiatives*, chapter one, Leiffer, *Indonesia's Foreign Policy*, chapter three, Agung, *Twenty Years Indonesian Foreign Policy*, chapters nine through sixteen. For various documents from the early years of Guided Democracy foreign policy, see George Modelska, ed., *The New Emerging Forces: Documents on the Ideology of Indonesian Foreign Policy* (Canberra: Department of International Relations, Australian National University 1963).

¹⁰⁵ Leiffer, *Indonesia's Foreign Policy*, p. 56; Bunnell, "Guided Democracy Foreign Policy," pp. 37-8; Weinstein, *Dilemma of Dependence*, p. 305 (also noting that President Sukarno had to take into account the political balance between the PKI, the army and himself, which limited him some). In this effort President Sukarno was aided by Dr. Subandrio, Indonesia's Foreign Minister from 1957 until early 1966. Born in

before, Sukarno publicly viewed the world as divided not along the Cold War lines of the Soviet-led communist block versus USA-led democracies (plus non-aligned countries), but instead as divided between countries newly emerging from the shackles of colonialism and imperialism versus the old established capitalist countries determined to re-impose colonialism and imperialism. Sukarno (and by extension, Indonesia) took it upon himself to assume the role of leading the newly emerging countries, shortened to ‘NEFOs,’ in the drive against the ‘OLDEFOs’ (the ‘old established forces’), imperialism, colonialism and neo-colonialism (in early 1964 the latter three terms were coined into the very popular acronym NEKOLIM by army chief of staff General Yani).¹⁰⁶ Unlike the era of Parliamentary Democracy, when foreign affairs assumed a fairly low profile, under Guided Democracy foreign relations dominated politics, largely because President Sukarno’s new aggressive policy not only led to the brink of war with the Dutch but also to an undeclared actual war with the British and Malaysia. Indeed, Indonesia’s success in its squabble with the Dutch over West Irian in part resulted in Sukarno’s using the same brinksmanship tactics against the British and Malaysians. Moreover, foreign relations clearly spilled over into domestic politics, and there was a great intertwining of the two. As we shall see in Chapter Six, this policy would culminate in 1965 with Indonesia’s withdrawal from the UN, an alliance with the PRC, and the nadir of relations with the United States. In addition, the extremes to which this policy was taken resulted in a sharp

1914 in East Java, Subandrio graduated from medical school in Jakarta. During the Indonesian Revolution he briefly joined the PSI party, and also was a high official in the Ministry of Information. From 1947 to 1954 he was the Republic/Indonesia’s representative to London, and from 1954 until 1956 he was the Indonesian ambassador to Moscow. He was then appointed Foreign Minister in April 1957 (which he kept until early 1966) in the first cabinet appointed by President Sukarno. In 1958 he joined the PNI but had to resign from the party in 1959 because the July 1959 cabinet (the first under the 1945 constitution), in which he was elevated to the position of ‘Core Minister of Foreign Affairs,’ was non-party. Subandrio’s star continued to rise under Guided Democracy; in 1960, while still acting as Core Foreign Minister, he was also named Second Deputy First Minister (presumptively fourth in the pecking order behind Sukarno, First Minister Djuanda, and Deputy First Minister Leimena), a position he kept until November 1963, when he became First Deputy Prime Minister (second in the pecking order behind Sukarno) after Djuanda’s death. Like many important ministers close to President Sukarno, Subandrio had no independent base of popular support but was beholden to Sukarno for his position. For two short biographies of Subandrio, see pp. 436-7 of Jones, *Indonesia: The Possible Dream*, and pp. 483-4 in Herbert Feith and Lance Castles, eds., *Indonesian Political Thinking, 1945-1965* (Ithaca, N.Y.: Cornell University Press, 1970).

¹⁰⁶ Exactly which countries were NEFOs and which were OLDEFOs was never clear. Generally speaking, NEFOs probably included the ex-colonial countries of Asia and Africa (though Malaysia was not a NEFO), socialist countries, Latin American countries, and ‘progressive’ countries, while OLDEFOs included the United States and western European countries. See Modelska, *New Emerging Forces*, p. iii.

decline in foreign aid, which from 1956 to 1963 was a major source of funds for the GOI, leaving Indonesia in late 1965 with foreign debt totaling some \$2.4 billion.

President Sukarno's motivations in implementing this new policy have been the subject of much speculation, and there is no clear answer. There is no question that he used a confrontational style of foreign policy featuring perpetual crises to generate unity and cohesion in a nation divided along numerous lines and still suffering from the trauma of the 1957-58 rebellion. He was also certainly quite conscious of the impact his foreign policy decisions would have on domestic politics.¹⁰⁷ There was also an element of personal vanity as well.¹⁰⁸ More deeply, though, the new approach certainly reflected his – and others - long experience with and struggle against colonialism and imperialism. As Bunnell noted,

essentially these motivations consisted of the ideological-psychological impulses...of a fervent nationalist...the dynamic of the policy was the psychological need for self respect felt by a political elite long humiliated by colonialism. That need could best be filled by the quest for Indonesian prestige as a leader in the destruction of the perpetrators of Indonesia's humbling colonial experience.¹⁰⁹

There was also a strong emotional element to Sukarno's nationalism, which "dictated a boldness in execution consistent with the spirit of his goals. Revolutionary goals demanded revolutionary implementation..."¹¹⁰ Finally, there was also a definite impulsive element to Sukarno's policies, and it seems evident that on a number of occasions he failed to think through the long term implications of what he was doing and as a result boxed himself into multiple corners.

Whatever his motivation, by the summer of 1960, after the new MPRS and DPR had been appointed and the political parties generally tamed (and Masjumi and the PSI banned), President Sukarno's domestic position was finally strong enough so that he could attend more closely to foreign affairs and begin to assert his authority.¹¹¹ One of the first public hints of the new policy came in his speech at the United Nations in

¹⁰⁷ Weinstein, *Dilemma of Dependence*, p. 305.

¹⁰⁸ Other analyses have cited territorial expansion, diversion from economic problems, avoidance of making revolutionary social reform, Sukarno's crypto-communism, etc. as motivating factors.

¹⁰⁹ Bunnell, *Kennedy Initiatives*, pp. 2-3. See also Agung, *Twenty Years Indonesian Foreign Policy*, p. 285.

¹¹⁰ Bunnell, *Kennedy Initiatives*, pp. 12-14.

¹¹¹ Bunnell, *Kennedy Initiatives*, pp. 29-30.

September 1960 (in English), in which he identified imperialism and colonialism, and not the Cold War, as the root of all tension and conflict in the world, and also claimed imperialism was the greatest evil of the world. Moreover, it was the older countries, the long established and stable ones, who were the greatest threat to peace. The speech also emphasized that “we of Asia and Africa” will continue to oppose colonialism and imperialism.¹¹² After that speech, Sukarno increasingly was preoccupied with the anti-imperialist struggle at the expense of the non-aligned movement. The watershed public moment, however, was the Belgrade Conference of Non-Aligned Nations in September 1961. Sukarno’s keynote speech (again delivered in English) not only reflected the new course of Indonesian foreign policy but also the deep divisions at the conference and within the non-aligned movement, which was split between two groups, one (led by India) which favored focusing on defusing the Cold War as a means of maintaining world peace, and the other, led by Sukarno, intent on combating imperialism and colonialism as the means to maintaining world peace.¹¹³ In the speech Sukarno openly called for a new approach in resolving the problems of the world and identified the conflict between the new emergent forces and the old forces of domination as the most important struggle in the world. The old forces “still try to preserve the old equilibrium based upon the exploitation of nation by nation,” while the new emergent forces “are striving for the speedy establishment of a new equilibrium,” in which all nations “were free to arrange their international relations as they see fit, based on the principles of equality, justice and mutual benefit.” Sukarno again identified imperialism, colonialism and neo-colonialism as the enemies of peaceful coexistence and called for continuing struggle against these evils. It was just after he returned home from this overseas trip that he coined the term ‘newly emerging forces’ or NEFOs and ‘old established forces’ or OLDEFOs. Indonesia’s new direction was clear, though it had yet to be applied in practice.

¹¹² A copy of this speech, entitled ‘To Build the World Anew,’ can be found in Modelska, *New Emerging Forces*; cited parts from pp. 10-11, and 17. See also Bunnell, *Kennedy Initiatives*, pp. 40-1, and Agung, *Twenty Years Indonesian Foreign Policy*, pp. 285-6.

¹¹³ Bunnell, *Kennedy Initiatives*, pp. 43-4, Modelska, *New Emerging Forces*, pp. 32-3, and Agung, *Twenty Years Indonesian Foreign Policy*, pp. 315-42. Excerpts from this speech can be found in Modelska, *New Emerging Forces*, pp. 33-43; the cited parts are from pp. 35, 37, 39, 39, and 41.

West Irian provided an initial testing ground for the implementation of this new direction in foreign policy.¹¹⁴ In August 1960 Indonesia severed diplomatic relations with the Dutch and thereafter continued to attempt to internationalize the issue by appealing unsuccessfully to the UN to get involved. As the Dutch in 1960 and 1961 continued to lay the political groundwork for an independent West Irian and to reinforce their military positions on the territory, Indonesia responded by ratcheting up the military pressure. This was made possible by the massive amount of aid provided by the Soviet block in 1960-61. In 1960, the USSR itself signed loan and trade agreements worth at least \$250 million, some of which may have been credit for military equipment, and in early 1961 General Nasution, at the time still head of the army, went to Moscow and secured an additional \$400 million in credits for military equipment, principally aircraft and ships.¹¹⁵ More aid was funneled through Soviet block countries (see below for a discussion on foreign aid generally), and most of the military equipment had been delivered by the end of 1961. It was during this period from 1960 to 1962 that Indonesian-USSR relations were closest.¹¹⁶ However, the Indonesian army generally preferred dealing with the United States (where many of the army's officers had received advanced training),¹¹⁷ and Nasution had turned to Moscow only after his requests for military assistance were rebuffed by the United States, which continued its policy of neutrality in the West Irian dispute.

In late 1961 the West Irian conflict entered its final stage. On 19 December 1961, President Sukarno delivered his famous Trikora speech, which signaled that Indonesia was finally ready to resolve the dispute by force if necessary and greatly intensified the conflict. In this well-publicized speech, Sukarno issued three commands, known as the

¹¹⁴ For a full length treatment of the West Irian issue, see Penders, *West New Guinea Debacle*. For the 1960-62 phase of the conflict, there are numerous short summaries; see, e.g., Agung, *Twenty Years of Indonesian Foreign Policy*, chapters nine and ten.

¹¹⁵ The total amount of Soviet aid is unclear, as is what portion was for military equipment and what portion was in the form of economic assistance. See generally Djiwandono, *Konfrontasi Revisited*, Usha Mahajani, "Soviet and American Aid to Indonesia - 1949-68," in *Papers in International Studies, Southeast Series No. 14* (Athens, Ohio: Ohio University Center for International Studies, 1970), Alexander Shakow, *Foreign Economic Assistance in Indonesia, 1950-1961* (Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan, 1964).

¹¹⁶ Indonesian-USSR relations deteriorated quickly during Konfrontasi with Malaysia, as their respective interests were no longer aligned. See chapters three and four of Djiwandono, *Konfrontasi Revisited*.

¹¹⁷ For details on the relationship between the US and the Indonesian army, see Brian Evans, "The Influence of the US Army on the Development of the Indonesian Army (1954-64)," *Indonesia* 47 (1989).

‘Three Peoples’ Commands’ (*Trikomando Rakyat*, shortened to ‘Trikora’), which were (i) to defeat Dutch efforts to establish a West Irian puppet state, (ii) to plant the Indonesian flag on West Irian, and (iii) to prepare for general mobilization. Also in December 1961, Sukarno established a body known as the Supreme Command for the Liberation of West Irian (led by him), and this group then created the Mandala Command for the Liberation of West Irian.¹¹⁸ The Mandala Command was charged with preparing for a military invasion of West Irian and it soon began to build up a large invasion force. These moves, and Dutch countermoves, threatened more violent action, and in mid-January 1962 there was indeed a naval clash off the coast of West Irian, with the loss of one Indonesian ship and 50 lives.

The apparent intensification of the dispute in December 1961 and January 1962 spurred United States and UN involvement in the conflict, which led directly to final resolution of the matter in August 1962. In February 1962 Robert Kennedy, the US Attorney General and brother of US President Kennedy, went to both the Hague and Jakarta in an effort to jumpstart settlement negotiations. The Kennedy administration was making concerted efforts to establish better relations with Indonesia after the relative chilly relations during the last of the Eisenhower years, but perhaps more importantly the United States had no desire to be drawn into a conflagration which had the potential to draw the Soviets in and thus quickly escalate into World War III. Robert Kennedy’s efforts were successful, and in late March, under UN auspices but with the able assistance of US diplomat Ellsworth Bunker as mediator, the two sides commenced talks just outside Washington D.C., with Adam Malik representing Indonesia. The negotiations were not particularly smooth, as the talks broke off several times and the Indonesian military buildup continued, supplemented by occasional low level infiltration of small armed units into West Irian. Finally, however, just as the Indonesian military seemed poised to mount a full-scale invasion, a compromise was reached, due largely to the efforts of Ellsworth Bunker and last minute intervention by President Kennedy himself.¹¹⁹ In the final accord, signed on 15 August 1962, it was agreed that West Irian

¹¹⁸ Crouch, *Army and Politics in Indonesia*, p. 47. The Mandala Command was headed by General Suharto, the future President of Indonesia under the New Order; the Supreme Command For Liberation of West Irian was known as KOTI.

¹¹⁹ See Jones, *Indonesia: The Possible Dream*, chapter 12, for one account of US mediation in the conflict.

would be transferred to UN authority by 1 October, and then from UN to Indonesian control on 1 May 1963. In addition, by no later than 1969 the people of West Irian were to be allowed to choose (via an unspecified means) whether to remain under Indonesian jurisdiction. Indonesia's tactical combination of diplomatic efforts and military threat had successfully resolved the conflict in Indonesia's favor.

Resolution of the West Irian conflict had a number of important ramifications for Indonesia. It was a great personal victory and affirmation for President Sukarno, who had spearheaded Indonesia's efforts over the past 12 years to bring West Irian within Indonesia's fold. Sukarno's domestic prestige and power zoomed to new levels, and it was at the peak of the West Irian conflict in June 1962 that Sukarno was able to replace General Nasution with General Yani as head of the army. Similarly, it was also a victory for the armed forces, not only because its role in pressuring the Dutch militarily had enhanced its status and legitimacy but also because of the new weaponry it acquired, though most of this went to the air force and navy. It was also extremely advantageous for the PKI, which was perhaps the loudest proponent of Indonesian nationalism and supporter of Sukarno's confrontational tactics, thus enhancing the PKI's patriotic appeal. It was moreover a victory for mass mobilization, as mass demonstrations, rallies, actions and other shows of support became commonplace. There was also a clear linkage between the PKI and mass mobilization; as one commentator noted, the "National Front became the agitational center of the West Irian campaign," and the "PKI's strong position in the National Front by 1962 gave it a respectable official base from which to launch its mass demonstrations and displays of revolutionary fervor."¹²⁰ Finally, it was also a very successful application of a type of confrontational, brinksmanship diplomacy - featuring a combination of diplomatic efforts, low level military action, and the threat of greater military action – that would also be used in Konfrontasi against Malaysia and the British. However, on the downside the victory came at great economic cost. Indonesia had borrowed massive amounts to pay for the struggle, and attention to the conflict and the size of the military budget effectively crippled efforts to build areas of productive economic activity.

¹²⁰ Mortimer, *Indonesian Communism under Sukarno*, p. 196.

Before turning to economic matters, I would like to conclude the discussion of foreign affairs with a brief look at the importance of foreign aid in Indonesia during this period. This aid was both economic and military in nature and came in the form of both non-reimbursable grants and reimbursable loans. While there are no official figures for overall aid (nor is there a breakdown between military and economic aid, or between grants and repayable loans), there are a few baseline numbers, and the overall amount was staggering when compared to the size of Indonesia's economy.¹²¹ Most of the aid came from 1956 to 1963, declining quickly with the outbreak of Konfrontasi in 1963.¹²² By the end of 1965, Indonesia's total outstanding foreign debt was approximately \$2.36 billion, broken down as follows: USSR \$990 million, Yugoslavia \$115 million, Poland \$100 million, Czechoslovakia \$77 million, East Germany \$72 million, Hungary \$19 million, Romania \$16 million, PRC \$13 million, other \$2 million (totaling \$1.404 billion from communist countries), United States \$179 million, West Germany \$122 million, France \$115 million, Italy \$91 million, UK \$42 million, Netherlands \$28 million, Switzerland \$3 million, other \$7 million (totaling \$587 million for the United States and western European countries), Japan \$231 million, Pakistan \$20 million, India \$10 million, UAR \$4 million, and the International Monetary Fund \$102 million.¹²³ These figures do not include non-reimbursable grant aid, the total of which is unknown; for example, as part of the settlement for World War II, the Japanese provided some \$332 million in grant aid from 1958 to 1965, and similarly the United States provided an estimated \$264 million in grant money from 1950 to 1965.¹²⁴ Nor does the \$2.36 billion

¹²¹ As far as I am aware, there is no single source containing a complete list of Indonesia's total aid for the period 1950-1965; Bank Indonesia reports do provide some figures, but these are in Rupiah, and given the unrealistic exchange rates employed during the period it is impossible to calculate dollar amounts. For discussions and estimates of foreign aid at various times, see Shakow, *Foreign Economic Assistance*, Mahajani, *Soviet and American Aid*, Donald Hindley, "Foreign Aid to Indonesia and its Political Implications," *Pacific Affairs* 36, no. 2 (1963), D.H. Pond, "Foreign Economic Assistance to Indonesia, 1956-1963," *Malayan Economic Review* 10, no. 1 (1965).

¹²² Weinstein, *Dilemma of Dependence*, p. 217; Shakow, *Foreign Economic Assistance*, p. 239.

¹²³ These figures come from p. 5 of "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 4 (1966). They are generally accepted by most observers to be the most accurate available.

¹²⁴ On the figures for Japanese aid, Masashi Nishihara, *The Japanese and Sukarno's Indonesia: Tokyo-Jakarta relations, 1951-1966*, Monographs of the Center for Southeast Asian Studies, Kyoto University, 8; (Honolulu: University Press of Hawaii, 1976). In early 1958 Japan and Indonesia signed a war reparations agreement which provided for (a) the payment of \$223 million in reparations over 20 years, (b) the immediate cancellation of \$177 million in trade debt, and (c) \$400 million in reimbursable economic credits to be disbursed over a 20 year period. Through the end of 1965, Japan had paid \$155 million in

include the total figure for all loans or commitments from 1950 to 1965, as some commitments were not utilized and some debt was actually repaid before 1965. In fact, a CIA report from 1967 estimated that from 1956 to 1965, Indonesia's foreign aid commitments (presumably including loans and grants) totaled some \$3.8 billion, including \$2.4 billion in economic aid and \$1.4 billion in military aid.¹²⁵

Unfortunately, there are no official annual breakdowns of this foreign assistance, but we can make educated guesses. Combining various estimates, it appears that from 1956 to 1965 the annual inflow of foreign aid (both grant aid and loans) was roughly \$274 million per year.¹²⁶ To give this number some context, Indonesia's balance of payments was estimated to be a surplus of \$96 million in 1960, a *deficit* of \$168 million in 1961, a *deficit* of \$168 million in 1962, a *deficit* of \$142 million in 1963, and a *deficit* of \$88 million in 1964.¹²⁷ One commentator estimated that from 1962 until 1964 one-third of Indonesia's total imports were paid with foreign aid.¹²⁸ Moreover, \$274 million equaled some 20% of GOI revenues in 1961, 16% in 1962, and 25% in 1964, much higher if the unofficial exchange rate is used.¹²⁹ As will be discussed in Part III below,

reparations; this amount, plus the cancelled trade debt, equals \$332 million (Nishihara, *Japanese and Sukarno's Indonesia*, pp. 52-3 and 89). If added to the figure of \$231 million of debt outstanding at the end of 1965, the total of Japanese aid to Indonesia from 1950 to 1965 would be \$563 million; Simpson cites total Japanese aid from 1950 to 1963 as \$623 million (Simpson, *Economists with Guns*, p. 85). The figure for US grant aid comes from Bunnell, *Kennedy Initiatives*, p. 123.

¹²⁵ Intelligence Memorandum, Prospects for Economic Development in Indonesia, February 1967, p. 15 (LBJL, National Security Files, Country File Indonesia, Indonesia Memos (2 of 2), Volume VII, 5/66-6/67, Box 248).

¹²⁶ From Shakow's estimates (see Appendix E of *Foreign Economic Assistance*), it appears that of the total non-US debt, all but about \$204 million came after 1955; this means that of the \$2.18 billion in non-US debt outstanding at the end of 1965, roughly \$1.976 billion was incurred from 1956 until 1965. To this we add US grants and loans from 1958 until 1965, which according to Bunnell were about \$430 million, plus the Japanese grants of \$332, for an approximate but conservative grand total of about \$2.738 billion. Divided over 10 years from 1956 until 1965 (again conservative, because foreign assistance certainly declined after 1963), we get an inflow of about \$274 million per year.

¹²⁷ These figures come from p. 7 of "Survey of Recent Developments," BIES 4.

¹²⁸ John Bresnan, *Managing Indonesia: the Modern Political Economy*, Studies of the East Asian Institute (New York: Columbia University Press, 1993), p. 57.

¹²⁹ I calculate these numbers using the government revenues provided by the Bulletin of Indonesian Economic Studies; see "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 1 (1965), p. 5, D.H. Penny and D. Thalib, "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 6 (1967), p. 7. These GOI revenues are Rp. 62.2 billion for 1961, Rp. 75 billion for 1962, and Rp. 283 billion for 1964. Using the official Rupiah/Dollar exchange rates of Rp. 45 for 1961 and 1962, and Rp. 250 for 1964, the figure \$274 million comes out to 20%, 16% and 25% of government revenues for those years. If we use the black market exchange rates of Rp. 150 for 1961, Rp. 850 for 1962, and Rp. 7200 for 1964, the percentages are even higher at 66%, 310% and 697%, respectively. The official and black market exchange rates are found on p. 192 of Dick et al., *Emergence of a National Economy*.

regardless of the accuracy of the these numbers, the key point is that economically the GOI was undoubtedly living off foreign assistance, the huge sums of which allowed the GOI to stay afloat and to defer difficult but critical economic decisions.¹³⁰

III. The Economy, 1950 – c. 1962: Constructing a National Economy.

From 1950 until 1965, and especially during Guided Democracy, economic policy and development generally took a back seat to politics in Indonesia. Nevertheless, similar to the myriad of political issues Indonesia faced in the construction of a nation such as structure of central government, political representation, and relations between the center and the regions, in 1950 the new country also faced a variety of issues with respect to the economy. The general objective and buzzword of the time was to ‘transform the colonial economy into a national economy,’ but there was hardly any consensus on what the national economy should look like. The same political divisions and disagreements that rendered consensus in the political arena so difficult also plagued the country with respect to economic policy. Moreover, regardless of which economic vision Indonesian officials had for their country, in practice the nation was constrained by the economic structure as it existed in early 1950, a situation even more limiting than that in the political realm. In this Part III, I shall first describe generally the economic situation in 1950, followed by a discussion of economic policy under Parliamentary Democracy. I then turn to a discussion of the takeover and nationalization of Dutch businesses in 1957-59, a seminal event in the economic history of the new country, and conclude with a look at economic policy and performance in the early period of Guided Democracy.¹³¹

¹³⁰ Kahin, “Indonesia”, pp. 679-80; Mackie, *Konfrontasi*, p. 334.

¹³¹ There is extensive literature on the Indonesian economy. For the period from circa 1800 to 2000 as a whole, there are two excellent and complementary works: Dick et al., *Emergence of a National Economy*, and Anne Booth, *The Indonesian Economy in the Nineteenth and Twentieth Centuries: a History of Missed Opportunities*, Modern Economic History of Southeast Asia (Canberra, Australia: St. Martin's Press in association with the Australian National University, 1998). For the period from 1950 to the early 1960s, see Anspach, “Indonesia,” J. A. C. Mackie, “The Indonesian Economy, 1950-1963,” in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971), Douglas S. Paauw, “From Colonial to Guided Economy,” in *Indonesia*, ed. Ruth McVey (New Haven, CT.:

Before examining the structure of the economy at the beginning of Indonesia's independence in 1950, it may be useful to highlight five interrelated issues that from 1950 to 1965 (and well into the New Order period) consistently framed the debate over the construction of the national economy. These themes were (i) constructing an integrated economy which addressed the economic imbalances between Java and the other islands, (ii) the role and position of indigenous Indonesians in the economy, (iii) the role of the state – the government – in the economy, (iv) raising the overall GDP and per capita GDP – basic economic growth and wealth distribution, and (v) how to finance the construction of the national economy. With respect to the first theme of integration, as we shall see below in 1950 the economy was quite fragmented, with Java importing the majority of goods and acting as the small center of manufacturing, while the other islands, particularly Sumatra and Kalimantan, were areas that exported directly into the international trade system (mostly via Singapore) and generated much foreign exchange. How to mesh these divergent interests would be a major obstacle to overcome. Second, regarding the role of indigenous (non-Chinese) Indonesians in the economy, in 1950 Indonesians had a very tiny role in the modern sector of Indonesian's dual economy, which was dominated by foreigners, especially the Dutch. How to 'Indonesianize' the economy – to gain control of the foreign-dominated modern sector of the economy by increasing the share of Indonesians in the ownership and control of productive assets aside from subsistence agriculture – was a major preoccupation of officials during this period. The third theme of the role of the state in the economy arose from both the ideological identification of capitalism and free market 'liberalism' with the despised system of colonialism and the practical circumstances of the dearth of indigenous capital and entrepreneurs who could play a large role in the economy. The potential for a large role in the economy by the state was reflected by Article 33 of the 1945 constitution (and the identical Article 38 of the 1950 provisional constitution) that provides

Southeast Asia Studies, Yale University 1963). See also the excellent compilation by Kian Wie Thee, *Recollections: the Indonesian Economy, 1950s-1990s* (Singapore: Institute of Southeast Asian Studies 2003). For a more recent look at the Indonesian economy in the late colonial period and the 1950s, see Lindblad, *Bridges to Business*. Because of the general unavailability and unreliability of economic figures during the first two decades of independence, I shall try to avoid using them; where they are used, they should not be seen as precisely accurate figures but as estimates used to give a relative sense of the number or general situation.

(1) the economy shall be organized as a common endeavor based upon the principle of the family system, (2) branches of production which are important for the State and which affect the life of most people shall be controlled by the State, and (3) land and water and the natural riches contained therein shall be controlled by the State and shall be made use of for the people.¹³²

On the fourth issue of general economic development, the per capita income in 1950 was very low, perhaps as low as \$100 per year, with widespread poverty and a literacy rate of around 10%.¹³³ Compounding the low level of economic development was the destruction reaped by eight years of war and revolution, which devastated much of the infrastructure and the productive apparatus.¹³⁴ Official efforts to address these development issues often centered around attempts to encourage industrialization in a country that was predominantly agricultural in nature. Finally, the fifth issue of financing the construction of the national economy would prove to be unsolvable during this period and led to major problems such as perennial GOI budget deficits, chronic balance of payment deficits, chronic inflation which would become severe and paralyzing in the 1960s, and great international indebtedness (see Part II above for details on Indonesia's international debt). In fact, as we shall see, throughout the period 1950 to 1965, of these five issues only the two questions of Indonesianization of the economy and the role of the state in the economy would be resolved to any great degree, and neither was a smooth journey nor one on which there was great consensus.

A. The Economy c. 1950.

This section explores the basic structure of the Indonesian economy in 1950 which Indonesian policymakers had to work with. I focus on four major features or characteristics of the economy, all of which were inherited from the colonial era and informed and constrained the efforts of policymakers during Parliamentary Democracy

¹³² From the official English translation of the 1945 constitution published in *The Indonesian Revolution: Basic Documents*.

¹³³ See p. 4 of Douglas S. Paauw, *Financing Economic Development: the Indonesian Case* (Glencoe, Ill.: Free Press, 1960).

¹³⁴ On the economic development issues facing Indonesia in the early 1950s, see especially John Meek, "The Government and Economic Development in Indonesia, 1950-1954" (University of Virginia, 1956). For an excellent discussion of issues regarding financing economic development in the 1950s, see Paauw, *Financing Economic Development*.

and Guided Democracy: the dual or plural economy, economic fragmentation or non-integration between Java and the other islands, the agricultural nature of the economy, and finally the emphasis of the economy on exports of primary products. The section finishes with a discussion of a related issue touched on above, that of financing economic development. As we shall see, a major cause of the economic failures and problems of the 1950s and 1960s was the inability of the GOI to expand its revenue base to meet its ever increasing expenditures. This inability resulted in a substantial portion of GOI revenues being sourced from foreign trade, which in turn had a direct impact on much of the foreign investment in Indonesia.

Perhaps the most distinguishing feature of Indonesia's economy in 1950 was its highly dualistic nature that featured a fairly sharp cleavage between the modern sector of the economy and the traditional rural, subsistence agricultural sector. The 'modern sector' of the economy generally referred to industry, large scale plantations, mining, finance and banking, large scale international trade, and other sectors which required great amounts of capital investment and were comparatively highly specialized, as opposed to the more labor intensive sectors of the economy, principally subsistence agriculture and handicraft production.¹³⁵ Capital accumulation and growth tended to occur primarily in the modern sector, whereas the traditional sector was generally stagnating, with comparatively little change in productive techniques. Virtually all economic production activity was contained within these two very different sectors. In 1950, the modern sector accounted for roughly 25% of GDP,¹³⁶ and its influence was certainly greater than that. The chief feature of this dichotomy was that the modern sector was almost entirely controlled by foreigners (particularly the Dutch), who as we saw maintained their economic interests under the terms of the RTCA. Such an economic structure was largely an inheritance from the Dutch colonial era, and indeed was often referred to as a 'colonial economy.' In the case of Indonesia, the economy has also frequently been referred to as a 'plural economy,' a term first coined by colonial administrator-turned-scholar J.S. Furnivall in his classic work *Netherlands India: a Study*

¹³⁵ For more on the dual economy, see pp. 171-5 of Pauw, "From Colonial to Guided Economy," from which this brief description of the dual economy is taken.

¹³⁶ The 25% figure, though approximate, is frequently cited. See p. 174 of Dick et al., *Emergence of a National Economy*.

*of Plural Economy.*¹³⁷ This term refers to the divisions within the economy that are delineated along ethnic and social lines and reflect the great inequality of distribution of economic power in colonial Indonesia. It is commonly described as a pyramid structure, with the Dutch and other foreigners at the top of the economic and social pyramid (a tiny percentage of the population controlling the comparatively large modern sector of the economy), underneath which are ‘foreign Orientals,’ primarily the Chinese (who comprised some 3% of the population but dominated intermediary trade and distribution and rural finance), followed by the native Indonesians (over 95% of the population, but most of whom did not participate in the first two sectors and hence were mostly engaged in subsistence or local market agriculture or handicraft production) at the wide lower cross section of the pyramid.

However one characterizes this dual or plural economy, for the Indonesians in 1950 the feature most exacerbating, humiliating and controversial was the control of the very important modern sector of the economy by foreigners and moreover the almost universal lack of participation by indigenous Indonesians (i.e., Indonesians of non-Chinese descent) in the modern sector and the trading and retail sectors. In almost every sector of the ‘commanding heights’ of the economy – agricultural estates, oil and mining enterprises, high finance, the tiny large scale industry sector, and importing/exporting – there was no significant Indonesian involvement. To the extent Indonesians did participate in the modern economy, it was usually in the form of labor, although there was a very small number of Indonesians who worked in western firms as clerks and administrative staff.¹³⁸ Indonesians did own a number of small manufacturing establishments and were especially influential in the handicraft, textile and kretek cigarette (a mixture of clove and tobacco) industries. Nor were indigenous Indonesians

¹³⁷ See JS Furnivall, *Netherlands India: A Study of Plural Economy* (Cambridge: Cambridge University Press, 1939/1944). For the plural economy in the 1950s, see Ralph Anspach, "The Problem of a Plural Economy and its Effects on Indonesia's Economic Structure: a Study in Economic Policy" (University of California, Berkeley, 1963). Finally, for a more recent description of the plural economy, see chapter two of Lindblad's *Bridges to New Business*.

¹³⁸ For more detail on Indonesian participation in the economy, see the summary provided by Anspach in “Indonesia,” pp. 111-18. For an extensive and very detailed look at Indonesian involvement in the economy from 1940 to the mid-1950s, see Sutter, *Indonesianisasi*.

able to make much headway against Chinese control of wholesale and retail trade.¹³⁹ There was only a minuscule Indonesian entrepreneurial class, and capital accumulation by individual Indonesians – to the extent it could be measured, was seemingly insignificant.¹⁴⁰ Given this state of affairs, it was only natural that upon independence Indonesian officials sought to devise ways to increase Indonesian participation in the modern economy.

A general second feature of the economy in 1950 was the lack of economic integration between Java and the other islands.¹⁴¹ Indeed, recent literature suggests that a substantially integrated national economy developed very slowly and only came into being in the 1970s and 1980s during the New Order period.¹⁴² The lack of integration resulted from a divergence in economic interests between the lightly populated, export-oriented ‘outer islands’ with little manufacturing and the import-oriented Java (where most of the nascent manufacturing industry was located) with roughly two-thirds of the Indonesian population. By the 1930s, if not before, the value of exports from the outer islands, which already far exceeded the value of imports of the outer islands, had exceeded the exports of Java, which in turn was rapidly becoming a net importer; in 1939, Java’s share of exports was 36%, and its share of imports 66%, compared to the outer islands 64% share of exports and 34% share of imports.¹⁴³ Moreover, the outer islands generally traded directly into the international system (primarily to Singapore), and trade between the outer islands and Java was minimal right up until 1940. After independence internal trade grew swiftly, but the trend toward dominance of exports by

¹³⁹ Much has been written about the economic role of the Chinese in Indonesia, particularly in the area of trading. See generally J. A. C. Mackie, ed., *The Chinese in Indonesia: Five Essays* (Honolulu: University Press of Hawaii in association with Australian Institute of International Affairs, 1976). See also the excellent article by Kian Wie Thee, "The Indonesian Government's Economic Policies towards the Ethnic Chinese: Beyond Economic Nationalism?", in *Southeast Asia's Chinese Businesses in an Era of Globalization*, ed. Leo Suryadinata (Singapore: Institute for Southeast Asian Studies, 2006).

¹⁴⁰ On the lack of an entrepreneurial class, see Anspach, *Plural Economy*, chapter two, Bruce Glassburner, "The Attempt to Foster Private Entrepreneurship in Indonesia," *Indian Economic Review* 6, no. 2 (1962), Arifin Siregar, "Indonesian Entrepreneurs," *Asian Survey* 9, no. 5 (1969). Chapter one of Robison also makes some insightful observations – see Richard Robison, *Indonesia: the Rise of Capital* (Sydney: Allen & Unwin, 1986).

¹⁴¹ The islands outside Java were known as the ‘outer islands’ under the Dutch. Of these outer islands, Sumatra was by far the most important economically, followed by Kalimantan and Sulawesi.

¹⁴² See Dick et al., *Emergence of a National Economy*, chapter one. Paauw, writing in 1963, also emphasized the fragmented nature of the economy (Paauw, “From Colonial to Guided Economy,” pp. 157-70).

¹⁴³ Dick et al., *Emergence of a National Economy*, p. 26.

the outer islands and dominance of imports by Java continued; Booth calculates that Java's share of exports was 20% in 1954 and remained well below that in future years.¹⁴⁴ This disparity of interests was magnified greatly in the 1950s and 1960s because the GOI, unable to generate much revenue from other sources, relied heavily on international trade for its revenue (see discussion below). Revenue from this trade was in the form of direct export taxes (and import taxes) and overvalued official exchange rates for Rupiah, which severely cut into exporters' earnings and gave rise to much smuggling in the outer islands. Indeed, these policies that effectively penalized exporters were seen as an example of Javanese exploitation of the outer islands and were a principal cause of the 1957-58 rebellion.¹⁴⁵

A third general feature of the Indonesian economy in 1950 was its agricultural nature and low level of industrialization. The agricultural sector was comprised primarily of peasant food crops, smallholder and plantation export crops, as well as livestock, fishery and forest products, much of which was geared toward export (see next paragraph).¹⁴⁶ In the early 1950s, agriculture accounted for over 55% of the national income, with manufacturing less than 10%.¹⁴⁷ This changed slightly by the end of the 1950s; in 1958, agriculture accounted for just over 50% of national income, manufacturing for 13.5%, and services 32%.¹⁴⁸ Exports of agricultural products also provided as much as two-thirds of the critical foreign exchange earned in Indonesia.¹⁴⁹ The importance of agriculture as the mainstay of economic life for the population at large is further underscored if we look at employment figures; according to the 1961 census, 72% of employed Indonesians (23.5 million of 32.7 million) worked in the agricultural

¹⁴⁴ 18% in 1955, 16% in 1956, 14% in 1957, 13% in 1958, 12% in 1959, 14% in 1960, 12% in 1961, 10% in 1962, 13% in 1963, 15% in 1964, and 12% in 1965. These figures actually overstate Java's importance because of the impact of the over-valuation of the Rupiah, under-invoicing and smuggling. Booth, *Indonesian Economy*, pp. 119-20.

¹⁴⁵ Dick et al., *Emergence of a National Economy*, pp. 179-82.

¹⁴⁶ Karl Pelzer, "The Agricultural Foundation," in *The Economy of Indonesia: Selected Readings* ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971), p. 128.

¹⁴⁷ According to Paauw, agriculture's 57% share of national income in 1953 was broken down as follows: 36% peasant food crops, 8% peasant export crops, 4.5% estate crops, livestock 4.2%, fisheries 3.0% and forestry 2.3% (Paauw, "From Colonial to Guided Economy," p. 176).

¹⁴⁸ Lindblad, *Bridges to Business*, p. 79. Paauw's figures vary slightly; he estimates that in 1958 agriculture's share of national income was 56%, industry's share was 11%, services was 19%, and government 14% (Paauw, "From Colonial to Guided Economy," p. 176).

¹⁴⁹ Pelzer, "Agricultural Foundation," p. 144.

sector, 6% (1.94 million) in mining and manufacturing, 7% (2.19 million) in trade, banking and insurance, and 10% (3.1 million) in services, with no other category having more than 2%.¹⁵⁰ The lack of an industrial base was another colonial hangover; the Dutch were aware of the lack of industrialization and in the 1930s had finally begun to encourage limited industrialization, primarily as a way to combat imports of Japanese manufactured goods. These efforts gave rise to a small number of foreign companies establishing manufacturing plants in the 1930s, but did little to change the agrarian nature of the economy.¹⁵¹ As we shall see, in the 1950s the GOI did try to promote industrialization, but this effort also met with limited success.¹⁵² Moreover, one result of this limited industrial base (most of which was located in Java) was that most manufacturers, especially the foreign-owned ones, depended largely on imports of raw materials and capital goods and equipment to operate their business, which in turn required access to foreign currency to pay for such imports.

Interrelated with these three features of the Indonesian economy in 1950 was a fourth general feature, that the economy was largely geared toward the production and export of a limited number of agricultural primary products as well as raw materials from mining, principally oil.¹⁵³ This characteristic was also an inheritance from the colonial era, which witnessed an incredible boom in export driven growth from c. 1910 to 1930. However, the depression exposed the vulnerability of this extreme dependence on world markets, and it was clear that the “export oriented economy with its high degree of openness and dependence on demand for primary products under the aegis of colonialism

¹⁵⁰ Hunter, “Notes on Indonesian Population,” p. 191. Hunter notes, however, that as many as one-quarter of those who were engaged in agriculture may have also engaged in trading activities or home industries.

¹⁵¹ On industrialization in general until the mid-1960s, see Suhadi Mangkusuwondo, “Industrialization Efforts in Indonesia: the Role of Agriculture and Foreign Trade in the Development of the Industrial Sector” (University of California, Berkeley, 1967), A.R. Soehoed, “Manufacturing in Indonesia,” *Bulletin of Indonesian Economic Studies* 8 (1967). For a description of Dutch efforts to kick start industrialization in the 1930s, see those two sources plus Dick et al., *Emergence of a National Economy*, pp. 158-61, and Sutter, *Indonesianisasi*, pp. 34-54.

¹⁵² According to Mackie, in 1959 statistics provided by the GOI indicated that the number of large industrial establishments (defined as either employing more than 50 people or using motors of more than five horsepower) in Indonesia was about 1,700, and they employed collectively 290,000 workers; the total number of medium and large scale industrial enterprises was about 10,650, and they collectively employed some 430,000 workers (Mackie, “Indonesian Economy 1950-63,” p. 41). If these numbers are at all accurate, there must have been a large number of small establishments employing a great many people if the numbers from the 1961 census are correct. This is an excellent example of the pitfalls and problems posed by the economic data for the period.

¹⁵³ Lindblad, *Bridges to Business*, p. 5.

could not offer a viable path for future economic development.”¹⁵⁴ Industrialization was one solution, but as indicated these efforts were not very successful in the first two decades after independence. According to Booth’s estimates, exports as a percentage of GDP were 26.1% in 1951, dropping to 19.6% by 1955; from then until 1966, with the exception of one year (1963, 17.1%), they ranged between 18% and 20%.¹⁵⁵ The two principal exports from 1950 until 1966 were oil and rubber (both smallholder and estate) (see Chapter III for more on these exports). In addition to their significance as a percentage of GDP, exports were the primary source of foreign exchange, and foreign trade in general was a major source of revenue for the GOI from 1950 to 1965.

Generating revenue was a major problem for the GOI, and the government’s inability to raise revenue commensurate with expenditures resulted, especially under Guided Democracy, in serious economic problems, most notably over-reliance on trade taxes for revenues, perennial GOI budget deficits, chronic balance of payment deficits, chronic and later paralyzing inflation, and high international indebtedness. As Booth has noted, “it was the failure of revenue policy which was ultimately responsible for the failure of fiscal policy over these years,” but even this phrase understates the negative impact of the GOI’s inability to resolve the revenue generation problem.¹⁵⁶ To compare with the Dutch colonial government, at the end of the colonial era, tax revenues accounted for 60% of government revenues, the other 40% coming from government monopolies and utilities; of this 60% from tax revenues, 20% came from corporate and personal income taxes, 20% from import/export taxes, and the remaining 20% from land/property and excise taxes. However, after independence trade taxes as a percentage of GOI revenue shot up to 58% in 1951, 23% in 1954, and 36% in 1958, before declining to 16% in 1961 and lower in the following years.¹⁵⁷ The basic problem was a substantial shrinkage of the tax base; farmers (some 72% of the population in 1961) were considered

¹⁵⁴ Lindblad, *Bridges to Business*, p. 28.

¹⁵⁵ Booth, *Indonesian Economy*, p. 60.

¹⁵⁶ Booth, *Indonesian Economy*, p. 163.

¹⁵⁷ Booth, *Indonesian Economy*, p. 148. These figures, however, do not include taxes on oil companies, which would have certainly made the percentage higher. Writing in 1962, Corden and Mackie, citing official Bank Indonesia figures, claim the contribution of trade taxes to net GOI revenue was even higher: 66% in 1951, 55% in 1952, 43% in 1953, 32% in 1954, 36% in 1955, 46% in 1956, 47% in 1957, and 43% in 1958. See W.M. Corden and J. Mackie, “The Development of the Indonesian Exchange Rate System,” *Malayan Economic Review* 7, no. 1 (1962), p. 38.

too poor to tax heavily, and revenues from government monopolies and utilities were way down (by the mid-1950s, amounting to only 2% or so of revenues) compared with the colonial era.¹⁵⁸ Turning to foreign trade taxes as a major source of revenue was politically easier, since it mostly taxed businesses and foreigners – though of course there was a substantial group of smallholder exporters in the outer islands who were also negatively affected.

In an effort to keep raising revenue from foreign trade taxes, the GOI established a tremendously complex multiple exchange rate system in which different rates were used for different transactions and that had numerous negative impacts.¹⁵⁹ The basic problem with the system was that the official foreign exchange rates fixed by the GOI severely overvalued the Rupiah, and thus exporters, who were required to turn over most of their foreign exchange to the GOI in exchange for Rupiah at fixed rates, received far fewer Rupiah than their foreign exchange earnings commanded in the market. Thus, one impact was to skew trading incentives and effectively penalize or tax exporters in a variety of ways, leading to disincentives to export. This also resulted in a thriving black market in Rupiah and foreign exchange, vast smuggling operations (one observer estimated that smuggling accounted for 30% of exports by the mid-1960s), non-declaration of earnings (or keeping the foreign exchange overseas), and disincentives to invest in export sectors.¹⁶⁰ As noted previously, this regime particularly affected the outer islands and was a major source of contention in the 1957-58 rebellion. Trade, for these and other reasons, began to decline in the late 1950s, and the balance of payments deficits quickly worsened. A second major impact of the system was to make the already valuable foreign exchange even dearer. For the small manufacturing sector, foreign exchange was a necessary evil because most raw materials, capital equipment and spare parts were imported. In the broader context, because Indonesia's industrial base was so

¹⁵⁸Dick et al., *Emergence of a National Economy*, p. 175.

¹⁵⁹ On the exchange rate systems of the 1950s and 1960s, see Corden and Mackie, and also Bruce Glassburner, "The Pricing of Foreign Exchange in Indonesia, 1966-67," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971), Mark Pitt, "Indonesia," in *Liberalizing Foreign Trade, Volume 5: the Experience of Indonesia, Pakistan and Sri Lanka*, ed. M. Papageorgiou, Michael, M. and Choksi, A. (Cambridge, Mass.: Basil Blackwell, 1991). The multiple exchange rate system contained a variety of different measures such as inducement certificates, import and export taxes, prepayments, etc., and changed numerous times. For a shorter summary, see Dick et al., *Emergence of a National Economy*, pp. 191-3.

¹⁶⁰Dick et al., *Emergence of a National Economy*, p. 175.

small, most of its manufactured goods were imported anyway (the high demand for imported manufactured goods was a major component of imports, despite GOI attempts to limit non-essential imports), and thus access to foreign exchange was crucial to importing many goods. As noted, under the foreign exchange system most foreign exchange was turned over to the GOI in exchange for over-valued rupiah (the glaring exceptions were the foreign oil companies, who were allowed to keep their foreign exchange); the GOI then allocated foreign exchange among various applicants. This artificial control, especially in the face of dwindling foreign exchange earnings, offered much opportunity for graft and corruption. It seems a safe bet to assume that within the GOI control over these foreign exchange revenues was contested; it is not altogether clear who actually controlled these monies, though certainly the ministries responsible for the economic sectors which generated these revenues must have played a part.¹⁶¹ Moreover, as I shall argue, access to foreign exchange earnings of foreign companies played a major role in the takeover and treatment of those foreign companies in the 1960s.

Despite GOI efforts to squeeze more revenue from foreign trade, the GOI budget was in ever-increasing deficit from 1952 on, and this budget deficit was the principal

¹⁶¹ One observer asserted that by the mid-1960s “control over the allocation of official reserves … passed from any central policy-making authority to individual officials, including the managers of government agricultural estates and the governor of the central bank, each of whom utilized the foreign exchange at his disposal as he saw fit.” (Dick et al., *Emergence of a National Economy*, pp. 192-3, citing Rosendale) Palmer notes that in 1961 authority to allocate foreign exchange was transferred from Bank Indonesia to the Coordinating Minister for Development (a position filled by Chaerul Saleh from 1959 until March 1962, and then again from November 1963 until early 1966); see p. 143 of Ingrid Palmer, *Textiles in Indonesia: Problems of Import Substitution*, Praeger Special Studies in International Economics and Development (New York: Praeger, 1972). However, Pitt suggests that under Guided Democracy allocation of foreign exchange among industrial firms was under the jurisdiction of the Minister of Basic Industry and Mining (also Chaerul Saleh from 1959 until 1965) and the Minister of Peoples Industry (Azis Saleh from 1962 until 1966); see Pitt, “Indonesia,” p. 59. In contrast, if we can distinguish between allocation and control, Arndt and Panglaykim in 1966 suggest that Bank Indonesia continued to maintain control over some foreign exchange, and more importantly that ministries “controlling the two most important foreign exchange earning industries, the Department of Estates Production and the Department of Oil and Natural Gas, through the political power of their respective Ministers, achieved a position where they retained substantial portions of the export proceeds under their control, ostensibly to finance the requirements of their industries for imported equipment, spare parts and materials”; see p. 21 of J. Panglaykim and H. W. Arndt, *The Indonesian Economy: Facing a New Era?* (Rotterdam: Rotterdam University Press, 1966). In 1965-66, Frans Seda (whom we shall meet in Chapter Five) was Minister of Estates, while Chaerul Saleh was Minister of Oil and Natural Gas until early 1966. However, under the Contracts of Work signed in 1963 by the three foreign oil companies (see Chapter Four), payments by the foreign oil companies were made directly to the state-owned enterprises who were the designated partners of the foreign companies; presumably these SOEs then passed the proceeds to the Minister of Basic Ministry and Mining (Chaerul Saleh), who oversaw the oil sector (the position of Minister of Oil and Natural Gas –also filled by Chaerul Saleh – was only created in late March 1965), but this is not certain given the high value of these revenues.

cause of the chronic inflation which plagued Indonesia since its inception.¹⁶² This inflation was manageable until 1957 or so, but from 1957 to late 1961 jumped to around 30% annually as defense expenditures caused by the 1957-58 rebellion and the West Irian military campaign increased enormously. From late 1961 until 1964, inflation doubled annually, and from late 1964 through 1966 a devastating hyperinflation which paralyzed much of the economy took hold.¹⁶³ As we have seen, large amounts of foreign aid enabled Indonesia to mitigate the effects of the budget deficits for a while, but this assistance dried up after 1963. Moreover, revenues from trade began to decline in the late 1950s, putting increased pressure on the deficit.

B. Economic Policymaking under Parliamentary Democracy.

The economic policymaking record and implementation from 1950 to circa 1957 is generally seen as somewhat disappointing.¹⁶⁴ Similar to other disappointing aspects of Parliamentary Democracy, a major cause of this unimpressive record was political divisions among GOI policymakers, divisions that cut across multiple strata. As one close observer noted, “the years 1950 to 1957 in Indonesia are best understood as years of a hopeless losing battle on the part of a very small group of pragmatically conservative political leaders against an increasingly powerful political opposition of generally radical orientation.”¹⁶⁵ These conservative economic pragmatists, led by men such as Vice-President Hatta, Sumitro Djojohadikusumo (prominent economist and sometime Finance and Trade Minister), Sjafruddin Prawiranegara (Minister of Finance and first Indonesian Governor of Bank Indonesia) and Minister Djuanda, generally but not always favored

¹⁶² In order to make up the budget deficit, the GOI essentially printed more money, thereby increasing the money supply, which led to price increases. See generally Mackie, *Indonesian Inflation*.

¹⁶³ Mackie, *Indonesian Inflation*, pp. 2-3.

¹⁶⁴ For the classic discussion of policymaking during this period, see Bruce Glassburner, "Economic Policy Making in Indonesia, 1950-57," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971). For a more recent analysis, see Kian Wie Thee, "The Debate on Economic Policy in Newly-independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusomo," *Itinerario* 34, no. 1 (2010).

¹⁶⁵ Glassburner, "Economic Policy Making," p. 71. This description follows Feith's analysis of Indonesian politics in the 1950s as a conflict between administrators vs. solidarity-makers (see Feith, *Decline of Constitutional Democracy*). As Booth observed, in 1950 there were few trained Indonesian economists or professionals, and certainly most of the leaders of the revolutionary period had little knowledge or sympathy for economic matters and were instead focused on independence (Booth, *Indonesian Economy*, p. 330).

policies that worked within, or tried to accommodate, the existing structure of the Indonesian economy, and also generally placed more emphasis on rehabilitating and stabilizing the economy. Yet even within this group of pragmatists there was a wide diversity of opinion. At the heart of these divisions, both within the group of pragmatists and in the wider context of the pragmatists versus the radicals, was fundamental disagreement of what the new ‘national economy’ should look like. As noted before, there was general agreement that Indonesia should move from a ‘colonial economy to a national economy’, but there was far from a consensus on just how this national economy should be constructed. In particular, the two intertwining issues of foreign control of the economy and state involvement in the economy were greatly debated and the subject of much controversy.

We have already seen that foreign interests, especially Dutch, dominated the modern sector of the economy and that there was minimal participation by Indonesians in these foreign concerns. Hence, one focus of policymakers was how best to ‘Indonesianize’ the economy, though the pace and extent of this process were hotly debated. As Sutter observed, there were nine principal forms that this process of “increasing the participation and elevating the role of the Indonesians” in their economy took: (i) transferring to GOI control the various state enterprises owned by the colonial government, (ii) establishment by the GOI of new state-owned enterprises, (iii) the transfer to GOI control of foreign enterprises, (iv) increased GOI control over foreign businesses, (v) the transfer to individual Indonesians of foreign businesses, (vi) the establishment by individual Indonesians of new businesses, (vii) increasing individual Indonesian ownership in foreign companies, (viii) increasing individual Indonesian participation in executive and administrative staff of foreign companies, and (ix) the return of landholdings of foreigners to Indonesia.¹⁶⁶ The process of Indonesianization, in whatever form it took, was of course driven by economic nationalism. While there is disagreement on how exactly to define economic nationalism, one useful starting point may be “the national aspiration to have nationals own and control the productive assets owned by foreigners, or residents considered to be aliens, and perform the important

¹⁶⁶ Sutter, *Indonesianisasi*, pp. 1-2. Sutter’s detailed work traces the Indonesianization process from 1940 to 1955.

economic functions hitherto performed by foreigners or resident aliens.”¹⁶⁷ In the case of Indonesia, economic nationalism, and the Indonesianization process in its nine forms, was initially directed principally against the Dutch and Chinese (including both foreign Chinese and Indonesians of Chinese descent - in the previous definition, ‘residents considered aliens’).

A second area of disagreement was over the role of the state in the economy. Because capitalism and ‘liberalism’ were so closely associated in the minds of many GOI leaders with the hated colonialism and exploitation, many of these leaders nominally espoused socialism as their primary economic ideology, but this perhaps had more to do with anti-capitalism than it did with attraction toward principles of socialism.¹⁶⁸ Moreover, there were great differences over what a socialist economy should look like and how to construct one, especially concerning the role of the state. Nevertheless, the new state was seen in the minds of many as an entity which could regulate the economy and reduce the evils of capitalism. Indeed, as we saw, Article 33 of the 1945 constitution (and the identical Article 38 of the 1950 provisional constitution), which was the only article of the constitution dealing with economic matters, prescribed a large role for the state in the economy by providing that the state should control important branches of production as well as land, water and the natural resources therein. Naturally, however, there was disagreement over the definition, extent and scope of government control, and whether government control also meant government ownership as well.¹⁶⁹ There were also practical considerations that pushed policymakers towards a greater role for the state

¹⁶⁷ Thee, “Indonesian Government Economic Policies toward Ethnic Chinese,” p. 77; Lindblad, *Bridges to Business*, p. 2, follows Thee’s definition. Thee’s definition is derived in part from Johnson’s analysis; see Harry Johnson, “The Ideology of Economic Policy in New States,” in *Chicago Essays in Economic Development*, ed. David Wall (Chicago: Chicago University Press, 1972), p. 26. For a discussion of economic nationalism in the context of economic underdevelopment, see chapter one of Golay et al., eds., *Underdevelopment and Economic Nationalism in Southeast Asia* (Ithaca, N.Y.: Cornell University Press, 1969).

¹⁶⁸ Anspach, *Plural Economy*, pp. 153-7; Thee, “Recollections,” p. 9; see also pp. 319-20 of Kian Wie Thee, “Economic Policies in Indonesia during the Period 1950-1965, in particular with respect to Foreign Investment,” in *Historical Foundations of a National Economy in Indonesia, 1890s-1990s*, ed. J. Thomas Lindblad (Amsterdam: Koninklijke Nederlands Akademie van Wetenschappen, 1996).

¹⁶⁹ Robert Rice, “The Origins of Basic Economic Ideas and their Impact on New Order Development Policies,” *Bulletin of Indonesian Economic Studies* 19, no. 2 (1983), pp. 60-2. See also Paauw, “From Colonial to Guided Economy,” p. 213. For a debate between two prominent Indonesians in 1955 over the meaning of Article 33 of the constitution, especially the first clause referring to organization of the economy along principles of the family system, see Wilopo, *Socioeconomic Basis of the Indonesian State* (Ithaca, N.Y.: Cornell Modern Indonesia Project, 1959).

in the economy, most importantly the sheer lack of an indigenous (non-Chinese) business class and indigenous capital which could take the lead in the Indonesianization process. Who else could do it but the government? Certainly this dearth of indigenous entrepreneurs and private capital was a major factor in the slow pace of Indonesianization for much of the 1950s.

Much of the focus of the several economic plans implemented during Parliamentary Democracy emphasized economic development with a priority given to increasing the role of Indonesians in the economy. The first of these plans was the Economic Urgency Plan, also known as the Sumitro Plan (after Minister Sumitro Djojohadikusumo), implemented beginning in 1951. This was a quite ambitious and aggressive plan whose main goal was quickly to establish and build up private indigenous industry, thus aiming towards not only encouraging Indonesianization of the economy but also promoting import substituting industrialization as a way of diversifying the economy and reducing dependence on foreign imports. The plan promoted the establishment of small, medium and large scale industrial enterprises, with small establishments operating through central management centers (in which capital equipment and knowhow could be collectively acquired, pooled and used) known as ‘induk’. The GOI also helped finance these new establishments, primarily through the state-owned bank BIN (the State Industrial Bank). However, implementation of the plan was slow, inconsistent, and poorly organized, and was shelved in 1956 after only a few new enterprises had been established (the best known of which was the Gresik cement plant in East Java, financed from a \$100 million US Eximbank loan signed in 1950). The plan’s failure contributed to “the drift toward a more centralized economy.”¹⁷⁰

One aspect of the Economic Urgency Plan which received great attention was a failed program referred to as the Benteng program.¹⁷¹ This program, started in 1950, attempted to build up an indigenous Indonesian business class in the import sector by

¹⁷⁰ Paauw, “From Colonial to Guided Economy,” pp. 215-8, quote from p. 218; Glassburner, “Economic Policy Making,” pp. 84-5, Anspach, “Indonesia,” pp. 163-5, Lindblad, *Bridges to Business*, pp. 80-2; see also pp. 49-52 of K. Thomas and Panglaykim J., *Indonesia: the Effect of Past Policies and President Suharto’s Plans for the Future*, P series, no. 11; (Committee for Economic Development of Australia) (Melbourne: Committee for Economic Development of Australia, 1973).

¹⁷¹ The Benteng program has been the subject of much commentary in secondary literature. For a recent shorter discussion, see Lindblad, *Bridges to Business*, pp.126-36; for a longer discussion, see Anspach, *Plural Economy*, chapter five.

restricting certain categories of imports to Indonesian importers. In addition to promoting Indonesian businessmen, the program would also wrest control of part of the import sector away from the powerful Dutch trading companies, and keep it out of the hands of the Chinese. By early 1954, there were some 3,000 registered Benteng importers, about half of all importers, and the number continued to rise. However, the program was beset by three major problems and ultimately was considered a great failure and embarrassment. First, most of the ‘Indonesian’ importers in the program turned out to be merely fronting for their Chinese backers, such that these importers were known as ‘briefcase importers’ (whose only asset was a briefcase and thus was acting for someone else) or Ali/Baba firms (‘Ali’ referring to indigenous Indonesians, most of whom were Moslem, and ‘Baba’ referring to the Chinese backer). A second major problem was the rent-seeking and corruption (particularly kick-backs) the program fostered, as it became a major source of political patronage opportunities. This was especially apparent under the first Ali Sastroamidjojo cabinet (PNI, August 1953 - August 1955), whose Minister of Economic Affairs Iskaq Tjokroadisurjo was forced to resign because of corruption. A third major problem was that the program actually did little to reduce Dutch dominance of the import sector or build up Indonesian businessmen. In 1956 it was estimated that 70% of all import trade was handled by foreign banks alone, and that the Indonesian importers capacity was only 6% of the foreign importers’ total capacity. As ex Vice-President Hatta noted, “Indonesian traders have obtained privileges which have cost the country tens if not hundreds of millions of rupiahs while the suffering of the whole society increases.”¹⁷² The program was officially abandoned in 1957, leaving a legacy of scandal and corruption and the “erosion of confidence in private capital as the foundation of economic development in Indonesia.”¹⁷³

Indonesia’s first Five Year Plan, set to run from 1956-1960, was announced in early 1956.¹⁷⁴ The product of several years of fairly extensive research by the National Planning Bureau (the effort was led by Djuanda, with the assistance of a number of

¹⁷² Lindblad, *Bridges to Business*, p.135.

¹⁷³ Lindblad, *Bridges to Business*, p.136.

¹⁷⁴ For longer discussions of this plan, see Paauw, *Financing Economic Development*, and chapter two of Benjamin H. Higgins, *Indonesia’s Economic Stabilization and Development* (New York: Institute of Pacific Relations, 1957).

foreign economic experts), the plan represented Indonesia's "first systematic approach to the problem of stimulating economic development."¹⁷⁵ It called for a modest total investment of only 30 billion Rupiah (only 12.5 billion of which was to come from the GOI), and its main focus was on developing and establishing individual large-scale but essential industrial projects in the public sector. The plan essentially ended the Benteng policy of promoting private indigenous Indonesian entrepreneurs, and the private sector was left to its own devices. The plan suffered from a number of shortcomings, including its modest scope and overall lack of coordination among different GOI ministries. Because of the 1957-58 rebellion, the takeover of Dutch companies and other factors, it was only partially implemented and was essentially abandoned by 1958, the same year it was (finally) formally approved by the Parliament.¹⁷⁶

In terms of increasing indigenous Indonesian participation in the economy, overall the economy underwent very modest Indonesianization during the first seven years of Parliamentary Democracy.¹⁷⁷ For example, the Java Bank was nationalized with Dutch consent in late 1951 and became the nation's central bank, Bank Indonesia. Numerous utilities were also quietly nationalized with full compensation. Garuda Airlines, a joint venture held 51% by Dutch airline KLM and 49% by the GOI, was established in 1950 to service the country, and the Dutch shareholdings were fully bought out by the GOI in 1954. The GOI also had a small number of estates and other enterprises that were taken over from the colonial government and foreign businesses which did not wish to continue operations. In addition to nationalizing a few Dutch firms, the GOI also tried to grow the Indonesian presence in the modern sector by establishing state-owned banks such as BIN, which financed and became the major shareholder of over 30 state-owned industrial enterprises. In 1952 the GOI also established a shipping company named PELNI to compete with the Dutch shipping line KPM, which dominated the Indonesian inter-island shipping sector, but PELNI provided little competition. These efforts in general were hindered by the lack of capital and expertise necessary to compete

¹⁷⁵ Mackie, "Indonesian Economy," p. 48.

¹⁷⁶ Paauw, "From Colonial to Guided Economy," pp. 218-22.

¹⁷⁷ For excellent and detailed discussions of the Indonesianization record prior to the end of 1957, see generally Sutter's *Indonesianisasi*; chapters three through five in Anspach's *Plural Economy*; and more recently chapter five of Lindblad's *Bridges to Business*.

effectively with foreign companies, as well as by differences among policymakers. Thus, in the closing months of 1957, the modern sector of the Indonesian economy was still dominated by foreign interests, primarily Dutch, but this position would change very quickly.

C. Takeover and Nationalization of Dutch Companies.

The takeover in December 1957 and subsequent nationalization of all Dutch enterprises in Indonesia marked perhaps the most profound structural shift in the Indonesian economy from 1950 until the early 1970s.¹⁷⁸ These events addressed two basic issues that Indonesian policymakers had been wrestling with since independence: how to deal with foreign domination of the modern sector of the economy, and what role the state should play in the economy. Although the sequence of takeovers was distinct from the sequence of nationalizations, in a relative instant Dutch economic domination was eliminated and the GOI simultaneously acquired a vast stake in the modern sector of the Indonesian economy, and henceforth the state-owned enterprise sector would play a very influential role in the economy. The measures “paved the way towards a much more ‘Socialist’ approach to economic problems through direct governmental intervention,” and moreover the GOI, by assuming responsibility for the companies, also was “now directly implicated in the effects of [its] policies on the productive process in a way which [it] had never been between 1950 and 1957.”¹⁷⁹ These events also provided a stake-hold in the economy to the army, which was able to place a number of officers in management positions in the companies on a permanent basis and, according to many observers, continued to control a number of the companies and receive revenues even after formal nationalization. As Lindblad has argued, in the broader historical narrative the takeover and nationalization of these companies can best be viewed as part of the process of economic decolonization of Indonesia from the Dutch, a process separate but

¹⁷⁸ The nationalization of Dutch companies has generated considerable literature. Most recently, chapter eight of Lindblad’s *Bridges to Business* contains an excellent description and analysis; Anspach, *Plural Economy*, chapter six, also provides substantial detail and analysis. Two other important works are Bruce Glassburner and K. Thomas, “Abrogation, Takeover and Nationalization: The Elimination of Dutch Economic Dominance from the Republic of Indonesia,” *Australian Outlook* 19, no. 2 (1965), Bondan Kanumoyoso, *Nasionalisasi Perusahaan Belanda di Indonesia: Menguatnya Peran Ekonomi Negara*, Cet. 1. ed. (Jakarta: Pustaka Sinar Harapan, 2001).

¹⁷⁹ Mackie, “Indonesian Economy,” pp. 51-2.

parallel to the political decolonization process.¹⁸⁰ However, while the measures had immediate and long term ramifications in the form of helping resolve momentarily the two questions of foreign economic domination and the role of the state in the economy and providing the major impetus for economic decolonization, it seems fairly evident that the GOI as a whole did not pre-plan these events, and they were very much of an ad hoc nature, driven much more by shorter term factors of domestic politics and foreign relations instead of grand economic visions of socialism or Indonesianization.

The immediate cause and context of the takeovers was the conflict with the Dutch government over West Irian. As we saw in Part II above, in the early to mid-1950s bilateral efforts to resolve West Irian's status continually failed, and three times prior to November 1957 Indonesia attempted to get the United Nations involved in the dispute, but all three attempts also failed. Moreover, relations with the Dutch had deteriorated to the point where in February 1956 Indonesia unilaterally abrogated the RTCA. However, even after this abrogation of the agreement protecting foreign economic interests, the Harahap cabinet and second Ali cabinet (in office until March 1957) did not express a desire to confiscate or nationalize Dutch companies, in part because they knew the GOI could not afford to pay for the nationalizations, and the Djuanda cabinet (installed in April 1957) also took a fairly moderate approach.¹⁸¹ In late August 1957, a group of friendly countries successfully managed to get the issue placed back on the UN agenda, with a vote scheduled in the UN for late November, and from this point the West Irian issue was in the Indonesian media almost daily.¹⁸² In October, the GOI began ratcheting up the pressure. On 16 October, Foreign Minister Subandrio publicly warned that if this UN attempt failed, Indonesia would be forced to find "another way" to resolve the issue, which quickly led to speculation in Jakarta that the 'other way' might involve some type of action against Dutch economic interests, even though the GOI denied any intention to take over Dutch companies.¹⁸³ On 28 October there were GOI-sponsored mass demonstrations in Jakarta in support of the campaign to liberate West Irian, followed by a

¹⁸⁰ Lindblad, *Bridges to Business*, chapter nine.

¹⁸¹ Glassburner and Thomas, "Abrogation, Takeover and Nationalization," pp. 163-4; Anspach, *Plural Economy*, pp. 327- 340.

¹⁸² Lindblad, *Bridges to Business*, p. 181.

¹⁸³ Glassburner and Thomas, "Abrogation, Takeover and Nationalization," p. 167.

four day boycott of some Dutch firms. On 18 November President Sukarno spoke at another GOI-sponsored mass rally in Jakarta in support of West Irian and stated that if the UN resolution failed, the GOI would consider a number of retaliatory measures, including nationalizing vital Dutch businesses. There were also various unofficial calls for nationalization. On Friday, 29 November, the vote failed in the UN. The next day in Jakarta, as word of the UN decision spread, there was a failed assassination attempt on Sukarno in Jakarta in which 2 were killed and 30 wounded, though Sukarno escaped unharmed. This attempt, though it was not linked to the West Irian issue, certainly contributed to the emotional climate. On Sunday 1 December the cabinet met and voted on reprisals, which were announced that day on the radio and were as follows: (i) a nationwide strike against Dutch enterprises on Monday, 2 December, (ii) the immediate withdrawal of KLM landing rights, and (iii) the prohibition of publication of Dutch language papers and magazines. The strike went off as planned on Monday 2 December, and on 3 December the GOI announced that no Dutch nationals could enter Indonesia.¹⁸⁴

The seizure of Dutch enterprises began on 4 December with the takeover of two Dutch firms in Jakarta, the KPM shipping line and the George Wehry trading house, by representatives of KBKI affiliated unions (for more on the KBKI, see above Part I, Section B3). At KPM headquarters KBKI leaders forced their way into the managers' offices and read a proclamation declaring that the workers were taking over the company, and they further claimed that they (the leaders) and the workers "are the government." When the Dutch managers refused to sign the proclamation after a "heated discussion," they were essentially forced to leave the premises. The KBKI leaders then gathered all employees in front of the building and read the proclamation again, capping off the ceremony by replacing the Dutch flag with the Indonesian flag, after which the Indonesian staff resumed their work.¹⁸⁵ The seizure of these two companies by KBKI affiliated unions then triggered labor union led seizures of Dutch companies throughout

¹⁸⁴ Lindblad, *Bridges to Business*, pp. 181-2; Glassburner and Thomas, "Abrogation, Takeover and Nationalization," pp. 166-8; Anspach, *Plural Economy*, pp. 344-7.

¹⁸⁵ These events at KPM are relayed in Lindblad, *Bridges to Business*, p. 182, and in H. W. Dick, *The Indonesian Interisland Shipping Industry: an Analysis of Competition and Regulation* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1987), pp. 25-6. Lindblad cites two Indonesian newspapers for his account, while Dick cites internal correspondence of KPM; these two sources provide very different but neatly complementary descriptions of these events.

the country over the next week, and there were also strikes and boycotts; yet, despite all the confusion and action, none of the seizures was violent or bloody. Apparently none of these seizures was initiated by the PKI or SOBSI, the PKI labor federation, though both certainly supported the takeovers and were active in the demonstrations over West Irian leading up to the takeovers.¹⁸⁶ On 5 December, the cabinet met and announced that all taken-over companies were to be placed under GOI responsibility, and ‘committees of authority’ (*panitia penguasa*) began appearing at some of the seized enterprises. On 5 or 6 December, the army also began taking control of the Dutch companies out of labor union hands; in addition, over the next few days in many provinces such as North Sumatra the army even began to place unaffected Dutch estates and other businesses under its authority, ostensibly as a means of preventing labor unions from seizing them. On 13 December, army commander General Nasution announced that all seized Dutch companies were to be placed under army control.¹⁸⁷ The GOI also announced the expulsion of most Dutch personnel. When the dust had finally settled, over 700 Dutch companies were seized and put under Indonesian control, and some 33,000 Dutch citizens left the country in the next eight months.¹⁸⁸

The immediate question this sequence of events raises is whether the GOI was somehow complicit with the KBKI labor federation in initiating the seizures of the Dutch firms. Similar to what we shall see with respect to the takeovers of 1963-65, I think the answer to the question lies in part in how we define the ‘GOI’ or, more accurately, who represents the GOI; it is apparent that there were some officials who approved of the takeovers and others who did not, and thus the entire issue really is representative of the divisions and lack of unity within the government. Prior to the seizures, GOI official

¹⁸⁶ Glassburner and Thomas, “Abrogation, Takeover and Nationalization,” p. 172.

¹⁸⁷ Lindblad, *Bridges to Business*, pp. 182-4; Glassburner and Thomas, “Abrogation, Takeover and Nationalization,” pp. 168-9; Anspach, *Plural Economy*, pp. 347-9.

¹⁸⁸ Lindblad *Bridges to Business*, pp. 183-4. Lindblad estimates the book value of the taken over companies as somewhere between \$1.2 and \$1.5 billion, though the actual value may have been much less than that. As far as I am aware, the actual number of Dutch companies seized has not been determined; there were some 540 estates seized (see J. A. C. Mackie, “Indonesia’s Government Estates and their Masters,” *Pacific Affairs* 34, no. 4 (1961-2), p. 338, some 250 industrial companies (Anspach, “Indonesia,” p. 193), three banks (Beng To Oey, *Sejarah Kebijaksanaan Moneter Indonesia* (Jakarta: Lembaga Pengembangan Perbankan Indonesia, 1991), chapter eight, about 40 trading firms (J. Panglaykim and I. Palmer, *State Trading Corporations in Developing Countries, with Special Reference to Indonesia and Selected Asian countries* (Rotterdam: Rotterdam University Press, 1969), p. 8, and numerous other firms. Whatever the final tally, it is clear that virtually all Dutch-owned enterprises were seized.

policy was clearly one of non-takeover. Post-takeover pronouncements by various GOI officials like ex Vice-President Hatta, Bank Indonesia governor Sjafruddin Prawiranegara and Prime Minister Djuanda indicated the takeovers were not premeditated by the cabinet, as did the apparent lack of a plan regarding what to do with the companies once they had been seized.¹⁸⁹ However, there was also clear support for the takeovers within the GOI, specifically by President Sukarno.¹⁹⁰ It is certainly quite possible that the seizures were anticipated and encouraged by Sukarno, who often set events in motion and then stepped aside to let events take their course.

Over the next year, as the GOI slowly determined what to do with seized Dutch companies, it gradually built an administrative framework to supervise them.¹⁹¹ While their status was still in limbo, there was no doubt the companies were under GOI control. Many of the companies were grouped by sector and placed under the supervisory authority of newly established GOI bodies that were responsible to the related GOI ministries. For example, a new structure known as PPN-Baru (*Pusat Perkebunan Negara Baru*, or ‘Center for New State Plantations’) was established to supervise the 500 plus estates. Similarly, a body known as BAPPIT (*Badan Penjelenggara Perusahaan Industry*

¹⁸⁹ Lindblad, *Bridges to Business*, pp. 186; Anspach, *Plural Economy*, p. 350.

¹⁹⁰ In fact, in response to one writer’s question about PKI involvement in the takeovers, Sukarno stated “it was I who ordered the seizure of the Dutch enterprises in 1957. I decided that the fate of West Irian would not be decided at the UN or in Moscow or in Amsterdam, but here. That is why I moved against the Dutch in 1957.” See Louis Fischer, *The Story of Indonesia* (New York: Harper & Brothers, 1959), p. 300. Though the validity of this statement has come under question, in the absence of other evidence it may well be true, and it reflects that the GOI did not speak with one monolithic, united voice. As has been pointed out, Sukarno and others had long threatened such a reprisal for the West Irian issue, and they “were supported emotionally by Indonesians of every political stripe...and opposed only intellectually and rather feebly by the politically conservative Masjumi-Socialist coalition and their scattered sympathizers.” (Glassburner and Thomas, “Abrogation, Takeover and Nationalization,” p. 172) That is not to suggest that the move was thought out long in advance by Sukarno; it could have been a quick decision in the great heat of emotions involving the defeat of the UN measure. As we shall see with respect to the takeovers in 1963-65, Sukarno did at least in one instance collude with labor unions in provoking seizures of foreign companies.

¹⁹¹ Insofar as I am aware, there is no published comprehensive study of the seized Dutch companies during this approximately one year period, but Lindblad’s *Bridges to Business*, pp. 186-94, provides a general framework. There are a number of works which trace what happened to individual companies and sectors; see, for example, M.A. Jaspan, “Productivity Inhibition among Workers in a Nationalized Industry: a Factory Case Study in Java,” *Anthropological Forum* 1, no. 1 (1963), J. A. C. Mackie, “The Government Estates,” in *Sukarno’s Guided Democracy*, ed. T.K. Tan (Brisbane Jacaranda Press, 1967), J. Panglaykim, *An Indonesian Experience, its State Trading Corporation* (Djakarta: Jajasan Badan Penerbit, Fakultas Ekonomi, Universitas Indonesia, 1965), Jasper van de Kerkhof, “Indonesianisation of Dutch Economic Interests, 1930-1960: the Case of Iternatio,” *Bijdragen tot de Taal, Land en Volkenkunde* 161, no. 2 (2005). See also chapters 18 and 23 of R. J. Johnson, D. L. McKeen, and Leon A. Mears, *Business Environment in an Emerging Nation: Profiles of Indonesian Economy* (Evanston: Northwestern University Press, 1966).

dan Tambang, or ‘Agency to Operate Industrial and Mining Companies’) was set up to supervise manufacturing and mining companies, a body called BAPPHAR (*Badan Pusat Pengawasan Perusahaan2 Pharmasi Belanda*, or ‘Central Agency for the Administration of Dutch Pharmaceutical Companies’) was set up to supervise pharmaceutical companies, and BUD (*Badan Urusan Dagang*, or ‘Agency for Trading Companies’) was established to supervise the trading companies. Overseeing the entire structure was a body known as *Panitia Pengawasan Perusahaan2 Belanda* (or ‘Committee for the Supervision of Dutch Companies’). These agencies were set up gradually over the course of 1958. As one observer noted, the “army took advantage of every opportunity to place officers in government agencies concerned with the administration of Dutch properties,”¹⁹² though if the situation from 1963-65 takeovers is any indication, there must have been great infighting – among the political parties, army, GOI ministers and personnel, local governments, etc. – for these coveted positions of authority over presumably cash rich businesses. In any case, the extent of ‘supervision’ varied greatly from company to company; supervision itself generally entailed overseeing and ensuring the stability of new Indonesian management (and ensuring the Indonesianization of management in case of remaining foreigners) as well as the restoration of production.¹⁹³ Some army personnel went beyond mere supervisory functions; it has often been stated in the secondary literature that the army insinuated itself in the economy via the seized Dutch companies, but actual data are virtually non-existent and there has been no comprehensive published survey of the army/ex-Dutch company relationship. At the company level, the general management pattern was for the departing Dutch managers to be replaced by Indonesians already working at the company, while army personnel or officials from newly created civilian agencies acted in supervisory capacities. The biggest problem, of course, was the overall lack of administrative, technical and management skills among Indonesian

¹⁹² Karl Pelzer, *Planters Against Peasants: Agrarian Struggle in Eastern Sumatra, 1947-1958* (The Hague: Martinus Nijhoff, 1982), p. 167. Pelzer continued that in June 1958 General Nasution, in his capacity as Central War Administrator under martial law, assigned army officers to central working committees of BAPPIT, BUD and PPN-Baru. It is not clear how the authority of these agencies interacted with military supervision, nor is it clear if all Dutch companies were placed under these agencies – rather, some may have been left directly under army supervision.

¹⁹³ Lindblad, *Bridges to Business*, p. 189.

personnel, and often the old positions of the Indonesians who were elevated to the higher positions (vacated by the Dutch) were not refilled.¹⁹⁴

Minister of Agriculture Sadjarwo was initially responsible for organizing and implementing GOI control over the Dutch estates, though the army swiftly stepped in.¹⁹⁵ On 9 December 1957 Prime Minister Djuanda issued a decree placing all Dutch estates under GOI control and authorizing the Minister of Agriculture to issue the necessary implementing decrees. Minister Sadjarwo moved quickly, issuing the next day a decree placing all Dutch estates under the supervision of the new PPN-Baru, whose officials were mostly from either the old PPN (the existing agency which supervised the 30 or so estates already under GOI control) or the estate services department within the Ministry of Agriculture. Also on 10 December, Sadjarwo held a meeting with representatives of the Dutch estates to explain the government's actions, claiming that the government's measures were necessary in order to protect the estates and to ensure continued production. He further insisted that the estates had not been nationalized but that the PPN-Baru would only supervise them, but, after heated discussion, then indicated that 'supervision' also meant that the PPN-Baru would be in total management control of the estates, and that representatives of the companies "no longer have any voice in management, financing, and the like."¹⁹⁶ On 11 December Minister Sadjarwo issued another decree regarding the procedure for military administration of the estates. In North Sumatra, a major center for plantations, this was followed on 14 December by an absurdly staged transfer ceremony in which representatives from Dutch estates were forced to sign legal documents transferring the estates to the GOI. Soon after this, army officers were assigned to Dutch estate companies to supervise and control the estates; it was initially hoped that some of the Dutch managers would stay on and assist in the transition, but at least in North Sumatra they all left very quickly. Their sudden departure resulted in "near chaos on the plantations during the first months of 1958 as Indonesians

¹⁹⁴ Lindblad, *Bridges to Business*, pp. 187, 190.

¹⁹⁵ The relationship between PPN-Baru authority over the estates and army supervision of the estates is not clear; as suggested above, there was undoubtedly much jockeying for positions of control over the estates because they were perceived as sources of great revenue. However, the army clearly seems to have had the upper hand at least until the estates were formally nationalized. The following discussion of the estates comes from Pelzer, *Planters against Peasants*, pp. 161-8.

¹⁹⁶ Pelzer, *Planters against Peasants*, p. 162.

with some practical experience but rarely any management training stepped into the vacancies left by their departure.”¹⁹⁷ Not surprisingly, there were frequent clashes between the army officers now acting as supervisors and the estate workers. In June 1958 General Nasution, in his position as Central War Administrator, issued instructions containing guidelines for cooperation between the army supervisors and PPN-Baru, and even directly appointed army officers to several positions within PPN-Baru. Moreover, in September 1958, Nasution further issued instructions outlining the role of army officers actually on the estates. These instructions gave army officers essentially complete control over personnel and appointment decisions, financing, management and sales of property and equipment, etc. As one observer noted, “not a single aspect in the business life of the estates or other enterprises was outside the assignment of these officers.”¹⁹⁸

For almost a year after their seizure in early December 1957, the official status of the seized Dutch companies was in limbo until the GOI in late 1958 finally decided to nationalize them. As returning the companies to Dutch ownership and control was politically inconceivable, there were essentially only two choices for the GOI, either nationalization or turning them over to the private sector to run. Turning them over to the private sector was in practice not really an option; as there was no strong entrepreneurial class of indigenous Indonesians capable of managing the companies (and the experience with the Benteng program had further diminished faith in native businessmen), the only viable option was to turn them over to Chinese entrepreneurs. This was also a political impossibility, given the sensitive role of the Chinese in the economy.¹⁹⁹ Hence, after a long delay, presumably caused in part by attention to the 1957-58 rebellion, and perhaps in part due to political infighting over the companies, by the end of 1958 it was decided that the companies should be nationalized and placed permanently under the control of the GOI. In mid-November, control over the companies was formally transferred by the army to various GOI ministries, and in the last few days of 1958 a nationalization law

¹⁹⁷ Pelzer, *Planters against Peasants*, p. 164.

¹⁹⁸ Pelzer, *Planters against Peasants*, p. 168.

¹⁹⁹ Moreover, as Anspach notes, at the very time the decision was being made, the groups most closely associated with private enterprise and developing Indonesian entrepreneurs, the Masjumi and PSI political parties, were discredited because of their association with the 1957-58 rebellion. Anspach, *Plural Economy*, p. 366.

was promulgated.²⁰⁰ Implementation of the nationalization law began in February 1959, via a series of decrees in which companies were nationalized by sector (e.g., estates, utilities, trading companies, etc.). An agency known as BANAS (*Badan Nasionalisasi Perusahaan Belanda*, or ‘Agency For Nationalization of Dutch Companies’), responsible directly to a council of ministers, was established to coordinate and supervise the nationalizations. Control over the enterprises in particular sectors was given to GOI agencies, which were responsible to the GOI ministry having jurisdiction over that sector. Some of these agencies such as BUD, PPN-Baru, BAPPIT and BAPPHAR had been established over the course of late 1957-58 and now were reinvigorated with new authority and power, while others were newly established in 1959; altogether there were 14 of these agencies.²⁰¹ The process was mostly complete by April 1960.²⁰² A small number of enterprises were turned over to provincial governments, and a tiny number was actually turned over to the private sector. The basis of a large and influential state-owned enterprise sector was laid.

D. Guided Economy: Socialism `a la Indonesia.

With the switch in 1959 to Guided Democracy there was an accompanying shift to what was called ‘Guided Economy,’ or as President Sukarno frequently referred to it, ‘Socialism `a la Indonesia,’ the goal of which was a ‘just and prosperous society.’ Liberalism and capitalism were officially condemned, and Socialism `a la Indonesia was pushed as the elixir for the economy and society. However, in spite of the grand rhetoric, in practice there was simply no consensus as to what a socialist Indonesian economy should look like, reflecting continuing divisions within society and the government. ‘Socialist’ policies were not well-articulated and were vague enough to be acceptable to

²⁰⁰ Law No. 86/1958.

²⁰¹ For details on the nationalization laws and decrees and the administrative grouping, see chapter two of Achmad Sanusi, "The Dynamics of the Nationalization of Dutch-owned Enterprises in Indonesia: A Political, Legal, Economic Developmental, and Administrative Analysis" (Indiana University, 1963).

²⁰² Lindblad, *Bridges to Business*, p. 198. Under the PPN-Baru, the ex Dutch estates were initially divided into groupings based generally on geographic area and previous ownership (ones belonging to the same owner were often grouped together). However, the number and size of estates within each grouping varied greatly. There were six such groupings in West Java, four in Central Java, ten in East Java, and nine in North Sumatra. (Lindblad, *Bridges to Business*, p. 198) As we shall see in later Chapters, the administration of estates taken over in 1963-65 also generally followed this pattern of grouping by geography and previous ownership.

all; often day-to-day policymaking, because of mounting economic problems, “resorted to ad hoc policies...which tried to make ends meet, but bore no evident relationship to ‘Indonesian socialism.’”²⁰³ As Mackie has observed, Guided Economy’s three most espoused principal tenets, at least in its early years, were a “preference for state enterprise rather than private, great emphasis on national planning, [and] commitment to an egalitarian rather than elitist form of society,” with by far the greatest success in the first, and little, if any, success in the second and third.²⁰⁴ In fact, as we have already seen, a large state role in the economy was already assured by the beginning of Guided Democracy with the nationalization of Dutch enterprises. To these three tenets might be added a fourth: a general aversion to private foreign investment, which would culminate in the seizure of almost all foreign companies by the end of 1965 and the prohibition of further foreign investment. Another principal feature of Guided Economy was the generally far greater attention to politics and foreign policy, with economics taking a distant back seat, a situation which would result in economic paralysis by 1965. One aspect of this feature was the reduced influence of economic pragmatists under Guided Democracy, a trend that started under Parliamentary Democracy but quickly accelerated under Guided Democracy.²⁰⁵ Except for the failed economic stabilization attempt in 1963 (see Chapter Four), these economic pragmatists wielded little influence. Instead, President Sukarno dominated economic policy,²⁰⁶ even though he had a poor understanding of the subject and was not inclined to seek advice on pressing economic matters.²⁰⁷ The result was the rapid deterioration of the economy after 1960.

Perhaps the most significant feature of Guided Economy was the expanded role of the government in the economy. The extent of this expanded role has been debated, and it might be more accurate to suggest that the government intervention in the economy increased under Guided Democracy. For example, Lindblad has noted that the nationalization of Dutch companies increased the share of GOI expenditure in GDP from

²⁰³ Lance Castles, "Socialism and Private Enterprise: the Latest Phase," *Bulletin of Indonesian Economic Studies* 1 (1965), p. 19.

²⁰⁴ Mackie, *Indonesian Inflation*, p. 60.

²⁰⁵ Thee, *Recollections*, p. 17.

²⁰⁶ Booth, *Indonesian Economy*, p. 64, and Bruce Glassburner, "The Economy and Economic Policy: General and Historical," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca, N.Y.: Cornell University Press, 1971), p. 4.

²⁰⁷ Legge, *Sukarno*, p. 370.

roughly 8% to 14%;²⁰⁸ however, Booth has argued that “the period from 1950 to 1965 can be viewed as one of gradual attenuation of government control of the economy.” In particular she points to a decreased ratio of government expenditures in GDP that began in 1962 with a dramatic collapse in government revenues; from 1962 on, government expenditures were no more than 10% of GDP, and actually declined somewhat.²⁰⁹ However, if we broaden our gaze to other factors besides GDP statistics, then it becomes apparent that government intervention in the economy did increase substantially. This was done in at least two areas of state-owned enterprises as well as increased regulation. Because of the nationalization of Dutch companies, the GOI now controlled (at least nominally) a large chunk of the modern sector of the economy, an impact that cannot be measured by GDP figures. For example, with the takeover of the Big Five Dutch trading companies that controlled an enormous percentage of foreign trade, the GOI was now well positioned to influence this vitally important sector of an economy that was geared to the export of primary agricultural products and raw materials. Indeed, in 1959 control over some 75% of the imports of nine basic commodities was given to eight state-owned trading companies.²¹⁰ Moreover, the GOI imposed a host of regulatory measures on the economy, such as price and distribution controls, not to mention foreign exchange controls, much of which only encouraged corruption and the growth of black markets.²¹¹

The role of the expanded state-owned enterprises was the subject of much discussion in Indonesia, and paradoxically despite the official hostility the private sector continued to play an important role in the economy. In 1960 the now vast state-owned enterprise (SOE) sector was reorganized under Law No. 19/1960, and in the ensuing years the GOI continued to tinker with role and structure of the SOEs.²¹² Operationally,

²⁰⁸ Lindblad, *Bridges to Business*, p. 199.

²⁰⁹ Booth, *Indonesian Economy*, pp. 162-66; quote from p. 162. Curiously, though, Booth also notes that in 1960, the breakdown of GDP by sector and ownership (thus taking into account the nationalized Dutch companies) reveals that the GOI portion was 20.5%, substantially higher (pp. 174-5).

²¹⁰ Anspach, *Plural Economy*, p. 355.

²¹¹ Paauw, “From Colonial to Guided Economy,” pp. 210-12; Robison, *Rise of Capital*, pp. 80-2; Y.A. Muhammin, “Indonesian Economic Policy 1950-1980: Politics of Client Businessmen” (Massachusetts Institute of Technology 1982), pp. 116-22, 207.

²¹² For excellent background on these developments and government policy in general, see J. Panglaykim, “Some Aspects of State Enterprises in Indonesia,” *Ekonomi dan Keuangan Indonesia* 16, no. 3 (1963), Mohammad Sadli, “Structural and Operational Aspects of Public (Especially Industrial) Enterprises in Indonesia,” *Ekonomi dan Keuangan Indonesia* 13, no. 5-6 (1960), Mohammad Sadli, “The Public Sector, Private Sector and Economic Growth Experience in Indonesia,” *Ekonomi dan Keuangan Indonesia* 15

the SOEs suffered from many problems, some of which stemmed from their mission emphasis not on profit generation but fulfilling social welfare functions such as providing employment opportunities and training. It also proved hard for the ministries to control these entities, all of which were placed under the authority of specific ministries, and contrastingly the entities themselves often complained about the tight controls imposed from above that limited their ability to operate efficiently. Management positions in many SOEs were highly sought after and fought over, not only because of their perks and benefits but also because the companies were seen as cash cows with great opportunities for patronage dispensing (which indeed occurred) and personal enrichment. Other significant problems included lack of funding, lack of trained managerial and technical staff, and especially the general economic conditions. However, despite the strong position of the SOEs and anti-capitalist rhetoric, in practice the government did not seek to drive out the private sector entirely, but rather to maintain a balance among the private sector, the public sector, and the cooperative sector (which never developed into a significant economic constituent). In such a mixed economy, the precise roles of each were never really clearly defined, though it was clear that the public sector would generally take the lead and exert some measure of control over the private sector.²¹³ Indeed, in spite of the over-regulation and interference, the role of the private sector was not significantly diminished, and especially after 1962 the GOI, perhaps in response to the overall disappointing performance of the SOEs, was much less hostile as it tried to encourage private sector involvement in production and export (in lieu of importing and speculation).²¹⁴

In terms of the private sector, the role of the foreign Chinese and Indonesians of Chinese descent provided a major challenge for the government.²¹⁵ Even before 1950, there was much resentment against the Chinese because of their role in the inherited

(1962). For a look at the development of the state trading companies, see Panglaykim and Palmer, *State Trading Corporations in Developing Countries*; for more on the estates, see Mackie, "Government Estates."

²¹³ Sadli, "Public Sector, Private Sector," pp. 3, 9-11, 18-19.

²¹⁴ Castles, "Socialism and Private Enterprise," pp. 29-36.

²¹⁵ Much has been written on the Chinese in Indonesia. See especially Thee, "Indonesian Government Policies towards Ethnic Chinese," and Mackie, *The Chinese in Indonesia*, in particular J. A. C. Mackie, "Anti-Chinese Outbreaks in Indonesia, 1959-68," in *The Chinese in Indonesia: Five Essays*, ed. J. A. C. Mackie (Honolulu: University of Hawaii Press in association with the Australian Institute of International Affairs, 1976).

plural economy, in particular their dominance in intermediate trade, rural finance, and even rice milling. Issues of economic superiority were also inexorably intertwined with issues of citizenship and fears of foreign communist infiltration, as for the entire decade of the 1950s the citizenship of Chinese born in Indonesia (or Indonesians of Chinese descent, as opposed to foreign-born ethnic Chinese) was unresolved pending a citizenship treaty with the PRC (which was signed in 1955 but not ratified by Indonesia until January 1960). However, reducing Chinese economic influence would be much more difficult than reducing Dutch economic influence, in part because of the much greater numbers of Chinese than Dutch but also because the trading and other economic activities of the Chinese were “much more intertwined with the economic activities of the indigenous population than Dutch activities had ever been.”²¹⁶ As we have seen, one of the aims of the government in the early 1950s was to build up an indigenous class of entrepreneurs that could compete not only against the Dutch but also against the Chinese (for example, the Benteng program was geared against both Dutch and Chinese control). Nevertheless, as Thee has pointed out, the GOI never developed a comprehensive strategy of dealing with the Chinese, and most of the policies, laws and regulations were very much ad hoc in nature.²¹⁷ In 1956-57, an unofficial anti-Chinese movement known as the Assaat movement broke out, but this did not result in any official anti-Chinese policies. After the nationalization of Dutch companies, the Chinese increasingly became the target of economic nationalist sentiment, in part because their economic power actually grew as they filled the void left by the Dutch and the inefficient SOEs.²¹⁸ In 1959 the GOI issued Regulation 10 of 1959, which beginning 1 January 1960 banned foreign nationals (i.e., Chinese) from engaging in retail trade in rural areas. As a result, most Chinese were relocated (some forcibly) to the cities and towns, and some 120,000 actually left Indonesia for China. The ban caused a serious diplomatic conflict with the PRC and also resulted in acute economic disruption, at least initially. Though the ban was never rescinded, President Sukarno was later able to suspend temporarily its implementation.²¹⁹

²¹⁶ Thee, “Indonesian Government Policies towards Ethnic Chinese,” p. 80.

²¹⁷ Thee, “Indonesian Government Policies towards Ethnic Chinese,” p. 77.

²¹⁸ Dick et al., *Emergence of a National Economy*, p. 185.

²¹⁹ Thee, “Indonesian Government Policies towards Ethnic Chinese,” pp. 87-8. Thee notes that Regulation 10/1959 was instigated by the army, who apparently had three motives: first, to weaken the Indonesian

Regulation 10/1959 would prove to be the only explicitly anti-Chinese government policy from 1950 to 1965 which was actually implemented, though of course anti-Chinese sentiment continued to bubble to the surface.

Although economic policymaking generally took a distant back seat to politics and foreign policy under Guided Democracy, in 1960 two important laws, each of which had a potentially far-reaching economic impact, were passed. Both laws also had a significant impact on foreign investment, a subject that will be covered in the next Chapter. Both were intended to replace the various colonial laws covering their respective subject matters and thus were manifestations of the desire to jettison the colonial imprint on Indonesian society, economy, and law. The first was the Basic Agrarian Law of 1960, which was generally concerned with revising laws pertaining to land ownership and land use and was to be the centerpiece of future agrarian laws.²²⁰ It recognized several types of land ownership and land use, with land ownership rights available only to Indonesian citizens; foreigners could only lease land under lease rights known as *hak guna usaha*. The law also imposed minimum and maximum limits on the amount of land individual Indonesians could own, depending on the type of land and population density; the minimum was 2 hectares, which was a decidedly unrealistic figure given the high population densities and limited land available. The minimum and maximum requirements meant that a certain redistribution of land had to take place, even though land distribution in Indonesia was not highly imbalanced compared to other countries in Asia.²²¹ However, the land distribution program was only minimally implemented in later years, and as we shall see in subsequent Chapters, this failure became a hot issue for the PKI. This would be the extent of efforts to ‘socialize’ the agricultural sector under Guided Economy; in spite of all the socialist sloganeering, the

Chinese (suspected of being a fifth column for communist PRC), second to put a stop to Sukarno’s growing friendship with the PRC, and third to embarrass the PKI. The PRC, aware of Sukarno’s position, obliged by not allowing the incident to wreck completely PRC-Indonesian relations.

²²⁰ Law No. 5/1960. For background and brief analysis, see Pelzer, *Planters against Peasants*, pp. 26-9, 35-37, and Pelzer, “Agricultural Foundation,” pp. 138-40. As Pelzer notes, complementing this law was the Crop Sharing Law of 1960 (Law No. 2/1960), which attempted to regulate the relationship between landlords and tenants.

²²¹ Booth, *Indonesian Economy*, pp. 123-4.

closest Indonesia came was an attempt at land redistribution plus very limited success in promoting cooperatives (for example, collectivization of agriculture was never tried).²²²

The second important law was Law No. 44/1960, which was concerned with oil and natural gas. For years the government had been toying with new legislation regarding the oil industry, but only in 1960 was agreement finally reached. The law's prime feature was the reversal of colonial laws to stipulate that oil and natural gas were now owned by the state, and that the mining of oil and gas may only be undertaken by state-owned enterprises (although if SOEs were unable to undertake such operations, they may appoint contractors to do so).²²³ This law and its impact will be discussed in greater detail in the next Chapter, but in brief its significance lies in that the vitally significant oil industry in Indonesia was dominated by three foreign oil companies who were operating under a very different regime. Thus, the law portended a major shakeup in the operation of the oil industry.

In terms of economic planning, the only major economic plan of Guided Economy was the Eight Year Development Plan, which quickly became the symbol and expression for Guided Economy and Socialism `a la Indonesia, at least in its first few years.²²⁴ The group responsible for formulating this plan was the National Planning Council (known by its acronym DEPERNAS), which as we saw earlier was appointed by President Sukarno in July 1959. This 74 member council was headed by Mohammad Yamin, a well-known nationalist historian, and its membership was chosen primarily on political grounds, with no trained economists as members (though a few foreign

²²² Booth, *Indonesian Economy*, p. 317.

²²³ For an English translation of the law, see Robert Fabrikant, ed., *Oil Discovery and Technical Change in Southeast Asia: the Indonesian Petroleum Industry, Miscellaneous Source Material* (Singapore: Institute of Southeast Asian Studies, 1973).

²²⁴ For analyses of the Eight Year Plan, see *Indonesia: Perspectives and Proposals for United States Economic Aid: A Report to the President of the United States by the United States Economic Survey Team*, (New Haven, Conn.: Yale University Southeast Asia Studies, 1963), chapter four, Benjamin and Jean Higgins, *Indonesia: the Crisis of the Millstones* (Princeton, N.J.: Van Nostrand Company, 1963), chapter eight. For shorter summaries, Don D. Humphrey, "Indonesia's Plan for Economic Development," *Asian Survey* 2, no. 10 (1962), Guy J. Pauker, "Indonesia's Eight Year Development Plan," *Pacific Affairs* 34, no. 2 (1961). An official summary can be found in "Broad Outlines of National Overall Development Plan, 1961-1969," (National Planning Council, Republic of Indonesia, 1961). As we shall see in later Chapters, in subsequent years DEKON (1963, see Chapter Four) and BERDIKARI (1965, see Chapter Seven) would join the pantheon of economic slogans and terminology under Guided Economy.

economic consultants were consulted on technical matters).²²⁵ Not surprisingly, the plan was highly politicized; even the breakdown of the plan into 8 parts, 17 volumes and 1945 paragraphs symbolically represented 17 August 1945 (the day Sukarno declared Indonesian independence). The plan, at Sukarno's request, even contained a set of principles for Indonesian socialism, whose main characteristics were defined as follows: (i) no *exploitation de l'homme par l'homme* (a favorite Sukarno expression meaning ‘no exploitation of man by man’), (ii) “equality of satisfaction” (a Javanese expression), (iii) “socialist emphasis on distribution should not lead to the neglect of the problem of production,” (iv) “he who does not work does not eat,” (v) “ownership of house and yard and guarantee to the peasants that they will own their own land,” and (vi) a “service economy” based on the principles that (a) the private sector’s right to operate is given by the government, and therefore the government has the right to guide economic development, (b) entrepreneurs must be progressive, meaning they must believe in MANIPOL, (c) the means of production have a social function, (d) the private sector should not rely on the government for support, and (e) the government will decide which sectors of production will be open to the private sector. From these characteristics, five principles of Indonesian socialism were set forth: (1) emphasis on production of consumer goods, (2) better distribution of daily necessities, (3) agriculture and industry should produce finished goods which earn foreign exchange, (4) imports should be used to create employment opportunities and to produce foreign exchange saving goods, and (5) basic industries should be developed.²²⁶

More concretely, the plan was designed around the development of two types of projects known as the ‘A Projects’ and ‘B Projects.’ The 335 A Projects were the core of the plan and were expected to cost Rp.240 billion, about Rp.100 billion (an estimated \$2.2 billion) of which was to come in the form of foreign exchange. The percent of total expenditure of the A Projects broken down by sector was: industry 22%, transport and communications 25%, military and clothing about 12% each, food 10.5%, education 7%, finance and tourism 5%, with none of the remaining categories (public welfare, government, research, health and cultural) more than 3%. The B Projects were intended

²²⁵ Pauker, “Eight Year Development Plan,” pp. 115-6.

²²⁶ Higgins, *Crises of the Millstones*, pp. 128-9.

to help finance the A Projects by generating gross earnings of Rp.120 billion and \$2.46 billion in foreign exchange (the net earnings figures, after taking into account expenditures, was not clear). Of the \$2.46 billion in foreign exchange earnings, \$1.9 billion (over 75%) was to come from the oil industry (which was dominated by three foreign companies who produced some 90% of Indonesia's crude oil, see next Chapter), and \$320 million was to come from rubber exports, with the remainder coming primarily from exports of other primary goods. The focus of the first three years of the plan was to be on achieving complete self-sufficiency in food production and a high degree of self-sufficiency in textile production, and in the last five years the emphasis shifted to the development of heavy and light industry, such as steel and petrochemicals.²²⁷

The plan was ambitious and quite unrealistic. Among its many deficiencies were underestimating the costs of the projects (including the necessary investment for the B Projects), the skewed priority of development of the projects, insufficient financing of the projects (especially failing to take into account the cost of the B projects), failure to match chronologically expenditures with revenues, lack of trained personnel and an administrative body to oversee the projects, and failure to take account of inflation.²²⁸ In fact, several observers believed that due to the lack of adequate domestic capital, much of the financing for the plan would have to come from foreign sources (over and above the foreign component in the oil sector).²²⁹ Notwithstanding these problems, the plan was approved by the MPRS (which by this time was appointed by President Sukarno) in late 1960 and was implemented beginning January 1961. As we shall see, it was never fully implemented, and in any case was rendered immaterial with the outbreak of Konfrontasi in 1963.

IV. Conclusion: Indonesia in 1962.

By the second half of 1962, the GOI could look with pride on some matters but with consternation on others. In terms of internal security, the last remnants of the 1957-

²²⁷ *Indonesia: Perspective and Proposals*, pp. 8-13 and chapter four.

²²⁸ *Indonesia: Perspective and Proposals*, pp. 91-111; Humphrey, "Indonesia's Plan," pp. 15, 17-19.

²²⁹ Higgins, *Crises of the Millstones*, p. 132; Pauker, "Eight Year Development Plan," pp. 120-21.

58 rebellions had surrendered in 1961,²³⁰ and in June 1962 the long-existing Darul Islam rebellion in West Java was finally defeated. Thus, Indonesia was essentially free from civil strife for the first time in its short history, a situation that eventually would result in the ending of martial law in 1963. Moreover, in the realm of foreign affairs, with the settlement of the West Irian issue in early August, Indonesia had won a major diplomatic achievement by essentially facing down the Dutch. The nation would shortly be fully ‘whole’ and unified. On the domestic political front, President Sukarno and the army had settled into their uneasy, competitive partnership with the political parties all but emasculated. President Sukarno’s position vis-à-vis the army seemed particularly strong in the wake of the West Irian victory. In fact, in July, even before the West Irian conflict was resolved, Sukarno had scored a major victory over General Nasution by essentially demoting him and replacing him as army chief of staff with General Yani, who was thought to be more receptive to Sukarno’s wishes.

However, on the economic side of the ledger, the record was decidedly negative, as the economy, to this point under Guided Democracy a distant third fiddle to domestic politics and foreign affairs, was obviously in serious trouble.²³¹ From 1950 until 1957 the economy had done reasonably well, with per capita GDP increasing around 2% per year and the balance of payments problem and the inflation problem still under control.²³² After 1957, though, the tide began to turn. Initially this may have been in large part due to the impact of the 1957-58 rebellion and the seizure of the Dutch enterprises, as well as a decline in international prices of exports. While there appeared to be a slight recovery in 1959, by 1960 the economy again was clearly on the downturn. Export earnings were declining quickly, reflecting a decline in net terms of trade (which would continue through 1965); as we saw previously, in both 1961 and 1962, the balance of payments deficit reached \$168 million. Numerous attempts to achieve self-sufficiency in rice had

²³⁰ See Herbert Feith and Daniel Lev, "The End of the Indonesian Rebellion," *Pacific Affairs* 36, no. 1 (1963).

²³¹ For a look at the economy in general circa 1962, see chapter three of *Indonesia: Perspective and Proposals*, which was written in 1962 but not published until 1963. In addition, Mackie’s “Indonesian Economy” and Paauw’s “From Colonial to Guided Economy” are also excellent summaries.

²³² Dick et al., *Emergence of a National Economy*, pp. 178-179; Booth, *Indonesian Economy*, pp. 58-70.

failed.²³³ From 1960 until 1965 the average annual growth of GDP was around 1.7%, but because population was growing at 2% per year, this actually amounted to a decline in per capita GDP.²³⁴ In 1962 the imbalance between government revenues and expenditures worsened significantly, as government revenues collapsed dramatically while expenditures, mostly because of the West Irian conflict, increased substantially.²³⁵ This expanding GOI budget deficit fueled inflation, which jumped from around 30% annually from 1957-61 to a whopping 167% in 1962.²³⁶ Reflecting these trends and the growing lack of confidence they inspired in the Indonesian economy, the black market rate of the Rupiah to US Dollar sank from Rp.150 per one US\$ in 1960 to Rp.850 in 1962, even as the official exchange rate remained at Rp.45.²³⁷

Of the three objectives proclaimed at the beginning of Guided Democracy as primary goals of Guided Democracy, two – internal security and the incorporation of West Irian into the Republic – were now achieved, while the third – *sandang-pandang*, or sufficient food and clothing – was not. President Sukarno himself recognized this situation publicly in his independence day speech of 17 August 1962 (entitled ‘A Year of Triumph’), in which he proclaimed that two parts of the GOI’s three point program had been realized and suggested that much greater attention would be given to solving economic problems.²³⁸ Such an acknowledgement gave hope to a number of GOI officials and citizens concerned with the economy, as well as to United States officials who were concerned that Indonesia may yet fall into the communist camp and sought to forestall that possibility by promoting economic stability and growth. As we shall see in

²³³ For more on Indonesian attempts at rice-self sufficiency, see L. Mears and S. Moeljono, "Food Policy," in *The Indonesian Economy during the Soeharto Era*, ed. Booth and McCawley (Kuala Lumpur: Cambridge University Press, 1981), Suzanne Moon, "Takeoff or Self-Sufficiency: Ideologies of Development in Indonesia, 1957-61," *Technology and Culture* 39, no. 2 (1998).

²³⁴ Booth, *Indonesian Economy*, p. 65; Dick et al., *Emergence of a National Economy*, p. 192.

²³⁵ According to one source, in 1962 GOI revenues were Rp. 75 billion and expenditures Rp. 122 billion, leaving a deficit of Rp. 47 billion or 60% of revenues; in 1963 GOI revenues were Rp. 162 billion and expenditures Rp. 330 billion, leaving a deficit of Rp. 168 billion or 104% of revenues; in 1964 GOI revenues were Rp. 283 billion and expenditures Rp. 681 billion, leaving a deficit of Rp. 398 billion or 141% of revenues; in 1965 GOI revenues were Rp. 923 billion and expenditures Rp. 2,526 billion, leaving a deficit of Rp. 1,603 billion or 174% of revenues. See p. 7 of Penny, “Survey of Recent Developments,” BIES 6.

²³⁶ Dick et al., *Emergence of a National Economy*, p. 192.

²³⁷ Dick et al., *Emergence of a National Economy*, p. 192.

²³⁸ See pp. 36-9 of the English language version of the speech; Sukarno, "A Year of Triumph: Address by the President of the Republic of Indonesia on the Seventeenth of August, 1962," (Department of Information, Republic of Indonesia; Special Issue 225, 1962).

Chapter Four, the GOI would make a serious attempt to stabilize the economy in 1963, but this effort would be rendered impossible by the outbreak of Konfrontasi in September 1963. What initially appeared to be a period of tranquility after the internal security situation and the West Irian conflict were settled was actually only the calm before the hurricane of Konfrontasi. Before turning to these events, however, we need to examine the status of foreign investment in Indonesia.

Chapter Three: Foreign Investment, 1950 – early 1963

As we saw in Chapter Two, the role of foreign investment in the construction of Indonesia's 'national economy' was a very sensitive issue. Upon independence, the modern sector of the economy was dominated by foreign interests, especially Dutch, and one of the principal concerns of policymakers was how to 'Indonesianize' the economy. Various schemes were adopted, but there was little change until the nationalization of all Dutch companies in 1958-59, which fundamentally altered Indonesia's economic structure. Hence, it will be no surprise that initially the government attitude toward new foreign investment was one of ambivalence; despite a variety of statements by GOI officials generally supportive of attracting new foreign investment, there was no legal framework for new foreign investment to enter the country until the passage of the 1958 law on foreign investment. This delay reflected not so much a debate over whether foreign investment in general would be allowed, as many officials recognized the need for foreign investment given the state of Indonesia's economic development, but rather what controls and limitations should be placed upon it so as to protect Indonesian interests. In contrast, the government had much less discretion in dealing with 'existing' or 'returned' foreign investment, by which I mean foreign investment established prior to 1942 which returned to independent Indonesia under the protection of the RTCA. Until 1957-58 this protection was honored by the GOI, while it tried, as we saw in Chapter Two, to 'Indonesianize' the economy. In what appeared to be contradictory actions, the government in 1958 nationalized all Dutch companies and all Taiwan-linked Chinese enterprises, even as it passed the new foreign investment law. Under Guided Democracy, the government attitude toward foreign investment became increasingly hostile, eventually resulting, as we shall see in subsequent Chapters, in the taking over of most foreign companies and the banning of new investment. Foreign investment served as an easy explanation for Indonesia's economic problems, and politically it was also an easy

target, particularly in times of strong nationalist sentiment. Beginning with the takeovers of Dutch firms in 1957-58, foreign investment would also be increasingly used as a pawn in foreign relations.

This Chapter Three is divided into two Parts. Part I examines the official policy toward new foreign investment as well as existing foreign investment during Parliamentary Democracy and the early Guided Democracy periods. The focus is primarily on non-oil foreign investment, as the oil sector will be discussed in detail in Part II. The Part starts with a short look at non-Dutch foreign investment before World War II, followed by a brief look at the key provisions of the RTCA concerning the position of existing foreign investment in newly independent Indonesia. We then turn to a discussion of the government's policy toward new foreign investment and the treatment of existing foreign investment under Parliamentary Democracy. Eight years of ambivalence finally resulted in the passage of the foreign investment law in 1958, which clearly permitted new foreign investment and, contrary to many accounts of Indonesian economic history, was not repealed until 1965. This is followed by an examination of policy under Guided Democracy, which became increasingly hostile to foreign investment and pushed for new foreign capital in the form of loans, particularly in the form of production sharing arrangements. I argue that while the production sharing arrangements had equity-like features, they clearly did not qualify as foreign investment. Moreover, the government increasingly asserted its authority over existing foreign investment, especially in the vital oil sector and the estate sector. As we shall see, there was very little new foreign investment in Indonesia after 1950, and most of what existed in 1963 was foreign investment that had been in Indonesia before World War II.

Part II of this Chapter then examines foreign investment generally as it existed in Indonesia in early 1963, before the takeovers began. Part II is divided into separate discussions of the oil industry, the plantation sector, and the manufacturing and other sectors. I argue that a key distinguishing feature of these different sectors and their businesses, and one that as we shall see in subsequent Chapters was critical element in the takeover process, was the amount of foreign exchange revenues the enterprises generated. The oil sector was dominated by three foreign companies that collectively produced over 90% of the crude oil in Indonesia. I suggest that the critical importance of

the oil industry and the big three oil companies in the Indonesian economy, both in terms of the oil produced as well as the revenues generated for the government, resulted in the very different treatment by the GOI of these companies, a principle I call “oil company exceptionalism.” I then turn to the foreign estate sector, another sector that generated foreign exchange for the government, though in amounts less than the oil companies. There were approximately 145 estates (totaling at least 260,000 hectares) owned by foreigners, the vast majority of which were rubber and palm oil and located in Java and North Sumatra. This is followed by an examination of some of the smaller areas of foreign investment in Indonesia, including the firms (some 12) in the manufacturing sector, whose position was significantly different because they generally produced for the domestic market and thus did not generate foreign exchange revenues, as well as what I refer to as Malaysian companies. (For a list of foreign firms in Indonesia circa mid-1963, see Appendix A.) Throughout both Part I and II there will be discussion of the various problems facing foreign investors in Indonesia.

Before beginning, however, it would be useful to explain what I mean by foreign investment. I am referring to private foreign direct investment, in particular non-Dutch foreign direct investment. By foreign direct investment, I mean investment by a foreign individual or company (in the case of Indonesia, almost always a company) in a productive business with physical assets and ongoing operations (especially of a physical nature) over an extended period of time, such as a factory, an estate, or the like. A key feature of this direct investment is that management is appointed by the foreign owners. The physical nature and ongoing operations of the investment rules out what is known today as portfolio investment (such as investment in stock of a company in an open exchange), of which there was a negligible amount in Indonesia in the 1960s. However, the definition is meant to include banks, trading companies with a sizable presence in Indonesia (not mom-and-pop importers operating out of a storefront), and insurance companies, and other more ‘white collar’ businesses, even if these types of investment did not come in the form of large physical assets like a factory. I also use the term to refer to private foreign investment, not government paid-for and sponsored investment, such that the investment risk is borne by private companies or individuals. As we shall see in Part I, Section B, this definition rules out most of the production sharing arrangements,

which were principally loan arrangements. Moreover, my definition would generally rule out trade representative offices, because there were no ongoing productive operations; these were usually one or two person offices that simply represented the companies in the country (such as a sales representative). I recognize that such theoretical distinctions might become more blurred in practice, as some businesses overlapped, but such a definition picks up most of the important investments and usually is applicable for Indonesia during this period.¹

Finally, I would like to make several points regarding nationality in my definition of foreign investment. First, I generally use the term to refer to non-Dutch private foreign direct investment, largely for two reasons. In the first place, there was the special nature of Dutch investment in the context of the colonial relationship between the Netherlands and the Dutch East Indies/Indonesia; given the colonial subject-master relationship, it was quite different from investment by firms from other countries, both before and after independence. In addition, as we saw in Chapter Two, as a practical matter by the early 1960s there was no Dutch direct investment left in Indonesia. Second, I also exclude investment by Indonesians of Chinese descent. Under the terms of the RTCA, these were Indonesian citizens (as opposed to Dutch), but as we saw in Chapter Two, the citizenship question of these Chinese born in Indonesia (Indonesian or PRC) was not settled until 1960 when the citizenship treaty with the PRC was finally ratified; under this treaty, residents of Chinese descent had two years to decide between PRC and Indonesian citizenship. However, given that most Chinese elected Indonesian citizenship, they will not be considered as foreigners for purposes of foreign investment. Finally, with respect to foreign investment by ethnic foreign Chinese, it appears that there was very little of this by the early 1960s.

¹ This definition of foreign direct investment can be compared to the definition provided by Lindblad, who cites the following definition from the United Nations in 1992: “an investment involving a long-term relationship and reflecting a lasting interest of a resident entity [individual or business] in one economy [direct investor] in an entity resident in an economy other than that of the investor [host country].” See p. 1 of Thomas Lindblad, *Foreign Investment in Southeast Asia in the Twentieth Century* (London: MacMillan Press, 1998).

I. Foreign Investment Policy and Regime, 1950-1962.

In this Part I, I trace the general treatment of foreign investment in Indonesia from 1950 through 1962. Both ‘existing’ or ‘returned’ foreign investment and new foreign investment are covered, but in practice very little new foreign investment entered the country during this period; moreover, of the existing foreign investment, only the oil companies appear to have made any new significant investments (see Part II). The lack of new foreign investment resulted in part from the absence of any legal mechanism by which new foreign investment could enter the country, which reflected the ambivalent attitude of the GOI during the Parliamentary Democracy period. I argue that this ambivalence reflected much more of a debate over how new foreign investment should be controlled in order to protect Indonesian interests, rather than a debate over whether foreign investment should be allowed in Indonesia at all. This problem was solved only in 1958 with the promulgation of the foreign investment law, a law which remained operative until 1965. However, the increasingly hostile attitude of the government toward new foreign investment during Guided Democracy, plus a whole array of other issues affecting existing foreign investment, resulted in almost no new foreign investment entering the country. These same issues not only discouraged new foreign investment from entering the country but also discouraged existing foreign investment from making further investments.

Before examining these developments, it may be helpful to discuss broadly the nature of foreign investment as it existed at the time of Indonesia’s independence. As we saw in Chapter Two, foreign investment in the early 1950s was almost exclusively in the ‘modern’ sector of the economy - oil and mining, plantations/estates, industry, large scale finance and banking, and large scale international trade.² Most of the non-Dutch foreign investment entered the Dutch East Indies after the turn of century, especially between 1905 and 1930. These investments were largely linked to export production and thus were concentrated in the estate agriculture sector (about 56% of the total foreign

² For a nice summary of pre-war foreign investment, see Thomas Lindblad, "Foreign Investment in Late Colonial and Post Colonial Indonesia," *Economic and Social History in the Netherlands* 33 (1991). See also chapter two of Peter Creutzberg, ed., *Changing Economy in Indonesia, Volume Three: Expenditure on Fixed Assets* (The Hague: Martinus Nijhoff, 1977).

investment, including Dutch), with major investments also in oil (about 19% of the total, including Dutch).³ Most of the foreign investment was located in either Java or Sumatra, and most of the plantations in Sumatra were in the Medan area of North Sumatra. Of the estates, much of the non-Dutch foreign investment was in rubber, followed by palm oil, tea and other products. These estates were sometimes managed directly by the owners, especially where there were large holdings, and sometimes by estate management firms (see Part II, Section B). Accurate statistical data regarding overall pre-world War II foreign investment are hard to obtain; Lindblad estimates that total foreign investment, including Dutch investment, reached 1.7 billion guilders (\$675 million) by 1914 and 4 billion guilders (\$1.6 billion) by 1930, before tapering off to 3 billion guilders in the 1930s. Moreover, some 70% of the total foreign investment was Dutch, with much of the remainder British, American and Japanese.⁴ Earlier estimates made in the 1940s indicated that total foreign investment in 1937 in the Dutch East Indies was about \$1.4 billion; of this total, some 75% was Dutch, followed by British investment at 14%, followed by American investment of about 7%.⁵

Until the 1930s, foreign investment in the manufacturing sector was fairly limited. The depression, however, forced the colonial government, which prior to this time had done little to encourage the growth of industry, to rethink its policy. The immediate impetus for this change was the flood of cheap Japanese manufactured consumer goods after 1931 (spurred especially by a huge devaluation of the yen in late 1931), which led to regulations in 1933 and 1934 both to limit imports and to promote import substituting manufacturing. These changes led to a significant surge of industrialization, though as we saw in Chapter Two the percentage of manufacturing/industry in GDP remained very

³ Lindblad, *Bridges to Business*, p. 21.

⁴ Lindblad, *Bridges to Business*, pp. 21-2, and Dick et al., *Emergence of a National Economy*, p. 116. See also Creutzberg, *Changing Economy of Indonesia, Volume Three*, p. 25. In discussing foreign investment in the colonial era, Lindblad has identified four categories of foreign investment; non-indigenous Indonesians such as those of Chinese descent, Dutch-owned companies rooted in the Dutch East Indies, Dutch-owned companies managed from the Netherlands, and a fourth category of investment from other countries such as the United States and Great Britain. (*Bridges to Business*, p. 22)

⁵ The estimates come from Helmut Callis' 1942 work titled *Foreign Capital in Southeast Asia*, and for years were the only estimates available (cited in Meek, *Government and Economic Development in Indonesia*, pp. 205-6). Creutzberg's percentage estimates by nationality for 1940 are comparable: 72% Dutch, 13% British, and 8% United States (Creutzberg, *Changing Economy of Indonesia, Volume Three*, p. 25).

low, perhaps in part because the outbreak of World War II limited the possibility of further industrial growth.⁶ Foreign firms also responded to this initiative, and a number of large non-Dutch foreign owned manufacturing plants (among others, a Goodyear Tire factory, a Bata Shoe plant, and a Union Carbide battery plant) began operations in the second half of the decade. Virtually all the non-Dutch foreign investment in manufacturing was in Java, especially West Java.

With the Japanese occupation and the subsequent Indonesian Revolution, most of the 1940s was a lost decade for foreign investment. During the Japanese occupation, most of the foreign companies operating in Indonesia were seized by the Japanese and put under some type of supervision. Some ceased to operate altogether. The oil fields, of course, were a prime target of Japanese control and a primary reason for the invasion/occupation. The fledgling Republican government took over and operated many foreign companies beginning in late 1945 as the Indonesian Revolution broke out, though a number of companies whose assets were primarily located in Dutch controlled areas did return during the Revolution.⁷ However, by 1949, most of the foreign companies, including Dutch companies, had not returned, and as we saw in Chapter Two the status of these firms was a major issue in the Round Table Conference in 1949.

Non-Dutch foreign firms fell under the umbrella of protection extended by the RTCA to Dutch firms. No less than twelve articles in the Financial and Economic Agreement section of the RTCA (known as ‘FINEC’) related to operation of foreign business enterprises (including Dutch companies). The key article was Article One, in which Indonesia agreed to “adhere to the basic principle of recognizing” the “rights, concessions and licenses properly granted under the law of the Netherlands Indies (Indonesia) and still valid on the date of transfer of sovereignty....” Indonesia further recognized that “the rightful claimants be restored to the actual exercise of their rights,” with certain provisos, such as taking into account situations on estates which were occupied by squatters during the occupation and Revolution, the possibility of nationalization of public utilities, etc. Moreover, in Article Four Indonesia agreed that for

⁶ Dick et al., *Emergence of a National Economy*, pp. 158-162; Booth, *Indonesian Economy*, pp. 41-5.

⁷ Sutter, *Indonesianisasi*, chapter 16.

existing and new enterprises and estates, the possibility will be made available for an extension, a renewal or the granting of rights, concessions and licenses required for their operation...at such conditions, and for a period and at a time so as to enable the enterprises remaining or being operated on a sound business basis and the lawful owners being guaranteed a continuity making possible the investments required for normal long term business operations...

In addition, Indonesia agreed in Article Six to “make the provisions required to safeguard the lawful owners exercising their rights, concessions and licenses referred to in Article 1...to promote resumption and lastingness of economic activity.” Indonesia further agreed to extend the term of all rights, concessions, and licenses that “could not be exercised as a result of the war, occupation and abnormal conditions” by a corresponding period (Article Seven). Finally, Indonesia pledged (Article Eight) that the

burdens imposed on business as a consequence of fiscal measures and social and other measures customary in a modern country will be kept within such reasonable limits that under normal circumstances business can be carried on, permitting normal replacements, depreciations and reserves and permitting a reasonable profit for the capital invested in the enterprises.

The Indonesian side was able to impose a few limits to these broad concessions. For example, Article Three specifically provided for the possibility of expropriation or nationalization of some companies in accordance with procedures to be prescribed by law, but only if such measures were for the public benefit. Article Five required the returning businesses to “cooperate with and enable participation of Indonesian capital, subject to this being justified from a business point of view.”

In sum, the rights and interests of existing foreign investment seemed well protected by the provisions of the RTCA. Indeed, it was largely under the aegis of the RTCA that foreign companies returned to what was now Indonesia. As discussed below, however, the climate for foreign investment was not altogether hospitable.

A. Foreign Investment during Parliamentary Democracy.

The discussion in Chapter Two of the Indonesian economy in the 1950s made plain that one of the most controversial issues relating to the economy was the role of foreigners. Much of the debate over the construction of the national economy revolved

around the extent to which the economy should be ‘Indonesianized,’ and as we saw the GOI undertook various measures to achieve this objective. Hence, the government wanted to ensure that foreign investment was controlled and limited, an attitude that was frequently described as one of ambivalence. As one observer noted in 1956,

On the one hand, top level official policy statements have stressed the country’s need for foreign capital and invited investors to establish new businesses in Indonesia. On the other, ministerial policy pronouncements and the actions of administrators not infrequently have jeopardized legitimate foreign interests in pursuit of other means.⁸

The government’s ambivalence was most evident with respect to new foreign investment, as despite a variety of statements by GOI officials generally supportive of foreign investment, it was not until September 1958, ironically right around the time that the GOI decided to nationalize the Dutch businesses and seize the Taiwan-linked companies, that the new foreign investment law was finally passed by the elected Parliament of 1955. Prior to this, there was no legal basis upon which new foreign investment could enter the country, and as a result hardly any did. Hence, virtually all the foreign investment in Indonesia from 1950 to 1966 was in the form of ‘returned’ or ‘existing’ foreign investment which came back under the protection of the RTCA. As there were distinct differences with respect to new foreign investment and existing/returned foreign investment, this section first summarizes GOI policy toward new foreign investment, and then traces the treatment of the existing/returned foreign investment.

1. New Foreign Investment.

The characterization of the GOI’s attitude toward new foreign investment during most of the Parliamentary Democracy period as ‘ambivalent’ derives from the contrast between the frequent supportive statements made by GOI officials toward new foreign investment and the various official policy statements issued by different cabinets, and the delay in actually passing a foreign investment law until 1958. Thus, despite various statements generally encouraging new foreign investment, there was no legal structure in

⁸ Meek, *Government and Economic Development in Indonesia*, pp. 205-6. For short discussions of foreign investment in Indonesia in the 1950s, see Meek, *Government and Economic Development in Indonesia*, pp. 185-215, Sutter, *Indonesianisasi*, chapters 25 and 26, Lindblad, “Foreign Investment in Late Colonial and Post Colonial Indonesia,” and Thee, “Economic Policies in Indonesia during the Period 1950-1965, in particular with respect to Foreign Investment.”

place to accommodate any new investment until 1958. This certainly reflected foreign investment's association with capitalism and colonialism and the domination of the modern sector of the Indonesian economy by primarily Dutch business concerns; the various cabinets obviously were afraid of negative backlash if the door for foreign investment were too wide. It also undoubtedly was partly a reflection of the short lifespan of most of the cabinets of the period, as they did not have enough time to develop policies for foreign investment, especially when there were more important matters to be dealt with. Perhaps most importantly, however, the question often was not so much whether foreign investment would be welcomed, but rather what conditions would be imposed upon its entrance. Indeed, many officials recognized the general need for new foreign investment given the state of Indonesia's economic development, and much of the debate seemed to revolve around how to limit and control this new foreign investment so as protect Indonesian interests. This dilemma was nicely captured by one observer writing in 1956, who noted that since the "early days there has been a continuing effort within the Indonesian government to formulate the principles of a basic policy which would both attract new capital and insure that its operation would benefit the economy."⁹ Devising an acceptable formula was painstaking slow and contentious, however, as evidenced by the eight years it took to promulgate a foreign investment law.

Various statements by GOI officials in the early 1950s clearly indicated there was support for new foreign investment.¹⁰ For example, in September 1950 Prime Minister Natsir (Masyumi) declared in a well-publicized statement that rejecting foreign capital altogether would be harmful to the economy, and in order to improve the economy it was necessary to attract foreign capital into several areas. He indicated that the government would conduct a study of which fields would be open, and what conditions would be imposed, including the form of the enterprise, limits on transfers, and participation by Indonesians.¹¹ President Sukarno also recognized the need for foreign investment in these early years; in a speech in February 1950 he indicated that security was necessary so that

⁹ Meek, *Government and Economic Development in Indonesia*, p. 187.

¹⁰ For a detailed description of the political debate over foreign investment in the first half of the 1950s, see chapters 25 and 26 of Sutter's *Indonesianisasi*; for a very short summary, see Meek, *Government and Economic Development in Indonesia*, pp. 185-92.

¹¹ Sutter, *Indonesianisasi*, p. 1128; Booth, *Indonesian Economy*, p. 54.

both citizens and foreigners would invest in Indonesia, and that Indonesia still needed “assistance” from foreign capital, and in another speech in September 1951 he defended the Sukiman cabinet’s policy of encouraging foreign investment.¹² One of the biggest proponents of foreign investment was the influential Sjafruddin Prawiranegara. In March 1951 while Minister of Finance he wrote that if Indonesia’s standard of living was to rise, foreign capital had to be tolerated and increased in size, as Indonesians were too poor even to maintain the current standard of living by themselves. As Governor of Bank Indonesia, in 1952 he wrote in the bank’s annual report that the origin of capital should not matter, and the only criterion for distinguishing between foreign capital and national capital should be whether funds were transferred abroad; in the bank’s 1953 report, Governor Sjarfruddin also emphasized the need for foreign investment, albeit with some controls.¹³ Sumitro Djojohadikusumo, another influential economist, also was supportive of foreign investment, provided it met certain conditions, such as minimum Indonesian participation in ownership and management, required training for Indonesians, employment of as many Indonesians as possible, and reinvestment of profit in Indonesia.¹⁴

Similarly, in a late August 1952 interview, Prime Minister Wilopo (PNI) stated that Indonesia both welcomed and needed foreign investment.¹⁵ In fact, in that same interview, Prime Minister Wilopo indicated that that within several months his government would issue an unofficial policy statement on foreign investment. Over the course of the next nine months the Wilopo cabinet undertook a detailed study of foreign investment, began drafting policy statements on foreign investment, and even began drafting a foreign investment law.¹⁶ However, none of the above was finished when the Wilopo cabinet fell in June 1953, ironically by an issue linked to returned foreign investment (see subsection 2 below).

¹² Sutter, *Indonesianisasi*, p. 1108; Feith, *Decline of Constitutional Democracy*, p. 216.

¹³ Sutter, *Indonesianisasi*, pp. 1144-5, 1184-6, 1210-1.

¹⁴ Thee, “Economic Policies in Indonesia during 1950-65, particularly with respect to Foreign Investment,” p. 326.

¹⁵ Sutter, *Indonesianisasi*, p. 1207.

¹⁶ Sutter, *Indonesianisasi*, pp. 1203-4; Meek, *Government and Economic Development in Indonesia*, pp. 187-8; Feith, *Decline of Constitutional Democracy*, p. 476 (footnote 20); and Thee, “Economic Policies in Indonesia during 1950-65, particularly with respect to Foreign Investment,” p. 328.

The first official policy statement on foreign investment was made in February 1954 under the first Ali Sastroamidjojo (PNI) cabinet by Minister of Finance Ong Eng Die.¹⁷ Consisting of 18 paragraphs, the policy statement declared that “in order to enlarge national production, improve the people’s standard of living, and to develop sound economic conditions, Indonesia, with an ever increasing population, requires foreign capital investment,” which may be invested in accordance with various principles. Three types of investment were specifically sanctioned: foreigners could invest on their own (presumably meaning complete foreign ownership), or in cooperation with Indonesian citizens, or in cooperation with the GOI. Another prominent principle was that “enterprises in Indonesia should be primarily places for Indonesian citizens to work,” and thus only foreigners whose skills were not available in Indonesia would be permitted to work in the country. Foreign enterprises were allowed to remit abroad after-tax profits, and foreigners working in the enterprises were allowed to transfer part of their income abroad. Moreover, the statement declared that “in general, all capital will be permitted to return to the country of origin after it has been utilized a number of years in Indonesia.” The statement did enunciate certain limitations on the operations of foreign investment. These included reserving unspecified fields for the GOI to operate in, either alone or in cooperation with private investors, and a preference for industrial firms rather than trade, transport and banking enterprises. The statement further indicated that regulations relating to privately-owned enterprises would be established, as would government agencies. In sum, the policy statement clearly indicated that foreign investment was welcome and desired, subject to some rather vague limitations that had yet to be spelled out. However, the policy statement was not followed by the promulgation of any laws, as more urgent matters occupied the government’s attention.¹⁸

In December 1955, the second official government policy statement was issued, this time by the Burhanuddin Harahap (Masyumi) cabinet.¹⁹ Like the 1954 statement, it

¹⁷ An English translation of the policy statement is attached as Appendix T to Sutter’s *Indonesianisasi*. Quotations from the policy statement are taken from this version.

¹⁸ Sutter, *Indonesianisasi*, p. 1224.

¹⁹ For a nice summary of the 1955 Harahap policy statement, see pp. 2-3 of "Investment in Indonesia: Basic Information for United States Businessmen," (United States Department of Commerce, Bureau of Foreign Commerce, 1956). The following summary is taken from this source. See also Meek, *Government and Economic Development in Indonesia*, pp. 188-92.

was fairly broad in scope, recognizing the need for foreign capital, both in the form of loans and investment, but with certain limitations. Excluded sectors included the fields of social enterprises and public utilities, such as railroads, interisland navigation, domestic air service, electricity, and water supply, which were to be owned by the government, as well as traditional small scale industries operated by Indonesians. In addition, foreign control over basic industries should be limited to no more than 49% of the enterprise. Aside from these three areas, however, foreign investment was wide open. There would be no nationalization of foreign firms outside these three areas except by agreement with the GOI. The statement indicated that forthcoming regulations would allow foreign companies to use land for up to 40 years, with extensions possible, and that international agreements would be signed to avoid double taxation. Profits and certain expenses were allowed to be repatriated, as was capital after an unspecified period. Foreigners were allowed to enter the country and work, though in order to further the employment of Indonesians some restrictions might be established, and there would also be requirements for training Indonesian personnel. Finally, the statement indicated that a new foreign investment law was forthcoming, as were regulations designed to allow existing foreign investment to be subject to these same rules. However, as the Harahap government was clearly an interim government in place only until the new government determined by the 1955 elections could enter office, it did not actually issue any laws or regulations.

Despite these efforts, a foreign investment law was not promulgated until 1958. The first draft of a foreign investment bill was actually submitted to Parliament in June 1956 by the second Ali Sastroamidjojo (PNI) cabinet, but this bill went nowhere.²⁰ Somewhat ironically, it was the Sukarno-appointed Djuanda cabinet which really pushed for the promulgation of the new foreign investment law, Law No. 78/1958, which in its final form was a slightly modified version of the 1956 draft.²¹ By this time, President Sukarno had come out against foreign investment, favoring instead foreign loans or

²⁰ Feith, *Decline of Constitutional Democracy*, p. 476; Glassburner, "Economic Policy Making in Indonesia," p. 90. For an English translation of this draft 1956 bill, see Appendix 1 of Higgins, *Indonesia's Economic Stabilization and Development*.

²¹ For an English translation of Law No. 78/1958, see Appendix H of Paauw, *Financing Economic Development*. Another English translation of the law and accompanying explanation can be found in Appendix 3 of Gouw Giok Siong, *The Legal Status of Foreigners in Indonesia* (Jakarta: PT Kinta Djakarta, 1963).

grants. Prime Minister Djuanda, however, was determined to encourage it, and with his determined support the modified bill was passed by the elected Parliament in September 1958 and promulgated into law in late October 1958. The PKI was the only major party to vote against the law.²² This 1958 law would remain on the books until 1965, when it was revoked by President Sukarno as part of his BERDIKARI initiative (see Chapter Seven). It should be noted in this connection that much secondary literature on Indonesian economic history incorrectly states that the law was repealed by President Sukarno in 1959.²³ Instead, the door remained open throughout the Guided Democracy period, though it was hardly used.

The timing of the passage of this new law was very curious, because it came just as the GOI decided to nationalize the Dutch companies that had been seized in late 1957 and was in the process of taking over companies owned by Taiwan-linked Chinese (see section B below). It thus appeared as though the government was sending very mixed signals regarding the position of foreign investment in Indonesia. The timing is such that the promulgation of the new law in 1958 may have been an acknowledgement that once the strong position of Dutch companies was finally determined (they would be controlled by Indonesia), Indonesia was perhaps more secure in welcoming new foreign investment. Similarly, the timing might suggest a desire to reassure foreign companies that in spite of what was happening to the Dutch and Taiwan-associated companies, new foreign investment would be welcome. In addition, the general desire to have a framework in place for foreign investment may have been supplemented by a sense of urgency resulting from the loss of protection granted to 'returned' investment from the abrogation of the RTCA in February 1956. Certainly these events suggested that GOI officials viewed Dutch investment very differently from other foreign investment, a clear dichotomy which probably reflected not only the colonizer/colonized relationship but also the hitherto dominant position of Dutch enterprises in the modern economy.

²² Lev, *Transition to Guided Democracy*, pp. 180-1; Lindblad, *Bridges to Business*, pp. 193-4.

²³ The notion that the 1958 law was repealed by Sukarno in 1959 seems to have originated in Hong Lan Oei, "Implications of Indonesia's New Foreign Investment Policy for Economic Development," *Indonesia* 7 (1969), p. 36. It has been cited in many influential works, including Hal Hill, *Foreign Investment and Industrialization in Indonesia*, East Asian Social Science Monographs (Singapore: Oxford University Press, 1988), p. 5, and in Dick et al., *Emergence of a National Economy* (2002, p. 187, citing Hill). Most recently, it appeared in Lindlad's *Bridges to Business* (2008, p. 204, no citation).

The 1958 foreign investment law contained many of the elements of the previous policy statements and reflected the desire to encourage new foreign investment under carefully monitored and controlled conditions that would protect Indonesian interests. The law itself was quite short and left much open, to be determined at a future date by a body known as the Council for Foreign Investment (CFI). The preamble noted that in light of the absence of domestic capital, foreign investment was needed to accelerate economic growth and raise the standard of living in Indonesia. Foreign investment was specifically excluded from the areas of railways, telecommunications, shipping and aviation, power generation, water supply, arms and munitions, and the mining of vital materials (all of which were presumably left to the government, which could employ foreign capital under special conditions), as well as in enterprises usually undertaken by Indonesian nationals (Articles 2-4). All other sectors were open to foreign investment. A preference was expressed for enterprises that featured cooperative arrangements between foreigners and Indonesian partners (Article 4). Undertakings operated wholly or primarily in Indonesia had to be incorporated under Indonesian law and domiciled in Indonesia (Article 5). Land use rights for industrial firms were to be for 20 years, which were extendable; for large agricultural firms, the period was 30 to 40 years, also extendable (Articles 6 and 7). The law specifically undertook to avoid double taxation and further indicated that various types of tax relief may be granted on the Indonesian side (Articles 11 and 12). The law further declared that industrial enterprises would not be nationalized for at least a 20 year period, 30 years in the case of agricultural enterprises (Article 13). All after-tax profits were transferrable abroad in the case of wholly-owned foreign enterprises (Article 16). Repatriation of capital, a key issue for foreign concerns, was allowed in cases where the enterprise had been in operation for an unspecified length of time, subject however to future decisions of the CFI (Article 17). A statement in the official explanation to the law indicated that the law applied to foreign investment made after 1 January 1956, and that foreign investment made before then was to be ‘synchronized’ with the law. Presumably this meant that pre-1956 investment would be subject to the provisions of the 1958 law.

The apparent open nature of these provisions, however, was tempered by the enormous discretionary power held by the CFI, whose general function was to

“determine the conditions and exercise the supervision necessary to make this Act effective” (Article 19). The official explanation indicated that the CFI would be the agency reviewing all foreign investment applications. The CFI was to be comprised of the Minister of Industry as chairman, the Minister of Finance as vice-chairman, and the Minister of Foreign Affairs, Minister of Trade, Minister of Labor, Governor of the central bank, and the Director-General of the State Planning Bureau (Article 18). The CFI was responsible to an unspecified council of ministers, from which it would receive direction. The CFI had broad discretionary powers which were to be exercised on a case-by-case basis, a situation sure to cause some discomfort for many prospective foreign investors. These broad powers included (i) approving the location of new foreign investment, (ii) determining which enterprises were usually undertaken by Indonesian nationals and thus closed to foreign investment, (iii) whether an enterprise was operating wholly or primarily in Indonesia and thus had to be incorporated under Indonesian law, (iv) determining the available tax relief, and (v) how much capital could be repatriated. Furthermore, the CFI determined the number of foreign personnel allowed to work in each enterprise, and also specified requirements for educating and employing Indonesian nationals (the accompanying explanation indicating that foreign workers would be permitted only if there were no available Indonesian workers, but that at least one foreign individual may be present to represent the interests of the foreign investors). Despite these potential shortcomings, however, Indonesia at last had thrown the door open to new foreign investment, though as we shall see in the next section almost no new foreign investment would enter the country in subsequent years.

2. Returned Foreign Investment.

The apparent ambivalence of the GOI toward new foreign investment throughout most of the 1950s contrasted somewhat with the treatment of the ‘returned’ or ‘existing’ foreign investment, defined as foreign investment existing before 1942 that returned to independent Indonesia under the protection of the RTCA. While the decision to allow existing foreign investment – especially Dutch – to return was not popular, some GOI officials recognized the need for it as well as the potentially dramatic consequences of a failure of such investment to return. After 1949, this ‘returned’ foreign investment –

especially Dutch - was an easy target for many groups, and sometimes became intertwined with domestic politics, as demonstrated by the Tanjung Morawa case described below. As one observer has noted, the continuing presence of the returned companies presented the GOI with a dilemma: “while the Indonesian government, bound by international treaty commitments, was committed to protecting the legal rights of foreign enterprise, strong political pressure, including that from grassroots level, forced the government to take some steps to assuage the strident nationalist demands of several pressure groups.”²⁴ Of all the returned foreign investment, it was the role of returned foreign estates and foreign oil companies in the new economy that was certainly the most sensitive in terms of public sentiment, and it was the foreign estates that in particular bore the brunt of this sentiment as expressed by non-governmental actors. The situation in the province of North Sumatra, where there was a huge concentration of foreign owned estates around an area of Medan known as ‘East Sumatra’ (sometimes also known as Sumatra’s East Coast), was especially delicate.²⁵ By the late 1950s existing foreign investment spilled over from the domestic politics and economics into foreign relations, as the nationalization of Dutch enterprises in 1958-59 and especially the takeovers of Taiwan-linked Chinese companies discussed below demonstrate.

It is unclear exactly how many foreign companies (including Dutch) returned to Indonesia under the protections of the RTCA, but it appears that most did. As noted above, some had even begun to return in the late 1940s, and most had apparently returned by 1952 or 1953 to reclaim their assets. In the case of estates, the GOI in 1950 set up in each of the main estate areas ‘Committees to Return Foreign Estates’ (*Panitia Pengembalian Perusahaan Perkebunan Milik Asing*) to organize the returns.²⁶ Minister of Agriculture Sadjarwo was heavily involved in this process until he was replaced in the September 1950 cabinet. By 1952, some 98% of rubber estates, 88% of the palm oil estates and 80% of the hard fiber estates in the Medan region of North Sumatra had been returned to their owners. Similarly, most estates in West Java had also been returned by

²⁴ Thee, “Economic Policies in Indonesia during 1950-65, particularly with respect to Foreign Investment,” p. 326.

²⁵ Pelzer, *Planters against Peasants*, chapter four.

²⁶ The information in this paragraph regarding the return of foreign estates comes from Sutter, *Indonesianisasi*, pp. 695-702.

the end of 1952, though only about 60% of the estates in East Java were returned. In total, by the end of 1952, about 70% of the foreign estates in both Java and Sumatra had been returned; in absolute numbers, the number was 1140 estates totaling two million hectares, with some 466 estates totaling 480,000 hectares (about 20% of the total by acreage) still not returned (though some may have been returned after 1952). It appears that numerous smaller estates may not have been returned, in part because the owners no longer wanted them and in part because local conditions were simply too difficult. In addition, as we shall see below a number of companies agreed to turn over some of their estate lands to the government, though the actual amounts are unknown. The return of estates was complicated by the existence of squatters who had settled and grown crops on numerous estates during the chaos of the 1940s. The big three foreign oil companies also returned (see Part II), as did most of the foreign companies in the manufacturing sector. However, the environment they all returned to was quite different from that of the colonial era.

The best known example of how returned foreign investment became embroiled in domestic politics and was exploited by various groups for political purposes was the Tanjung Morawa incident of March 1953, which led to the downfall of the Wilopo cabinet (PNI) a few months later.²⁷ The details of the incident were widely misunderstood and resulted in many Indonesians believing that the incident occurred between squatters and foreign estate owners, when in fact the land in question had already been turned over to the GOI a year and a half previously.²⁸ Such misconceptions even led one observer to describe the incident as “dramatiz[ing] the tensions caused by the use of government force to return property to ‘colonial’ business enterprises and as such became immediately an important political issue.”²⁹ In fact, the dispute was between the GOI and Chinese squatters, and it was quite ironic that the plight of these Chinese, who were frequently viewed with suspicion and mistrust by indigenous Indonesians, was able to generate so much attention and sympathy. More broadly, the incident involved land

²⁷ On the events in North Sumatra leading up to the incident itself, see especially Sutter, *Indonesianisasi*, pp. 736-56, and Pelzer, *Planters against Peasants*, chapter four; on the national impact and the downfall of the Wilopo cabinet, see Feith, *Decline of Constitutional Democracy*, pp. 285-302.

²⁸ Pelzer, *Planters against Peasants*, pp. 70-1.

²⁹ Anspach, *Plural Economy*, p. 165.

rights generally and actually was “a showdown between the peasant unions and Indonesian authorities.”³⁰

The land in question in the Tanjung Morawa incident (about six hectares) was previously owned by a Dutch tobacco estate company, but had been surrendered to the GOI in September 1951 as part of a deal struck between the government and some foreign tobacco companies in which the companies were allowed to retain 125,000 hectares of estates but in return gave up 130,000 hectares to the government (which would presumably then turn over some of the land to peasants for cultivation).³¹ The government decided in April 1952 to use the six hectares to develop an experimental farm and fishery. However, there were some 10 families of Chinese descent who had been occupying the land since the late 1940s and growing crops on it. The presence of these squatters not only reflected the chaos of the 1940s but also the growing problem of an increasing population with limited available land. The government planned to relocate these squatters to nearby districts, with each family receiving about half a hectare, but the squatters refused and continued to plant new crops. Tensions rose in early 1953 as the government tried to clear the land and peasant unions got involved and organized local demonstrations and shows of support. On 16 March 1953, as a government bulldozer escorted by local police was about to begin clearing the area, a crowd of some 1500 demonstrators surged forward; in the melee, members of the crowd apparently tried to grab one of the policemen’s automatic weapon, which fired and killed five demonstrators (four Chinese, one Indonesian) and injured 18 others. Thereafter, there were no more incidents, and the 10 families were resettled and the area cleared. However, the incident quickly became a national-level lightning rod for criticism from a variety of parties for their own agendas, including attacking agrarian policy. The PKI was especially active in criticizing the land redistribution and resettlement program, pressing for change. There was even criticism over the type of land given up by the foreign estate companies, as some of it was unsuitable for peasant agriculture. The Wilopo government, a coalition

³⁰ Pelzer, *Planters against Peasants*, p. 71.

³¹ Pelzer, *Planters against Peasants*, pp. 50-52. Most of the following discussion of the Tanjung Morawa incident comes from chapter four of Pelzer.

between the PNI and Masyumi, was unable to survive the controversy, though certainly this was only one of many divisive issues, and fell in early June 1953.

Outbursts of negative public sentiment were perhaps easier for the returning foreign companies to deal with than some of the new measures introduced beginning in 1953 by the first Ali Sastroamidjojo (PNI) cabinet. For example, until that year up to 100% of the after-tax-profits of foreign companies were transferable out of the country, though in practice 50% were subject to government review. In July 1953, new rules limited such overseas transfers to only 40% of after-tax-profits (profits were taxed at 40%) and depreciation transfers were halted. In March 1954, this scheme was replaced by the imposition of a 66% levy on all overseas transfers (with some exceptions, such as monies for pensions). In addition, in May 1954 new severe restrictions were placed on imports, and the corporate tax rate rose to as high as 52%.³² Moreover, after 1954 capital repatriation was suspended from time to time.³³ Finally, in 1954 the first Ali government also issued regulations prohibiting foreign manufacturing firms from distributing their own goods within Indonesia; instead, they had to use distribution firms owned by Indonesians. This was complemented by a measure requiring foreign firms that gave exclusive rights to other firms to import the required goods to give such sole agency rights to Indonesian firms.³⁴ These measures also exacerbated the impact of the restrictions on the usage of foreign exchange, which quickly became a major problem for many foreign companies (see discussion in Section B below).

In addition to the above, ‘returned’ foreign companies were hampered by other general economic and political conditions. A publication from the United States Department of Commerce in 1956 nicely describes the various factors affecting foreign investors. On the economic side, deterrents included

- (1) the fundamental economic instability resulting from heavy dependence on the export of a relatively few products, notably rubber, petroleum, and tin; (2) the low level of domestic savings and deficient local capital

³² Meek, *Government and Economic Development in Indonesia*, pp. 196-8. There is some discrepancy in the secondary literature as to exactly what the rules were regarding transfer of profit and when they were implemented; some sources have the July 1953 rule limiting after tax profit transfers to 60% and being implemented in 1955 for the year 1953 (see *Investment in Indonesia*, p. 4). Such discrepancies do not, however, detract from the general point.

³³ *Investment in Indonesia*, p. 4.

³⁴ Anspach, *Plural Economy*, p. 203.

markets; (3) inadequate development in the fields of transportation, communications, and power, the necessary base upon which industrial development can be built, (4) a limited supply of skilled labor and low labor productivity; and (5) low per capita income, with a resultant small market for many products.³⁵

As the report recognized, these problems were typical of underdeveloped countries. Other economic issues included the slow rate of economic development, the shortage of capital, and the small number of competent Indonesian entrepreneurs. After citing the restrictions on profit and capital repatriation described above, the report turned to political conditions which hampered foreign investors. First discussed was the labor situation, featuring the seemingly unreasonable demands of labor unions (many of which were communist dominated) in spite of the relatively low productivity of the workers. Lack of trained and competent technical and administrative staff was cited as another serious problem, especially as foreign companies were under pressure to Indonesianize their staffs. Second, the report cited the unstable nature of Indonesian politics, with its many cabinets and provisional constitution, as a deterrent to investment. Finally, the report cited the trend toward nationalization and efforts to indigenize the economy as deterrents, even though to date there had been no nationalizations without compensation.³⁶

With the unilateral abrogation of the RTCA by Indonesia in early 1956, the returned foreign companies technically lost the protection of that agreement. As we saw in Chapter Two, the abrogation came in the context of Dutch/Indonesian relations. Such a legal void may have been a factor pushing the government to pass new legislation covering foreign investment, which was finally done in 1958. In any case, the government's actions after the abrogation of the RTCA initially seemed to reflect a desire to maintain the status quo. On the one hand, in September 1957 the government decreed that all companies operating in industry and trade were subject to a 1934 colonial law (the company regulation ordinance or *bedrijfsreglenerigs ordonnantje*) that required the companies to have licenses to continue their operations; the decree explained that existing foreign companies could temporarily continue operations pending new regulations, but no permission would be granted for expanding or moving the location of these

³⁵ *Investment in Indonesia*, p. 3.

³⁶ *Investment in Indonesia*, pp. 3-5.

businesses.³⁷ This decree seemed aimed principally at Dutch companies. On the other hand, it appears that the potential power of the government under this decree was never exercised (perhaps because the Dutch companies were seized a few months later). Moreover, the government actually took several steps to reassure foreign companies, including ordering the return of a Dutch company seized in Makassar.³⁸

As we saw in Chapter Two, the seizure and nationalization of Dutch companies in 1957-59 was arguably part of the process of economic decolonization from Dutch colonialism and clearly was not something directed against all foreign investment. The seizure of Dutch companies was directly related to the Dutch-Indonesian conflict over West Irian and appeared to catch the GOI off guard. The subsequent nationalization of these companies allowed Indonesia to gain control over a large majority portion of the modern sector of the economy, thus going a long way to achieving one of the major economic goals of Indonesian policymakers. Nevertheless, the seizures of the Dutch companies in December 1957, albeit by what appeared to be non-governmental actors, hinted that there was the possibility of some kind of linkage between foreign investment and foreign policy concerns, if one considers the matter of West Irian to have been not just a colonial matter but also a foreign policy matter as well. I emphasize ‘hint’ because of the complexity of factors behind the takeovers of the Dutch companies; while the economic decolonization argument provides a solid long-term analytical framework from which to view the takeovers of Dutch companies, we cannot ignore that the immediate impetus for the takeovers was the West Irian question (which arguably was just as much a foreign policy issue as it was a colonial issue).

The seizure by the GOI of Taiwan-linked Chinese enterprises in 1958 was a more forceful indication that the GOI would link the position of foreign investment to foreign relations, in effect use foreign companies as pawns in foreign affairs. Unlike the seizure of Dutch companies, which was initiated by non-governmental actors, the takeover of Taiwan-associated enterprises was initiated and entirely undertaken by the GOI and was part of an overall effort by the government against Taiwan-linked groups in Indonesia in

³⁷ Anspach, *Plural Economy*, pp. 334-5.

³⁸ Anspach, *Plural Economy*, pp. 335-7.

1958 in retaliation for Taiwanese support for the 1957-58 regional rebellions.³⁹ In April 1958, the government began prohibiting the publication of Chinese language newspapers and magazines, later amending that to require a license to publish. In September the government banned over 50 Chinese organizations in the Jakarta area believed linked to Taiwan, such as sports groups, women's organizations, cinemas, schools and other groups. Finally, in October 1958 further decrees were issued placing all schools and business enterprises (banks, estates, industrial companies, etc.) that were associated with Taiwan under GOI control. It is unclear, however, exactly what and how many businesses were taken over, and what happened to them. It appears, though, that the number and size of these businesses was quite small compared with other foreign investors, and thus the significance of this measure is hard to judge. Nevertheless, the seizure of these companies by the GOI was first clear-cut case of the GOI using foreign enterprises as a tool of foreign policy, a tactic that would be taken to much greater extremes in 1963-65.

As noted, the seizure and nationalization of existing Dutch and Taiwan-linked enterprises in 1957-58 occurred just as the GOI had finally shed some of its ambivalence regarding new foreign investment and promulgated its first law on foreign investment. This juxtaposition, whatever the motivations, certainly made both new and existing foreign investment wary; it seems highly unlikely that many foreign investors were able or willing to risk resources in exploring these apparent contradictions. In any case, the welcome mat of the 1958 law was rarely, if ever, tested in future years as the climate for new foreign investment worsened significantly under Guided Democracy.

B. Foreign Investment under Guided Democracy to c. 1962.

Under Guided Democracy, the conditions under which new foreign investment and existing foreign investment could operate were increasingly stringent, both because of government policy and actions and because of the deteriorating economy, and thus the overall climate for foreign investment became increasingly hostile. From the beginning of

³⁹ The following description of the measures against Taiwan groups comes from pp. 56-9 of V. Hanssens, "The Campaign against Nationalist Chinese," in *Indonesia's Struggle 1957-8*, ed. B.H.M. Vlekke (The Hague, Netherlands: Netherlands Institute of International Affairs, 1959). This article is the most extensive general analysis of the measures taken against Taiwan-linked groups that I know of. However, it contains little information on the seizures of businesses, and insofar as I am aware there is no published analysis regarding the takeovers and subsequent fate of these enterprises.

Guided Democracy, President Sukarno expressed a preference for new foreign capital in the form of loans, not investments, a concept that by 1962 had translated into an official preference for production sharing contracts. Hence the official attitude toward new foreign investment had hardened considerably in a few short years, despite the passage of the 1958 law on foreign investment that on the surface welcomed new foreign investment in specified fields. The policy toward existing foreign investment also reflected toleration for such investment as long as it fit into Indonesia's conditions and requirements. A good example of this was the promulgation in 1960 of two laws regarding land ownership and oil/natural gas that replaced existing colonial laws, measures that significantly impacted foreign oil companies and foreign estates but by no means eliminated them. While these measures did chip away at the position of foreign investment, there were clear indications that the government continued to support existing foreign investment, such as the prominent position of foreign investment, primarily oil, in the Eight Year Development Plan, and the government's preventing the seizure of some Belgian companies in 1960-61.

1. New Foreign Investment.

President Sukarno, with his new power and influence under Guided Democracy, set the tone toward foreign investment immediately in his independence day address of 17 August 1959, his first major address of the Guided Democracy period:

Though we take our stand on the principle that for construction and development we give priority to our own capital, and that, if nevertheless foreign capital is needed, we would prefer credit rather than foreign investment – and I emphasize this principle again here – despite this, we are nevertheless tolerant enough of non-Dutch foreign capital which is already here and which will possibly come here. But the *conditio sine qua non* for permission to foreign capital to operate here is that it has to obey all the requirements fixed by the Republic. If it does not obey those rules, if it plays negative roles, for instance if it silently carries out economic sabotage or illegally gives support to contra-revolution, then, do not be surprised if one day the Republic of Indonesia treat[s] it similarly to the capital originating in the Netherlands.⁴⁰

⁴⁰ See p. 65 of the English translation of President Sukarno's 17 August 1959 speech, found in *Toward Freedom and Dignity of Man*. For more on President Sukarno's views on foreign investment in the late 1950s, see pp. 212-3 of Weinstein's *Dilemma of Dependence*.

Over the next several years, President Sukarno in other speeches would also emphasize the preference for foreign loans rather than investment.⁴¹ Such statements undoubtedly were discouraging for any new foreign investment hoping to enter the country under the auspices of the 1958 foreign investment law, and in fact none appears to have come in.⁴²

In 1962, the preference for foreign loans instead of foreign investment culminated in the promotion of production sharing contracts as the official preferred form in which new foreign capital could enter Indonesia.⁴³ On 3 August 1962, President Sukarno made a brief statement regarding this new structure that proclaimed "foreign investment of the classical type is unacceptable to the Government."⁴⁴ One reason cited was that "foreign investment recalls the bitter experiences of the newly independent countries as a result of the consequences which such investment has had for the state as a whole...foreign investment is always related to the colonial era and is equated with the methods used to extract wealth from a colonial country." Another reason given was because it was "difficult to justify the unrestricted transfer for profits which the traditional form of foreign investment involves. A country that accepts foreign investment is obliged, even after the entire invested capital has been repaid, to continue to permit the transfer of profits and there is basically no way to put this to a stop." Nevertheless, the statement in essence recognized the necessity of foreign capital generally, and to avoid these pitfalls outlined two basic conditions for further "cooperation" with foreign parties: first, the new enterprise in question should be owned and managed from the beginning by Indonesians, and second, continued transfer of profits was unacceptable. However, the statement also

⁴¹ See, e.g., Sukarno's speech to a plenary meeting of DEPERNAS on 28 August 1959, and Sukarno speech of 21 April 1961 to the Los Angeles World Affairs Council (cited on p. 121 of Pauker's "Indonesia's Eight Year Development Plan").

⁴² I have not found a single example of new foreign investment entering the country after 1958. If any did, it was a very small operation.

⁴³ The literature on early, non-oil production sharing contracts is very small. There are two articles by Joyce Gibson which contain an excellent discussion: see Joyce Gibson, "Production Sharing," *Bulletin of Indonesian Economic Studies* 3 (1966), Joyce Gibson, "Production Sharing Part II," *Bulletin of Indonesian Economic Studies* 4 (1966). An article by Clark traces Japanese production sharing contracts in the early years of the New Order period; see Gregory Clark, "Japanese Production Sharing Projects, 1966-1968," *Bulletin of Indonesian Economic Studies* 10 (1968). For a compilation of some GOI materials relating to production sharing contracts, see the publication by the Department of Peoples Industry entitled "Production Sharing: Departemen Perindustrian Rakyat," (Direktorat Industrialisasi, Bagian Penjuluhan, Departemen Perindustrian Rakyat, Republic of Indonesia, 1964).

⁴⁴ An English translation of the statement can be found on pp. 46-50 of "Production Sharing: Departemen Perindustrian Rakyat."

acknowledged that even these conditions, which amounted to a credit or loan supplied by the foreign party, would not prevent a strain on the balance of payments and tying up of foreign exchange as the loans were repaid. In fact, this issue seems to have been the real reason behind this new form; writing a decade later, prominent Indonesian economist Mohammad Sadli claimed that the production sharing structure was “motivated mainly by the prevailing scarcity of, and restrictions on, foreign exchange.”⁴⁵ To avoid this problem, the statement added a third condition to the first two of (i) ownership and management of the enterprise by the Indonesian side and (ii) no transfer of profits: (iii) the reimbursement of the credit/loan *in kind* in the form of the production or output from the enterprise. An appendix to the statement further described these and other principles of production sharing contracts, including the feature that the GOI would guarantee each production sharing agreement.

Over the next several years the GOI issued a number of statements and regulations regarding production sharing contracts. A regulation issued in late September 1962 announced the establishment of a credit committee for production sharing contracts, which was essentially responsible for overseeing and controlling all production sharing contracts; it determined the parameters of the production sharing contract system by issuing regulations, organizing the government approval process (all such contracts had to be approved by the government), and monitoring the contracts. In November 1962 the members of the committee were appointed, and in December a decree was issued outlining the entire government approval process.⁴⁶ The GOI also issued a number of official statements in 1963-64 answering questions and outlining the various conditions and principles of production sharing agreements.⁴⁷ The Ministry of Peoples Industry even issued a sample sixteen page production sharing contract in English.⁴⁸

In form and practice, production sharing contracts were very similar to loans and were by no means equity investments, which were the almost universal form of foreign

⁴⁵ See p. 213 of Mohammad Sadli, "Foreign Investment in Developing Countries: Indonesia," in *Direct Foreign Investment in Asia and the Pacific*, ed. Peter Drysdale (Toronto: University of Toronto Press, 1972).

⁴⁶ These regulations can be found in "Production Sharing: Departemen Perindustrian Rakyat."

⁴⁷ See Gibson, "Production Sharing" for a summary of these. One such statement can be found in pp. 87-91 of "Production Sharing: Departemen Perindustrian Rakyat."

⁴⁸ See pp. 70-86 of "Production Sharing: Departemen Perindustrian Rakyat."

investment.⁴⁹ The general arrangement was for the foreign party to provide foreign exchange to the venture that would be used to purchase the necessary equipment from foreign suppliers, often the same foreign party providing the credit.⁵⁰ The Indonesian side provided all the Rupiah-based financing and also owned, managed and operated the venture. However, the foreign party often entered into a technical assistance agreement with the Indonesian side, under which the foreign party would provide personnel and training for the equipment. There was some limited scope for participation in management by foreigners, though in principle the venture was to be run by Indonesians.⁵¹ The foreign party was also usually in charge of selling the output/production of the venture in overseas markets. The loan/credit was repaid according to a fixed, agreed to schedule of interest and principal, and there was also usually a third component of repayment, usually in return for the technical services provided. All repayments – interest, principal, and the third component – were made in kind in the output/production of the venture; the amount repaid was calculated according to prevailing world prices for the product received by the foreign party. Thus, repayment of interest and principal, while fixed in terms of amount of foreign exchange, depended entirely on the production of the venture (if the amount was short for one payment period, it was added to the next payment period). These features are virtually identical to classic loans or extensions of credit, except that repayment is made in kind from production. In practice, it appeared that virtually all the production sharing agreements entered into were guaranteed by the GOI (or the government of the foreign party); this also indicates that the arrangement was one of the classic loan type, as the risk normally borne by equity investors was guaranteed by a third party. As is evident, the production sharing arrangement was only suitable for projects whose output could be sold overseas and thus

⁴⁹ Here I differ with Gibson's analysis, which seems to focus – mistakenly in my view - on profit-sharing as a measure of whether the production sharing structure was debt or equity. Gibson argues that there is no easy answer to the question, but then suggests that the arrangement certainly had characteristics of profit sharing and was thus more equity like (Gibson, "Production Sharing Part II," pp. 96-7). However, it should be noted that Gibson apparently did not examine any actual production sharing contracts and instead relied on published reports, primarily news reports and GOI publications; I have also not come across any actual production sharing contracts, but rather am basing my analysis on features described by Gibson and others. Clark, "Japanese Production Sharing Contracts" pp. 74-5, agrees that the arrangement, insofar as contracts involving Japanese concerns, was a credit/loan one and not equity.

⁵⁰ The following description comes primarily from Gibson, "Production Sharing," pp. 54-6.

⁵¹ Gibson, "Production Sharing, Part II," p. 93.

generate the foreign currency necessary to repay the loan. This generally meant production sharing projects were in natural resource development, such as oil, mining of minerals, timber, etc.

The production sharing arrangement was unsuccessful in attracting foreign interest. By early 1966, only 19 production sharing contracts had been signed, and the total commitment by foreign parties under these contracts amounted to only \$72 million; moreover, of this total commitment of \$72 million, only \$12 million had actually been extended. In addition, \$44 million of the \$72 million, or 60%, was from Japanese concerns, with about \$12 million of commitments coming from communist countries and the remaining \$16 million coming from western European nations and Australia. \$70 million of the \$72 million in commitments was guaranteed by Indonesian banks.⁵² Furthermore, most of these Japanese commitments involved either substantial financing or a guarantee from the Japanese government, a practice that clearly suggested a loan structure rather than equity investment as the risk was mostly born by the Japanese government.⁵³ In sum, the results of the production sharing initiative undertaken by the GOI were not encouraging, indicating that private investors were simply not comfortable with the arrangement. In early 1965 the government actually amended the regulations greatly in favor of the foreign side in an effort to attract more interest, but these changes did not have the hoped-for result.⁵⁴ It should also be noted that in spite of this emphasis on production sharing and apparent unwillingness to allow ‘classic’ foreign investment to enter the country, the 1958 foreign investment law was not withdrawn until 1965.

2. Existing Foreign Investment.

In the early years of Guided Democracy, the government appeared to be implementing President Sukarno’s directive in his 1959 independence day address that Indonesia would tolerate existing investment as long as it obeyed all requirements fixed by the government. In particular, in 1960 the GOI began changing those requirements for the oil sector and the estate sector, the two biggest areas of foreign investment in

⁵² Gibson, “Production Sharing Part II,” pp. 84-5, 88 and 97-8. The \$72 million figure does not include the oil production sharing arrangement between Japanese interests and PT Permina signed in 1960, which was backed by the Japanese government; see Part II, Section A.

⁵³ Gibson and Clark *in passim*, and Nishihara, *The Japanese and Sukarno’s Indonesia*, pp. 117-20.

⁵⁴ Gibson, “Production Sharing,” pp. 56-7.

Indonesia. Such changes resulted from the passage of two laws in 1960, both of which (i) were designed to replace the various colonial laws covering their respective subject matters with new jurisprudence that would reflect the values and desires of the new independent nation, (ii) significantly impacted foreign companies operating in these sectors, and (iii) made the operating climate for foreign firms in these areas more hostile. The first law was the Oil and Gas Law (Law No. 44/1960), specifically targeted at the oil and natural gas industry that was dominated by the big three foreign oil companies. It will be discussed in greater detail in Part II, Section A; for now, it will suffice to note that the principal feature of the law was the stipulation that oil and natural gas were now owned by the state, and that the mining of oil and gas could only be undertaken by the state or SOEs or their contractors. This feature reversed the position of the oil companies under colonial laws and forced the oil companies to renegotiate entirely their position in the country, an arduous process that would not be resolved until three years later.

The second law was the Basic Agrarian Law of 1960, which was generally concerned with land ownership and land use (see Chapter Two, Part III, Section D for a brief description). Under this new law, foreigners could only lease land under lease rights known as *hak guna usaha*, which were generally valid for 25 year terms. All existing foreign estates, whose concessions and other land use grants were issued under colonial laws, had to apply to convert their holdings to this structure. Foreign estates were generally given until late September 1961 to do so, and the new term in fact was supposed to be equivalent to the remaining period of the original concession and in no event greater than 20 years.⁵⁵ Moreover, concessions which originally were set to expire before September 1965 were not to be converted but instead given to the GOI.⁵⁶ The overall impact of the law was that foreign estate companies were forced to renegotiate and restructure their estate holdings to fit within this new structure, and most importantly existing estates were forced to give up one-third of their holdings under an informal rule known as the ‘one-third rule.’ This unofficial rule stemmed from the potential disruption caused by forcing companies to give up holdings whose concessions expired before

⁵⁵ Pelzer, *Planters against Peasants*, pp. 37-8.

⁵⁶ US Medan Consul telegram (Heavner) dated 27 August 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215), p. 1.

September 1965; the holdings were all intermingled, such that the result would have been the government operating a small estate within the middle of a foreign estate. In response, Minister of Agrarian Affairs Sadjarwo floated the idea of the companies giving up one-third of their holdings (approximately divided equally between planted areas and unplanted areas) in exchange for (i) not breaking up the estates, and (ii) granting new rights under the *hak guna usaha* framework for terms roughly equal to the average number of years remaining on the companies' old concessions. The foreign estate companies had little choice but to comply, even ones whose original concessions did not expire prior to September 1965.⁵⁷ Hence, most companies entered into arduous and lengthy individual negotiations with the Ministry of Agrarian Affairs to determine what holdings would be ceded to the government and what would be kept by the company. The end result was a massive infusion of estate lands into the government's hands from 1961-62.⁵⁸ Apparently the rights to at least a portion of these lands were then sold to private Indonesian entrepreneurs pursuant to a somewhat selective application process.⁵⁹

⁵⁷ US Medan Consul telegram (Heavner) dated 27 August 1964 (USNACP, RG 59 Central Files 1964-66, Incor Rubber Indon, Box 1215), pp. 1-2.

⁵⁸ The archives of the BKS-PPS in Medan contain numerous reports from foreign companies and others regarding the surrender of estates to the government under the one-third rule, but insofar as I am aware there is no published report detailing the total acreage handed over and which companies the land came from. Interviews with managers of Belgian-owned estates confirmed the pervasive application of the one-third rule. (Interviews with Andre Balot 8 May 2006 and Karl Schneider 16 June 2007. Mr. Balot at the time was the manager of one of SOCFIN's largest estates in North Sumatra; SOCFIN was the largest Belgian estate company in Indonesia. Mr. Schneider at the time was the general manager in Indonesia of Belgian-owned SIPEF estate company.) Interestingly, some British companies who applied for compensation for their holdings in 1967-68 mistakenly believed that their estates had been seized in 1964 (see Chapter Five) and were unaware that in fact their land had been surrendered by the estate management companies to the GOI pursuant to the one-third rule.

⁵⁹ US Embassy telegram (Lydman) dated 12 December 1961 (USNACP, RG 59 Central Files 1960-63, 898.19). The embassy was told by one Indonesian entrepreneur in Medan that the Ministry of Agrarian Affairs was being very selective in choosing private entrepreneurs to whom the returned estates would be sold. Indonesians of Chinese descent were apparently excluded from applying for the land. The Medan businessman also indicated that one reason the government was so slow in negotiating with the foreign estates over what land was to be given up was that it was waiting for qualified Indonesians to be vetted; the government did not want the estates handed to it without first having buyers capable of operating them. However, there were no non-Chinese firms with experience operating large estates, and to date in North Sumatra only 12 applicants out of 100 had been selected. The businessman noted that while the government was trying to choose buyers based on merit, political influence and bribes did play a role with respect to the assignment of estates after the applicant had been vetted. There was also initially a dispute between the central government and the provincial North Sumatran government over who would control proceeds from the sales; it was eventually decided to split the proceeds 50/50. Who actually ended up with the returned land is unclear; I am not aware of any report or study detailing the ultimate disposition of these lands.

Despite the general tightening of the conditions under which the oil companies and estates could operate in Indonesia described above, the government nevertheless also seemed to signal that existing foreign investment was necessary and would be protected in Indonesia. Perhaps the strongest example of this was the position accorded to foreign investment under the 1960 Eight Year Development Plan, which as we saw in Chapter Two was the early centerpiece for economic planning under Guided Democracy. This plan anticipated that the oil industry alone, which meant the big three foreign oil companies, would supply some 75% of the foreign exchange earnings called for by the plan. Thus, the plan in essence recognized the continuing importance of foreign investment, or more specifically earnings from the big three oil companies, in the Indonesian economy. Perhaps more than anything, this was a reflection of oil company exceptionalism, a concept described in Part II. Yet, as pointed out in Chapter Two, several observers concluded that due to the lack of sufficient domestic capital, the Eight Development Year Plan, without saying so directly, was implicitly relying on foreign sources, both loans and investments, for much of its financing, even after taking into account the financing from the oil companies.

A second example of GOI support for existing foreign investment was the government's prevention of attempted takeovers of various Belgian companies by SOBSI-affiliated unions in early 1961. In late 1960 SOBSI initiated a campaign against Belgian business interests in Indonesia in response to Belgian "imperialist" and "colonialist" actions in the Congo, Africa. In March 1961, workers led by SARUPRI (the SOBSI-affiliated estate workers union) attempted to take over eight Belgian-owned estates in North Sumatra, but they were prevented from doing so by the Indonesian army.⁶⁰ The general takeover procedure was for a group of leaders of the workers to gather at the head office of the plantation and present estate management with a statement of takeover, which declared that the estate was being taken over by the workers and appointed an interim management board consisting largely of workers.⁶¹ As we shall see

⁶⁰ Van der Kroef, the *Communist Party of Indonesia*, pp. 222-3, 243-4; Hindley, *Communist Party of Indonesia*, p. 278; Pelzer, *Planters against Peasants*, p. 38, incorrectly suggests that the workers actually succeeded in taking over the estates.

⁶¹ These takeover statements were often styled as *Pernjataan Kami* or *Naskah Ambil Alih*. Examples can be found in BKS-PPS, 1961 Tanah Besar Konsensi Perkebunan Besar IV-3.

in later Chapters, this same procedure would be followed in subsequent years. However, the army quickly stepped in and halted such attempts, even arresting a number of SOBSI cadres. The army also temporarily stationed two to three personnel on various Belgian estates; while styled as ‘supervision,’ presumably to appear as though the army was sympathetic to PKI/SOBSI demands, in fact these army personnel on no way controlled or affected company management or operations, instead acting more as security to prevent any future occurrences of the same.⁶² Similarly, in July 1961, workers at the Belgian-owned Faroka cigarette factory in Malang, East Java, tried to take over that factory, but were also prevented from doing so by the Indonesian army.⁶³ While the army’s motivations in both cases certainly were based primarily on containing PKI activities instead of defending foreign business interests, the army’s actions nevertheless were a clear statement that the government would defend foreign companies against any ‘illegal’ takeovers.

3. Operational Problems Facing Foreign Investment in the Early 1960s.

Before turning to the more detailed description of foreign investment in Indonesia in 1963 in Part II, it would be useful at this juncture to summarize generally the various operational problems facing existing foreign investment in the early 1960s. In particular, the following discussion will focus primarily on the non-oil sectors of existing foreign investment, as an analysis of the foreign oil companies is reserved for Part II; in addition, as the previous discussion has centered around the vagaries of official GOI policy and general political atmosphere for foreign investment, I would like to focus on conditions outside this. Perhaps the biggest challenge to the growth and efficiency of operations of foreign companies was the deteriorating economic environment. These conditions were described in the 1956 US government report on investment in Indonesia discussed in Section A above: general economic instability, low level of domestic savings, deficient local capital markets, inadequate development in the fields of transportation, communications, and power, limited supply of skilled labor and low labor productivity,

⁶² Interview with Andre Balot 8 May 2006. The estate paid for the expenses of the army personnel stationed on the estate, such as gas and food.

⁶³ Van der Kroef, the *Communist Party of Indonesia*, pp. 222-3, 243-4; Hindley, *Communist Party of Indonesia*, p. 278.

low per capita income, slow rate of economic development, shortage of capital, and small number of competent Indonesian entrepreneurs. As we saw at the end of Chapter Two, general economic conditions deteriorated significantly in the early 1960s, making the above factors even more acute. Put simply, these overall conditions, plus the rapidly rising inflation rate, created an extremely difficult operating environment. Contributing to these general factors was the increased regulation under Guided Democracy as the government intervened more and more in the economic life of the nation by imposing price, distribution and other controls.⁶⁴ These controls were especially onerous for the foreign-owned manufacturing companies because most of their output was sold on the domestic Indonesian market.

Insofar as specific factors are concerned, one of the biggest single factors inhibiting the operations of foreign companies was the scarcity of, and restrictions on, foreign exchange. As noted in Chapter Two, Part III, the GOI from the very early 1950s introduced a number of foreign exchange schemes that not only disincentivized exporters (including foreign estate companies) but also resulted in the effective loss of control by foreign companies over their foreign exchange, most of which was turned over to the government in exchange for overvalued Rupiah. Companies had to apply to the GOI to receive foreign exchange, which was controlled and allocated by the government. The result was that it was very difficult to obtain foreign exchange, which was necessary for the import of raw materials, spare parts and capital goods. This obviously hurt the foreign manufacturing companies (such as Unilever, Union Carbide, etc.) because they imported most of these goods (such goods were unavailable in Indonesia), but it also adversely affected the foreign estate companies as well because they needed to import capital equipment for processing estate produce. In the late 1950s and early 1960s, the Rupiah was way overvalued, further exacerbating these problems. The Dutch-owned Philips radio plant in Surabaya was forced to shut down in 1954 because of a lack of such goods, and the inability to obtain foreign exchange apparently was one of several reasons for

⁶⁴ See Chapter Two, Part III, Section D. For a brief discussion of the increasing control by the government over the private sector in the early Guided Democracy period, see Muhaimin, *Politics of Client Businessmen*, pp. 116-22, 207.

General Motors sale of its assembly plant to the GOI in 1954-55.⁶⁵ Complementing these problems were increasing restrictions on imports generally. Another significant inhibitor of operations was the inability of most foreign companies to repatriate any profit or capital after the late 1950s. Such restrictions on repatriation naturally resulted in a corresponding unwillingness to invest new capital for rehabilitation and growth: why inject more money if it cannot be taken out? Finally, high corporate taxes also deterred further investment.

Personnel difficulties were also frequently cited as operational problems for many foreign companies. One area of concern was labor agitation, particularly on estates. This was a major concern of the 1956 US government report, which as we saw above noted the seemingly unreasonable demands of labor unions (many of which were communist dominated) in spite of the relative low productivity of the workers. In the late 1950s and early 1960s labor agitation and labor union activity seemingly increased, though strikes in vital industries – which included most foreign companies - were banned by law. In fact, one observer noted that it was in the areas where foreign capital was most active – oil fields, estates and industrial enterprises - that increasingly large and militant trade unions were enrolling most of their members,⁶⁶ and many of these unions were affiliated with SOBSI, the PKI labor federation (see Chapter Two, Part I, Section B3 for more on labor unions and mass action). For example, at the Union Carbide battery plant in Jakarta, labor leaders in the early 1960s often instigated work slowdowns and occasional sabotage; as the operation was very labor intensive, labor actions had a major impact, and the senior Indonesian staff did little to control the workers.⁶⁷ Similarly, after 1956 labor unions at Unilever's factories, principally the communist-led SERBUNI (*Serikat Buruh Unilever*, or Unilever Workers Association), were increasingly assertive and active, even demanding shares of profit.⁶⁸ Labor unrest was particularly evident on foreign estates and

⁶⁵ Meek, *Government and Economic Development in Indonesia*, pp. 197-8. Anspach suggests that Philips may have violated the 1954 rule requiring foreign manufacturers to use local companies to distribute their products and was penalized by the government by withholding import licenses for raw materials (Anspach, *Plural Economy*, p. 203).

⁶⁶ Kahin, "Indonesia," p. 578.

⁶⁷ Personal communication from Mal Maloney 15 September 2006; Mr. Maloney was one of three expatriate managers in the factory in the early 1960s.

⁶⁸ See David Fieldhouse, *Unilever Overseas: The Anatomy of a Multinational, 1895-1965* (Stanford, CA: The Hoover Institution Press, 1978), p. 306.

was frequently cited as a major operational problem.⁶⁹ While the number of strikes decreased significantly after 1958, labor unions, especially the SOBSI-affiliated SARBUPRI (estate workers union), continued to agitate in the form of demonstrations, slowdowns, support for squatters, demands on management, etc.⁷⁰ In the case of foreign estates, squatting and illegal occupation were also major problems.⁷¹ The second major area of concern in personnel matters was the lack of trained and competent Indonesian managers, technical staff and administrative staff, especially as foreign companies were under pressure to Indonesianize their staff and restrictions were increasingly placed on the usage of foreign managers. Most foreign firms successfully implemented Indonesianization (see below), but there were clearly hiccups in the process.

We might also consider at this point how existing non-oil foreign investment reacted to the various challenges posed by operating in Indonesia in the 1950s and early 1960s. In general, the response fell into three categories: (i) disinvest from Indonesia, either by actually winding up operations or selling out, or transferring earnings out of Indonesia, (ii) not reinvesting new capital in existing operations, and (iii) Indonesianizing the staff and management as much as possible. Unfortunately, for the first two responses we are limited by a lack of data and must rely on anecdotal evidence, but for the third option there is hard data available. With respect to the first response of divestment, there are a few examples, most notably the sale by General Motors of its Jakarta assembly plant to the GOI in 1954-55. A number of individual estates were also turned over by foreign estate companies to the government in the 1950s, though again there are no available statistics. A later example was the sale in late 1963 by Proctor and Gamble, an American firm, of its cooking oil facility in Surabaya to a Swiss company that was actually owned by Indonesians.⁷² Another variant of this response was for foreign

⁶⁹ See, e.g., Sayuti Hasibuan, "The Palm Oil Industry on the East Coast of Sumatra," in *Prospects for Eastern Sumatra Plantation Industry: a Symposium*, ed. Douglas S. Paauw (New Haven, CT.: Yale University Press, 1962), pp. 30-3; Dahlan Thalib, "Estate Rubber Industry of East Sumatra," in *Prospects for the Eastern Sumatra Plantation Industry: a Symposium*, ed. Douglas S. Paauw (New Haven, C.T. : Yale University Press, 1962), pp. 55-6.

⁷⁰ Hasibuan, "Palm Oil Industry," pp. 32-3; Interview with Andre Balot, 8 May 2006.

⁷¹ For general discussions of problems facing estate companies, see Mackie, "Indonesian Economy," pp. 28-35; Hasibuan, "Palm Oil Industry," pp. 25-36; and Thalib, "Estate Rubber Industry," pp. 51-9.

⁷² The Swiss company was named Indeur; its chairman and principal shareholder was Indonesian. The sale transaction was completed in December 1963. See US Embassy telegram (van Swearingen) dated 18 December 1963 (USNACP, RG 59 Central Files 1963, Inc I, Box 3501).

companies to repatriate as many profits and capital as possible. Lindblad has detailed some of this repatriation with respect to Dutch enterprises, but not with respect to other foreign investment.⁷³ Presumably non-Dutch foreign investment also tried this approach to some degree, but by 1956-57 the GOI had severely restricted this option so that it was very difficult to do so. Anecdotal evidence from my research indicates that this alternative was in fact non-existent by the late 1950s, if not sooner.⁷⁴

The second response was simply not to make new capital investments in existing operations, and anecdotal evidence again suggests that many, if not all foreign businesses followed this course, especially after the mid-1950s. That is, foreign companies may have reinvested profits, particularly since retained earnings could not be repatriated, but there was little new investment coming in from overseas corporate parents. Hence, many foreign manufacturing companies, but also estates, had to make do with old, outdated equipment. For example, there was little post-war investment in Union Carbide's battery plant in Jakarta: using ancient equipment, relying on imports but having very little foreign exchange to do so, unable to remit profits, and facing labor problems, by the late 1950s/early 1960s the "whole operation there was essentially a holding one waiting for better times...we could barely hold our head above water."⁷⁵ Unilever appears to have been the exception, as it made significant investments in rehabilitation in the early part of the 1950s, but even it ceased doing so after 1955.⁷⁶ A similar attitude was apparent with respect to many foreign estates. As one manager of a Belgian estate noted, from the late 1950s the company had little money to invest in Indonesia owing to the foreign exchange regulations, worthlessness of the Rupiah, difficulty of importing goods from abroad, and generally horrible economic conditions.⁷⁷ Many observers similarly noted the ageing of trees and the slow rate of replanting on foreign estates, much of which dated back to the

⁷³ Lindblad, *Bridges to Business*, pp. 158-161.

⁷⁴ For example, the ex-Heineken brewery in Surabaya was unable to remit profits after 1956 (US Embassy telegram (Ellis) dated 19 August 1964 (USNACP, RG 59 Central Files 1964-6, Inco 6 Indon)); personal communication from Mal Maloney dated 15 September 2006. See also Fieldhouse, *Unilever Overseas*, p. 290, noting that profit remittances were not allowed after 1956.

⁷⁵ Personal communication from Mal Maloney dated 15 September 2006.

⁷⁶ Fieldhouse, *Unilever Overseas*, pp. 282-99.

⁷⁷ Interview with Andre Balot, 8 May 2006.

early 1950s;⁷⁸ as trees were the major investment of estates, this slow replanting rate indicated a lack of investment.

With respect to the third response of Indonesianization of staff and management, non-Dutch foreign companies generally were very successful in implementing this change. Here, I can add numerical support from my own research to Lindblad's suggestion that non-Dutch foreign companies achieved greater success than Dutch companies in Indonesianization; perhaps more accurately, while I do not have figures from the early 1950s, I do have data from the early to mid-1960s, most of which indicate that the numbers of foreign managers were extremely low. Most of these foreign managers were at the top level of management. By far the highest concentration in absolute numbers of foreign managers was in the big three foreign oil companies, but even in these companies the absolute number was fairly low compared with total amount of employees. For example, in 1965 Shell employed 114 foreigners plus 13,000 Indonesians, Stanvac employed 118 foreigners out of a total of 6,800 employees, and Caltex employed 124 foreigners (total employees unknown) (see Part II, Section A). Each of Shell, Stanvac and Caltex had implemented extensive Indonesianization programs beginning in the early 1950s, including training programs.⁷⁹

In non-oil foreign enterprises, by the early 1960s the number of foreign personnel in absolute numbers was very low, and as a percentage of the workforce rarely exceeded one percent. For example, Unilever shrunk its foreign staff from 68 in the early 1950s to six by early 1964 (out of a total of 3,800 staff and workforce), replacing them with Indonesians.⁸⁰ At Union Carbide's battery plant, in the early 1960s there were three expatriate managers out of a total workforce of 300;⁸¹ at Goodyear's tire factory outside Jakarta in early 1965 there were 11 expatriates out of a total workforce of 1,200 (see Part II); the ex-Heineken brewery in Surabaya had 3 foreign managers (total workforce

⁷⁸ See, e.g., Meek, *Government and Economic Development in Indonesia*, pp. 209-15; Mackie, "Indonesian Economy," pp. 31-5; Hasibuan, "Palm Oil Industry," pp. 25-6. Mackie notes that in the early 1950s, the replanting rate on rubber estates was around 2%, as opposed to the normal schedule of 4% (the yield of rubber trees drops considerably after year 25).

⁷⁹ Lindblad, *Bridges to Business*, pp. 161-3, 172-4. See also chapter nine of MIT, *Stanvac in Indonesia*, reprinted 1976 by Arno Press ed., United States Business Performance Abroad (Washington, D.C.: National Planning Association, 1957).

⁸⁰ Fieldhouse, *Unilever Overseas*, pp. 296-9.

⁸¹ Personal communication from Mal Maloney dated 15 September 2006; US Embassy telegram (Green) dated 11 May 1968 (USNACP, RG 59 Central Files 1967-9, F9 Indon-US, Box 773).

unknown);⁸² the Singer Sewing head office and factory combined had only one expatriate out of a workforce of about 30 (see Chapter Seven).⁸³ The numbers for foreign estates were even lower. In terms of the larger estate companies that managed their own estates, P&T Lands, one of the largest foreign estate holders, had 20 foreign managers and a workforce of over 30,000 (see Part II); London Sumatra/Harrisons & Crosfield had anywhere from 12 to 17 foreign managers, with a workforce of at least 13,000 (see Part II); Goodyear estates had about 15 foreign staff out of a workforce of 10,000 (see Part II); US Rubber had a foreign staff of 13 out of a total workforce of 7,300 (see Part II); and the Belgian estate giant SOCFIN reduced its expatriate workforce from 33 in 1958 to around 6 by 1965, out of a total workforce of about 19,000 (see Part II).⁸⁴ The number of foreign managers in the estate management firms was correspondingly low, and many of the individual estates managed by these firms appear to have few or no foreign managers at all. In sum, by the early 1960s, the number of foreign managers, both in absolute numbers and by percentage, appeared extremely small.

II. Description of Foreign Investment c. Early 1963.

This Part II describes generally foreign investment in Indonesia at the beginning of 1963, just prior to the first wave of takeovers, with a focus on the individual foreign companies themselves. A complete list of these companies is found in Appendix A. The breakdown of foreign investment into the three broad categories of oil, estates, and manufacturing/other is driven not only by sectoral reasons but also by the general treatment that each grouping received as foreign companies were being taken over (even within the separate waves of takeovers, individual firms were often treated quite differently). I argue that this different treatment derived primarily from the revenues or potential revenues generated by each sector, with the oil sector generating by far the

⁸² US Embassy telegram (Ellis) dated 19 August 1964 (USNACP, RG 59 Central Files 1964-6, Inco 6 Indon).

⁸³ Unfortunately, I do not have data for Bata Shoe and British American Tobacco, two of the largest foreign manufacturers in Indonesia, nor for the Belgian-owned Faroka cigarette factory in East Java.

⁸⁴ Interview with Andre Balot, 8 May 2006.

most, followed distantly by the foreign estate sector, and the manufacturing/other sector generating very little, if any.

A. The Foreign Oil Sector: Oil Company Exceptionalism.

In brief, the factors that made the position of the big three foreign oil companies – Caltex, Shell and Stanvac – so unique in Indonesia were (i) their generation of enormous sums of foreign exchange revenues for the GOI, (ii) that they produced and refined about 90% of the oil in Indonesia and supplied a roughly equivalent amount to the Indonesian domestic market, and (iii) the inability of the Indonesian government (or private entrepreneurs) to operate such large and technologically complex businesses on its own, whether with respect to the capital required, expertise of management and technical ability, or marketing the oil outside Indonesia. This position resulted in the GOI dealing very carefully with the oil companies, and the oil companies were in fact treated quite differently than other foreign investors. Two good examples of this different treatment were allowing the oil companies to remit profits and exempting the oil companies from foreign exchange controls so that the oil companies retained control over their earnings. I use the term “oil company exceptionalism” to describe both the unique position of the big three oil foreign companies and the different treatment they were accorded by the GOI.

While Shell, Stanvac, and Caltex are often lumped together like some sort of monolithic entity, it is important to note that each company had quite different histories which by the 1960s resulted in each company having its own different interests.⁸⁵ Shell was by far the oldest; it began operations in 1890 as a 100% Dutch-owned company named ‘Royal Dutch’; in 1907, it merged globally with British-owned Shell Oil to become Royal Dutch Shell, with its Dutch East Indies arm known as BPM (short for *Bataafse Petroleum Maatschappij*). It was the dominant oil producer in the Dutch East

⁸⁵ There are numerous accounts of the history of the oil industry in Indonesia. One of the best is Aden’s *Oil and Politics in Indonesia*. See also Bartlett et al., *Pertamina: Indonesian National Oil* (Tulsa, Okla.: Amerasian Ltd., 1972), Fabrikant, ed., *Oil Discovery and Technical Change in Southeast Asia: the Indonesian Petroleum Industry, Miscellaneous Source Material*, Alex Hunter, "The Indonesian Oil Industry: the 1963 Agreements and After," *Bulletin of Indonesian Economic Studies* 2 (1965), Alex Hunter, "The Indonesian Oil Industry," *Australian Economic Papers* 5, no. 1 (1966). For a shorter summary of Stanvac in Indonesia up to the mid-1950s, see *Stanvac in Indonesia*, and for Caltex see *Pipeline to Progress: the Story of PT Caltex Pacific Indonesia*, (Caltex Pacific Indonesia, 1983). See also chapter two of James W. Gould, *Americans in Sumatra* (The Hague: M. Nijhoff, 1961).

Indies until World War II. Its main oil fields were in south Sumatra, where it had an oil refinery in Pladju, near Palembang, and it had smaller concessions and fields in Aceh, north Sumatra, central and east Java, east and south Borneo, and even in the Molucca islands. In addition to the main refinery at Pladju, it had five smaller refineries: one near Balikpapan (eastern Borneo), one in Tarakan (northeast Borneo), one in Pangkalan Brandan (north Sumatra), one in Cepu (east/central Java), and one in Wonokromo (east Java). In 1938, Royal Dutch Shell accounted for 72% of the crude oil production in the Dutch East Indies.⁸⁶ It also had a 50-50 joint venture with the colonial government named NIAM, which was set up in the early 1920s to develop a concession in Jambi, Sumatra.⁸⁷ Shell's pre-war dominance in the oil industry, of course, reflected the policies of Dutch colonial government, which was reluctant to grant oil concessions to non-Dutch companies.

The only other significant oil company during the colonial period was Stanvac. The forerunner company known as NKPM was established in 1912 as a Dutch incorporated subsidiary of Standard Oil Company of New Jersey. Initially it was only allowed to purchase unexpired mining concessions, which proved non-lucrative; however, in late 1921 it discovered a large field in south Sumatra that it quickly began to develop. The field, known as Talang Akar, was so large that it led the company to build a refinery some 80 miles away at Sungai Gerong (just outside Palembang (south Sumatra) and about a mile downriver from Shell's Pladju refinery), which began operations in late 1926.⁸⁸ In the ensuing years, the company began developing several other fields in the same area, in particular the Pendopo field (which was actually an extension of the Talang Akar field), and the capacity of the Sungai Gerong refinery was expanded by the late 1930s to 40,000 barrels per day, the largest in Southeast Asia.⁸⁹ The company also began developing concessions in Aceh, central Sumatra, and central Java, so that by the late 1930s it accounted for 28% of the total production in the Dutch East Indies;⁹⁰ however, the company's main fields were those in south Sumatra. In 1933, the parent company

⁸⁶ Aden, *Oil and Politics in Indonesia*, p. 31.

⁸⁷ Aden, *Oil and Politics in Indonesia*, pp. 28-9. This joint venture company was entirely managed and operated by Shell (Bartlett et al., *Pertamina*, p. 48).

⁸⁸ *Stanvac in Indonesia*, pp. 21-3.

⁸⁹ Aden, *Oil and Politics in Indonesia*, pp. 30-1; *Stanvac in Indonesia*, pp. 24-5.

⁹⁰ Aden, *Oil and Politics in Indonesia*, pp. 30-1.

Standard Oil of New Jersey merged NKPM's assets with some of the distribution assets in Asia of two other Standard Oil companies, Standard Oil of New York (Socony) and Vacuum Oil Company, to create Standard Vacuum Oil Company, or Stanvac for short.⁹¹ The Sungei Gerong refinery and several of the oil fields were destroyed by the Dutch as they retreated from the Japanese invasion, though the Japanese were later able to partially restore them.⁹²

Caltex did not produce any oil in the Dutch East Indies prior to World War II. Standard Oil of California began exploring for oil in the colony in 1924, but initially found nothing. In 1930 it established a Dutch subsidiary known as NPPM and applied to the colonial government for a concession. However, it was not awarded one until 1936, when it received a concession for an area in central Sumatra (as well as a small joint concession in West Irian), not too far from Pekanbaru. In that same year Standard Oil of California and Texaco created a joint venture for their production and marketing operations in the eastern hemisphere known as Caltex, which became the parent company of NPPM. In late 1941 Caltex identified a possible major site near Duri, central Sumatra, but before it could begin drilling operations World War II broke out.⁹³

Several other features of the colonial era oil industry should be noted. First, as implied above, 100% of the crude oil production in the colonial era was done by either Shell or Stanvac; initially Shell was by far the dominant producer, but by the late 1930s it was producing 72% of total production, while Stanvac was producing the other 28%. They were also the only two companies with refining operations. Second, virtually all crude oil produced in the Dutch East Indies was also refined there, so that there were almost no exports of crude oil. Instead, only products from the refining process were exported.⁹⁴ Third, under the colonial concession system, all the crude oil and refined products produced from the concessions was the property of the entity holding the concession (which usually lasted for 40 years); the government claimed no rights over

⁹¹ Aden, *Oil and Politics in Indonesia*, p. 26.

⁹² *Stanvac in Indonesia*, pp. 25-6.

⁹³ *Pipeline to Progress*, pp. 22-7.

⁹⁴ Aden, *Oil and Politics in Indonesia*, p. 31.

this, and the concessionaire could do what it wanted with it.⁹⁵ Fourth, concessionaires did, however, pay four types of taxes to the colonial government: a royalty tax, profit tax, company tax and export tax. One observer estimated that the net effect of the tax structure was that the colonial government's "share of income from the '5A' concessions in the 1920s and 1930s averaged a few percentage points less than 50 percent."⁹⁶

The 1950s were a curious decade for the oil industry, as the GOI sought to determine ways to gain control over the oil companies and oil revenues, even as it encouraged the companies to stay and invest in the country. The government's efforts paid off; in a decade when most foreign companies adopted a 'wait and see attitude' and were wary of committing further resources to Indonesia, the big three foreign oil companies made substantial new investments in Indonesia, investing some \$350 million in rehabilitation and expansion.⁹⁷ The conundrum the GOI faced, of course, was that neither it nor any Indonesian entrepreneur was in a position to rehabilitate and expand the industry. Moreover, over the course of the decade, the importance of oil as an export product and earner of foreign exchange increased dramatically; it rose from 18% of Indonesia's total export value in 1950 to 31% of total export value in 1960, second only to rubber in export value during this period, and actually surpassed rubber by 1963.⁹⁸ The primary reason for this was the dramatic jump in exports of crude oil, from virtually none in the prewar period to 15 million metric tons by 1964, which was largely the result of a

⁹⁵ Fabrikant, *Oil Discovery and Technical Change*, pp. 2-4; Aden, *Oil and Politics in Indonesia*, pp. 44-5. The concessions were granted pursuant to the East Indies Mining Law of 1899, which remained valid until 1960, when the GOI replaced it with a new law. The concessions were known as 5A concessions.

⁹⁶ Aden, *Oil and Politics in Indonesia*, p. 44.

⁹⁷ Aden, *Oil and Politics in Indonesia*, p. 172. This indeed was one of the rare instances of new foreign investment in post 1950 Indonesia.

⁹⁸ See p. 73 of K. Thomas and J. Panglaykim, "Indonesian Exports: Performance and Prospects 1950-1970, Part I," *Bulletin of Indonesian Economic Studies* 5 (1966). Over the 1950s, oil and rubber accounted for 60% to 70% of Indonesia's total gross export earnings. The full figures are: 1950 (rubber 43% and oil/oil products 18%), 1951 (rubber 51%, oil/oil products 14%), 1952 (rubber 45%, oil/oil products 20%), 1953 (rubber 32%, oil/oil products 24%), 1954 (rubber 31%, oil/oil products 26%), 1955 (rubber 46%, oil/oil products 23%), 1956 (rubber 39%, oil/oil products 28%), 1957 (rubber 37%, oil/oil products 32%), 1958 (rubber 33%, oil/oil products 40%), 1959 (rubber 45%, oil/oil products 31%), 1960 (rubber 45%, oil/oil products 26%), 1961 (rubber 35%, oil/oil products 33%), 1962 (rubber 44%, oil/oil products 32%), 1963 (rubber 35%, oil/oil products 39%), and 1964 (rubber 33%, oil/oil products 37%). As mentioned earlier, I cite these statistics not to attest to their accuracy but more as an indication of the importance of oil generally.

concurrent increase in the production of crude oil.⁹⁹ This jump in crude oil production was in turn driven largely by Caltex, which finally began producing oil. Its Minas field, which turned out to be one of the largest in the world, began commercial production in 1952 and its Duri field began commercial production in 1958.¹⁰⁰ The incredible growth of Caltex, which had no refineries and exported most of its crude oil, fundamentally changed the nature of the oil industry and the relationship among the big three foreign oil companies, for Caltex produced much more crude oil than the other two, and unlike Stanvac and Shell was not constrained by obligations to supply the Indonesian domestic market with refined products.

Insofar as determining the role that the foreign oil companies would play in post-Revolution Indonesia, relations were initially conditioned by the Dutch colonial government's eagerness for the companies to return after 1945 so that oil revenues could contribute to the rehabilitation of the economy.¹⁰¹ Most of the companies' concessions and facilities were repossessed piecemeal from 1945 to 1949, though not without some resistance from the Indonesian side; only Shell's concessions and facilities in Aceh, north Sumatra and Cepu (Central/East Java) were not returned.¹⁰² To encourage the companies to return, in 1948 the Dutch issued Stanvac and Shell 'let alone' permits, which exempted these companies from foreign exchange controls for a number of years (so that the companies could freely dispose of their foreign exchange) and allowed the companies to import without restriction capital goods and equipment. In return, the companies made no demands on the government's foreign exchange reserves or otherwise with respect to rebuilding their facilities, but were entirely self-funded. These were complemented separately by a reduction of the company tax rate, an extension of all pre-war concessions

⁹⁹ The numbers (rounded) are: in 1950, 6.8 million metric tons of crude oil produced, only eight thousand exported; in 1951, 8.1 million produced, unknown how many exported; in 1952, 8.5 million produced, six hundred thousand exported; in 1953, 10.2 million produced, 2.1 million exported; in 1954, 10.8 million produced, 2.3 million exported; in 1955, 11.7 million produced, 3 million exported; in 1956, 12.7 million produced, 4.4 million exported; in 1957, 15.5 million produced, 7 million exported; in 1958, 16.1 million produced, 7.3 million exported; in 1959, 18.2 million produced, 4.5 million exported; in 1960, 20.6 million produced, 7.4 million exported; in 1961, 21.3 million produced, 9.7 million exported; in 1962, 22.8 million produced, 12.4 million exported; in 1963, 22.9 million produced, 12.7 million exported; in 1964, 23.5 million produced, 15.1 million exported. Source: Hunter, "Indonesian Oil Industry," p. 62.

¹⁰⁰ *Pipeline to Progress*, pp. 34 and 40.

¹⁰¹ Aden, *Oil and Politics in Indonesia*, pp. 87-8. For full details on what happened to the oil companies during the Indonesian Revolution, see chapter 2 of Aden's *Oil and Politics in Indonesia*.

¹⁰² Aden, *Oil and Politics in Indonesia*, pp. 48-9, 106.

by three years, and the granting of a few new concessions. Both companies responded by rehabilitating their facilities in south Sumatra, and oil production increased almost immediately.¹⁰³ In early 1949, the Dutch granted a similar ‘let alone’ permit to Caltex that expired in 1954, as well as similar tax reductions and a three year extension on existing concessions; this was supplemented in August 1949 by the grant of a new concession.¹⁰⁴ These existing rights and concessions of the oil companies were protected by the provisions of the RTCA upon Indonesia’s independence.

While the GOI did honor the let alone agreements and existing permits and concessions, it also immediately sought to gain a greater share of revenue and impose some limits on the oil companies. In 1951, a government commission was appointed to draft a mining law, but for the next nine years was unable to devise one.¹⁰⁵ However, in 1951 the parliament did ban the granting of further concessions to the big three oil companies, which particularly impacted Stanvac and Shell as the oil reserves in their existing concessions seemed to be drying up.¹⁰⁶ Moreover, in 1951 Stanvac began to negotiate with the government over the extension of its ‘let alone’ agreement with the Dutch, which was due to expire at the end of 1951.¹⁰⁷ As it turned out, the GOI also wanted to enter into a new profit sharing arrangement featuring a 65-35 split of gross profits in favor of the government, and it also increased the company’s taxes from 40% to 51% of gross income and imposed new duties on exports; it appeared that the government in effect wanted to restructure the entire arrangement. After a series of temporary compromises (including one covering the expired let alone agreement), a new four year agreement was signed in 1954, which featured a reduction of the tax rate (such that the

¹⁰³ Aden, *Oil and Politics in Indonesia*, pp. 88-9; Hunter, “Indonesian Oil Industry,” p. 64.

¹⁰⁴ Aden, *Oil and Politics in Indonesia*, pp. 100-1.

¹⁰⁵ Fabrikant, *Oil Discovery and Technical Change*, pp. 7-8.

¹⁰⁶ Stanvac in *Indonesia*, pp. 39-40.

¹⁰⁷ Aden, *Oil and Politics in Indonesia*, pp. 119-20. Stanvac points out that these ill-named ‘let alone’ agreements actually benefitted the GOI as well because the government did not have to provide the huge amounts of foreign exchange necessary to rehabilitate and expand the oil facilities. Such amounts were necessary because virtually all the capital goods and equipment used at the time in the oil industry were imported. In addition, Rupiah earnings were insufficient to cover Rupiah expenditures, so foreign exchange had to be brought in to make up the difference. Absent a large degree of freedom with respect to their foreign exchange, it was simply uneconomic for the oil companies to invest. See *Stanvac in Indonesia*, pp. 43-4. This problem was faced by other foreign manufacturers and estate companies, but not nearly to the same extent because of the comparatively large sums involved. It is, of course, an example of oil company exceptionalism.

combined taxes and duties were about 50% of net profits), continued exemption from foreign exchange controls (as well as the ability to transfer abroad current earnings), and a 10 year exemption from import duties on capital goods and raw materials. Stanvac in return agreed to invest \$80 million to develop its Lirik field in central Sumatra, which was discovered just before World War II.¹⁰⁸ In 1954, Caltex, whose let alone agreement had expired at the end of 1953, signed a new one for five years similar to Stanvac's. In return, Caltex agreed to invest \$50 million in development of a port and to pay the GOI \$60 million over a five year period. Some observers suggested that this \$60 million payment was made in exchange for the government not requiring Caltex to build a refinery in Indonesia, but instead allowing the company to refine its crude oil abroad. In 1956 this agreement was renegotiated and extended until the end of 1963; in return, Caltex agreed to invest at least \$192 million in its Duri field.¹⁰⁹ Finally, in 1956 Shell, whose let alone agreement had expired at the end of 1955, renegotiated its arrangement along similar lines.¹¹⁰ All these arrangements ultimately appeared to be quite similar to the ones negotiated in the late 1940s with the Dutch in terms of the exemption from foreign exchange controls, freedom of remittances, and the roughly 50/50 profit split, but in exchange the companies had to agree to invest large sums in Indonesia. As one observer noted, "so long as the rehabilitation of the industry continued and so long as exports could continue to earn substantial foreign exchange for Indonesia, the large petroleum companies retained this strong position vis-à-vis the government."¹¹¹

In late 1960, however, the promulgation of the Oil and Gas Law signaled the beginning of a new era in the oil industry.¹¹² As we saw above, a government commission had been appointed in 1951 to draft a new law, but no law was forthcoming. The impetus for the passage of the new law came from Chaerul Saleh, who as we saw in Chapter Two was appointed to the newly created positions of Core Minister of Development and Minister of Basic Industry and Mining (the Ministry of Basic Industry

¹⁰⁸ Aden, *Oil and Politics in Indonesia*, pp. 120-30, 133-6; Hunter "Indonesian Oil Industry," pp. 65-6. In 1958, Stanvac's exemption from foreign exchange control was extended until the end of 1961 (Aden, p. 136).

¹⁰⁹ Hunter "Indonesian Oil Industry," p. 65; Aden, *Oil and Politics in Indonesia*, pp. 136-42.

¹¹⁰ Aden, *Oil and Politics in Indonesia*, p. 142; Hunter "Indonesian Oil Industry," p. 65.

¹¹¹ Hunter "Indonesian Oil Industry," p. 66.

¹¹² Law 44/1960; for an English translation, see Fabrikant, *Oil Discovery and Technical Change*.

and Mining having succeeded the old Ministry of Basic Industry) in the July 1959 cabinet reshuffle. Minister Saleh immediately set out, among other things, to draft a new law covering the oil industry.¹¹³ After almost a year of discussion and negotiation, the draft bill was promulgated into law by President Sukarno in late October 1960.¹¹⁴ The law's prime feature was the reversal of colonial laws to stipulate that oil and natural gas were now owned by the state (Article 1), and that the mining of oil and gas may only be undertaken by state-owned enterprises (Article 2). However, if SOEs were unable to undertake such operations, they may appoint contractors to do so by entering into contracts of work (Article 6); other than the requirement that in entering into such contracts the SOE must follow the directives of the Minister who had jurisdiction over oil and gas, there was no mention of the content of the contracts. Finally, the law provided that all rights of companies which were not state-owned – which meant in practice the big three foreign oil companies – would only continue to be exercised for a short period to be determined by a separate regulation, although these companies would be given priority under the new scheme (Article 22). In other words, the concessions of the big three oil companies issued under colonial law would soon be expiring at a date to be announced. Thus, in only two key provisions, one vesting ownership and mining rights to oil and gas in the state, and the other announcing that old concession rights would soon expire, the position of the oil companies was almost completely undercut. In fact, as it was undoubtedly designed to do so, the law led to the complete reworking of the arrangements under which the big three and other oil companies could operate in Indonesia, which henceforth were to be embodied in Contracts of Work (CoWs) entered into between state-owned enterprises and private contractors.

¹¹³ Aden suggests that Chaerul Saleh had much more than this in mind; he had no independent power base of his own and was trying to build up a power base in the bureaucracy, especially within the industrial and mining sector, which was now full of possibilities and patronage opportunities as a result of the nationalization of Dutch companies. President Sukarno certainly had his own motives in assigning Saleh to these positions, in particular having someone who could be played off against First Minister Djuanda's technocratic approach and who could act as a balance against the army. Aden, *Oil and Politics in Indonesia*, pp. 196-8.

¹¹⁴ For details, see Aden, *Oil and Politics in Indonesia*, pp. 198-205, and Bartlett et al., *Pertamina*, pp. 177-84. In an effort to avoid further delay, it was promulgated as a 'Government Regulation in Lieu of Law' so parliamentary approval was initially bypassed; the President Sukarno-appointed Parliament later ratified the law in early 1961.

Negotiations between the big three oil companies and the GOI over the companies' new arrangements commenced almost immediately. They were initially complicated by the demands of First Minister Djuanda, who injected himself into the discussion in an apparent intra-bureaucratic attempt to assert jurisdiction over the oil companies. After a few months, Minister Chaerul Saleh managed to regain control of the negotiations.¹¹⁵ Reaching agreement with the oil companies proved elusive, however, and by early 1963, almost two years later, there was still no meeting of the minds. Not surprisingly, the biggest single issue appeared to be over division of revenue; the GOI wanted to impose a profit sharing structure of 60:40 in favor of the GOI, which was a significant bump up from what many observers believed to be the roughly 50:50 split under the existing arrangements. Crucial to this new arrangement was how 'profit' would be defined, with both sides arguing for different definitions. Other major issues included the extent to which the GOI could have a say in determining the export price of oil (which had a direct impact on profits), the duration of the contract (the companies pushing for a longer period than the GOI wanted), and new areas for the companies for exploration and development (no new areas were granted after 1949, and Shell and Stanvac were particularly affected). Finally, there were two interrelated questions concerning the pricing for the marketing and refining facilities which were to be transferred to the GOI (and whether the companies would continue to finance these facilities after transfer) and the amounts of oil the companies had to supply the Indonesian domestic market. Shell and Stanvac, which had refineries, supplied the Indonesian domestic market with refined products and were increasingly constrained by the price controls and distribution requirements imposed by the government, were happy to comply with the GOI's desire to purchase the companies' refining and marketing/distribution facilities, subject to agreement on a satisfactory price (the position of Caltex was quite different than Shell and Stanvac, for it had no refinery and only supplied a small percentage of refined products via the other two, mostly Stanvac, to the

¹¹⁵ Aden, *Oil and Politics in Indonesia*, pp. 205-10. There is no good analysis of the early negotiations between the oil companies and the GOI; for differing versions, see Aden, *Oil and Politics in Indonesia*, pp. 218-29, Bartlett et al., *Pertamina*, pp.186-92, Bunnell, *Kennedy Initiatives*, p. 354, Simpson, *Economists with Guns*, pp. 101-5. Perhaps the best indicator of the content of the negotiations is the content of the Heads of Agreement signed in June 1963 (see Chapter Four, Part I, Section B).

Indonesian market). Similarly, there was much discussion over the amount of crude oil the companies would be required to supply to the Indonesian market (at fixed prices, well below market value).

Complicating these negotiations was the signing of the first CoW under the new law in 1962 between Pertamin (an Indonesian SOE, see below) and Pan American International, a subsidiary of Standard Oil of Indiana, a new entrant into the market. Among other provisions, the CoW provided Pan American with exploration and development rights for 30 years in a large area next to Caltex in central Sumatra, and it provided for a 60:40 profit split in favor of Pertamin (with a defined meaning of ‘profits,’ the calculation of which was a major issue in the negotiations with the big three oil companies), with a \$5 million up front payment and the possibility of another \$5 million payment.¹¹⁶ As the first CoW signed under the new law, the Pan American contract did have some precedential influence. Despite the give and take of the negotiations with the big three, however, it was clear that Minister Chaerul Saleh and other Indonesian government officials recognized in general terms the significance of the big three foreign oil companies to Indonesia.

That significance, which was at the heart of oil company exceptionalism, could be measured in a variety of ways by the early 1960s. In the first place, the oil companies provided a major source of scarce foreign exchange to the GOI. Though estimates vary, one expert suggested that the net foreign exchange revenues accruing to the GOI from the companies (after accounting for the oil companies imports and remittances) was \$158 million in 1958, \$48 million in 1959, \$70 million in 1960, \$99 million in 1961, and \$88 million in 1962; as percent of all export earnings (before deducting for company remittances), net oil exports averaged around 20% for these years.¹¹⁷ The US government

¹¹⁶ Hunter, “Indonesian Oil Industry,” pp. 71-2. Pan American was not successful in its exploration efforts, however, and in early 1967 pulled out of Indonesia. See US Embassy telegram dated 17 January 1967 (USNACP, RG 59 Central Files 1967-9, PET 6 Indon, Box 1356).

¹¹⁷ See Hunter, “Indonesian Oil Industry,” pp. 96-7. The 20% figure differs from the figures shown earlier (footnote 98), which were on a gross basis. The gross earnings from oil exports (crude and refined products) were \$147 million in 1950, \$166 million in 1951, \$181 million in 1952, \$207 million in 1953, \$227 million in 1954, \$216 in 1955, \$255 million in 1956, \$303 million in 1957, \$315 million in 1958, \$231 million in 1959, \$221 million in 1960, \$261 million in 1961, \$216 million in 1962, \$269 million in 1963, and \$255 million in 1964 (Hunter, “Indonesian Oil Industry,” p. 62, and p. 68 of K. Thomas and J. Panglaykim, “Indonesian Exports: Performance and Prospects, 1950-1970, Part II,” *Bulletin of Indonesian Economic Studies* 6 (1967)).

estimated that the GOI's net gain from the oil companies was about \$125 million per year by 1964, though the US embassy in Jakarta thought the GOI's 1964 take was slightly lower at about \$100 million.¹¹⁸ The second way the big three foreign oil companies were important was their significance to the Indonesian economy, in particular their domination of the domestic oil industry. For example, in 1963 (in figures roughly comparable to other years), the big three produced 91% of the crude oil in Indonesia (Caltex at 52%, Shell at 24% and Stanvac at 15%); insofar as refined products supplied to the domestic market, they provided 87% of the total of 4.2 million metric tons (Shell at 45%, Stanvac at 30%, and Caltex (refined by the other two) at 12%).¹¹⁹ These figures clearly demonstrate that the Indonesian economy was almost completely reliant on the big three for its supply of refined oil products, in particular the important products kerosene (used widely in the household for lighting, cooking, etc.), gasoline for cars, diesel oil, fuel oil, and aviation oils. Moreover, in addition to refining, the companies also provided an integral portion of the distribution facilities and network.¹²⁰

The third factor contributing to oil company exceptionalism was the sheer difficulty for Indonesia in replacing the services provided by the big three foreign oil companies, primarily technical ability and overseas marketing. Oil exploration, production and refining required a high degree of technical competence (both in personnel and in equipment) and financing that at the time could not be supplied by Indonesia or the three small Indonesian state-owned oil companies (see below). Moreover, with respect to the overseas marketing of crude oil, the source of the all-important foreign exchange, Indonesia's capabilities were limited in several ways, as

¹¹⁸ Department of State Memorandum of Conversation dated 27 October 1964 (LBJL, National Security Files, Country File Indonesia, Indonesia Memos, Volume IV (3/65-9/65), Box 247); Memorandum of Conversation dated 22 January 1965 (cited in *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, p. 215); US Embassy telegram (McCusker) dated 13 October 1965 (USNACP, RG 59 Central Files 1964-66, PET Indon , Box 1389). A CIA report of 1967 also estimated that the GOI's share for 1964 was \$100 million, including a \$30 million one time payment (p. 23 of CIA Intelligence Memorandum "Prospects for Economic Development in Indonesia" dated February 1967 (LBJL, National Security Files, Country File Indonesia, Indonesia Memos (2 of 2) Volume VII (5/66-6/67), Box 248)).

¹¹⁹ Hunter, "Indonesian Oil Industry," p. 70. The percentage figures are based on metric tons. For comparable figures from 1961, see the confidential report prepared by the British government in March 1963 entitled "The Indonesian Oil Industry" (UKNA, FO 371/169944), pp. 9, 14 and 20.

¹²⁰ See pp. 14-15 of the confidential March 1963 British government report, "The Indonesian Oil Industry" (UKNA, FO 371/169944).

explained by one high ranking Caltex official to the US embassy in 1965. First, the oil from Caltex' Minas field, which was a large source of crude oil exports, had a high wax and sulphur content which could only be refined by a very few refineries in the world, and it was prohibitively expensive to build a new refinery. Furthermore, in the case of an illegal seizure of the big three's facilities, the seven major oil companies of the world, five of whom operated in Indonesia through Caltex, Stanvac and Shell, would certainly band together and refuse to refine Indonesian oil, leaving only a few independent refineries (plus the PRC and possibly countries in eastern Europe) which could take the oil.¹²¹ Hence, without the cooperation of the big three foreign oil companies and their parents, it would be very difficult for Indonesia by itself both to produce the oil and refine and export it, thus affecting the domestic economy as well as the generation of foreign exchange revenues.

It may be useful at this point to describe briefly the operations and position of each of Shell, Stanvac, and Caltex in early 1963. Shell and Stanvac were similarly positioned, and their interests were not the same as Caltex's.¹²² Shell had significant operations in both South Sumatra and East Kalimantan. Its refinery at Pladju, South Sumatra (near Palembang), had a capacity of about 107,000 barrels per day (or 40% of the total refining capacity in Indonesia of 265,000 barrels per day) and refined crude oil from fields in South Sumatra. It also had major operations in East Kalimantan, with a refinery in Balikpapan having a capacity of roughly 73,000 barrels per day (or 28% of total capacity in Indonesia) which refined crude oil from fields in East Kalimantan; these operations really only began producing significant amounts in 1962. Shell also had a very small refinery in East Java in the Wonokromo area (3,100 barrels per day) which did not figure prominently in its output. Headquartered in Jakarta with scattered offices around the country, it employed around 13,000 Indonesians plus about 114 foreigners.¹²³ Stanvac, the joint venture subsidiary of Standard Oil of New Jersey and Socony Mobil

¹²¹ See US Embassy telegram (McCusker) dated 13 October 1965 (USNACP, RG 59 Central Files 1964-66, PET Indon , Box 1389).

¹²² For brief descriptions of the operations of each of the companies, see the confidential report prepared by the British government in March 1963 entitled "The Indonesian Oil Industry" (UKNA, FO 371/169944), pp. 6-7, 9-13. The refinery capacity figures cited in this paragraph come from this report, p. 11.

¹²³ Employment figures are from 1965; see British Foreign Office Confidential Note dated 16 November 1965 (UKNA, FO 371/180362) for the total employment figure, and British Foreign Office Confidential Note (Peck) dated 7 July 1965 (UKNA, FO 371/180362) for the number of foreigners employed.

Oil Company, had a single refinery (capacity of about 73,000 barrels per day, or 28% of the total capacity in Indonesia) in Sungai Gerong (South Sumatra), also near Palembang and very close to Shell's Pladju refinery. The oil refined at Sungai Gerong came mostly from Stanvac's Pendopo oil field (also in South Sumatra). In addition, Stanvac had several fields in Riau (central coast of Sumatra) (the most important of which was the Lirik field, which began commercial production in 1958), which primarily exported their oil in crude form; in 1962, about 55% of Stanvac's crude production came from the fields in south Sumatra, with the remaining 45% from the fields in Riau.¹²⁴ Stanvac's headquarters were also in Jakarta. Its total employees numbered around 6,800, including 118 foreigners.¹²⁵

In contrast to Shell and Stanvac, Caltex, the joint venture between Standard Oil of California and Texaco, did not have a refinery but rather exported most of its crude oil production, which came from two fields named Duri and Minas, both in Riau (central Sumatra). The Minas field was one of the largest in Southeast Asia, and as we saw above both fields only began commercial production in the 1950s. Caltex was by far the largest crude oil producer of the big three, accounting for over 50% of the total crude oil produced in Indonesia in 1963, and averaging as much as 280,000 barrels per day in 1964.¹²⁶ With headquarters in Jakarta, Caltex employed 124 foreigners.¹²⁷ Caltex was by far the most profitable of the big three oil companies, for two main reasons. First was the size of its fields, the estimated reserves for which were enormous and had only recently begun to be exploited. In contrast, Stanvac's and Shell's fields were smaller and had been exploited over a much larger period of time (except for Shell's operations in Kalimantan, which were fairly recent). The second reason was because Caltex had no refining operations in Indonesia and exported most of its production in crude form. In contrast, Shell and Stanvac were much more closely tied to, and limited by, the highly regulated

¹²⁴ See Enclosure I of US Embassy telegram (van Swearingen) dated 11 April 1963 (USNACP, RG 59 Central Files 1964-66, PET 2 Indon, Box 3620).

¹²⁵ Employment figures from 1965; see Hunter, "1963 Agreements and After," p. 25.

¹²⁶ *Wall Street Journal* 22 March 1965.

¹²⁷ Employment figures from 1965; see US Embassy telegram (Green) dated 28 August 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389) for the figure of 124. Over 100 of these were in the oil fields - see US Embassy telegram (Green) dated 6 October 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). I have yet to find a reliable figure for the total number of Caltex employees.

Indonesian domestic market. They were required to provide a large portion of their refined output to the Indonesian market; as we saw above, in 1963 it was estimated that Shell and Stanvac supplied some 75% of the refined oil products of the Indonesian domestic market (with Caltex supplying another 12% that was refined by the other two). However, domestic sales prices were kept extremely low by the GOI so that the average Indonesian could afford such products. (Naturally, such artificially low prices, combined with high inflation, created a huge black market in oil products in the early and mid-1960s.) Consequently, these domestic sales were hardly, if at all, profitable for Shell and Stanvac, and in fact they both reported that these operations were increasingly losing money, with Shell in particular apparently the worst affected.¹²⁸ As we shall see Chapter Seven, these domestic sales arrangements and their impact on profitability played a key role in the GOI's push to take over the big three oil companies in the last four months of 1965.

As to the Indonesian state-owned enterprises in the oil sector, in the early 1960s there were three, each of which would be appointed to act as representatives of the government for purposes of the CoWs under the new 1960 law. The first was a company named PT Permina, which was controlled by an army colonel named Ibnu Sutowo.¹²⁹ Its primary assets consisted of Shell's fields and facilities in north Sumatra, which for a variety of reasons were never returned to Shell after World War II; in 1957, the army took them over and General Nasution appointed Sutowo to operate them.¹³⁰ Sutowo aspired to develop Permina into a major player in the oil industry and found the necessary financial support from the Japanese government, which, after private Japanese interests

¹²⁸ For a nice discussion of this domestic pricing problem, see pp. 5-10 of part nine of William Hanna, *Bung Karno's Indonesia*, revised ed. (New York: American Universities Field Staff, 1961). See also Hunter, "Indonesian Oil Industry," pp. 74, 89-95; and pp. 14 and 16 of the confidential March 1963 British government report, "The Indonesian Oil Industry" (UKNA, FO 371/169944). This problem was often highlighted in many British and American reports on the companies and their operations in Indonesia, and Shell and Stanvac frequently complained of problems arising from their domestic distribution requirements.

¹²⁹ Born in central Java in 1914, Sutowo was trained as a medical doctor in Indonesia in the 1930s and had his first posting under the Dutch medical service to south Sumatra in 1940. During the Revolution, he joined the south Sumatra regional command of the army as a medical officer and remained in south Sumatra until 1955, actually serving as chief of staff for the south Sumatran command from 1948-1951, then as medical officer until 1955. During this period, he became involved in businesses involving, among others, oil trading. He returned to Java in 1955, and in 1956 was appointed Nasution's Deputy Chief of Staff in charge of operations. (Aden, *Oil and Politics in Indonesia*, pp. 82-3, 108, 159-61.)

¹³⁰ For details on the ex Shell facilities in north Sumatra and their takeover by Sutowo, see Aden, *Oil and Politics in Indonesia*, pp. 74-7, 83-4, 142-9, 153-8, 161-5, 170-2.

failed to come up with the necessary financing, in 1960 backed what became the first production sharing arrangement in Indonesia by providing a \$53 million credit for equipment in exchange for oil.¹³¹ By the early 1960s, Sutowo himself was a major figure in the Indonesian oil industry, rivaling Chaerul Saleh, and as we shall see in Chapter Seven played a major role in the takeovers of the oil companies in 1965. Permina's single refinery had a capacity of 3,700 barrels per day, about 1.5% of total Indonesian capacity.¹³² The second state-owned company was PT Pertamin, newly formed in early 1961 to take over the assets of the 50-50 joint venture company between Shell and the Dutch colonial government (whose ownership interests were assumed by the GOI in the early 1950s) originally known as NIAM. At the time, NIAM was the fourth largest producer of oil in Indonesia, accounting for some 8%, with facilities scattered across Indonesia; the venture's concessions were set to expire in late 1960, and despite Shell's desire to continue the venture, Minister Chaerul Saleh did not do so. Instead, Minister Saleh, seeking to build a company to rival Sutowo's Permina (which in practice was out of Saleh's control, despite operating in the oil industry) as well as one that could act as a state-owned company able to enter into CoWs under the new law, formed Pertamin to take over NIAM's assets.¹³³ Minister Saleh remained influential in this company. The third state-owned oil company was Permigan, formed by Minister Saleh in 1961 to take over oil fields near Cepu, in Central/East Java, some of which were ex Shell facilities. These facilities were quite small, but were boosted in 1962 when Shell sold the remainder of its Cepu facilities to Permigan.¹³⁴ Its total refining capacity in 1963 was about 5,000 barrels per day, or about 2.2% of Indonesia's total capacity.¹³⁵

¹³¹ Nishihara, *The Japanese and Sukarno's Indonesia*, pp. 117-21; Aden, *Oil and Politics in Indonesia*, pp. 180-92.

¹³² See p. 11 of the confidential March 1963 British government report, "The Indonesian Oil Industry" (UKNA, FO 371/169944).

¹³³ Aden, *Oil and Politics in Indonesia*, pp. 210-14.

¹³⁴ Aden, *Oil and Politics in Indonesia*, pp. 214-8. Aden (p. 215) suggests that because Cepu had "long been a center of Perbum/SOBSI and PKI power," the formation of Permigan may have been an attempt by Saleh to limit the influence of Sutowo's Permina in the non-foreign controlled oil sector as well as "cultivate his reputation as a radical revolutionary, and lessen his vulnerability to the PKI's accusations that, by negotiating with the foreign oil companies, he had made himself a tool of western capitalist oil interests."

¹³⁵ See p. 11 of the confidential March 1963 British government report, "The Indonesian Oil Industry" (UKNA, FO 371/169944).

B. The Foreign Estate Sector.

The foreign estate sector in Indonesia circa early 1963 was not nearly as concentrated as the foreign oil sector, and nor did the foreign estates dominate the Indonesian estate sector as the foreign oil companies dominated the Indonesian oil sector. The actual number and hectarage of the foreign estates is extremely hard to calculate. By my own estimates, there were some 145 foreign estates with a total hectarage of at least 260,000; these estates were owned by approximately 51 different foreign companies or groups (see Appendices A and B).¹³⁶ The majority of these were British-owned, though there were also significant Belgian and US interests. Most of these estates were in either Java or Sumatra, and within Sumatra were primarily in North Sumatra in the plantation area centered around the city of Medan. By one GOI estimate, foreign estates accounted for about 25% of the total estate hectarage in Indonesia, the other 75% of estate hectarage divided between government owned estates (51%; most of these were ex-Dutch estates) and privately held estates (24%).¹³⁷ Rubber was by far the most important product of the foreign estate holdings, both in terms of acreage and value. Palm oil was a very distant second to rubber, and there were also foreign-owned tea and coffee estates. These foreign estate companies employed huge numbers of Indonesians, though the total number is impossible to pinpoint because of lack of data; the five large estate companies described below by themselves employed a total of around 80,000 workers.

Most of the foreign-owned estates exported their produce and thus were significant generators of valuable foreign exchange, though insofar as I am aware there is no hard data available with respect to these amounts. According to one estimate, total

¹³⁶ The 260,000 hectare figure is a minimum number; I do not have hectarage information for some 50 estates, about one-third of the total foreign estates. GOI figures are conflicting and likely inaccurate. One GOI table, prepared from information in early 1964, indicated that there were 213 foreign estates totaling 440,500 hectares (*Djumlah Kebun Di Indonesia*, ANRI, RA-15, No. 80). Another GOI table, apparently from September 1963, indicated that there were 257 active foreign estates and another 200 abandoned foreign estates (*Pekapitulasi Kebun-Kebun Diseleruh Indonesia*, ANRI, RA-15, No. 80). One reason for the disparity may be in how the estates were lumped together; in some cases, a property treated as one estate by the foreign company may actually have been comprised of several different pieces of land (such as US Rubber's giant Kisaran estate), each counted as separate individual estates by the GOI. The GOI's numbers may also not reflect the number of estates returned to the government in 1961-62 under the one-third rule. Finally, the 1964 table indicated that there were 33 Arab owned estates, but I have yet to find details of any kind regarding these; they may have been owned by individuals of Arab descent.

¹³⁷ *Djumlah Kebun Di Indonesia* (ANRI, RA-15, No. 80); this is the table from 1964 referred to in the previous footnote.

estate exports of both rubber and palm oil, the two primary estate products, were \$154 million in 1960 (or about 22% of all exports, including the net amount from oil), \$143 million in 1961 (or about 23% of all exports, including the net amount from oil), \$119 million in 1962 (or about 22% of all exports, including the net amount from oil), \$114 million in 1963, and \$126 million in 1964.¹³⁸ However, these figures are from all estates in Indonesia, not just the foreign-owned ones, and there is no way to calculate what portion of these amounts is from the foreign-owned sector. While it is probably safe to assume that the revenues generated by the foreign estate companies were significantly less than those accruing to the GOI from the big three foreign oil companies, it is also important to note that unlike in the oil sector all the foreign exchange revenues earned by the foreign estates were turned over to the government; the foreign estate companies were not allowed to retain and control their own export earnings. Another contrast with the oil sector was that these foreign exchange earnings were diffused and spread over many different companies, not concentrated in three.

Virtually all the foreign estate companies still in Indonesia in the early 1960s initially made their investment in the period from c. 1910 to 1930, when Indonesia was still a Dutch colony.¹³⁹ These investments were both large and small, ranging from single smaller estates (many of which were British-owned) to extremely large single estates (such as Goodyear) to multiple estates held by a single corporate group (such as SOCFIN or Harrisons & Crosfield). Most of the larger estates, whether single or in groups, were managed by the owner, but many of the single small or medium-sized estates were managed by professional estate managers or agents, some of whom also managed estates in Malaya and other countries, and some of whom took a small ownership interest in the

¹³⁸ Thomas and Panglaykim, “Indonesian Exports, Part I,” pp. 74, 77 and 91. Similarly, another more recent work estimates that estates accounted for 25% of Indonesia’s total export value in 1960, 25% in 1961, and 24% in 1962. See p. 83 of Hiroyoshi Kano, *Indonesian Exports, Peasant Agriculture and the World Economy 1850-2000: Economic Structures in a Southeast Asian State* (Athens, Ohio: Ohio University Press, 2008).

¹³⁹ For an excellent look at the development of the estate industry in north Sumatra, see Kian Wie Thee, *Plantation Agriculture and Export Growth: an Economic History of East Sumatra, 1863-1942* (Jakarta: National Institute of Economic and Social Research, 1977). Kano’s *Indonesian Exports, Peasant Agriculture and the World Economy*, especially chapter six, also contains useful information on the foreign estates before World War II. For a look at foreign companies in Indonesia in the early 1950s, see G. C. Allen and Audrey Donnithorne, *Western Enterprise in Indonesia and Malaya: A Study in Economic Development* (London: Allen & Unwin, 1957).

estate. Sorting through these diverse ownership interests is extremely difficult. As we saw in Part I, it appears that few of these companies made significant investments in expansion post 1949, though some certainly invested in rehabilitating their estates. By 1963, most of the larger firms were still reeling from being forced to give up one third of their holdings under the one-third rule (see Part I, Section B) and naturally were still reluctant to make new investments. Moreover, as we saw earlier, overall conditions for investment were hardly encouraging, and operational problems such as squatting and illegal land occupation, labor disputes, lack of trained and competent local managers, high taxes, lack of foreign exchange and hence inability to import necessary capital equipment, inability to remit profits, aging of trees and low replanting rate, etc., plagued most of the companies.

As there was a large number of estate companies, I shall limit descriptions of the individual companies to the five largest. One of the largest and oldest foreign estate companies was P&T Lands, which in the 1960s was owned by Anglo Indonesian Plantations, a British company based in London. The history of the P&T Lands can be traced back all the way to 1813, when the British Raffles administration, temporarily occupying Java from the Dutch, granted freehold title to two enormous plots of land located in the northern part of West Java, between Bandung and the north Java coastline.¹⁴⁰ Over the next 75 or so years ownership of the estates changed hands numerous times; the two freeholds were at some point carved up into numerous individual estates and then placed into a company named P&T Lands, which was incorporated in 1887.¹⁴¹ In 1910 the P&T Lands was purchased by a British company which eventually took the name of Anglo Indonesian Plantations (AIP). By 1963, P&T Lands was comprised of 21 individual estates, primarily rubber and tea, but also cocoa, kapuk, cincoma and other crops, with a total acreage of approximately 29,400 hectares. There were 15 ‘inner’ estates which were the primary producers and 6 less important

¹⁴⁰ These two freehold estates were known as the Pamanoekan freehold and the Tjasem freehold, so named because they were located near two villages of the same names and were actually separated by the river Tjasem. The eventual name ‘P&T’ derives from these freeholds. The history of P&T Lands up until World War Two can be found in Wilfred H. Daukes, *The "P&T Lands", an Agricultural Romance of Anglo Dutch Enterprise* (Anglo Dutch Plantations of Java, 1943). As the title suggests, it is a rather romantic view of the history of the estates; it was written by a former chairman of Anglo Dutch Plantations. Nevertheless, it contains useful basic information regarding the growth of the estates and the various owners.

¹⁴¹ AIP 1970 Annual Report (UKNA, FCO 24/1124); Daukes pp. 50-51.

‘outer’ estates, all located in the Subang area of West Java, and the company itself was headquartered in the town of Subang.¹⁴² The company employed about 30,500 people, including around 20 expatriates, and AIP estimated that in 1963 it generated about £2.4 million (about \$6.7 million) in exports for the GOI.¹⁴³

The other large British-owned estate company was Harrisons & Crosfield/London Sumatra, an international estate management company whose early interests were scattered across Asia. In Indonesia, Harrisons & Crosfield began operations in 1906 and during the colonial period managed numerous estates in which it usually took partial ownership interests (the estates were owned by separately established companies).¹⁴⁴ H&C also engaged in shipping, trade, insurance and engineering services, mostly related to marketing the produce of the estates. Prior to 1960, the group structure was a complicated maze of cross ownership holdings involving dozens of separate companies. In 1960, the London Sumatra Plantations company was established in London as a holding company for the various estate holdings in Indonesia (the main Indonesian holding company was established in late 1962), presumably as a means of forcing some kind of organizational structure over the group’s scattered holdings, though it may also have been related to the forced restructuring of estates pursuant to the one-third rule.¹⁴⁵ Over the next few years, many of H&C’s estate holdings were brought into this new company, though H&C was also forced to give up at least 12 estates to the GOI under the one-third rule.¹⁴⁶ By 1963, London Sumatra owned about 17 estates in North Sumatra,

¹⁴² Physical assets on the estates also included offices, housing, tea and rubber factories, hospitals and clinics, and much more. AIP estimated the value of P&T Lands in 1964 as, conservatively, £6.0 million (about \$16.8 million). See 22 October 1964 AIP Chairman Statement to Shareholders (UKNA, FCO 24/1124).

¹⁴³ Indoconsult Associates Report on P&T Lands, 22 April 1968 (henceforth the “Indoconsult Report”), found at UKNA, FCO 15/217 (the employment figure is from 1963); the export earnings figure is cited in 22 October 1964 AIP Chairman Statement to Shareholders (UKNA, FCO 24/1124).

¹⁴⁴ For a general history of Harrisons & Crosfield, see P. Pugh and G. Nickalls, *Great Enterprise: a History of Harrisons & Crosfield* (Great Britain: Harrisons & Crosfield and Butler and Tanner, 1990).

¹⁴⁵ See London Sumatra Plantations Limited, Directors Report and Statement of Accounts for the Year Ended 31 December 1968, p. 1. Harrisons & Crosfield presumably had a strong ownership position in this London holding company.

¹⁴⁶ Pugh and Nickalls, *Great Enterprise*, pp. 186-7. Documentation relating to the 12 estates ceded to the GOI under the one-third rule can be found in BKS-PPS under 1962 Tanah2 Konsensi Perkebunan Besar, IV, including one chart listing the names of the estates and dates of transfer (see Keterangan Mengenai Perkebunan2 Jang Telah Diserahkan).

mostly rubber, whose total hectarage was approximately 52,000.¹⁴⁷ It also owned four estates in Java and three in Sulawesi (hectarage uncertain). The total workforce on the estates in Sumatra is unclear, perhaps around 13,000.¹⁴⁸ These estates generated significant amounts of valuable foreign exchange; in February 1964, the manager of H&C's Medan office estimated that the estates in Sumatra managed by it earned \$10 million annually.¹⁴⁹ Harrisons & Crosfield's primary office in Medan, North Sumatra, acted as estate managers for London Sumatra's estates in Sumatra (as well as at least three smaller non London Sumatra estates), in addition to its other businesses of shipping, trade, insurance, etc. The Medan office was managed by a British national, and altogether there were around five expatriates in the office; of the estates it managed, some five to ten were managed by foreigners and the rest by Indonesians. H&C also had a separate office in Jakarta, with two foreigners, whose primary responsibility was to manage London Sumatra's four estates in Java and three estates in Sulawesi (Celebes).

SOCFIN (*Societe Financiere des Caoutchoucs*) was a large, Belgian-based international plantation group with operations and estates in Southeast Asia and in Africa. In Indonesia, SOCFIN began operations in 1911, initially focusing on palm oil estates and palm oil production, but also delving into rubber estates. By the early 1960s, it consisted of a jumbled mix of 15 different subsidiary or related companies, 10 of which owned plantations. Its collective holdings included approximately 18 rubber and palm oil estates, all in North Sumatra or Aceh, and together these estates totaled about 51,700 hectares, making it, along with London Sumatra, one of the two largest foreign estate holders in Indonesia.¹⁵⁰ In 1963, its total staff and workforce numbered about 17,750, including 14 foreigners; by 1965, its total workforce was around 18,960, including six foreigners.¹⁵¹ It managed all the groups' estates itself.

¹⁴⁷ I have compiled these figures from various archival sources.

¹⁴⁸ The US consul in Medan estimated in 1960, before the one-third rule was implemented, that the total workforce of the Sumatran estates was about 18,000, including 22 Europeans; however, Pugh and Nickalls, *Great Enterprise*, p. 187, estimated the labor force at 11,000 in 1961; the figure of 13,000 is from a 1968 report (letter to Sumatra Planters Association dated 10 June 1968, BKS-PPS, I-4, Keanggotan BKS-PPS Asing 1967). I have no information for the workforce of the estates on Java and Sulawesi.

¹⁴⁹ McLeod letter dated 28 February 1964, attached as Annex C to Confidential Report of British Medan Consul (Mckay) dated 28 February 1964 (UKNA, FO 371/175281). As indicated by the next sentence, these estates were the 17 London Sumatra group estates and three other smaller estates.

¹⁵⁰ I have compiled these figures from various archival sources.

¹⁵¹ Private source.

There were also two very large American estate companies, Goodyear Plantations and United States Rubber Corporation. Goodyear operated two rubber estates, the Dolok Merangir estate (established 1916) and the world famous Wingfoot estate (established 1927), both in North Sumatra.¹⁵² Wingfoot was about 16,000 hectares in size and Dolok Merangir was about 6,000 hectares; together, the estates employed about 10,000 workers, plus around 50 Indonesian staff employees and about 15 foreign staff.¹⁵³ However, as described further in Chapter Six, Wingfoot in mid-1964 was set to be exchanged for two GOI estates adjacent to Dolok Merangir as a settlement under the one-third rule. United States Rubber, which had established operations in Indonesia in 1911, operated an estate of about 17,500 hectares named Kisaran (also in North Sumatra), which was actually a compilation of different adjacent concessions. It employed about 7,200 workers, with an Indonesian staff of 85 and foreign staff of 13.¹⁵⁴ Neither company had been able to remit profits out of Indonesia since 1960 or so.¹⁵⁵

There were also a number of estate management firms operating in Indonesia. Generally these firms did not take an ownership interest in the estates they managed, most of which were fairly small; precisely because of the small size of the individual estates, it did not make business sense for the owners to manage them, but instead to entrust management and operations to professional managers. Among the numerous estate management firms, there were two larger ones of note. The largest was JA Wattie, which opened an office in Surabaya (East Java) around 1910 and prior to World War II managed as many as 37-38 estates.¹⁵⁶ In 1951 the company relocated its head office in Indonesia from Surabaya to Jakarta. By the early 1960s, it managed approximately 25

¹⁵² For more on the Goodyear estates, see Hugh Allen, *The House of Goodyear: Fifty Years of Men and Industry* (Cleveland: Corday & Gross, 1949), Walter E. Klippert, *Reflections of a Rubber Planter: the Autobiography of an Inquisitive Person* (New York: Vantage Press, 1972), Maurice O'Reilly, *The Goodyear Story* (Elmsford, NY: Benjamin Co., 1983).

¹⁵³ US Embassy telegram (Thrig) dated 13 March 1964 and US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹⁵⁴ US Embassy telegram (Thrig) dated 13 March 1964 and US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); for more on US Rubber, see Glenn D. Babcock, *History of the United States Rubber Company: a Case Study in Corporation Management*, Indiana Business Report, no. 39 (Bloomington: Graduate School of Business, Indiana University, 1966).

¹⁵⁵ US Department of State Memorandum of Conversation dated 2 March 1965 regarding US Rubber Company Interests in Indonesia (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹⁵⁶ Kano, *Indonesian Exports, Peasant Agriculture and the World Economy*, pp. 202-06; 2006 PT JA Wattie Company Profile (published by the company).

different estates on Java, mostly British-owned.¹⁵⁷ Its Jakarta office was headed by two British managers; it is unknown how many foreigners were on the estates. The second large estate management company was Anglo Sumatra Estate Agency, which was based in Medan, North Sumatra.¹⁵⁸ This company was a 50/50 joint venture between SIPEF, a Belgian estate company, and the Rubber Estates Agency, a British estate firm. Anglo Sumatra managed about a dozen estates in north Sumatra, about half of which were rubber estates owned by various British companies and the other half of which were palm oil estates owned by different Belgian companies. Anglo Sumatra's main office in Medan was managed by a Swiss national, and there were two other European expatriates in the office. Apparently all the estate managers were Indonesian.

C. Manufacturing and Other Enterprises.

The remaining foreign investment in Indonesia in the early 1960s was much smaller in comparison with the oil sector and the estate sector, both in size and overall importance (see Appendix A for a list). The key difference between most of these firms, especially those in the manufacturing sector, and the foreign-owned firms in the estate and oil sectors was that they generated few, if any, foreign exchange revenues.

Of the remaining foreign investment in Indonesia in the early 1960s, the largest concentration was in the manufacturing sector. This sector was very small compared with the estate sector and comprised only about 12 enterprises. All these companies were located in Java, primarily around either the Jakarta area or Surabaya in East Java. Most of them made their initial investment in the period 1925-1940, and much of this came in the second half of the 1930s when the Dutch colonial government for the first time tried to encourage development of local manufacturing (see Part I above). There was very little brand new investment in this area after 1950; the only example I know of was the small Prodenta toothpaste factory in Surabaya.¹⁵⁹ In fact, as we saw in Part I, there appeared to

¹⁵⁷ The figure of 25 estates is my own calculation from various archival sources.

¹⁵⁸ Information regarding Anglo Sumatra Estate Agency also comes from various archival sources. See, e.g., US Medan Consul telegram (Vandivier) dated 24 June 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3); and Report of British Medan Consul (Mckay) dated 24 January 1964 (UKNA, FO 371/175281).

¹⁵⁹ This small company was established in Surabaya in 1952 by a Dutchman. In 1955-56, it was sold to a West German company named Fuchs, and after 1958 there were no resident foreigners at the plant; the

be little new investment by returned companies after 1950, and there was actually some disinvestment, as demonstrated by the sale of the General Motors assembly plant in 1954-55 to the GOI and the sale in late 1963 by Proctor and Gamble of its cooking oil facility in Surabaya. Perhaps the most important feature of the foreign-owned manufacturing sector was that virtually all these companies produced goods for sale in the domestic Indonesian market and thus did not generate valuable foreign exchange like the foreign oil companies and foreign estate companies. Instead, they were consumers of foreign exchange, because most of them imported raw materials, machinery, capital equipment and capital goods for use in their operations. Of course, as we saw earlier, the inability to import these goods because of a tightly controlled foreign exchange regime was perhaps the principal operational problem facing these companies in the early 1960s.

Many of these foreign manufacturers were widely known in Indonesia and internationally, and several of them were the dominant domestic producers of their products. For example, Goodyear of the United States operated a tire factory in Bogor, just outside Jakarta, which was established in 1935 and in 1964 employed about 1,200 people, including 11 American expatriate managers.¹⁶⁰ The operations of the tire factory were entirely separate from Goodyear's rubber plantations in Sumatra, both separately incorporated and separately operated. The factory, which produced both automobile and bicycle tires (including automobile tires for Dunlop Tire), was one of two automobile tire manufacturers in Indonesia (though there were a number of bicycle tire manufacturers), and by far the larger producer of the two.¹⁶¹ The white cigarette sector was another sector dominated by foreign interests, specifically British American Tobacco (BAT), the largest producer in Indonesia, and the Belgian-owned Faroka factory, the second largest

entire staff was Indonesian. (Interviews with Mr. F.R. van Blommestein, 12 and 19 June 2006; Mr. von Blommestein was a commissioner of Prodenta in the 1970s.)

¹⁶⁰ US Embassy telegram (Galbraith) dated 16 August 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹⁶¹ The other was government-owned company named Intirub, established in 1954 and funded primarily with credits from Czechoslovakia. It began production in 1958; its daily capacity of 600 tires was 42% the size of Goodyear's daily capacity of about 1,435 (figures from 1968). There was another GOI-owned tire company named Ban Palembang, but it was not in production during the Guided Democracy period. Goodyear's position in the bicycle tire sector was not nearly as dominant, though it was the largest producer by far. See Goodyear's report of August 1968, "The Indonesian Tire Industry: A Proposal," p. 21 of Book II and pp. 8-10 and 28 of Book III (GYA, Property, Box 18).

producer. It was estimated that these two firms, plus a Dutch firm nationalized in 1958-59, accounted for 65% of white cigarette production in the 1950s.¹⁶² BAT began operations in the Dutch East Indies in the mid-1920s and by the early 1960s had three cigarette factories (in Surabaya (East Java), Cirebon (West Java), and Semarang (Central Java)), along with a head office in Jakarta, and employed an estimated 4,500 people.¹⁶³ The Faroka factory began operations in the late 1920s and was located in Malang, East Java.

Another major foreign manufacturer was British-owned Unilever, which employed some 3,800 people in operating three factories in Jakarta and one in Surabaya producing laundry and washing soaps, shampoos, margarine, coconut oil, other edible oils, toothpaste, and other ‘toilet preparations.’¹⁶⁴ Unilever’s products were widely used in Indonesia, though unfortunately few statistics are available regarding its market share. Similarly, the Australian-owned NASPRO operated a pharmaceutical factory in Jakarta, and its brand of aspirin was well known throughout Indonesia. Likewise, Singapore-based Fraser & Neave (known in Indonesia as F&N) operated soft drink/bottling plants in both Jakarta and Surabaya and before World War II was the largest soft drink manufacturer in the Dutch East Indies.¹⁶⁵ Bata Shoe also operated a large shoe factory (established in the late 1930s) in Jakarta. Finally, the Belgian-owned Intebra owned a brewery in Surabaya which previously had been managed by the Heineken beer company, but beginning in 1960 operated under the name of Bir Bintang.

Another smaller category of foreign-owned companies in 1963 were the Malaysian companies. By Malaysian firms I mean businesses from Singapore, Malaya, and the two Borneo territories of Sabah and Sarawak; as we shall see in the next Chapter,

¹⁶² See pp. 20-1 of Lance Castles, *Religion, Politics and Economic Behavior in Java: the Kudus Cigarette Industry*, Cultural Report Series (New Haven, CT.: Yale University Center for Southeast Asian Studies, 1967). White cigarettes were so named because they contained no cloves, in contrast to the popular kretek cigarettes found in Indonesia.

¹⁶³ The 4,500 number comes from an internal BAT memorandum dated 17 March 1965 (S.D. McCormick) found in the BAT Online Document Archive, <http://bat.library.ucsf.edu>.

¹⁶⁴ See H. W. Wamsteker, *60 Years of Unilever in Indonesia, 1933-1993* (Jakarta: Unilever Indonesia, 1993). See also chapter five of Fieldhouse’s *Unilever Overseas*. Unfortunately, few statistics are available regarding Unilever’s market share, but its products were widely used in Indonesia. The parent company of Unilever was a publicly held corporation, based in Britain; to avoid nationalization, in the late 1950’s the shareholdings of Unilever Indonesia were transferred internally from a Dutch subsidiary to a British subsidiary (Wamsteker, *60 Years of Unilever*, p. 61).

¹⁶⁵ Sutter, *Indonesianisasi*, p. 38.

it was these four territorial blocks that were cobbled together as ‘Malaysia’ in September 1963 (until Singapore was expelled in 1965). In general, it seems that the Malaysian business presence was very small in Indonesia at that time. With the exception of the Overseas Chinese Banking Corporation, most Malaysian businesses appeared to be in the rubber remilling or rubber smokehouse business and located in either Sumatra or Kalimantan.¹⁶⁶ These companies actually did generate foreign exchange because they exported most of their blanket and sheet rubber, but unfortunately there is no data available regarding their earnings (though certainly the amounts were far less than those generated by the foreign estates). Some of these firms seemed to have a strong position in that industry; for example, it was reported that the five Malaysian firms which had remilling factories in Palembang (a major rubber remilling center in South Sumatra) accounted for 53% of Palembang’s total rubber remilling production in 1963.¹⁶⁷ In addition, all the Malaysian remilling companies that were taken over in 1963 (see next Chapter) appear to have been owned by residents/citizens of Malaysia who were ethnically Chinese. Of course, there were probably many small, unregistered Malaysian owned businesses such as shopkeepers. There also seems to have been many individual estate holders, but these appear to be virtually all smallholders, though again information is scant.

Finally, there were a small number of ‘white collar’ foreign owned businesses in the country, principally banks, insurance companies and trading firms. In the banking sector, in the early 1960s there were four foreign banks operating in Indonesia. These were the Singapore-based Overseas Chinese Banking Corporation, the British-owned

¹⁶⁶ In the rubber remilling process, rubber slabs were torn apart by machines, cleansed with water, and reformed into blankets, which were then dried for two to three weeks, after which they were ready to be shipped into the international market. The point of the process was to get rid of impurities and reduce the water content of the slabs. The slabs were made by pouring freshly collected rubber latex (directly from the tree) into wooden boxes; this was frequently done by smallholders or villagers. The congealed results were known as slabs, which were then shipped to the remillers, who transformed them into blankets. The remilling process and its output were different from the sheet rubber process, in which latex is sieved, allowed to coagulate, then kneaded to allow it to pass through hand mangles, which squeeze out water and reform the rubber. The result is sheet rubber, which is then dried in a specially designed smokehouse for 4-5 days. The sheet rubber is much smaller than the blankets produced from the remilling process (1.4 meters compared to 4 to 5 meters). See p. 142 and accompany footnotes of K. Thomas and J. Panglaykim, "The Chinese in the South Sumatran Rubber Industry: A Case Study in Economic Nationalism," in *The Chinese in Indonesia*, ed. JAC Mackie (Honolulu, Hawaii: University of Hawaii Press in association with the Australian Institute of International Affairs, 1976).

¹⁶⁷ Thomas and Panglaykim, “The Chinese in the South Sumatran Rubber Industry,” p. 179.

Hong Kong and Shanghai Banking Corporation, the British-owned Chartered Bank, and the PRC-owned Bank of China. However, the operating license of the Hong Kong and Shanghai Bank was withdrawn in early 1963 for unknown reasons, resulting in the closure of its operations.¹⁶⁸ In addition, in November 1964 the Bank of China was handed over voluntarily by the PRC to the GOI in circumstances not disclosed at the time.¹⁶⁹ There were also a handful of foreign insurance companies operating in the country, but these had few physical assets. There were also several trading companies, the largest and best known of which was British-owned Maclaine Watson.

III. Conclusion.

By early 1963, it would be easy to characterize the position of foreign investment in Indonesia as precarious. Oil company exceptionalism was being put to the test, as the GOI and the big three oil companies were trying to find common ground over how the companies would operate in Indonesia under the new 1960 Oil and Gas Law. The major obstacle here was how to allocate profits between the two sides. Likewise, the foreign estate companies were certainly still reeling from the forced divestment of one-third of their estate holdings under the 1960 Basic Agrarian Law. Moreover, operationally all the foreign companies (with the exception of Caltex) were suffering not only from the general deterioration of economic conditions but also from GOI policy-induced operational difficulties, such as the lack of foreign exchange and hence the inability to import necessary capital equipment and raw materials, the inability to remit profits, and the strict regulation of the business environment such as the imposition of price controls, as well as from other problems such as aging equipment and capital resources, labor unrest, and lack of trained and competent local managers. The forecast appeared gloomy.

¹⁶⁸ See pp. 55 and 268 of *Report for the Years 1960-1965*, (Bank Indonesia, 1968).

¹⁶⁹ See Mozingo, *Chinese Policy Toward Indonesia*, pp. 209-10, and Hauswedell, *The Anti-Imperialist International United Front*, p. 224. The Bank of China was not privately owned but was instead owned by the Chinese government and was widely viewed by non-communist Indonesians as the PRC's "main source of leverage on the Chinese business community in Indonesia and as the ever ready provider of funds for the PKI." (Mozingo, p. 209) The PRC volunteered to transfer the company in March 1964, though the transfer did not occur until November. This measure reflected the budding PRC-Indonesia relationship; see Chapter Six, Part I, Section A.

From one perspective, it may be argued that such circumstances were a natural progression from 1950. From independence the GOI had been somewhat ambivalent toward new foreign investment, and a legal framework for such new foreign investment was not even put into place until 1958. Burdened by colonialism, fears of economic exploitation, and Dutch control over the modern sector of the economy, the debate was less over whether foreign investment would be allowed as over how to control it so that Indonesian interests could be protected as fully as possible. Indeed, many GOI officials recognized the need for foreign investment because it could provide financial capital, manpower and training, and goods and technology that were unavailable in Indonesia. With respect to foreign investment in Indonesia prior to 1949, Indonesia was obliged by the RTCA to allow this investment to return and resume its previous position. Indonesia gradually chipped away at the position of this returned capital, but it was not until the swift and sudden seizure and subsequent nationalization of Dutch companies in 1957-59 that significant measures were taken against it. While the seizure of Dutch foreign investment may be viewed as part of the process of economic decolonization, the seizure of Taiwan-linked Chinese foreign investment in 1958 certainly indicated that the GOI would consider the possibility of linking the position of foreign investment of other nationalities to Indonesia's foreign relations. Ironically, the seizures of Dutch and Taiwan-linked companies came just when the foreign investment law of 1958, which was designed to attract new foreign investment, was promulgated. Given the unstable political and economic climate, both before and after the promulgation of the 1958 law, as well as the measures taken against the Dutch companies, there was naturally little, if any new foreign investment entering Indonesia. Under Guided Democracy, the conditions under which new foreign investment and existing foreign investment could operate were increasingly stringent, and thus the overall climate for foreign investment became increasingly hostile. The passage of both the oil and gas law and the Basic Agrarian Law in 1960 were clear signals that the positions of foreign companies in the oil and estate sectors, the two largest sectors of foreign investment, were to be renegotiated. Moreover, under Guided Democracy the officially preferred form which foreign capital could enter the country was that of production sharing contracts, not the classic form of foreign investment.

Yet, the situation in early 1963 was arguably not as bad as it seemed on the surface. Oil company exceptionalism suggested that the three foreign oil companies and the GOI would eventually find common ground; the position of the oil companies was simply too unique and important for the GOI not to reach some accommodation. After all, revenue from the oil companies was an integral part of the 1960 Eight Year Development Plan. Similarly, the foreign estate companies could certainly take some assurance in the fact that they had successfully weathered the fallout from the restructuring of their estate holdings under the 1960 Basic Agrarian Law. That is to say, by 1963 they had already reached an accommodation with the GOI under this new law, and presumably the 1960 law was all that was forthcoming – the worst had already passed. Moreover, did not the GOI act against unauthorized attempts to seize Belgian companies in 1961 by PKI-affiliated groups? Finally, as we shall see in the next Chapter, foreign investors could also take comfort from what appeared to be a determined attempt by the GOI at major economic reform and stabilization in the middle of 1963. This attempt at economic reform had great international support and if successful would help right the foundering Indonesian economic ship. While these factors were not strong enough to induce foreign companies to risk pouring additional investment in Indonesia, they did perhaps make it more difficult to foresee that in just three short years virtually all remaining foreign investment would be taken over by the GOI.

Chapter Four: 1963: Konfrontasi and the First Waves of Confiscations

In 1963 there were two waves of confiscations of foreign companies that were both directly linked to Konfrontasi with Malaysia. In the first wave, on 17 September, in the midst of the outbreak of Konfrontasi, a handful of British companies were seized by the DPS-KBKI labor federation in an action that seemed to catch the GOI off-guard. After several days of confusion, the GOI responded by prohibiting further takeovers and taking the seized companies out of the hands of DPS-KBKI. These companies were not officially returned to their owners but instead placed under GOI supervision, a term that as we shall see in practice meant different things for each of the companies. Moreover, the GOI went to great lengths to emphasize that it was not nationalizing or expropriating the companies. The exception, an example of the extraordinary position of the foreign oil companies in Indonesia, was Shell Oil, whose Pladju refinery near Palembang, South Sumatra, was quickly returned to the company. However, the triumph of oil company exceptionalism was complicated by the simultaneous takeover of Shell's Balikpapan facilities in East Kalimantan by the military commander of East Kalimantan, who did not return them to Shell's control until late December 1963. Hence, I argue that this first wave of takeovers was primarily the result of domestic political instability. In the second wave of takeovers, in late October 1963 President Sukarno, in a series of rather uncoordinated moves, initiated the confiscation of all Malaysian enterprises in the country. How many Malaysian companies were actually taken over remains unclear, but at least 10 remilling firms in Sumatra and Kalimantan were seized. In contrast to the takeover of British firms in September, the takeovers of Malaysian companies were not spurred by any labor union activity nor prohibited by the government but rather were clearly intended to be an active weapon in the GOI's foreign policy arsenal in the

Konfrontasi conflict. Thus, while both waves of takeovers were closely linked to Konfrontasi, the reasons behind them and their implementation were quite different.

The outbreak of Konfrontasi was a watershed event in Guided Democracy, marking 1963 as a critical year in the history of the new country. It deeply affected each of the three areas (discussed in Chapter Two) of domestic politics, foreign relations, and the economy, changes that would culminate in 1965 and that together led directly to the takeovers of most foreign companies from 1963-65 and the prohibition of further foreign investment in 1965. In terms of domestic politics, Konfrontasi directly impacted the balance of politics in that it provided the opportunity for the PKI to become a much more visible, volatile, and aggressive political force. As we saw in Chapter Two, prior to Konfrontasi the political power structure was one of an uneasy, competitive partnership between President Sukarno and the army. However, as will be discussed in Chapter Five, the outbreak of Konfrontasi enabled the PKI to become more of a dynamic political force that emerged from Sukarno's shadow and thereafter began to take major initiatives on its own.¹ As one observer famously described, what emerged was an uneven triangle of power among President Sukarno, the army and the PKI.² At the same time, ideologically President Sukarno after 1963 increasingly seemed to identify publicly with the PKI's position on various issues.³ The overall effect was a much intensified polarization of domestic politics. Related to this point, there was similarly an intensification of ideological indoctrination and predominance in political life, as new slogans relating to Konfrontasi and various old slogans such as 'completing the Revolution' dominated political discourse and affected daily life, reflecting the interplay between foreign affairs and domestic politics.

The rise of the PKI came primarily at the expense of the army, which was continuing to jockey for position with President Sukarno. One major contributing factor to the decline of the army's position was the lifting of martial law by President Sukarno on 1 May 1963. The lifting of the ban was announced in November 1962 by Sukarno and

¹ Crouch, *Army and Politics in Indonesia*, p. 51; Mortimer, *Indonesian Communism under Sukarno*, p. 204.

² Herbert Feith, "President Sukarno, the Army and the Communists: the Triangle takes Shape," *Asian Survey* 4, no. 2 (1964).

³ See, e.g., Hauswedell, "Sukarno: Radical or Conservative," and Mortimer, *Indonesian Communism under Sukarno*, pp. 237-8.

was done ostensibly because over the course of 1962 internal security had been achieved and the West Irian situation resolved. This resulted in the dismantling of the martial law war authority (known as *Peperda*) and the regional branches of administrative units (known as *Peperti*) that the army used to exert its influence over the provinces. Such dismantling reduced significantly the powers of the army and restored somewhat the power of civilian authorities, especially in the area of internal security.⁴ Moreover, the lifting of martial law resulted in a significant increase in activity by the PKI and the PNI, as restrictions on their activities were curtailed significantly. In particular, there was a noticeable increase over the next few years in mass actions (demonstrations, rallies, etc.), as mobilization of mass support was the principal way the parties, whose political influence was still limited, were able to express themselves. The increase in party-sponsored mass actions also resulted in increased tension and competition among the parties, who tried to take advantage of this suddenly expanded freedom. Clearly, however, the PKI, because of its organizational strengths and large mass organizations, was the best suited to do so.⁵ As we shall see, mass actions organized by both the PKI and the PNI-linked group DPS-KBKI (later the KBM) played a significant role in the takeovers of foreign companies.

⁴ Mackie, *Konfrontasi*, pp. 133-4; Crouch, *Army and Politics in Indonesia*, p. 54; Sundhausen, *Road to Power*, pp. 166-7. Martial law would be partially restored in September 1964 because of Konfrontasi; this was accompanied by the creation of regional bodies known as Peperlada, 'Regional Authorities to Implement Dwikora,' which were headed by army officers and had various powers (Crouch, *Army and Politics in Indonesia*, p. 76; Sundhausen, *Road to Power*, p. 186). As Crouch notes, other important strikes by Sukarno against the army were (a) the July 1962 demotion of General Nasution and promotion of General Yani (done to promote divisions within the army), and (b) the reorganization of KOTI in July 1963. KOTI was the acronym for the Supreme Command for the Liberation of West Irian, formed in December 1961 by Sukarno to coordinate the West Irian invasion. The reorganization in July 1963 was a move to reduce General Nasution's influence in KOTI and further exacerbate army divisions (Crouch, *Army and Politics in Indonesia*, pp. 54-5). The revamped KOTI's role in the GOI's decision making is not all that clear, but it was thought to be one of the most important advisory bodies to President Sukarno and was often seen as a more important policy-making body than the cabinet. It had five divisions, with General Yani as its chief of staff and the intelligence division headed by Foreign Minister Subandrio, and army officers occupied most of the staff positions. See Crouch, *Army and Politics in Indonesia*, pp. 47-8, 54-5; Sundhausen, *Road to Power*, p.163; Bunnell, *Kennedy Initiatives*, pp. 59, 654.

⁵ Rocamora, *Nationalism in Search of Ideology*, pp. 8-9, 317-9; Justus van der Kroef, "Indonesian Communism and the Changing Balance of Power," *Pacific Affairs* 37, no. 4 (1964-5), p. 379. Restrictions on activities of other political parties were also lifted, but as Rocamora points out none of these other parties had the wherewithal to compete at the national level with the PKI or PNI. NU was the only other remaining major party (the Masjumi was banned in 1960), but its base was limited to East Java.

In terms of foreign affairs, as we shall examine more closely in Chapter Six Konfrontasi dramatically accelerated the anti-imperialist, anti-colonial thrust of President Sukarno's foreign policy. It was one thing to discuss these ideas in speeches (1960-61) and then apply them to what was essentially a conflict with its old colonial master (West Irian 1961-62), but quite another to implement them in other areas. In public President Sukarno consistently described Konfrontasi as an attempt by a NEFO (Indonesia) to combat the meddling of an OLDEFO (Great Britain) that was attempting to extend its influence in Southeast Asia by the creation, he claimed, of the puppet state of Malaysia; the entire episode was a perfect example of neo-imperialism and its evils. With Konfrontasi the dominant feature of foreign affairs from September 1963 until at least the end of 1964, the struggle against anti-imperialism (featuring NEFOs against OLDEFOs) was firmly established as the cornerstone of Indonesia's foreign policy. This undeclared war with the British was the major reason for the decline in Indonesian relations with the United States as well as other European countries. Sukarno's policy would lead to international isolation, as Indonesia withdrew from the United Nations and other international bodies in 1965, though it did result in a brief alliance with the PRC. The emphasis on anti-imperialism and anti-colonialism also led to splits in the non-aligned movement and Afro-Asian movement and Indonesia's isolation from these movements.

Perhaps the most immediate impact of the outbreak of Konfrontasi in September 1963 was the failure of a major attempt at economic reform, which in turn resulted in further swift deterioration of the economy. As we saw at the end of Chapter Two, with internal security finally achieved and the West Irian conflict settled, Indonesia beginning in August 1962 was finally positioned to undertake real economic reform that was desperately needed in light of the deteriorating economy. This attempt at economic stabilization, which had the support of the United States and the IMF, would be Indonesia's only major attempt at economic reform during Guided Democracy. The stabilization program featured a number of economic reforms whose sting would be partially ameliorated by the critical injection of a large dose of foreign aid. However, with the outbreak of Konfrontasi and in particular the severing of trade relations with Malaysia, through which much of Indonesia's trade flowed (via Singapore) and which served as a pillar of the economy, international financial support for the program was

impossible and was quickly dropped. The economy would deteriorate severely in the next three years, and inflation would become paralyzing. This window of opportunity for much needed economic adjustment was shut down by Konfrontasi.

This Chapter is structured as follows. Part I traces the parallel but eventually intersecting paths of Konfrontasi and economic stabilization. Part II then discusses the takeovers of a handful of British firms, which were seized just as Konfrontasi broke out in September 1963. Part III discusses the takeovers of Malaysian companies later in the year, also a result of Konfrontasi but very different from the takeovers of the British firms. Part IV adds some final observations.

I. The Intersecting Paths of Economic Stabilization and Konfrontasi.

In the first nine months of 1963 in Indonesia two mutually incompatible trends vied for predominance. The first was an attempt at economic reform and stabilization, which was actually implemented successfully from late May to September. The second, in foreign affairs, was known as Confrontation or Konfrontasi, and was directed against the formation of the new state of Malaysia. The nascent conflict between these two was finally resolved in mid-September when Konfrontasi broke out in full fury. Prior to that, Konfrontasi and economic stabilization developed in separate, parallel paths that only sometimes intersected, but not to the forceful degree they would in September. It might not have been clear to all GOI officials that these were contradictory and could not simultaneously coexist, but since the economic stabilization program depended on large amounts of foreign assistance, it was fairly obvious that any foreign policy measures which threatened either economic growth or the providers of the foreign assistance would result in a loss of support for this critical aid. For many foreign observers, this period was seen as one in which Indonesia was at a crossroads of a sort, where it could choose between a peaceful path of economic stabilization and development or a path of reckless foreign adventure. While such a view perhaps oversimplifies the situation, particularly in the domestic political context, as described above the outbreak of Konfrontasi did have

multiple long term impacts. Moreover, for foreign investment Konfrontasi would have both immediate and longer term implications.

A. Konfrontasi: Background and Developments to August 1963.

Konfrontasi was a perplexing affair whose origins, motives, and dynamics from the Indonesian side remain opaque even today.⁶ As one observer has pointed out, the entire affair from 1963 to 1966 was less than a war but much greater than a simple diplomatic dispute, for despite its relative military insignificance (in total, only around 625 people were killed in the conflict) it had a great impact on developments in Southeast Asia which have often been obscured by the Vietnam War.⁷ Within Indonesia, Konfrontasi was the dominant foreign policy issue, and the conflict greatly influenced domestic politics and economic policy. President Sukarno was certainly the driving force behind it, and there were probably a variety of motives driving him. The army generally supported the conflict (for different reasons than Sukarno), but clearly wanted to keep the military aspect of it at a very low level and did not want to engage in a full scale war. The PKI had its own reasons for supporting the conflict; among others, it provided an opportunity to demonstrate the PKI's patriotism and to flex its political muscle. Importantly, the motivations for these principal actors changed over time as each party tried to use the conflict for its own benefit.⁸ More than anything else, however, it appears

⁶ There has been a substantial amount of literature on Konfrontasi. Mackie's *Konfrontasi* remains the most comprehensive account, especially from the Indonesian side. Bunnell's *Kennedy Initiatives* beautifully describes the interplay between economic stabilization and Konfrontasi and is especially useful for 1963. Konfrontasi is touched upon in almost every work covering Indonesia politics or foreign relations in the early 1960s; other useful works which focus primarily on Konfrontasi include Mohammad Hatta, "One Indonesian View of the Malaysian Issue," *Asian Survey* 5, no. 3 (1965), Donald Hindley, "Indonesia's Confrontation with Malaysia: a Search for Motives," *Asian Survey* 4, no. 6 (1964), George McTurnan Kahin, "Malaysia and Indonesia," *Pacific Affairs* 37, no. 3 (1964). More recently, three volumes have been published on the subject, the most comprehensive of which is Mathew Jones'; see David Easter, *Britain and the Confrontation with Malaysia, 1960-1966* (London and New York: Tauris Academic Studies, 2004), Matthew Jones, *Conflict and Confrontation in South East Asia, 1961-1965: Britain, the United States and the Creation of Malaysia* (Cambridge: Cambridge University Press, 2002), John Subritzky, *Confronting Sukarno: British, American, Australian and New Zealand Diplomacy in the Malaysian-Indonesian Confrontation, 1961-5* (New York: Macmillan Press, St. Martin's Press 2000).

⁷ Mackie, *Konfrontasi*, p. 1. The figure of 625 deaths comes from Mackie, *Konfrontasi*, p. 237, footnote 26.

⁸ None of these motives are all that clearcut, and it should be emphasized that they undoubtedly changed over time. Sukarno's motives included, among others, viewing Malaysia in the context of the anti-imperialist, anti-colonialist NEFO/OLDEFO ideology, a desire for Indonesia to play a role in regional affairs, personal vanity, and a host of considerations relating to domestic politics, such as forging national

that Konfrontasi took on a life of its own, akin to an uncontrollable, petulant child who will not heed his parents or siblings. The course of the conflict was uneven, hesitant at times but then aggressively threatening, with seemingly no apparent rhyme or reason, probably reflective of its unplanned and ad hoc nature. What started as a fairly small matter grew into something far greater than what was probably anticipated at the time, and like Pandora's Box was difficult to close once opened, developing its own, independent momentum with its own twists and turns.

The genesis of the conflict lay in the decision to create a new nation called Malaysia, which would be formed by combining the country of Malaya with Singapore, Brunei, Sarawak and Sabah.⁹ The idea for some type of merger had been around since the mid-1950s, with the British particularly interested in it as they were trying to decolonize their holdings in Southeast Asia.¹⁰ The idea was very unformed, though, and as the newly independent Malayans were not altogether pleased with the concept, the British did not push it. However, by 1961 the situation had changed; politics in Chinese-dominated Singapore had taken an increasingly leftist bent, and the Malayans were increasingly fearful of Singapore developing into a radical Chinese state on their southern border allied with the communist PRC, a situation similar to United States and Cuba. Hence, so the Malayan reasoning went, Singapore should be brought into Malaya's

unity and deflecting concerns over economic decline. For the army, it was a way to prevent budgetary cuts and the prospect of demobilization and the loss of power (because of the ending of martial law), and naturally a means of increasing prestige; improbably, some army officers and others also thought the new Malaysia might be dominated by Chinese and thus become a means by which the communist PRC might encircle Indonesia (see Hatta, "One Indonesian View"). Moreover, some army officers were determined not to let the PKI gain the upper hand like in the West Irian conflict as the greatest proponent of patriotism and nationalism. For the PKI, in addition to the reasons cited, a conflict with Great Britain would also end the drift to the US camp represented by the economic stabilization policy, and moreover in contrast to the army the PKI indeed might have seen Malaysia as an attempt to contain the PRC and communism, as many Malayan officials claimed it to be. However, the PKI also was concerned that if the conflict escalated the army might reimpose martial law and extend its influence. See generally Hindley, "Search for Motives," Kahin, "Malaysia and Indonesia," Mortimer, *Indonesian Communism under Sukarno*, chapter five, Sundhausen, *Road to Power*, pp.173-4, 187-8, Crouch, *Army and Politics in Indonesia*, pp. 58-60.

⁹ Malaya, on the Malayan peninsula, had become independent from Great Britain in 1957; Singapore, Sabah (technically known as North Borneo) and Sarawak (in western Borneo) were separately administered British crown colonies; Brunei, also in Borneo, was a British protectorate that had a British resident who advised the Sultan. When combined, the new nation would be named 'Malaysia.'

¹⁰ For excellent discussions of the background behind the decision to form Malaysia, see Jones, *Conflict and Confrontation*, introduction and chapters two and three, and Mackie, *Konfrontasi*, chapters two through four. For a shorter summary, see T.Y. Tan, "The 'Grand Design': British Policy, Local Politics, and the Making of Malaysia, 1955-1961," in *The Transformation of Southeast Asia: Perspectives on Decolonization*, ed. Marc Frey, Ronald Pruessen, and T.Y. Tan (Armonk, N.Y.: ME Sharpe, 2003).

political orbit, which would allow Malaya to control the situation better. Because Malay officials thought the addition of people of Chinese descent in Singapore would upset the sensitive racial balance in Malaya, they thought it would be necessary to balance the new numbers of Chinese with people of ‘Malay’ descent, and hence Sarawak, Brunei, and Sabah should also join.¹¹ The prospect of a radical Singapore that might threaten regional stability was pushed by Singapore Prime Minister Lee Kuan Yew, who had long advocated merger with Malaya and whose PAP party was under political siege in 1961. In late May 1961, Malayan Prime Minister Tunku Abdul Rahman announced publicly at a foreign correspondents association lunch in Singapore that Malaya was considering the possibility of a merger with Singapore, Sabah, Sarawak and Brunei.

The Tunku’s announcement set the merger wheel in motion. The British were initially very cautious, in spite of the neat dovetailing of the idea with overall British interests, and were content to let the Malayans take the initiative on most matters. Formal talks between Malaya and Great Britain on the matter did not begin until late November 1961, when the British indicated they needed to assess the opinion of the peoples in Sarawak and Sabah (it was left to the Sultan of Brunei to speak for his subjects on the matter). The terms of the merger needed to be worked out, as did the nature of the defense arrangement and status of the large British military/naval base in Singapore. The British followed up on the first issue by establishing the Cobbold Commission, a five member team whose function was to ascertain the wishes of the populations of Sarawak and Sabah with respect to the merger. The commission performed this tricky task over the first half of 1962 and in June presented its report. The report concluded that in the opinion of the commission’s members a federation was the best option, and that indeed there was general support among the people for a federation of some type, with one-third of the people supportive of a federation, one-third supportive but with conditions, and the remaining one-third not supportive. Privately, British members of the commission expressed reservations over Malayan unwillingness to make concessions to non-Muslim

¹¹ The Malayans were also considering the possibility of a merger without Singapore. In June 1960, Malayan Prime Minister Tunku Abdul Rahman had quietly suggested to British officials the possibility of a merger with Sarawak, Sabah and Brunei only, and in October even held a conference with high officials of Brunei, Sabah and Sarawak which recommended that a merger proceed. However, in early 1961, a severe political crisis in Singapore resulted in the Tunku’s changing his mind to include Singapore in the merger for the reasons noted above. Jones, *Conflict and Confrontation*, pp. 61-66.

peoples and over other issues, particularly in Sarawak. Nevertheless, in early August 1962 the British announced that a target date for the formation of the new nation had been set for 31 August 1963, just over a year away, and work proceeded over the next year to iron out the many unresolved details of the federation.¹²

The formation of the new Malaysian federation hit a minor snag when a small revolt broke out in Brunei on 8 December 1962.¹³ The revolt was led by A.M. Azahari, who was the leader of the dominant political party in Brunei (*Partai Rakyat*, which in fact wielded little actual power, virtually all of which – including the decision to join the new federation – was held by the Sultan) and had long advocated some kind of merger with Sabah and Sarawak, but not with Malaya and Singapore. Azahari had lived in Indonesia for much of the 1940s during the Indonesian Revolution and apparently had connections to influential people. The militant wing of the *Partai Rakyat*, known as the North Borneo National Army or TNKU, had begun training in June/July of 1962 and in the months leading up to the revolt had received training and supplies in East Kalimantan, Indonesia (which adjoined Sabah and Sarawak but not Brunei, which overland could only be reached from East Kalimantan by crossing through either Sabah or Sarawak). It is inconceivable that these activities went on without the knowledge and support of the East Kalimantan military commander Colonel Soehardjo (whom we shall see more of in Part II below); the real question is the extent to which Colonel Soehardjo's support for the TNKU was backed by the army and GOI officials in Jakarta.¹⁴ The goals of the revolt were ambiguous, though it apparently was aimed in part against the formation of Malaysia and British domination and instead sought a merger of the three Borneo territories.¹⁵ Militarily, the revolt was insignificant, as it involved only some 3,000 TNKU members (Azahari himself was conveniently in Manila) and was crushed by British troops in about one week.

While the revolt did not directly derail formation of Malaysia, it did serve as a spark-point for official Indonesian opposition to Malaysia, which prior to this point was

¹² Jones, *Conflict and Confrontation*, pp. 85-95.

¹³ On the Brunei revolt generally, see Mackie, *Konfrontasi*, pp. 112-22; see also Bunnell, *Kennedy Initiatives*, pp. 234-30.

¹⁴ Mackie, *Konfrontasi*, pp. 116, 120-1; Jones, *Conflict and Confrontation*, p. 109; Bunnell, *Kennedy Initiatives*, pp. 230, 249.

¹⁵ Mackie, *Konfrontasi*, pp. 116, 121-2; Jones, *Conflict and Confrontation*, p. 112.

non-existent. In fact, the formation of Malaysia before this hardly seemed to interest the Indonesian government at all. In a meeting with a high British official in August 1961, Foreign Minister Subandrio raised no issue with the prospect of a new Malaysia; indeed, in November 1961 Subandrio declared in a speech at the United Nations that Indonesia had no objection to the formation of Malaysia, and even wrote the same thing in a letter published in the New York Times that month.¹⁶ The GOI may have been waiting for resolution of the West Irian matter before plunging into opposition to Malaysia, but even throughout 1962 seemed uninterested. However, within a few weeks the Brunei revolt ignited Indonesian opposition. Initially the Indonesian response was fairly mild, but soon after a war of words broke out, aided by the Indonesian press' mischaracterization of comments made by Malaysian Prime Minister Tunku Abdul Rahman. President Sukarno and Foreign Minister Subandrio both made some ambiguous but inflammatory comments about the situation, and on 23 December 1962 the first anti-Malaysia mass rally broke out in Jakarta, led by the newly established National Committee for North Kalimantan, which was organized by Minister Chaerul Saleh. Both sides continued to trade remarks, and then on 20 January 1963 Subandrio in a speech declared that Indonesia was adopting a policy of confrontation (*Konfrontasi*) against Malaysia, which was acting as an "accomplice of the neo-colonialists and neo-imperialists," though it was unclear exactly what form this confrontation would take. This statement predictably aroused much support in the Indonesian press, and as Mackie notes it gave President Sukarno time to gauge general support for the idea without formally committing Indonesia to it. As the war of words continued to escalate, on 13 February 1963 President Sukarno, citing a number of reasons, finally affirmed publicly the policy of Konfrontasi, again without shedding light on exactly what this meant.¹⁷ It was thus clear by this point that Indonesia and Malaysia were likely headed for some sort of showdown, but whether the showdown would be a full scale conflict (which seemed improbable at this point) or instead a meek war of words (or something in between) was left open. However, the proverbial cat was out of the bag, and the GOI would be forced to deal with the issue in some manner; it

¹⁶ Mackie, *Konfrontasi*, pp. 104-5. The PKI, however, did register its objection in December 1961.

¹⁷ Mackie, *Konfrontasi*, pp. 121-7; Bunnell, *Kennedy Initiatives*, pp. 230-8, 273-300. Jones (*Conflict and Confrontation*, pp. 130-1) and Mackie both emphasize that such ambiguity over what exactly Konfrontasi was gave great flexibility to Sukarno.

could not just ignore it and sweep it under the rug. Moreover, as we shall see in the next section, this policy of Konfrontasi was developing just as the GOI was on the verge of implementing an economic stabilization program.

From March to late May 1963 there were conflicting signals from the Indonesian side over what was to come. March witnessed the beginning of low level diplomatic discussions among Indonesia, Malaya and the Philippines, with the idea of eventually having a summit meeting of the three leaders.¹⁸ Negotiations were sporadic and inconclusive over the next month several months, in part because the parties could not agree on the subject matter of the talks, as the Malayans were still puzzled by what exactly Indonesia wanted and the Indonesians kept their objectives close to their chest.¹⁹ On 12 April Indonesia ratcheted up the pressure in the form of the first major border incursions from the Indonesian side (West Kalimantan) into Sarawak, which was followed by other incursions. Most of these incursions were carried out by the TNKU, which was being openly supported and trained by the Indonesian army.²⁰ Over the next six weeks there was little progress on the diplomatic front until late May, when President Sukarno invited the Tunku to meet him in Tokyo on May 31 for talks.²¹ This unexpected gesture indeed apparently represented a shift in the Indonesian position, as the meeting was friendly and paved the way for discussions among the three foreign ministers in Manila from 7-11 June.²²

The successful meeting of foreign ministers in turn paved the way for a summit meeting among the three heads of state, but the road was very bumpy.²³ The foreign ministers agreement, known as the Manila Accord, had several principal features. Most

¹⁸ The Philippines was involved because it claimed that part of Sabah actually belonged to the Philippines.

¹⁹ Mackie, *Konfrontasi*, pp. 129-30.

²⁰ Mackie, *Konfrontasi*, p. 211; see also "Indonesian Involvement in Eastern Malaysia," (Department of Information, Government of Malaysia, 1964).

²¹ In late May Indonesia's economic stabilization efforts were also gearing up. Policy reforms were finally implemented, and while President Sukarno was in Tokyo the big three oil companies were also there meeting with Indonesian officials to discuss the oil companies' position in Indonesia. These meetings resulted in a basic agreement. See next Section.

²² Mackie notes, however, that Sukarno's version of the unofficial agreement reached at the Tokyo meeting was very different from the Tunku's version. The Tunku claimed that he insisted that the date of Malaysia's formation was fixed irrevocably for 31 August, while Sukarno insisted that the Tunku had agreed to investigate the desires of the people of the Borneo territories. Mackie, *Konfrontasi*, p. 149.

²³ See generally Mackie, *Konfrontasi*, pp. 127-32, 148-157; much of this paragraph summarizes Mackie's detailed description. See also Jones, *Conflict and Confrontation*, chapter six.

importantly, the Philippines and Indonesia “stated that they would welcome the formation of Malaysia provided the support of the people of the Borneo Territories is ascertained by an independent and impartial authority, the Secretary General of the United Nations or his representative,” while Malaya in turn “undertook to consult the British Government and the Governments of the Borneo Territories with a view to inviting the Secretary General of the United Nations or his representative to take the necessary steps in order to ascertain the wishes of the people of those Territories.”²⁴ These two key provisions were intentionally and obviously ambiguous; for example, how much support had to be shown by the people of Borneo, and how exactly was the UN representative supposed to ascertain it? Moreover, Malaya technically had not agreed to anything other than to consult with the British and territorial governments. Nevertheless, the provisions were enough for all sides to save face and assert that the accord had met their objectives and the matter could be forwarded to the respective heads of state for final resolution in a summit meeting. However, the summit meeting scheduled for late July in Manila almost did not happen, because on 9 July representatives of United Kingdom, Malaya, Singapore, Sarawak and North Borneo (Sabah) signed the London Agreement. This was the final agreement concerning the terms of the new Malaysian federation, which would include Malaya, Singapore, Sarawak and Sabah but not Brunei, and further provided that Malaysia would be established on 31 August 1963.²⁵ Predictably enough, the formal fixing of the date for establishment of the federation enraged President Sukarno, who in a speech the next day claimed that Malaya had reneged on its promise in the Manila Accords to ascertain and heed the wishes of the people of the Borneo territories prior to establishing Malaysia, though as we have seen the Malayans had not agreed to this at all.

²⁴ From Paragraphs 10 and 11 of the Manila Accord, the full text of which can be found in Mackie, *Konfrontasi*, pp. 336-8. Other areas of agreement were (i) that the three countries shared responsibility for maintaining stability and security of the area, free from subversion, (ii) general support for the idea of Maphilindo, a Philippino-proposed idea of establishing some type of federation among the three countries as representatives of the Malay peoples, and (iii) Malaya agreed that the incorporation of Sabah into Malaysia would not prejudice the Philippine claim to part of Sabah. Mackie, *Konfrontasi*, p. 150.

²⁵ The terms of the London Agreement had been fiercely negotiated over the past year, especially in the closing stages and in particular over financial and economic terms. In a wonderfully ironic twist, at the last moment the Sultan of Brunei, where the December 1962 revolt broke out, decided not to join the new federation, largely out of concern over sharing oil revenues and his place in the succession of Malay rulers who were to rotate as the principal Malay ruler. For a summary of the negotiations and final agreement, see Jones, *Conflict and Confrontation*, pp. 159-66.

Sukarno's attendance at the summit meeting was thrown into question, though he ultimately did participate after announcing it at the very last minute.

The Manila conference from 30 July to 4 August among Indonesian President Sukarno, Malaysian Prime Minister Tunku Abdul Rahman and Philippine President Macapagal resulted in the issuance of a joint statement so ambiguously worded on the key issue of the form of the UN "ascertainment" that it was clear that in fact there was no meeting of the minds at all on this central question.²⁶ The matter was left entirely in the hands of the UN General Secretary or his representative, who was charged with "ascertaining" the wishes of the peoples of Sabah and Sarawak prior to the establishment of Malaysia by the use of a "fresh approach, which in the opinion of the Secretary General is necessary to ensure complete compliance with the principle of self-determination within the requirements of embodied in Principle 9 [referring to a UN general assembly resolution], taking into consideration" the recent elections in Sabah and Sarawak (but with further investigation into whether Malaysia was a major issue in the elections, whether electoral registers were properly compiled, whether the elections were free, without coercion, and whether votes were properly polled and counted) and the rights of those who were unable to vote in the recent elections because of imprisonment. It was thus left up to the UN general secretary to devise this "fresh approach," an obvious indication that the parties themselves could not agree on what to do. There was no indication in the joint statement as to what the "fresh approach" should be, other than it should be in the secretary general's opinion in compliance with UN principles of self-determination; interestingly, UN secretary general U Thant was consulted during the conference and sent no less than three cables, presumably all relating to the form of the "ascertainment" and the "fresh approach," suggesting that there was indeed some discussion over the matter.²⁷ Moreover, nothing in the joint statement actually committed

²⁶ For the text of the Manila Declaration and accompanying Joint Statement, see Mackie, *Konfrontasi*, pp. 338-40. The joint statement also addressed a number of other issues, principally the Philippine claim to part of Sabah and the Maphilindo concept. On the first, the parties agreed to request the British to resolve peacefully the question; on the second, the parties agreed to take initial steps towards the establishment of Maphilindo by consulting regularly and establishing individual Maphilindo secretariats. The concept behind Maphilindo was very vague, however, and it never developed into anything significant.

²⁷ Mackie, *Konfrontasi*, pp. 157-65; these pages contain a full discussion of the summit, including possible motivations and bargaining positions of the parties. For a discussion of the British role at the conference, see Jones, *Conflict and Confrontation*, pp. 172-81. Bunnell, *Kennedy Initiatives*, pp. 481-500, also contains

any of Indonesia, Malaya or the Philippines to honoring the results of the ascertainment (though the June Manila Accord issued by the foreign ministers implied that Indonesia and the Philippines would do so); this was certainly an intentional omission so that none of the parties would be bound. In essence, because the parties could not agree on what to do, they left it entirely in the hands of the UN general secretary.²⁸ As we shall see, the question of ascertainment was never resolved to Indonesia's satisfaction, at least officially. Before turning to these events, however, we first examine the GOI's attempt at economic stabilization in 1963.

B. The Attempt at Economic Stabilization.

As we saw at the end of Chapter Two, by 1962 the Indonesian economy was in a perilous state. Increasingly large GOI budget deficits, triggered in part by a shrinkage of revenues and a large increase in expenditures because of the West Irian conflict, had fueled inflation that reached 167% by the end of the year. Moreover, the overall economic picture was one of stagnation and even decline. Even President Sukarno, normally not attuned to economic affairs, recognized the severity of the situation, suggesting in his annual 17 August independence day speech that the government would now focus its attention on economic matters. But how could the GOI go about 'fixing' the economy? Clearly, major economic reform would require an infusion of foreign aid to tide Indonesia through the initial rough stages that any significant economic reform would likely result in. Moreover, budget cuts, which would also surely be part of any reform package, would also obviously result in much political infighting.

The United States and the IMF were both major supporters of some type of economic stabilization program, and their support proved decisive in establishing the program. The United States in particular was also willing to commit large sums of aid to ensure the success of the program. The Kennedy administration was eager to improve relations with Indonesia and ensure that Indonesia did not fall into the communist block side of the Cold War, and a stable Indonesian economy supported by US assistance

a summary of the summit. For a closer examination of Indonesian views on the Manila Agreement, see also chapter seven of George Kahin, *Southeast Asia: A Testament* (New York and London: Routledge/Curzon, 2003).

²⁸ This is also Mackie's interpretation; see *Konfrontasi*, pp. 163-4.

would hopefully contribute to this objective.²⁹ In April 1961 during President Sukarno's visit to the United States President Kennedy had offered to send an economic team to Indonesia to make recommendations, and this team went to Indonesia in August 1961 for a number of weeks and submitted its initial report to President Kennedy in February 1962.³⁰ US Ambassador Howard Jones then presented President Sukarno with the United States' formal report on 1 August 1962. In addition to assessing the overall state of the Indonesian economy and the viability of the Eight Year Development Plan, the report also recommended new aid programs for Indonesia in an amount ranging from \$325 million to \$390 million over five years, with the United States providing \$200 million to \$235 million and the remaining \$125 million to \$155 million coming from other international sources.³¹ Meanwhile, in May 1962 an IMF team had gone to Indonesia and recommended numerous reforms to attack basic economic problems, such as fiscal discipline and tight monetary policy, devaluation of the Rupiah and an end to the multiple exchange rate system, the cessation of certain state subsidies, etc., most of which would be in the final stabilization plan. As the United States and the IMF over the fall of 1962 continued to encourage efforts at economic reform, two basic questions emerged: first, how much overall foreign assistance would be provided, and second, what reform measures would the GOI have to institute as conditions to receiving the aid.

Within the GOI, serious efforts to devise a stabilization program began in the fall of 1962.³² First Minister Djuanda headed these efforts and was aided in particular by Sutikno Slamet, a former Indonesian representative to the IMF. In late September Slamet and Bank Indonesia Governor Sumarno invited the IMF to help draft a stabilization program that would be acceptable to foreign aid providers. The IMF sent out US economist Bernard Bell, who was already familiar with Indonesia's situation, having advised on the Eight Year Development Plan and also consulted with the US economic

²⁹ For United States involvement in the stabilization effort and the conflict between stabilization and Konfrontasi generally, see Bunnell's *Kennedy Initiatives*. For a different interpretation of US involvement in the stabilization attempt, see Simpson, *Economists with Guns*, chapter four.

³⁰ The team was led by Don Humphrey, who later published a short article on Indonesia's Eight Year Development Plan (Humphrey, "Indonesia's Plan for Economic Development"); the team's report was published in 1963 under the title *Indonesia: Perspectives and Proposals for United States Economic Aid*.

³¹ *Indonesia: Perspectives and Proposals for United States Economic Aid*, p. 15.

³² For a comprehensive look at the stabilization attempt, see Eric Chetwynd, "The Indonesian Stabilization Attempt of May 1963: A Study of Politics and Economic Development in Indonesia" (American University, 1965).

survey team.³³ In November 1962 a high level GOI committee, chaired by Djuanda, was established to discuss stabilization measures.³⁴ With US help, efforts were also begun to secure new aid from the Development Assistance Committee (DAC) of the Organization of Economic Development, which together with the US and IMF would provide most of the required assistance.³⁵ In mid-January 1963, just before Foreign Minister Subandrio's 20 January speech declaring Konfrontasi, a \$40 million foreign exchange allocation program for the import of raw materials and spare parts (which was to be funded partially by an unannounced \$17 million loan from the US) was announced by the GOI. This was viewed as a very positive development in the stabilization effort as Indonesia continued to work out a plan.³⁶ In mid-February, just as President Sukarno announced his support for Konfrontasi, Indonesia sent a team headed by Slamet to Washington to negotiate with the IMF; the goal was to "convince the IMF of Indonesia's willingness and capability to launch a stabilization program, while at the same time seeking to temper the IMF's customary stringent requirements for stabilization loans," which included budgetary discipline, decontrol of prices, currency devaluation, and debt rescheduling, all of which would create major political problems.³⁷

Given the pain and the controversy that would undoubtedly accompany economic reform, President Sukarno, perhaps still uncertain of which course to take, moved very cautiously. The general strategy was to come up with set of principles that not only would form the basis of future economic policy, including the possibility of reform that would accommodate the developing stabilization plan, but also was politically acceptable to all important interests. After a six week process that saw the formation of three different high level advisory committees consisting of members across the political spectrum,³⁸ on

³³ Bell's assistance in outlining an acceptable program was invaluable; see Simpson, *Economists with Guns*, p. 90.

³⁴ Other members included Slamet, Bank Indonesia Governor Sumarno, and Finance Minister Notohamiprodjo. See Chetwynd, *Indonesian Stabilization Attempt*, pp. 38-9.

³⁵ Bunnell, *Kennedy Initiatives*, pp. 214-5.

³⁶ Bunnell, *Kennedy Initiatives*, p. 283; Chetwynd, *Indonesian Stabilization Attempt*, pp. 40-1.

³⁷ Bunnell, *Kennedy Initiatives*, pp. 313-4.

³⁸ On 6 February Sukarno appointed a five man team which was chaired by First Minister Djuanda and included Bank Indonesia Governor Sumarno, Finance Minister Notohamiprodjo, Foreign Minister Subandrio and Minister of Basic Industry and Mining Chaerul Saleh. After this committee delivered its report, in early March a second committee known as the Committee of Thirteen was formed; its members were the original five of the first committee, plus eight key political figures, including representatives from the PKI, PNI, and NU. After this Committee of Thirteen submitted its report on 12 March (which would be

28 March President Sukarno announced the new policy of DEKON (*Deklarasi Economi*, or ‘Economic Declaration’), which immediately took its place in the pantheon of Indonesian ideological lexicon as the economic equivalent to MANIPOL. DEKON itself contained very mixed messages, certainly a reflection of President Sukarno’s intent that the interests of all political groups be accommodated; as one observer noted, as a “statement of economic principles which would serve as guidelines for future policy, it was so eclectic as to mean all things to all men.”³⁹ The first two dozen paragraphs of DEKON contained primarily revolutionary slogans, with some attention to the condition and nature of the Indonesian “socialist” economy. One notable emphasis was on the two-stage nature of the Indonesian economy. In the first “national and democratic” stage, which was the prerequisite to the second stage of a truly socialist economy (with no exploitation of man by man, and with adequate food, clothing and work for everyone), the vestiges of imperialism and feudalism had to be wiped away. Towards the end of DEKON, there was recognition of the need for some change, such as “deconcentrating” the centralization of economic management in Jakarta by allowing the regions more authority, providing better incentives for production and distribution of goods, and altering the tax scheme. In its final section, under the heading “Short Term Policy,” DEKON did contain a very broad description of possible new directions of economic policy, including a priority on food, clothing and imports of raw materials and spare parts, increasing exports and decreasing imports of non-essential goods, incentivizing and streamlining SOEs, raising efficiency and increasing production, mobilizing domestic capital, etc. It also stated that foreign aid would be used to finance economic policy if

the basis of the eventual set of principles), a third committee known as the Committee of Seven was then established to draft a presidential message containing the new economic policy. This Committee of Seven did not include Djuanda, but was instead chaired by Deputy First Minister Leimena, and included Subandrio, Chaerul Saleh, Aidit of the PKI, A. Kartawinata (chairman of the DPR), Sumarno of Bank Indonesia, and Ali Sastroamidjojo of the PNI. (Chetwynd, *Indonesian Stabilization Attempt*, pp. 42-45) One source claimed that at some point Subandrio attacked Djuanda’s suggestions so fiercely that Djuanda challenged Subandrio to do better, which President Sukarno then authorized (Bunnell, *Kennedy Initiatives*, p. 392). Subandrio then turned to Soedjatmoko, a noted intellectual, for help; Soedjatmoko in turn enlisted the help of Sarbini Sumawinata, an economist at the University of Indonesia. Hoping to drive a wedge between Sukarno and the PKI, Sarbini developed a plan that focused on deconcentration, meaning deregulation and debureaucratization, essentially trying to reduce the central role of the state in the economy. The PKI fought against this, insisting on the introduction of various ideological statements that effectively neutered Sarbini’s intent. (See Thee, *Recollections*, pp. 111-2.) This story illustrates how DEKON became such a political football and why it was so confusing.

³⁹ Mackie, *Konfrontasi*, p. 137.

domestic capital was insufficient.⁴⁰ Because so many political interests were involved in its formation and because it was so general and could be broadly interpreted, DEKON was for the most part accepted, however reluctantly. It was endorsed by the MPRS in May 1963 as official economic policy, and much like MANIPOL was often cited as the sacred creed in the economic field. It also fulfilled its primary function by paving the way for the eventual implementation of the stabilization package.

Continuing his cautious approach, President Sukarno waited a full two months after the announcement of DEKON (and after it was approved by the MPRS as official policy) before approving in late May a package of reforms devised by First Minister Djuanda's team. Issued on 26 May 1963, the economic stabilization package was comprised of 14 regulations and generally consistent with IMF suggestions. It was primarily aimed at (a) combating the rapidly increasing inflation by increasing government revenues, especially via export earnings, and partially by reducing government expenditures, such as subsidies for utilities (which were frequently well below cost), and (b) stimulating efficient production (by both SOEs and private companies), in part by reducing government over-regulation, especially in the area of price controls, and also by importing a greater amount of raw materials and spare parts which would allow for increased production. As Mackie has described, there were five main elements of the program: (i) the dismantling of most price controls and the subsequent swift rise of public utility costs such as transport and electricity (hitherto provided very cheaply), (ii) the doubling of salaries and allowances to civil service workers, (iii) a new set of foreign exchange regulations which effectively devalued the Rupiah (although not to the level of the open market), which had the effect of increasing the return to both exporters and the GOI, (iv) the immediate release (initially of \$40 million) of foreign exchange to be used for imports, especially of raw materials and spare parts, and (v) new austerity in GOI expenditures combined with increases in revenues so that the 1964 GOI budget could be balanced.⁴¹ Foreign aid was the crucial component of (iv) and (v), without which neither element would work; it was expected that as much as

⁴⁰ For an English translation of DEKON, see *Indonesia 1963: Looking Back over the Year*, (Department of Foreign Affairs, Republic of Indonesia, 1963).

⁴¹ Mackie, *Indonesian Inflation*, p. 39. For a more detailed description, see Chetwynd, *Indonesian Stabilization Attempt*, pp. 61-86.

\$400 million in foreign assistance would be needed in the first year of the two year program.⁴²

The stabilization program was not popular and elicited widespread opposition. The most vociferous objections came from the PKI, which believed that the program reflected the increasing influence of the moderates in the GOI and thus portended a de-emphasis on nationalism and ‘completing the Revolution,’ both of which favored the PKI. Similarly, the PKI thought that the program, with its heavy foreign aid component, would result in closer relations between Indonesia and the western countries providing the necessary foreign assistance. Both these possibilities decreased the likelihood of success of the PKI push for cabinet positions under the guise of nasakomization; certainly the United States had made clear that its aid was conditioned on no PKI representation in the cabinet. The army, the key political partner/competitor of President Sukarno, only passively supported the program; its equivocal support was largely because of the vast decrease in military expenditures a balanced budget envisioned. There was also opposition from the business community, especially importers and speculators, as well as some GOI officials. Moreover, the discontinuance of GOI subsidies for utilities, and the immediate large increases (as much as 600%) in transport and electricity prices, also released a storm of public discontent. Finally, the GOI made almost no effort to mobilize popular support for the program. Perhaps most notable for his lack of public support was President Sukarno, who was in Tokyo when the new scheme was announced on 26 May and did not even publicly acknowledge the program’s existence until his 17 August independence day speech.⁴³

Despite its unpopularity, the stabilization program was quite effective, although initial foreign support in the form of assistance was lukewarm. The scheme did result in a dramatic slowdown in inflation from June through early September, as well as a large increase in exports. Moreover, the government was able to implement some degree of budget control. Indeed, the value of the Rupiah actually appreciated against the dollar. On the negative side, the principal problem was a liquidity crunch caused by tight monetary

⁴² Chetwynd, *Indonesian Stabilization Attempt*, p. 77.

⁴³ Chetwynd, *Indonesian Stabilization Attempt*, pp. 84-96; Bunnell, *Kennedy Initiatives*, pp. 379-83, 410-26.

policy. In addition, the intended increase in production did not materialize as quickly as hoped, in part because the anticipated increase of imports of raw materials and spare parts also did not materialize. This was primarily due to the tight credit policy and the slow arrival of foreign aid.⁴⁴ In terms of the critical component of foreign aid, efforts to secure this received a major boost when the USSR agreed in June to restructure Indonesia's outstanding debt to it.⁴⁵ Then on 24 July, the IMF, together with the United States the primary international supporters of the program, approved (only days after the IMF report was completed, the GOI having delayed in formally inviting the IMF to review the stabilization program) a standby loan facility of \$50 million, subject to certain conditions precedent. However, on 26 July, the DAC, a consortium of countries under the OECD, failed to approve the expected pledge of some \$250 million. The United States, which was to provide some \$140 million of the DAC pledge, was unable to convince the other DAC members to make commitments, despite months of preparation. Certainly the haste at which the DAC meeting was arranged, urged by the United States and coming so closely after the IMF loan was approved, was a factor in the failure to secure a pledge, as was the uncertainty over whether Sukarno was planning to attend the Manila summit in the effort to resolve the dispute over Malaysia.⁴⁶ However, the DAC meeting did not outright reject Indonesia's request, but rather decided to reconsider it in late September.

Together with the economic stabilization package, another development that for many observers signaled that President Sukarno and Indonesia were ready to turn from an adventurous foreign policy to a focus on economic stability was the tentative agreement reached by the GOI and the big three foreign oil companies in early June 1963.⁴⁷ This agreement was signed in Tokyo on 1 June, just on the heels of the announcement of the stabilization program and as President Sukarno and the Tunku had their amicable meeting

⁴⁴ Mackie, *Konfrontasi*, pp. 138-9; Chetwynd, *Indonesian Stabilization Attempt*, pp. 96-117. Chetwynd (p. 117) even goes so far as to say that because of the liquidity crunch and lack of foreign aid (which was actually caused principally by the outbreak of Konfrontasi), the program might have died a natural death even if politics had not intervened.

⁴⁵ See Bunnell, *Kennedy Initiatives*, pp. 374-9 for details.

⁴⁶ See Bunnell, *Kennedy Initiatives*, pp. 383-90. The total amount of the aid program was to be roughly \$400 million, with \$50 million from the IMF, \$100 million from debt rescheduling, and \$250 million from the DAC. Of the \$250 million from the DAC, the United States was to supply around \$140, with the other members providing \$110 million.

⁴⁷ For detailed discussions of these events, see Bunnell, *Kennedy Initiatives*, pp. 351-73; Aden, *Oil and Politics*, pp. 230-42; and Simpson, *Economists with Guns*, pp. 103-9.

that paved the way for the meeting of the foreign ministers to resolve Konfrontasi. As we saw in Chapter Three, by early 1963 Caltex, Stanvac and Shell had reached an impasse with the GOI over how the big three were to operate in Indonesia in the wake of changes mandated by the Oil and Gas Law of 1960 (Law 44/1960, see Chapter Three, Part II, Section A). In late April, in an obvious attempt to ratchet up the pressure on the oil companies, Minister of Basic Industry and Mining Chaerul Saleh had issued a regulation (known as Regulation 18) which fixed 15 June as the end of the transition period under Law 44/1960. This in effect prescribed a deadline of 15 June for reaching agreement, the absence of which would result in either the winding up of the oil companies' businesses or their operation under unfavorable regulations which had yet to be promulgated. Given the gravity of the situation, Caltex and Stanvac solicited the help of the United States government, which, recognizing the political, economic and strategic interests at stake, agreed to intervene. In particular, the US government was concerned about the severe deterioration of economic conditions that would surely result if agreement were not reached; in a likely chain reaction, oil production would slow down, resulting in the loss of a key commodity in the Indonesian economy as well as loss of precious foreign exchange and would certainly kill the foreign aid component of the stabilization package and in any case make implementation of the program much more difficult, if not impossible. This scenario would then push Indonesia toward the communist camp, both domestically and internationally.⁴⁸ Meeting with President Sukarno on 22 May, just a few hours before Sukarno left for Tokyo after approving the economic stabilization package, US Ambassador Howard Jones expressed the US government's concern over the oil situation and suggested that President Kennedy would like to send a special emissary to discuss the situation with him if Sukarno were amenable. Sukarno, who up to this point had not been involved in the oil negotiations, agreed, and Tokyo was set as the location.⁴⁹ For several days beginning 29 May, there was a parallel series of meetings in Tokyo

⁴⁸ Bunnell, *Kennedy Initiatives*, pp. 357-63; see also Jones, *Conflict and Confrontation*, pp. 151-6, Simpson, *Economists with Guns*, pp. 106-9, and two short memoranda of US government officials (Brubeck and Forrestal) in *Foreign Relations of the United States, 1961-63: Volume XXIII, Southeast Asia*, pp. 670-74. In addition, US aid under the stabilization package would likely be cut off because of the Hickenlooper Amendment, which prohibited aid to countries which failed to compensate appropriately for expropriation of property of US citizens or companies.

⁴⁹ Aden, *Oil and Politics*, p. 233; Bunnell, *Kennedy Initiatives*, pp. 351-2.

among President Sukarno, US special emissary Wilson Wyatt and his team, and US Ambassador Jones, and a second series of meetings between Minister Chareul Saleh and other GOI officials, representatives of Caltex and Stanvac (Shell sent a representative, but he did not participate in the meetings), and representatives of the US government (who were observing and pushing both sides for agreement). It certainly appeared that US government representatives' discussions with President Sukarno in the first series of meetings over the possible negative consequences of failure to resolve the oil companies' situation were a significant factor in the success of the second series of meetings between the oil companies and GOI officials.

On 1 June 1963, a single very short preliminary agreement known as the Heads of Agreement was signed between Minister Chaerul Saleh on behalf of the GOI and representatives from each of Caltex, Stanvac and Shell Oil. The Heads of Agreement, which was approved by President Sukarno, was acceptable to all sides.⁵⁰ The oil companies recognized that pursuant to the provisions of the Oil and Gas Law 44/1960, their concessions were now owned by the GOI and they were acting as contractors to the government. However, they were granted 20 year licenses to continue exploration and development on the old concession areas and were also allowed to apply for new exploration and production areas (for 30 year periods), subject to the payment of certain fees.⁵¹ Profit sharing was split 60% for the GOI, 40% for the companies, with all taxes owed by the companies to the GOI coming from the 60% share. Moreover, the GOI would receive a minimum payment of 20% of the gross value of crude oil produced in each year.⁵² The companies also agreed to sell to the GOI their refineries within 10-15 years and their marketing and distribution facilities within 5 years based on agreed formulae, and further agreed to sell a share of their production domestically at discounted prices. As we have seen, given low profitability on sales in Indonesia because of price

⁵⁰ For full details, see especially Hunter, "The 1963 Agreements and After"; Aden, *Oil and Politics*, pp. 236-242.

⁵¹ After the Contracts of Work were signed in late September, each of the companies applied for and received new areas for exploration and production, mostly located next to existing areas (with each company forking over the initial \$5 million fee). See Hunter, "The 1963 Agreements and After," pp. 18-19.

⁵² Hunter also noted that, not surprisingly, the type of currency in which the oil companies made their required 60% payment was a major issue, the GOI demanding that all the payment be in foreign currency. Eventually it was agreed that companies could make a portion of the payment in Rupiah. See Hunter, "The 1963 Agreements and After," p. 28.

controls on petroleum products, Shell and Stanvac were certainly happy with this result. In addition, the companies agreed to pay foreign exchange which was ‘owed’ from 1961-62. The GOI dropped its demand that the companies provide financing and technical support for the domestic distribution facilities after they were taken over by the government. Finally, each of the big three was paired with an Indonesian oil SOE; Caltex, the most profitable and with the best prospects, was paired with Pertamin, the company closest to Chaerul Saleh, while Stanvac was partnered with Permina, the company controlled by Ibnu Sutowo, and Shell was paired with Permigan. As it was not anticipated that the oil SOEs would be involved in management or operations, the prime function of the pairing was for the SOEs to be the recipient of payments made by the foreign companies.⁵³ While the Heads of Agreement was a major breakthrough, it should be noted that virtually all the details had yet to be worked out, and it was anticipated that the Heads of Agreement would be embodied in separate Contracts of Work (CoWs) signed between each foreign oil company and its SOE partner. As we shall see below, this process would take another four months and oddly would culminate in late September in the signing of long and detailed CoWs just after Konfrontasi broke out.

C. September 1963: the Outbreak of Konfrontasi, Collapse of Economic Stabilization.

In early August 1963, it appeared on the surface as though the conflict over the formation of Malaysia was under control and that Indonesia might indeed concentrate on economic reform. The economic stabilization program was in full swing, and while it was unpopular it was obviously having a positive impact. A crisis over the status of the big three oil companies had been averted, reinforcing the trend toward putting the economic house in order. Perhaps most importantly, the Manila summit among President Sukarno, Philippine President Macapagal, and Malayan Prime Minister Tunku Abdul Rahman had concluded successfully. However, the joint statement of the Manila summit was vague and non-committal in places and moreover reflected Indonesia and Malaya’s inability to agree over what type of “ascertainment” to conduct among the people of Sabah and

⁵³ Aden, *Oil and Politics*, pp. 241-2.

Sarawak, instead punting the issue to the UN general secretary, who was charged with finding a “fresh approach” to the matter. Given the parties’ obvious disagreement over the question, it is not surprising that issues soon arose as the ascertainment process unfolded. Initially, the biggest concern was over the status of the Indonesian observer team, but Indonesia would ultimately challenge the ascertainment process itself. Events would culminate in an incredibly tumultuous 10 day period beginning September 15 in which Konfrontasi broke out in full fury and led to the developments described in the introduction to this Chapter.⁵⁴

The first public issue after the Manila conference that was so petty it probably reflected the deep mistrust of the parties was the status of the Indonesian observer team. The UN ascertainment team, led by an American named Lawrence Michaelmore, actually arrived on 16 August in Sarawak, ready to begin work. However, the team delayed for 10 days while awaiting the arrival of the Indonesian observer team, whose proposed numbers and members were contested by the British as being too many and as consisting of intelligence/military officers who intended to stir up trouble and not observe. Deciding not to wait for the Indonesian team, the UN team began work on 26 August. A number of other issues then arose with respect to the Indonesian team, which finally arrived on 1 September, nearly a week after the UN team started.

Perhaps the biggest irritant to the Indonesian side was the declaration by Malayan Prime Minister Tunku Abdul Rahman on 29 August that the formation of Malaysia would occur on 16 September. As the UN team was not close to finishing its work, the obvious implication was that Malaysia would be formed regardless of the findings of the UN team, and indeed the official explanation accompanying the announcement argued that the fixing of the date did not conflict with the Manila joint statement (which, as we saw earlier, was true). The 29 August announcement reflected the great pressure the Tunku was under from officials from Great Britain, Singapore, Sabah and Sarawak who for their own reasons wanted to see Malaysia Day come sooner rather than later. Duncan

⁵⁴ As these events are well chronicled elsewhere, here I provide only a brief summary. For excellent analyses and descriptions of the course of events from August through September, see Mackie, *Konfrontasi*, chapter seven, Bunnell, *Kennedy Initiatives*, pp. 543-77, 596-652, and Jones, *Conflict and Confrontation*, chapter seven. For a first hand look, see Howard Jones, *Indonesia: The Possible Dream*, part three, chapter three.

Sandys, the British Secretary for the Commonwealth and Secretary for the Colonies, in particular seems to have really pushed the Tunku on this matter. The Malayans tried to cushion this blow by sending a high official to inform Indonesian Foreign Minister Subandrio of the decision a few hours before it was publicly announced. Subandrio himself seemed to accept the decision, and initially the announcement did not draw much of an Indonesian reaction. However, President Sukarno was furious, telling US Ambassador Howard Jones on 29 August that he had been “duped and humiliated by the British” and would “not take it.”⁵⁵ On Monday 2 September Indonesia issued an angry protest note at Malaya’s “betrayal.” From this point on, “it became increasingly evident that Indonesia had decided to reject the widely anticipated pro-Malaysia results of the UN ascertainment.”⁵⁶

The UN ascertainment report was made public on Saturday 14 September and unequivocally affirmed the support of the majority of the peoples of Sarawak and Sabah for the formation of Malaysia. While UN Secretary General U Thant did criticize sharply Malaya for its premature announcement of August 29 and sided with Indonesia in the dispute over the Indonesian observers, he made clear that neither circumstance significantly impacted the findings of the team. In defending the adequacy and objectivity of the ascertainment, he also justified the methodology of the process, noting that it clearly fell within the broad confines of the “fresh approach” and that under the Manila joint statement he alone determined what the fresh approach would be.⁵⁷ From the perspective of the UN, there was little doubt that the majority of the people supported becoming a member of the new Malaysia. The only remaining question was how Indonesia would react to the findings.

The release of the UN findings triggered a tumultuous 10 day period in Indonesia that resulted in the clear outbreak of Konfrontasi against Malaysia and the British.⁵⁸ The course of events raises two related but separate questions, both of which have been

⁵⁵ Jones, *Indonesia: The Possible Dream*, p. 289.

⁵⁶ Bunnell, *Kennedy Initiatives*, p. 595.

⁵⁷ This justification was directed partially against early Indonesia criticisms of the ascertainment contained in a memorandum delivered to U Thant on 13 September; a copy of the ascertainment report had been given to Indonesia on 12 September, two days before it was made public. U Thant was also no doubt trying to stave off future criticisms. Bunnell, *Kennedy Initiatives*, pp. 598-606.

⁵⁸ These events are traced nicely in Bunnell, *Kennedy Initiatives*, pp. 622-53, and Mackie, *Konfrontasi*, pp. 179-94.

debated but neither of which will probably ever be known. First, what was the extent of GOI involvement in the events that unfolded early in the week; that is, to what extent was the GOI ‘masterminding’ events? Second, to what extent did pressure from non-government sources, such as the mob actions and strong displays of public sentiment, influence the government’s decision to pursue the course of Konfrontasi? In retrospect it seems that public nationalist tension, which had already built to a frenzy, outran GOI intentions, certainly forced the government into some positions it did not want to be in (such as apologizing for the sacking of the British embassy), even though the course of events was clearly precipitated by President Sukarno’s attitude toward Malaysia. That is, if the GOI and President Sukarno indeed lost control of events, then they were backed into a corner of their own making. Of course, President Sukarno’s intentions once Malaysia was established were not at all clear (he may not have been sure himself) and in any case there were certainly divisions within the GOI over what course of action to take. Indeed, while the general outline of the major events is clear, the reasons for them and the nature of the GOI decision-making process, if any, remain opaque. The situation was very fluid, similar to other occasions where Sukarno had created or allowed conditions to develop and then essentially let events take their course. The PKI certainly played a role in stoking the fire, but, like the GOI, it seems unlikely that the PKI was controlling events. As one commentator observed, “the dynamics of the Indonesian government’s unique system for mobilizing political support greatly increased the pressures for extreme action.”⁵⁹ After the public outburst of mob action seemed to have peaked and the government began to regain control of events on 19 September, the GOI – obviously led by President Sukarno as the supreme decision maker - over the next week made a number of crucial decisions which ensured that Konfrontasi with Malaysia was the course taken. The extent to which the GOI and Sukarno were in essence forced into these decisions by public opinion is unclear, but certainly the GOI and Sukarno could always point out that public sentiment supported their actions.

⁵⁹ Bunnell, *Kennedy Initiatives*, p. 625. Mackie also suggests that over the course of the week “the atmosphere in Jakarta became more explosive and Soekarno found himself pushed on to a course from which it was difficult to retreat without humiliation and to which there were no advantageous alternatives for him.” Mackie, *Konfrontasi*, p. 184.

On Sunday 15 September, after meeting with US Ambassador Jones in which Jones tried to convince him to accept the UN findings but Sukarno reiterated his inability to accept the results, President Sukarno convened a KOTI meeting, at which it was agreed that Indonesia would request a new ascertainment.⁶⁰ This position was then announced – very gently – in a press conference by Foreign Minister Subandrio, who phrased Indonesia’s displeasure by saying “corrections” to the ascertainment were necessary and that Indonesia would withhold recognition of the new state. In spite of the mild official GOI reaction, the same day there was a large GOI-sanctioned mass meeting organized by the Youth Front (the youth wing of the National Front) at which the representative of the PKI youth organization called for the severance of diplomatic relations with Malaya and Great Britain, the seizure of British enterprises, and the return to duty of the volunteers of the West Irian campaign.⁶¹

On Monday 16 September Malaysia was officially established. In protest, the National Front organized a demonstration, again apparently sanctioned by the GOI, at which petitions were delivered to the Malaysian and British embassies in Jakarta. The crowd was estimated to be some 3,000 around the Malaysian embassy but as large as 10,000 by the time it reached the British embassy, where it became unruly, throwing rocks, breaking windows, tearing down the protective fence, and burning a car (while a British embassy officer, obviously trying to provoke the crowd, marched around playing the bagpipes). A small delegation was allowed inside the building to see British Ambassador Gilchrist, whose childish actions did not contribute to peaceful reconciliation.⁶² More viciously, the British and Malaysia consulates in Medan, North Sumatra, were completely sacked by rioters. Later that evening Foreign Minister Subandrio issued a statement deplored the damage. These events apparently triggered a demonstration against the Indonesian embassy in Kuala Lumpur on Tuesday 17 September, in which a much smaller crowd (estimates vary from several hundred to 1,000) burned pictures of Sukarno, torched an outer building of the compound, and raised the Malaysian flag over the embassy. Malaysia also broke diplomatic relations with

⁶⁰ For details on KOTI, see footnote four.

⁶¹ Bunnell, *Kennedy Initiatives*, pp. 610-2, 622-5; Mackie, *Konfrontasi*, pp. 183-4.

⁶² Jones, *Conflict and Confrontation*, pp. 196-7.

Indonesia on Tuesday, though it was unclear if official relations had actually been established as Indonesia was withholding recognition.⁶³ Also on Tuesday, some British enterprises were seized in a series of actions that contributed greatly to the confusion and tension (see Part II below).

The smoldering atmosphere ignited into a fireball on Wednesday 18 September when the British embassy in Jakarta was completely sacked and most of the homes of British citizens in the capital city were also destroyed. In the early afternoon around 2:00 pm, a “few truckloads” of unidentified youths arrived at the embassy and set it afire, after which an enormous crowd gathered and began looting and taunting the embassy staff. It is unclear where the mob came from and who its members were, though members of the National Front were clearly involved to some extent. The authorities were unable to stop these events until army units arrived around 6:00 pm (though police were able to evacuate the British personnel). Then, around the same time and into the night, most of the homes of British citizens in Jakarta were also destroyed by smaller groups, and British owned cars were torched (homes and cars of other foreigners were not harmed).⁶⁴ The delay in responding effectively to the destruction of the embassy and residences led many to suggest GOI (and Sukarno’s) complicity. Though no lives were lost, this event shocked and galvanized the British and United States governments into action and was a clear indication that things had gotten out of control. President Sukarno also appeared to believe the sacking of the British embassy had gone too far; in a meeting early the next morning with US Ambassador Howard Jones, he appeared – at least to Jones - regretful and after hearing Jones’ formal protest promptly agreed to Jones’ requests regarding government protection and evacuation of British personnel.⁶⁵ The sacking of the British embassy would be the peak of popular mob pressure, as the GOI struggled to regain some control over events and the situation appeared to calm down. The next day, 19 September, the government released a statement regretting the incidents of September 18 and imploring the people to refrain from further wild actions, though this soft

⁶³ Bunnell, *Kennedy Initiatives*, pp. 629-33; Mackie, *Konfrontasi*, pp. 185-7.

⁶⁴ Mackie, *Konfrontasi*, pp.188-9. For a summary of these and other events of the week from the British point of view, see the British government report entitled “Recent Developments in Anglo Indonesian Activities” (UKNA, FO 371/175264).

⁶⁵ Jones, *Indonesia: The Possible Dream*, p. 263; see also Bunnell, *Kennedy Initiatives*, pp. 637-8.

condemnation was further tempered by the statement's declaration that the GOI could understand the outburst of popular anger, which had been 'inflamed' by the actions in Kuala Lumpur on September 17.⁶⁶ In addition, as we shall see in Part II, late in the day the GOI began to take measures to deal with the seized British companies and prohibited any further takeovers.

However, hopes that the GOI might continue to attempt to defuse the situation were dashed on Saturday 21 September when the government announced it was breaking economic relations with Malaysia. It is unclear how long the GOI had contemplated some form of economic confrontation, but certainly the actual formation of Malaysia and the events of the week of 16 September played a key role in its implementation.⁶⁷ On 17 September, President Sukarno held a meeting of KOTOE⁶⁸ at which a special committee of KOTOE was appointed to formulate, by Saturday 21 September, proposals regarding Konfrontasi, and it was this special committee which recommended the severance of economic relations.⁶⁹ On 21 September, after a six hour joint KOTI/KOTOE meeting led by Sukarno, the GOI announced that economic relations with Malaysia would be severed. Three justifications were offered: first, that the political nature of Konfrontasi required economic Konfrontasi as well; second, that economic relations with Malaya and Singapore were detrimental anyway to the Indonesian economy; and third, that Malaysia had severed diplomatic and trade relations with Indonesia.⁷⁰ This decision clearly established that the GOI was intent on escalating Konfrontasi after a period of a few days when the GOI apparently had been trying to defuse the situation politically and

⁶⁶ Cited in Bunnell, *Kennedy Initiatives*, pp. 641-2.

⁶⁷ See Bunnell, *Kennedy Initiatives*, pp. 645-51, and Mackie, *Konfrontasi*, pp. 187, 191-3 for a fuller discussion.

⁶⁸ KOTOE was an acronym for the Supreme Economic Operations Command, the economic counterpart to KOTI, though much less important. Little is known about its operation, other than it was intended to be a high economic policy making body. It was headed by Sukarno.

⁶⁹ Neither Djuanda nor Bank Indonesia Governor Sumarno, the two leading economists and proponents of the stabilization program, were on the special committee; it was headed by Minister Leimena and Minister Chaerul Saleh, and included Surachman, Munir, Jusuf Muda Dalam, Dr. Suharto, Ir. Abdulrahman, Mutalib, Dr. Surjadi, Achmadi, Sutikno Slamet and Dasaad (Mackie, *Konfrontasi*, p. 187). The actual objectives of the special committee were unclear, however, as is what had already been decided by that point. According to Bunnell, who claims the meeting occurred on 18 September, just before the burning of the British embassy, Sukarno apparently issued some kind of instruction around which the subcommittee was supposed to formulate proposals (Bunnell, *Kennedy Initiatives*, pp. 647-8). The implication was that Sukarno had already made some decision on the matter and the special committee was simply carrying out Sukarno's wishes.

⁷⁰ Bunnell, *Kennedy Initiatives*, pp. 650-1.

diplomatically. Moreover, because the implications for the stabilization program were so obvious, it was somewhat puzzling in that the GOI had reacted strongly against the seizure of British companies and had prohibited further takeovers and in addition was trying to conclude negotiations with the big three foreign oil companies on their Contracts of Work (a point discussed further in Part II below).

The decision to sever economic relations with Malaysia had momentous consequences in that it effectively sounded the death bell for the economic stabilization program, after which the Indonesian economy would steadily deteriorate. While exact statistics are not available, a large portion of Indonesia's trade – by some estimates close to 50% of exports - went through Malaya and especially Singapore, both now part of the new Malaysia.⁷¹ Severing economic relations would thus likely result in a significant loss of trade and negatively impact the Indonesian economy, a result which did in fact happen. In particular, foreign exchange revenues, which were a critical source of revenue for the GOI, would be disrupted by the break, making it that much harder for the GOI to balance its budget. The significance of this action was not lost on the foreign countries who supported the economic stabilization program and whose assistance was crucial to its success. On 24 September, the United States, the biggest international supporter of the stabilization program, announced that it believed that the stabilization program could not succeed and that it had informed other DAC members that it saw no point in convening the DAC meeting, already scheduled for late September, to finalize pledges of economic aid to Indonesia. As a result, the meeting never took place and no assistance was forthcoming. Shortly thereafter, the IMF suspended further disbursements of the remaining \$30 million under its \$50 million loan package.⁷² The economic stabilization program was effectively dead in the water, although it would remain on the books officially until April 1964. Economic conditions almost immediately deteriorated, with inflation jumping up once again, tight credit relaxed, depreciation of the Rupiah, a significant decline in exports, and the return of heavy GOI deficit spending – very much a return of the same ill economic conditions existing prior to the stabilization attempt.⁷³

⁷¹ Mackie, *Konfrontasi*, p. 193; Chetwynd, *Indonesian Stabilization Attempt*, pp. 7-8; Simpson, *Economists with Guns*, p. 120.

⁷² Bunnell, *Kennedy Initiatives*, pp. 671-2, Mackie, *Konfrontasi*, p. 193.

⁷³ Chetwynd, *Indonesian Stabilization Attempt*, chapter four.

Within a few short days after the 21 September decision to break economic relations with Malaysia, Konfrontasi escalated both politically and militarily. On 25 September, President Sukarno in a widely publicized speech declared that Malaysia was a neo-colonialist plot and Indonesia would fight and destroy it. Sukarno declared a policy of *Ganyang Malaysia*, which would henceforth be the principal slogan of Konfrontasi.⁷⁴ In addition, for several weeks the army significantly stepped up its military activity in Borneo, which had to this point been fairly quiet. The number, size and depth of incursions into Sarawak rose dramatically in the last week of September, and more Indonesian troops were dispatched to the area.⁷⁵ For the first time there were incursions into Sabah, the northern state in Borneo.⁷⁶ Though the military side of Konfrontasi would never escalate into an all-out conflict, this initial escalation appeared to be a sign of the dangerous times to come. Konfrontasi had now broken out in earnest, and as argued at the beginning of this Chapter, its implications would be far reaching.

In a curious twist to the story that demonstrates the ambiguities and inconsistencies of the conflict, the break-out of Konfrontasi in the second half of September did not derail the signing of the Contracts of Work between the big three foreign oil companies and their SOE counterparts on 25 September. As we saw above, in early June a preliminary Heads of Agreement was executed among the big three and the GOI that contained the basic principles of the new arrangements under which the companies would be operating. The Heads of Agreement was very brief, however, and anticipated that the details – which were much harder to work out than basic principles – would be set forth in lengthy individual Contracts of Work between each oil company and its SOE counterpart. These negotiations had proceeded since June and in mid-September were reaching their final stage. Despite both the outbreak of Konfrontasi and its economic implications and the potential ramifications of the takeovers of certain British companies (see Part II), the big three and the GOI continued to push to finalize the CoWs. Shell appeared initially reluctant to proceed, as it was clearly the most affected

⁷⁴ *Ganyang* is a very evocative word literally meaning to chew and swallow, or to devour. Hence the slogan meant to devour or chew up Malaysia. This was often translated into English as ‘Crush Malaysia,’ but ‘crush’ does not convey the viciousness of the Indonesian word.

⁷⁵ Bunnell, *Kennedy Initiatives*, p. 652; Mackie, *Konfrontasi*, p. 210; *Indonesian Involvement in Eastern Malaysia*, pp. 51-2.

⁷⁶ *Indonesian Involvement in Eastern Malaysia*, pp. 67-74.

by the takeovers; on 19 September its Pladju facility had been taken over for one day before being returned, and Shell was still not in control of its Balikpapan facility, which was taken over on 17 September. In addition, at some point Shell was told by some Indonesian officials in Jakarta that it would not be allowed to sign its CoW (presumably because of the outbreak of Konfrontasi).⁷⁷ However, First Minister Djuanda and Minister Chaerul Saleh were aware of the potential impact of the takeovers on Shell and assured US Ambassador Jones that they wanted Shell to finalize its CoW and had no intention of nationalizing it.⁷⁸ The situation was resolved, and on 25 September a “relaxed” and “friendly” signing ceremony was held in the offices of the Ministry of Basic Industry and Mining in which over 100 attendees witnessed the signing of the three CoWs.⁷⁹ In an affirmation of oil company exceptionalism, the outbreak of Konfrontasi had not prevented any of Caltex, Stanvac, Shell or the GOI from committing to the new arrangement.

II. The September 1963 Takeovers of Certain British Firms and Aftermath.

The establishment of Malaysia on 16 September inspired the seizure of five British companies in Indonesia beginning on Tuesday 17 September. As one of these companies, JA Wattie, managed some 25 estates in Java, the impact may have been greater. Except for the takeover of Shell Oil’s Balikpapan facilities, these takeovers were led by the DPS-KBKI, which as we saw in Chapter Two was one wing of the KBKI labor

⁷⁷ Jones, *Conflict and Confrontation*, pp. 207-8.

⁷⁸ US Embassy telegram (Jones) dated 18 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indonesia Box 3501); US Embassy telegram (Jones) dated 20 September 1963 (USNACP, RG 59 Central Files 1963, PET 6 Indon, Box 3620). According to Aden, after Shell made its reservations clear to Djuanda, Djuanda then persuaded President Sukarno to order the return of Shell’s facilities (Aden, *Oil and Politics*, p. 243). As we shall see, however, the Balikpapan facility had not been returned to Shell’s control at the time of signing of the CoWs.

⁷⁹ US Embassy telegram (Jones) dated 26 September 1963 (USNACP, RG 59 Central Files 1963, PET 2 Indon, Box 3620). Shell’s ambiguous position (whether due to its own reluctance stemming from the partial takeovers or due to the assertions by some GOI officials that it would not be allowed to sign the CoW) caused a small rift between the British government and the United States government, as apparently US Ambassador Jones had advised American-owned Caltex and Stanvac to proceed regardless of what British-owned Shell did. See Jones, *Conflict and Confrontation*, pp. 207-8.

federation that split in 1962. Naturally there was some speculation as to whether whoever was behind the seizures was in fact serving as a proxy for the government. This does not appear to have been the case, as the GOI after several days of confusion prohibited further takeovers and also took the seized companies out of the hands of the DPS-KBKI. However, with the exception of Shell's Pladju refinery, these companies were not formally returned to their owners but remained under GOI supervision, though the nature of this supervision varied greatly. While the quick return of Shell's Pladju facility was a clear affirmation of oil company exceptionalism, events at Shell's Balikpapan facility also demonstrated that there were limits to this general principle.

Taking place during a week filled with great chaos and uncertainty, the nature of the takeovers and the government response was highly confusing at the time and in turn has generated a great deal of confusion about what actually happened. Most of the misunderstanding stems from what was taken over (some accounts suggested that all British enterprises were seized), who initiated it (most accounts attributed the seizures to the PKI), and what the government did about it (there were divergent accounts of the government's reaction, and no correct account). Confusion was apparent not only at the time on the part of the companies, the British and United States governments, the press, and even within the GOI, but also in subsequent published literature. For example, the two principal works covering the outbreak of Konfrontasi both attribute the seizures of the companies to the PKI, and both imply that the vast majority of British companies were seized.⁸⁰ Both these authors have thus attributed to the PKI a larger overall role in the events of the week of 16 September than appears to have been the case. Misunderstanding of these events continues today in more recent works.⁸¹ Hence, this

⁸⁰ Bunnell, *Kennedy Initiatives*, pp. 642-3; Mackie, *Konfrontasi*, pp. 181-2, 191-2. Other major works have also incorrectly reported these events. See, for example, Legge's *Sukarno*, which asserts (p. 412) that British estates in Java and Sumatra were seized, and "subsequently the government announced the sequestration of all British-owned properties," and Howard Jones' *Indonesia: The Possible Dream*, which claims (p. 264) that following the burning of the British embassy, "communist controlled labor unions moved to take over British enterprises." See also Weinstein's *Dilemma of Dependence*, which says (p. 215) that British property was expropriated in 1963.

⁸¹ See p. 198 of Jones' *Conflict and Confrontation*, also claiming the takeovers of British companies were directed by PKI aligned trade unions, and pp. 120-2 of Simpson's *Economists with Guns*, which asserts that on 19 September Sukarno "announced the administrative takeover of all British companies" in Indonesia and that "PKI-affiliated unions attempted to seize Shell oil facilities and attacked Shell properties."

Part II will attempt to set the record straight with respect to the takeovers of British firms in 1963.

A. The Takeovers and Government Response.

1. Initial Seizures.

On the afternoon of 17 September the head offices of four British companies in Jakarta were taken over by different branches of the DPS-KBKI labor federation.⁸² These takeovers occurred amidst other action against British firms such as boycotts, and over the next several days there were rumors and even reports of other takeovers, but when the dust settled only these four (plus Shell, as described below) were actually seized by labor unions. The four firms taken over were the Jakarta office of Harrisons and Crosfield (which, in addition to engaging in trading and export/import, served as managers for London Sumatra's four estates in Java and three estates in Sulawesi, but not for London Sumatra's numerous estates in Sumatra), JA Wattie (an estate management firm that managed around 25 foreign-owned estates in Java), Dunlop Rubber (Dunlop had no manufacturing operations in Indonesia; the primary function of its head office was to oversee the contract with Goodyear under which Goodyear's tire factory in Bogor, West Java, manufactured tires for Dunlop), and Commercial Union Assurance Company (an insurance company, represented by its affiliate Ocean Accident insurance). In each case it appeared that DPS-KBKI federation representatives within each firm led the takeovers.⁸³ The takeovers were non-violent. Typically, a 'takeover' involved the presentation of a takeover document to management, or a declaration, that the DPS-KBKI representatives were taking over the company. This action was immediately followed by the expulsion of foreign managers from the office, and henceforth the foreign managers could no longer enter. In at least one case (Watties, described below) the DPS-KBKI representatives appointed a supervisory team to manage the business, which consisted of

⁸² For a general summary of these events, see British Ambassador Gilchrist's letter to Indonesia Foreign Minister Subiandro dated 16 October 1963 (UKNA, FO 371/169924), and US Embassy telegram (Ellis) dated 4 October 1963 (USNACP, RG 59 Central Files 1963, Inco I, Box 3501).

⁸³ For details on the DPS-KBKI, see Chapter Two, Part I, Section B3. The DPS-KBKI labor federation was headed by Labor Minister Ahem Erningpradja.

a mixture of DPS-KBKI representatives and Indonesian staff already employed at the firm. Apparently most of the work of the offices came to a standstill, as the situation was very confusing, and to the extent work did continue, it was done by the Indonesian staff employees.

The takeover of the JA Wattie office in Jakarta is illustrative.⁸⁴ On the afternoon of 17 September two officials from the Ministry of Labor, who were also members of the DPS-KBKI labor federation, appeared in the Watties office. These two officials, claiming that they were not acting in their official GOI positions but instead in their capacity as members of DPS-KBKI, and after further prodding stating they had no official authority for their actions and they knew their actions were illegal, told the two British managers (Stanley Pull, who was the director of the company, and Mr. Buchanan, the finance director) that they were taking over the office. They were joined by the Watties head of the DPS-KBKI (many labor federations formed branches at individual companies), an Indonesian named Ohim, and together the three announced to the staff that the office was being taken over, even though they recognized that they had no authority to do so. They were then joined shortly thereafter in the office by A.M. Datuk, who as we saw in Chapter Two was one of the national leaders of the DPS-KBKI federation. Datuk claimed that DPS-KBKI had earlier taken over both Ocean Accident insurance and Harrisons and Crosfield and was about to take over Dunlop Rubber and British American Tobacco. He also stated that he had no official authority for the takeovers and knew the action was illegal. Apparently no reason for the takeover was given by any of these DPS-KBKI officials. They then appointed a three member supervisory committee which included Ohim (the DPS-KBKI leader at Watties) plus two Indonesian staff members (one of whom was the head of the staff department). The two British directors were told to go home, which, unable to contact any authorities, they did. There was no violence and, other than some scribbling on the walls of the office and the

⁸⁴ The following description of events at Watties is taken directly from the report of Stanley Pull, a British director of Watties. See Stanley Pull report on Takeover of Wattie, 5 October 1963 (UKNA, FO 371/169924).

directors' houses (which were owned by the company), there was no damage to Watties' property.⁸⁵

The other company involved in takeover activity was Shell Oil. As we saw in Chapter Three, Shell, whose head office was in Jakarta, had two major refineries in Indonesia: the bigger one was at Pladju, near Palembang, South Sumatra, which refined oil from Shell's main fields in South Sumatra, and the other was in Balikpapan, East Kalimantan (Borneo), which refined oil from Shell's fields in East Kalimantan. Takeover actions took place at both the Pladju refinery and the Balikpapan refinery in separate actions which occurred on different days and were clearly separately engineered. Moreover, as we saw in Part I above, these seizures came at a very delicate time for both Shell and the GOI, which were intensely engaged in final negotiations to complete and sign Shell's new Contract of Work. On 16 September, "mass actions took place in the Balikpapan area by the workers within the framework of the Malaysia confrontation policy," and Shell expatriates in Balikpapan (there were about 66, and included all of the top management) were ordered to stay home. The next day, the military commander of East Kalimantan, Colonel Soehardjo, who also doubled as chairman of the East Kalimantan National Front regional committee, in his capacity as the local National Front leader issued a statement that indicated Shell's Balikpapan refinery was being taken over,

⁸⁵ After a persistent effort, the supervisory committee finally secured two of the three cars used by the two British directors of Watties. The persistent effort is perhaps some indication of the perceived spoils foreign companies had to offer and the lengths taken to secure these assets. On the afternoon of 17 September, after the British directors were asked to leave the office, unidentified members of the DPS-KBKI federation showed up at Stanley Pull's residence and tried to seize his car, but Pull refused to hand it over. Pull then went back to the office to talk to the supervisory committee members about the car, explaining that he was going to keep it. Later that evening, Ohim, the DPS-KBKI member of the supervisory committee, showed up at Pull's house and demanded the car, but again Pull refused. The next day, 18 September (the day the British embassy was sacked), the two British directors came back to the office to meet the supervisory committee. Having waited two hours, they gave up and left. Later that evening, Boechari, the head of the staff and now supervisory committee member, visited Pull's house and demanded that the three cars used by the directors be surrendered to the supervisory committee, which Pull again refused. Later in the evening Pull's house "narrowly escaped attack" by rioters, and he and his family were forced to evacuate (as we saw in Part I, on 18 September not only was the British embassy gutted but also most of the houses of British citizens were sacked). The next morning, 19 September, Boechari went to finance director Buchanan's house (Buchanan had also been forced to evacuate the house during the night, but had returned the next day) and demanded that he surrender his car, which Buchanan did; thereafter Boechari went back to Pull's house (now vacated) and secured his car. Sometime later Pull was able to move back into the house.

and Shell expatriates in Balikpapan were barred from going to work.⁸⁶ Thus, in Balikpapan, there was no formal takeover by labor unions, but the regional army commander/local National Front leader seized control of the refinery. Then, a few days later on the morning of 19 September, workers apparently led by the DPS-KBKI took over Shell's Pladju refinery in South Sumatra.⁸⁷ Details of the takeover are sketchy, but at least for one day on 19 September Shell's management was not in control of the Pladju refinery.

2. Government Reaction.

There is very limited information about what kind of activity the takeovers triggered within the GOI. However, on the morning of 18 September, American Ambassador Howard Jones was assured separately by both Foreign Minister Subandrio and Minister of Basic Industry and Mining Chaerul Saleh that the GOI was taking immediate action to return the British companies and there would be no repeat of the Dutch takeovers of 1957-58.⁸⁸ Further, Chaerul Saleh also told Jones that the GOI had no intention of nationalizing Shell. In addition, Subandrio told Jones that an inner cabinet meeting was held on 17 September to discuss the takeovers and President Sukarno explicitly told Labor Minister Ahem – who although Minister of Labor also headed the DPS-KBKI labor federation – to stop any further union activity and to return all companies already taken over.⁸⁹

⁸⁶ Letter dated 21 October 1963 from Shell Indonesia to Minister of Basic Industry and Mining Chaerul Saleh (UKNA, FO 371/169943). Unfortunately, a copy of the statement is unavailable. There were a number of regional army commanders like Soehardjo who also served as regional head of the National Front, suggesting that such appointments were a way for the army to influence and control the National Front.

⁸⁷ The September 20 and 23 morning editions of Antara reported that the takeover was led by workers of the DPS-KBKI (*Antara* 20 September morning edition, p. 26 of 'Dalam Negeri' section; *Antara* 23 September morning edition, p. 18 of 'Dalam Negeri' section). Similarly, a PERBUM (the oil workers union affiliated with the PKI) report identified DPS-KBKI as the only group involved in the takeover (see p. 33 of the PERBUM report dated 3-5 January 1964 entitled *Perhebat: Aksi2 Persatuan untuk Melaksanakan Patriotisme Ekonomi dibidang Perminjakan* (ANRI, R22 268)). The available British government reports did not provide details of the takeover at Pladju.

⁸⁸ There were media reports that Chaerul Saleh on 18 September issued an order that the takeovers must stop and all seized companies returned to their owners, but I have yet to find this 'order'; moreover, media coverage of these events was not always accurate. See Mackie, *Konfrontasi*, p. 191 (citing the Indonesian newspaper *Berita*), and the 26 September 1963 issue of *Far Eastern Economic Review* (p. 772).

⁸⁹ US Embassy telegram (Jones) dated 18 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indonesia, Box 3501). On the surface, it may be curious as to why GOI officials were discussing the

Surprisingly, the first public governmental response came from West Java Governor Mashudi, who was clearly reacting to the takeover of the four firms in Jakarta (which, although geographically located within West Java, as the capital city had its own governor and held the same status as a province).⁹⁰ On 19 September Governor Mashudi issued no less than three decrees involving British and other foreign firms.⁹¹ Most significantly, Decree No. 376 placed virtually every British company in West Java under the “supervision” of the West Java provincial government. Noting that the policy of confrontation against Malaysia “requires the mobilization of all national potential as well as vigilance in all fields” and that statements recently issued by the GOI regarding the Malaysia problem “might give rise to undesirable events, such as violence by irresponsible elements against productive units owned by British or Malayan citizens which constitute a source of foreign exchange for the Government,” but that because “there has as yet been no decision from the Government concerning the status of such firms, it is necessary to take immediate steps to safeguard such firms so that continuity of production can be guaranteed,” Governor Mashudi placed a specified list of British firms under the supervision of the province of West Java. These firms included P&T Lands (21 estates), JA Wattie managed estates (eight listed), Harrisons & Crosfield estates (two listed), Ross Taylor estates (this was an estate management company associated with Watties, two estates listed), as well as Dunlop Tire linked enterprises (Dunlop’s office at the Goodyear Tire factory in Bogor plus two tire outlet stores), three BAT facilities (the factory at Cirebon, the Grand Hotel at Cirebon, and a small facility at Garut), Shell Oil’s offices in Bandung and Cirebon, plus two stores (whose ownership I have been unable to

takeovers with US Ambassador Jones rather than British Ambassador Andrew Gilchrist, as the affected companies were all British. As discussed in Chapter Two, by 1963 Jones was the dean of all ambassadors in Jakarta and had a unique relationship with Sukarno and other GOI figures.

⁹⁰ Born in 1920 in West Java, Mashudi in his youth was active in youth groups. In 1946 he joined the newly established Siliwangi division of the army, which after independence was based in West Java, and rose to the position of major general in the Siliwangi division. He served as Governor of West Java from 1960 to 1970, and was one of the first army officials to be appointed to provincial governorships in 1960. He also served as chairman of the MPRS for a few years during the New Order.

⁹¹ These were Decrees of the Governor of West Java Nos. 376, 377 and 378, all dated 19 September 1963. For English translations (I have been unable to locate the original Indonesian versions), see US Embassy telegram (Ellis) dated 12 November 1963 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3). Decree 377 involved P&T Lands specifically (see next section), and Decree 378 instructed government apparatuses to take unspecified measures to safeguard foreigners and their property in West Java.

determine). Of this long list of companies and operations, none had actually been taken over by labor unions or even subjected to some form of takeover activity (though as we saw above, the Jakarta administrative offices of H&C and Watties had been seized). Thus the Governor appeared to be acting preemptively, to prevent a takeover by unions or other “irresponsible elements.”

The key question Decree 376 raised was the nature and extent of the “supervision” of the companies. The decree appointed a provincial official from each of the provincial estate inspection office, provincial industrial office and provincial trade inspectorate to act as supervisor for the companies under their respective areas, and these three supervisors were to be coordinated by one Major Akil Mansur. The decree also appointed the existing managers of the companies as officials responsible to the supervisors, and these managers were to continue to exercise their responsibilities. This seemed to suggest that the companies were to be operated as usual. Finally, the decree ordered that the managers were to establish immediately enterprise councils in accordance with a law promulgated in 1960. The actual role of the supervisors was not explained in the decree (what authority did they have? what did ‘supervising’ mean in practice?), and the instruction that current management was to remain in place seemed to suggest that business was to continue as usual. Like many instructions that would be issued by various GOI officials in the next two years, the measure was ambiguous enough to please no one yet satisfy most. From the perspective of the companies, the measure was not pleasing because the province of West Java was now “supervising” their companies, though it seemed there was a chance that business would continue as usual; from the perspective of those who favored seizing the companies, the government had intervened to some degree, although not to the desired level.

On the night of 19 September, after the West Java Governor issued his decrees, the central government finally reacted, with President Sukarno, in practice the highest executive authority in the land, issuing three decrees that were unequivocally against the seizures of the British companies. It is hard to know, but the timing may suggest that it was the seizure of Shell’s Pladju refinery early on 19 September that spurred the GOI to action. On the other hand, the GOI clearly had many more pressing matters to deal with as a result of the formation of Malaysia, not the least of which was the fallout from the

sacking of the British embassy. Moreover, in reality only a very short period of time had elapsed since the first takeovers on 17 September. In any case, the GOI clearly was taking a stand against the takeovers.

The first and most important was Presidential Decree 194.⁹² The decree explained that it was necessary to take security measures both in order to guarantee the smooth functioning of non-oil firms that had been taken over by workers and in the interests of the safety and security of the owners/managers. The decree contained two key provisions. First, it provided that all non-oil firms which had been taken over by workers in the framework of Konfrontasi would be transferred to the relevant GOI minister according to their respective fields, and that the ministers involved should make further arrangements so that the firms operated smoothly. Secondly, the decree explicitly forbade anyone from carrying out any further takeover actions toward British firms unless so ordered by the President himself. Thus, the decree did not return the seized firms to the British owners, but it did officially take the firms out of the hands of the DPS-KBKI and into the hands of GOI ministers. The official silence over the ultimate fate of the companies most likely was maintained in order to appease those who favored taking over the companies. Similar to Governor Mashudi's decree of the same day, the undeclared fate of the taken-over companies would please no one, yet satisfy everyone. The taken-over firms were not happy because they were now under the GOI ministries, though it was unclear what the ministries would actually do with the companies, thus leaving a ray of hope. Those who favored takeovers were perhaps not pleased that the GOI had taken over from them, but at least the foreign owners were presumably no longer in control. However, President Sukarno clearly appeared to have drawn a line in the sand regarding further takeovers, ordering that there be no more.

The other two decrees issued by President Sukarno on 19 September each involved Shell Oil, and, in distinct contrast to the ambiguity of the Presidential Decree 194 over the fate of the other taken-over companies, were clear in their rejection of any takeover of Shell, demonstrating the importance of this company and the principle of oil

⁹² Keputusan Presiden (Sukarno) No. 194/1963 Tentang Pengambilan Alih Perusahaan Tambang Minyak Dalam Rangka Konfrontasi Dengan Malaysia, dated 19 September 1963.

company exceptionalism.⁹³ The first of these, Presidential Order No 41/KOTI, was targeted at Shell's Pladju operations (i.e., the refinery). Citing the necessity of maintaining uniformity of action between the people and the government in the framework of Konfrontasi, and noting that petroleum and natural gas had special significance for Indonesia's national defense and development, it stated that it was necessary to take measures to ensure the normal production and distribution thereof. The order then instructed the Governor of South Sumatra to take over immediately Shell's operations in Pladju and transfer the management of the company back to the Shell managers. All workers who took over Shell's Pladju operations were instructed to transfer immediately to the Governor of South Sumatra all parts of Shell that had been taken over, and to continue to perform their jobs as usual. The order also instructed the Chief of Police and the South Sumatra regional army commander to take security measures against any activities that could interfere with the smooth operations of the business. Finally, the order instructed the Minister of Basic Industry and Mining (Chaerul Saleh) to ensure the order was implemented by appointing an official to supervise its implementation. President Sukarno's second order, Presidential Order No 42/KOTI, was directed at Shell's operations other than Pladju. Citing the necessity of maintaining smooth operations in the framework of Konfrontasi, especially in the field of petroleum, the order instructed the Governors, regional military commanders and chiefs of police in East Kalimantan, Jakarta, Central Java and East Java – every place where a Shell facility was located – to prevent the taking over of Shell enterprises, including oil fields and refineries. It further instructed these officials to implement protective measures in order to preserve the production of the facilities. The message of Presidential Orders 41 and 42 was eminently clear: Shell Oil was not to be touched.

The different tones and implications of the various decrees were reflected in the diplomatic arena and in conversations with leading GOI officials. Initially, the British government was naturally more preoccupied with the sacking and destruction of its embassy on 18 September, but after a few days it attempted to ascertain the status of the

⁹³ These were Surat Perintah Presiden/Panglima Tertinggi (Sukarno) No. 41/KOTI/1963 Tentang PT Shell Pladju Dibawah Pengawasan Pemerintah and Surat Perintah Presiden/Panglima Tertinggi (Sukarno) No. 42/KOTI/1963 Tentang Larangan Pengambil-Alihan PT Shell Indonesia, each dated 19 September 1963.

seized companies. On 20 September the Indonesian embassy in London delivered a note to the British Foreign Office that stated the GOI had no intention of nationalizing the companies and the GOI had placed the companies under its protective supervision “to ensure the continuation of production, which might be interrupted by strikes and lockouts, and other interferences [sic].” The note further said that British staff would be allowed to continue their work, except in cases where the British staff and management had left, the situation for which was still being studied. Finally, the note indicated that the GOI “has taken measures to guarantee that British enterprises, in particular the oil industries, will continue production without interruption.”⁹⁴ In a meeting with British Foreign Office officials at which he delivered the note, the Indonesian ambassador claimed that the government supervision was only meant to be temporary.⁹⁵ However, the note itself said nothing about when the companies would be returned to their owners or what “supervision” meant in practice, points that were raised in the British government’s formal response to the note on the same day.⁹⁶ The GOI’s response to the British note came a few days later in the form of a note dated 23 September: the note referred to Decree 194 and KOTI Orders 41 and 42 as the protective measures it had taken, and stated that the GOI “does not intend to place certain limits on the capability of the British management of the various concerns to conduct their affairs.” The note emphasized that the GOI was acting to ensure continuity of production and that in cases where British management had left they could return when “satisfactory conditions” had been established.⁹⁷ The vague language over the future of the companies suggested that perhaps the GOI itself did not know what was going to happen, and the ambiguity did little to placate British fears that the companies were permanently lost.

Meanwhile, back in Jakarta, discussions with GOI officials also reflected the dichotomy between the GOI’s sharp response to the takeover of Shell versus the ambiguity over the future of the other taken-over companies. GOI officials initially

⁹⁴ Indonesian Embassy London Note to British Foreign Office dated 20 September 1963 (UKNA, FO 371/169924).

⁹⁵ British Foreign Office Note to British Embassy dated 20 September 1963 (UKNA, FO 371/169924).

⁹⁶ British Foreign Office Note to Indonesian Ambassador dated 20 September 1963 (UKNA, FO 371/169924).

⁹⁷ Indonesian Embassy London Note to British Foreign Office dated 23 September 1963 (UKNA, FO 371/169924).

avoided meeting with British officials in Jakarta regarding the takeovers (as far as I have been able to determine, until October the meeting with Deputy First Minister Leimena described below was the only one with a GOI official at the minister level), so most of the discussion was via US Ambassador Jones. First Minister Djuanda assured Ambassador Jones that the GOI had no intention of taking over Shell's facilities in Pladju and Balikpapan and that the GOI wanted Shell's operations to proceed on a normal basis.⁹⁸ Djuanda and other GOI officials – including Chaerul Saleh – were clearly also worried that the actions against Shell might jeopardize the final Contract of Work negotiations with Shell and the two other oil companies. However, with respect to the other British companies, Djuanda assured Jones that the Sukarno had issued instructions to halt further takeovers, but was unable to say if the GOI planned to return the seized companies to their owners; when pressed, Djuanda indicated their return would depend on events over the next week or two.⁹⁹ On 23 September British Ambassador Gilchrist was finally able to meet with Deputy First Minister Leimena. Reflecting the obvious confusion within the GOI over the status of the seized companies, Leimena was unable to distinguish between the ‘observers’ then at Shell and the ‘supervisors’ then at P&T Lands, though he did indicate that the takeovers were supposed to be temporary only and there was no thought of nationalization similar to what happened with the Dutch companies.¹⁰⁰

3. Analysis.

The GOI response to the seizures of the British firms was clearly anti-takeover. The West Java provincial government had acted even before the central government and placed numerous firms, none of which were even affected by labor actions, under its “supervision,” which seemed to be aimed at safeguarding continued production of the companies by means of preventing labor/worker seizures. It appears that the West Java government was also acting on its own, without direction from the central government.

⁹⁸ Us Embassy telegram (Jones) dated 20 September 1963 (USNACP, RG 59 Central Files 1963, PET 6 Indon, Box 3620).

⁹⁹ US Embassy telegram (Jones) dated 20 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indonesia Box 3501).

¹⁰⁰ Gilchrist Confidential Note to British Foreign Office dated 23 September 1963 (UKNA, FO 371/169924).

When the central GOI finally reacted, the clearest signal of all was that Shell Oil was not to be touched and should be returned immediately. Similarly, Presidential Decree 194 unambiguously stated that there should be no more takeovers of other British companies. However, the status of the seized companies (other than Shell) was left vague. They were to be surrendered by the DPS-KBKI to various GOI ministries, but beyond this initial step the GOI seemed to be reluctant to take any public measures. It was unclear what the resulting GOI supervision meant in practice, or even in theory for that matter. Some GOI officials assured British and American officials that supervision was only meant to be temporary, while others would not speculate. In any case, no firm timetable for the return of the companies, nor any description of the conditions necessary to allow for their return, was established.

Several lines of inquiry regarding the seizures and the GOI response merit further discussion. The first concerns the role of the DPS-KBKI in the seizures of each of the companies other than Shell's Balikpapan facilities. Given that Ahem Erningpradja served as both GOI Labor Minister and as the leader of the DPS-KBKI, and that both Ahem and A.M. Datuk (who was obviously heavily involved in the seizures as his actions at Watties indicated) had initially been supported by President Sukarno when the split in the KBKI first developed (see Chapter Two, Part I, Section B3), did the seizures by the DPS-KBKI somehow represent GOI or Sukarno's intentions, perhaps as a means of ratcheting up pressure of Konfrontasi? The unequivocal GOI response to the seizures suggests that there was no such thing. The actions of President Sukarno, who as we saw in Chapter Three was highly critical of foreign investment, in taking such a hard line against the takeovers – forbidding any further actions, ordering the return of Shell – obviously signifies that even he was against them. The apparent initial confusion within the GOI over the seizures also indicates that the government was caught off guard and was unsure what to do. Finally, we are presented with the problem of lack of specific evidence regarding whether Sukarno instructed Ahem/Datuk to act and thus must draw conclusions based on general circumstances, which overwhelmingly suggest that DPS-KBKI was not acting on the government's behalf.

However, it must be emphasized that while the general GOI policy clearly came out against the takeovers, such a position would not have prevented individual GOI

officials from encouraging them. Labor Minister Ahem's leadership of the very organization which organized and led most of the seizures clearly implicates him, at least on the surface. As we have seen in previous Chapters and will continue to see in subsequent Chapters, the GOI, even under Guided Democracy, was hardly a monolithic entity speaking with a united voice, and there was certainly much division among GOI officials about how to handle the question of foreign businesses and their operations in Indonesia. Clearly, some officials favored the GOI takeovers, while others did not. Hence, it was quite possible that Minister Ahem was following his own predilections. It might also be possible that Ahem himself was unaware of what was going on; as we saw earlier, it was A.M. Datuk who appeared to be publicly directing the seizures in Jakarta. It is conceivable, though perhaps unlikely, that Datuk may have been acting on his own, without Ahem's consent.

If the DPS-KBKI was not acting for the GOI, what were its motivations in seizing the companies? It should be recalled from Chapter Two that by this point the DPS-KBKI did not represent the PNI, whose support of the group had waned. It may be possible that the DPS-KBKI was somehow acting in cahoots with the PKI, but there is no evidence for this that I have found. Absent any specific evidence, I think two lines of conjecture are reasonable. First, it may have been a display of patriotic, nationalistic support for the government in the midst of all the tension created by the formation of Malaysia. Along these lines, it should be recalled that it was the KBKI federation that initiated the seizures of Dutch companies back in December 1957 that triggered the takeover of all Dutch companies and their subsequent nationalization. The DPS-KBKI may have been trying to trigger a similar wave with respect to all British companies. Here, patriotic zeal may have combined with genuine dislike of foreign capital, though the limited nature of the DPS-KBKI actions (except regarding Shell, all were Jakarta-based and directed against British firms only, and only four companies at that) may suggest otherwise. Secondly, it may have been a genuine attempt by leaders of the DPS-KBKI to push the government into taking stronger action against Malaysia. In any case, it seems improbable that the DPS-KBKI thought it would be allowed to maintain control over the companies, though as we saw in the Watties takeover it was clearly hoping to keep some of the spoils of the seizures (in the form of cars).

The second line of inquiry concerns the relationship among the strong GOI reaction against the takeovers (and resisting calls generally for nationalization of British companies), the signing of the CoWs, and the severing of economic relations with Malaysia. As we saw in Part I above, it was really the decision on 21 September to break economic relations with Malaysia which cast the die toward full Konfrontasi. In other words, before then there was still the possibility that Indonesia might pursue the path of economic stabilization, and there were of course many GOI officials, led by Minister Djuanda, who supported this path. The decision to sever economic relations seems somewhat contradictory to the earlier decision to halt further takeovers (on 19 September) and the decision to proceed with the signing of the CoWs with the oil companies (25 September) after economic relations were cut. Moreover, there were widespread demands to nationalize all British firms, particular from the PKI, which had been pushing such an outcome all week.¹⁰¹ This apparent contradiction has been discussed to some extent by commentators, one of whom essentially frames the decision as nationalization versus trade break. In this scenario, President Sukarno was under great pressure to take some type of forceful action, and choice boiled down to these two options.¹⁰² To nationalize the companies, however, might play into the hands of the PKI by allowing it to exploit and seize the mantle of nationalist sentiment (since it was the PKI which had been calling the loudest for nationalization), and thus the course of severing economic relations was taken.¹⁰³ However, I do not think the choice was nearly as stark as this.

While it is true that a seizure and nationalization of all British companies might have played best into the hands of the PKI, the GOI's swift reaction in prohibiting further takeovers suggests that it was not even seriously entertaining the idea of seizure/nationalization before the beginning of the week. While officially the GOI did not welcome new foreign direct investment, it seemed content to whittle away quietly at

¹⁰¹ Mackie, *Konfrontasi*, pp. 181, 191.

¹⁰² Mackie, *Konfrontasi*, pp. 181, 191-3.

¹⁰³ Bunnell, *Kennedy Initiatives*, pp. 644-5, and Mackie, *Konfrontasi*, pp. 191-3. Mackie agrees that the takeovers were "obviously calculated to force the government's hand on an issue about which most ministers themselves had ambivalent feelings." (Mackie, p. 181) Both, however, view the takeovers as being directed by the PKI, and thus a manifestation of PKI attempting to push the GOI; as we have seen, though, it was the DPS-KBKI who was behind the takeovers in Jakarta and Shell Pladju, though of course the PKI was still pushing hard for nationalization of British companies.

existing FDI and not take any radical steps; nationalization simply was not an option that was realistically considered. Such an extreme measure would likely have provoked some sort of British retaliation or response (though in reality the British could have done little), and of course GOI officials knew from their nationalization of Dutch companies that compensation would be demanded. Besides, their plate was full in dealing with the tension over Malaysia. It was also highly likely that nationalization would have resulted in no CoWs being signed with the big three foreign oil companies. GOI officials obviously were aware of the importance of the oil companies to the Indonesian economy and the potentially disastrous impact if their operations were halted. The GOI's reaction to the seizure of Shell's Pladju facility was clear testament to the principle of oil company exceptionalism. Hence, insofar as there was a nascent contradiction between the signing of the CoWs and the trade break, there was no question that oil company exceptionalism dictated that the arrangements be finalized. This was certainly made even more imperative when trade relations were severed; had the GOI severed economic ties and then failed to enter into the CoWs, the Indonesian economy would have taken a double punch.

Why, then, did the GOI make the puzzling and fateful decision to sever economic links? The answer is still unclear. It may well be as suggested above that Sukarno and the GOI were under pressure to take some kind of forceful action, backed into a corner of their own making. It is also possible that the GOI had contemplated for some time some form of economic retaliation, and the formation of Malaysia was seen as the right time to implement these measures. Indeed, one observer argues that the decision to cut trade ties was actually made by Sukarno when the KOTOE special committee was set up on 17 September. The same observer suggests that the GOI was also heavily provoked – inadvertently - by the misquoted statement of the Tunku on 18 September that Malaysia would break trade relations with Indonesia, and thus decided to break relations first.¹⁰⁴ A contributing factor certainly was the resentment of many GOI officials over the perceived dependence on Singapore for Indonesia's trade and the long-standing desire to be rid of

¹⁰⁴ Bunnell, *Kennedy Initiatives*, pp. 647-50, though Bunnell believed the KOTOE meeting was held on 18 September, not 19 September. Bunnell further suggests (pp. 644-5) that because Sukarno had already made the decision to cut economic relations, it was not necessary to nationalize British companies after the seizures opened the door for this possibility.

this dependence.¹⁰⁵ In fact, on 17 September, General Nasution gave a speech pushing for Konfrontasi in which he complained of Singapore's grip on the Indonesian economy and especially the dominant economic role of regional Chinese (Singapore was Chinese dominated).¹⁰⁶ A final factor, unbelievable as it seems, may have been that President Sukarno and others pushing for a trade break were simply unaware of what a negative impact such a trade break would have on both the Indonesian economy and international support for the stabilization program. Indeed, US Ambassador Jones, after a meeting with First Minister Djuanda on 20 September during which this very problem was discussed, came away with "the distinct impression Djuanda (and other GOI leaders) have not thought through full implications for Indonesia of break in Indo-Malaysian trade relations."¹⁰⁷ Finally, perhaps equally plausible, the GOI officials at the 21 September meeting at which the decision was made were aware of the possible impact but so upset over the formation of Malaysia that they were prepared to deal with the economic costs of an economic break, though certainly none could have foreseen the longer-term impact.

A third, related line of inquiry concerns the government's decision to place the four Jakarta-based seized companies under government supervision and not return them to owner control as was done with Shell Pladju. In short, if the government were not going to nationalize them, as government officials consistently emphasized, then why not return them? Why keep the companies' status in limbo? Given the heated atmosphere, it seems likely that returning the companies might have been seen as going against the tide of nationalism, patriotism and the Revolution and as caving in to the British. It thus could become an issue that could be exploited against the government, especially by the PKI. Hence the GOI opted for a compromise solution; take control of the companies away from the DPS-KBKI (which was something that apparently most GOI officials could agree on) and wait and see what happened after the situation had calmed down. Such reasoning was given at the diplomatic level, where despite British government enquiries the official status of these companies remained undetermined. British Ambassador

¹⁰⁵ Indeed, one observer has suggested this was the major factor in the decision. See Weinstein, *Dilemma of Dependence*, pp. 169-70.

¹⁰⁶ Bunnell, *Kennedy Initiatives*, pp. 646-7; Mackie, *Konfrontasi*, pp. 192-3.

¹⁰⁷ US Embassy telegram (Jones) dated 20 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indonesia Box 3501).

Gilchrist, who had been pushing for a meeting for several weeks, at last met with Foreign Minister Subandrio on 12 October to discuss the takeovers. Subandrio assured Gilchrist that the GOI in principle intended to hand back the companies as soon as possible, though in certain cases this might not happen, in which case the GOI would consider compensation. It appeared to Gilchrist that “deviation [i.e., a non-return] might arise either from ideological reasons or because of the political strength of the labour unions whose power Subandrio admitted and feared.” Subandrio also raised the possibility of establishing a joint Indonesian/British committee to work out the details of the returns.¹⁰⁸ Five days later, after consulting with the Foreign Office and the Indonesia Association (a London based group of British companies with interests in Indonesia), Gilchrist wrote to Subandrio agreeing to the formation of such a committee, the purpose of which would be to ensure restoration of full control to British management of the companies under supervision and to arrange for removal of protective surveillance over British firms when conditions permitted. Gilchrist further proposed that the committee be restricted to members of the British embassy and the GOI Ministry of Foreign Affairs, though of course others could be called in for advice.¹⁰⁹ However, neither Subandrio nor any other GOI official ever responded to the letter (despite several inquiries by the British embassy), and the joint committee was never formed.¹¹⁰

Another reason for keeping the companies may have been the possibility now open for GOI ministers and officials in charge of the companies to gain access to resources and new patronage opportunities. As we shall see in the next Chapter, this was clearly a factor in 1964 when most British companies were placed under GOI control, but in the case of the British companies taken over in September 1963 this element appears to have been minimal (except with respect to Dunlop Rubber). Moreover, as we shall see in the next section, “supervision” in practice was different for each company.

¹⁰⁸ British Embassy telegram (Gilchrist) dated 12 October 1963 (UKNA, FO 371/169924).

¹⁰⁹ Gilchrist letter to Subandrio dated 16 October 1963 (UKNA, FO 371/169924).

¹¹⁰ See British Embassy Note 305 to Government of Indonesia dated 5 November 1963 (UKNA, FO 371/169924) and British Embassy telegram (Oliver) dated 14 November 1963 (UKNA, FO 371/169924).

B. Impact of Government Intervention on the Companies.

What, exactly, did government supervision mean? The impact of GOI intervention on the seized companies was mixed and ranged from complete takeover to nominal supervision. These results in part mirrored the initial responses of the different levels of the GOI to the takeovers as described above. Generally speaking, the firms placed under supervision of the West Java government experienced no significant interference. By contrast, the central government appointed supervisory teams for each of the four firms in Jakarta initially taken over by the DPS-KBKI on 17 September (Harrisons & Crosfield, JA Watties, Dunlop Rubber and Commercial Union insurance), and these teams exercised different levels of control. In general, it appears that the government officials under whose supervision the companies were placed were given great discretion over how to implement it. Finally, with respect to Shell, oil company exceptionalism was again on display as Shell's Pladju refinery operations were immediately returned to Shell management. However, in a curious dichotomy that exposed divisions within the GOI, the limits of oil company exceptionalism were also apparent, as Shell's Balikpapan operations were taken over by the regional army commander of East Kalimantan for the remainder of 1963 and not returned to Shell control until late December. These different experiences are all described below.

1. Firms under West Java Provincial Supervision.

On 20 September, a day after the issuance of West Java Governor Mashudi's decrees on British firms in West Java, the West Java Estate Inspection Office issued another decree that suggested supervision in West Java would not be stringent.¹¹¹ The measures prescribed in the short directive did not appear to be onerous and clearly were designed to ensure that existing management remained responsible for managing the estates. This directive stated that the purpose of supervision was to safeguard production on the estates. Responsibility for production, the labor force and security remained with existing management, and the relations between the management and the head office

¹¹¹ Directive for Supervision of British Estates from West Java Office of Agriculture Affairs (Engineer O. Wiradinata) dated 20 September 1963 (English translation only, found in US Embassy telegram (Ellis) dated 12 November 1963 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

should continue as usual. The directive stipulated that the supervisor was to be involved in the following ways: first, contact between management and head office should be made with the knowledge of the supervisor, second, the management should notify the supervisor of all plans concerning general policy matters at the estates, third, all principal measures taken by the management should be with the knowledge of the supervisors, and fourth the relations between management and the supervisors should be arranged so that there were no bottlenecks. Finally, the directive specified that investigation of financial measures could only be undertaken by the Chief of the Estate Inspectorate Office of West Java. The supervisor's role was in essence limited to being aware of what was happening on the estates and at the management level. The stipulation that only the Chief of the Estate Inspectorate Office could investigate financial measures seemed to be a clear warning to the supervisors to stay away from financial matters.

Consistent with the foregoing and with other decrees issued by West Java Governor Mashudi on 19 September, in practice the government of West Java exercised very little supervision over the British firms it had placed under its wing. Supervisory teams were appointed for many of these firms, but generally the supervisory teams were not stationed on site and often only rarely even came around to the companies. No existing management was replaced, and there was no reported interference in management at all. The BAT factory in Cirebon was initially the subject of a conflict for control between the West Java provincial government and the mayor of Cirebon, who on 20 September tried to install his own supervisory board. This move was successfully resisted by the local managers, however, and was put to rest when a letter was received from the Governor of West Java appointing a two-man supervisory team.¹¹²

“Supervision” was perhaps the most visible at P&T Lands, though even there it did not result in interference in management or operations until January 1964 when the company was actually taken over by workers for several days (see Chapter Five).¹¹³ On

¹¹² See (i) Gilchrist letter to Subandrio dated 16 October 1963 (UKNA, FO 371/169924), (ii) British Embassy Note (Gilchrist) dated 28 September 1963 re BAT (UKNA, FO 371/169924) and (iii) US Embassy telegrams of 4 October 1963 (Ellis), 30 October 1963 (Ellis) and 15 November 1963 (van Swearingen) (USNACP, RG 59 Central Files 1963, Inc 15-2 Indon, Boxes 1072-3).

¹¹³ As we saw in Chapter Three, P&T Lands, owned by British Anglo Indonesian Plantations, was one of the oldest and largest British estate companies in Indonesia. Located in the Subang area of West Java, P&T Lands was comprised of 21 individual estates, primarily rubber and tea, with a total acreage of

20 September Lt. Col Sami Rahdjo along with a team of 10 assistants arrived at the P&T Lands' headquarters in Subang.¹¹⁴ Lt. Col Rahdjo had been appointed by Governor Mashudi on 19 September to be the supervisor of P&T Lands, and he was directly responsible to the Governor himself.¹¹⁵ P&T Lands was initially unclear what the scope of the supervision would be – to what extent would the supervisory team involve itself in the business operations of the company? The company itself felt that it had little choice but to accept the supervision and to protest only when the same actually resulted in interference with normal business operations. The company manager did believe, though, that the supervision would remain indefinitely and that the company would never recover its previous position.¹¹⁶ Despite these apprehensions, however, for the first few months the supervisory team exercised only nominal supervision and did not interfere with the company's operations, though team did carefully observe the company.¹¹⁷

2. Commercial Union/Ocean Accident.

This office was taken over on 17 September by the DPS-KBKI labor federation and the British manager and his assistant were ejected from the office. Apparently DPS-KBKI control ended on September 20-1, but it is not clear who was in charge immediately thereafter. Pursuant to Presidential Decree 194, the Department of Finance was the GOI ministry put in charge of the company, and sometime in late September, a supervisory team led by a Lt. Colonel Sulaiman was installed in the office. Around the same time, the Surabaya office of the company was also taken over by Sulaiman's team. Lt. Colonel Sulaiman exercised full managerial powers; the British manager and his assistants were never allowed to return to the office, and the head office in London had almost no contact with the Jakarta office. Thus the company was effectively taken over by the GOI in late September. The head office allowed the British manager to remain in

approximately 29,400 hectares. The company employed some 30,000 people, including around 20 expatriates.

¹¹⁴ British Embassy telegram (Gilchrist) dated 21 September 1963 (UKNA, FO 371/169924).

¹¹⁵ Decree No 377 of the Governor of West Java dated 19 September 1963 (English translation in US Embassy telegram (Ellis) dated 12 November 1963 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3)).

¹¹⁶ British Embassy telegram (Gilchrist) dated 21 September 1963 (UKNA, FO 371/169924).

¹¹⁷ British Embassy Confidential Note (Gilchrist) dated 11 October 1963 (UKNA, FO 371/169924); US Embassy telegrams of 4 October 1963 (Ellis), 15 November 1963 (van Swearingen) and 13 December 1963 (Galbraith) (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3).

Jakarta for a few months, but when there was no change in the situation finally withdrew him in early February 1964. Interestingly, in April 1964 Sulaiman tried to revive the operations of the company by sending out letters to various customers, but Commercial Union got wind of the effort and disavowed all responsibility for the office's affairs.¹¹⁸

3. Harrisons & Crosfield Jakarta Office.

Apparently DPS-KBKI control over this office also ended around September 20-1, but the two British managers were also not allowed to return to the office. As the office was involved in both trade and estate management, supervision of the office pursuant to Presidential Decree 194 initially fell to both the Minister of Agriculture and Agrarian Affairs (Sadjarwo) and the Minister of Trade (Dr. Suharto). On 3 October a supervisory team led by an official from the Ministry of Agriculture and Agrarian Affairs, Danardjo Hadisasono, was appointed and assumed complete control over the office and management. On 10 October Danardjo met with the H&C British managers and told them that although they were being excluded from management and were no longer allowed to enter the office or to contact the estate managers, he still requested and expected their full cooperation. Danardjo also said that nationalization was out of the question and these were temporary measures, and his primary goal was to ensure the smooth operation of the business (he also indicated that profits and remittances would not be affected). Danardjo further made it clear that the labor unions would not have any power whatsoever. As the months passed, the old management did meet fairly regularly with the Indonesian staff as well as the supervisory team, but they clearly had no management power or authority. The seven estates in West Java and Sulawesi that were managed by the office were also put under government supervision. These estates were already managed by Indonesian nationals so there was no change in management personnel. The supervision on the estates apparently was very light and was undertaken by management from neighboring

¹¹⁸ See (i) Gilchrist letter to Subandrio dated 16 October 1963 (UKNA, FO 371/169924), (ii) US Embassy telegrams dated 4 October 1963 (Ellis), 30 October 1963 (Ellis) and 15 November 1963 (van Swearingen) (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3), (iii) Report of British Consul Surabaya (Brayne) dated 20 February 1964 (UKNA, FO 371/175281), (iv) Commercial Union letter to British Foreign Office dated 11 June 1964 (UKNA, FO 371/175282), and (v) British Embassy letter (White) dated 27 August 1964 (UKNA, FO 371/175283).

state-owned estates who did not reside on the H&C managed estates.¹¹⁹ H&C's larger Medan (North Sumatra) office was not affected by these events and continued to operate under the control of H&C.

4. JA Wattie.

The two British managers of Watties were also prohibited from entering the office after 17 September, and at some point in early October a GOI team from the Ministry of Agriculture and Agrarian Affairs was appointed to supervise and manage the office. Apparently the supervisory team had little involvement or contact with the office, and the pre-takeover Indonesian staff operated the office along normal lines, meeting regularly after office hours with the British ex-managers. Thus it appeared that except for barring the two British managers from the office, little had changed. Few details regarding the situation on the Watties-managed estates, which numbered around 25 and were scattered across Java, are available. As we have seen, supervision on the West Java estates by the West Java provincial authorities was nominal and was apparently undertaken by managers from neighboring state-owned estates who did not reside on the estates. With respect to the other estates managed by Watties in East and Central Java, apparently there were no cases of British or European staff being removed from their places or of government officials establishing supervision.¹²⁰ In sum, from the very limited information available, initially there appeared to be little change at Watties and the estates it managed except for the ejection of British management in the Jakarta office. This treatment thus appears to differ somewhat from the treatment of H&C's Jakarta office and estates, though in neither case is it clear regarding the extent to which the supervised offices and estates were cut off from the companies' operations (for example, what happened to revenues? were they sent on to the British owners?).

¹¹⁹ Letters from Harrisons & Crosfield to British Foreign Office dated 11 October 1963 and 23 October 1963 (UKNA, FO 371/969924); US Embassy telegram (Galbraith) dated 13 December 1963 (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3).

¹²⁰ Gilchrist letter to Subandrio dated 16 October 1963 (UKNA, FO 371/169924), and US Embassy telegrams of 4 October 1963 (Ellis), 15 November 1963 (van Swearingen) and 13 December 1963 (Galbraith) (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3).

5. Dunlop Rubber.

The situation at Dunlop Rubber was a sharp contrast to the other three companies whose Jakarta offices were seized. Here, the owner-appointed foreign managers were eventually able to regain control of the company, though it remained under GOI supervision. Pursuant to Presidential Decree 194, the company was placed under the Ministry of Basic Industry and Mining (headed by Minister Chaerul Saleh). In early October, the Ministry appointed a supervisory team for the company headed by Sardju Ismunandar, the assistant minister for Basic Industry and Mining (and who had served as the head of BAPPIT, the GOI body that controlled the nationalized Dutch industrial and mining companies). Although the two Dunlop foreign managers were still denied access to the office (they had not been back since 17 September), Sardju did indicate that the company would be returned under certain conditions that had yet to be determined. In the meantime, Goodyear had since 17 September suspended production of Dunlop tires.¹²¹

Around 21 October, Dunlop's foreign management was invited to return to the office. The reason for this apparently had to do with an attempt by the Ministry of Labor (headed by Minister Ahem) to force Goodyear (whose Bogor factory produced tires for Dunlop) to release Dunlop tires to offices of Dunlop which were then controlled by the Ministry of Labor (it is unclear where these offices were located). Goodyear refused to do this on the grounds (a) that such a move would violate Goodyear's international contract with Dunlop, and (b) that because Goodyear was responsible to the Minister of Basic Industry and Mining, it could only take orders from him. Several other factors were also involved which went against the Ministry of Labor's attempt – as the US embassy saw it – to take over some of Dunlop's operations, including the withdrawal by Dunlop headquarters of the manager's check writing authority, as well as the cooperation of the chief of police of Bogor, who had closed the warehouse where the Dunlop tires were stored. Afterward there was a meeting among representatives of Dunlop, Goodyear and the Ministry of Basic Industry and Mining at which, after much negotiation, it was agreed that Dunlop-appointed management would return to the office and continue, but under

¹²¹ Gilchrist letter to Subandrio dated 16 October 1963 (UKNA, FO 371/169924).

continuing supervision of the Ministry of Basic Industry and Mining.¹²² There are obviously some missing details to the story, but it appeared as though interference from the Ministry of Labor as well as the obstinacy of Goodyear resulted in the decision by the Ministry of Basic Industry and Mining to bring back Dunlop management. This sequence of events also suggests that the Minister of Basic Industry and Mining Chaerul Saleh was in conflict with the Labor Ministry Ahem over Dunlop.

From then on owner-appointed management seemed to retain control of Dunlop for another year and one-half, though the relationship with the GOI supervisory team was often uneasy. Dunlop-appointed management's power slowly declined however, and the gradual decline in control, coupled with the uncertainty generated by the GOI takeover of the Goodyear tire plant in Bogor in March 1965, led to the withdrawal of the British managers in July 1965.¹²³

6. Shell Oil.

The situation at Shell's facilities was the most bizarre of all and illustrates the divisions within the GOI and the limits of oil company exceptionalism. The Pladju refinery in South Sumatra was restored to Shell control on 20 September, meaning that Shell management only lost control of the facility for one day.¹²⁴ Thereafter there was little trouble at the facility. A 'commissar' was appointed by the Minister of Basic Industry and Mining in accordance with Presidential Order No. 41/KOTI to ensure compliance with the order, and his role in practice was to act as liaison with the GOI and help enforce security measures. Thus, Shell management remained in control.¹²⁵ In addition, the CoW with Shell (and Stanvac and Caltex) was signed on 25 September; the takeovers at Shell had not derailed the new arrangements under which the big three oil companies would operate in Indonesia. However, the situation at Shell's Balikpapan

¹²² US Embassy telegram (Ellis) dated 30 October 1963 (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3).

¹²³ US Embassy telegram (Galbraith) dated 13 December 1963 (USNACP, RG 59 Central Files 1963, Inco 15-2 Indon, Boxes 1072-3); letter from Dunlop Rubber to British Foreign Office dated 2 July 1965 (UKNA, FO 371/180350).

¹²⁴ British Embassy Confidential note (Gilchrist, via US Embassy) dated 20 September 1963 (UKNA, FO 371/169942).

¹²⁵ This appointment was made pursuant to Decision No. 634 of the Minister of Basic Industry and Mining (Chaerul Saleh) dated 21 September; the individual appointed was one Colonel Harjono.

refinery in East Kalimantan was completely different. There, the East Kalimantan military commander, Colonel Soehardjo, seemingly in defiance of Minister Chaerul Saleh but with the apparent support of President Sukarno, was in control of the facility until late December 1963. Soehardjo's actions were a clear violation of Shell's Contract of Work. That Shell could actually sign the CoW when the situation at the Balikpapan facility was so unsettled and its employees were under house arrest and suffering (see below) did not reflect well on Shell (though it certainly reflected the large dollar amounts at stake).

On 21 September Minister of Basic Industry and Mining Chaerul Saleh issued two decrees regarding Shell's Balikpapan facility.¹²⁶ The first decree, Decree No 635, appointed Colonel Soehardjo as the GOI Commissioner and Atung Kontawa, the chairman of the Ministry of Basic Industry and Mining's Oil Supervisory team, as Deputy Commissioner pursuant to Presidential Order 41/KOTI.¹²⁷ The preamble to the decree, citing the importance of oil and gas to the national defense, economy and reconstruction, and the necessity of uniformity of action between the people and the government in the context of Konfrontasi, stated that for the sake of supervising and safeguarding Shell in Kalimantan it was necessary to appoint a GOI representative to act as Commissioner. The decree instructed the two officials to (i) implement supervision over and safeguard the production and operations of Shell in Kalimantan, (ii) protect the persons and property of British nationals, (iii) direct the supervisory team to be established by the Minister of Basic Industry and Mining, and (iv) review the personnel situation and where necessary put in order all matters at variance with the GOI's policy of Indonesianization (referring to the replacement of foreign expatriates by Indonesian nationals). Minister Saleh's second decree, Decree No 636, established a security team for Shell's Kalimantan facilities. This team was to report directly to the GOI-appointed Commissioner and was to be comprised of individuals (the identity and number of whom were not stated) from the provincial government of East Kalimantan, the Oil Supervisory team at Balikpapan, the armed forces, the workers of Shell, and the National Front. The

¹²⁶ These decrees were Decision of Minister of Basic Industry and Mining (Chaerul Saleh) Nos. 635 and 636, each dated 21 September 1963 (English translations only, found in UKNA, FO 371/169942).

¹²⁷ Interestingly, this reference was a mistake; 41/KOTI referred to Shell's Pladju facilities only. Presidential Order 42/KOTI included the Balikpapan facility, but it made no reference to the appointment of a commissioner by the Minister of Basic Industry and Mining.

team's duties were to exercise supervision over and safeguard Shell in Balikpapan. Presumably this "security team" of Decision 636 was actually the "supervisory team" referred to in Decision 635, even though it had a different name. In any case, the general structure seemed clear: Colonel Soehardjo, the regional military commander in East Kalimantan, would, as the appointed GOI Commissioner, be in charge of supervising and safeguarding Shell, and he would be assisted by a security team made up of individuals from different organizations.

As events unfolded, however, it appears that Minister Chaerul Saleh was unable to control Colonel Soehardjo, who went well beyond what Minister Saleh had intended for Shell's Balikpapan facilities. As noted previously, Soehardjo on 17 September had taken control of the Balikpapan facility by instructing all Shell's expatriates (some 66 employees, including top management) to remain at home. These employees were in effect under house arrest, and they were not allowed to communicate with the outside world (thus, no one knew what was happening to them). On 24 September, Shell reported that Soehardjo had agreed to consider returning Balikpapan to Shell's control provided none of the management at Balikpapan were British nationals.¹²⁸ On 26 September, US Ambassador Jones received a letter dated 23 September from the Shell Balikpapan manager that had been smuggled out. The letter appealed for urgent assistance and indicated the expatriates there were suffering from conditions equaling imprisonment. Another message from Shell Balikpapan to the British, American and other embassies indicated that the expatriates were in protective custody and requested immediate evacuation.¹²⁹ Then, on 25 September, General Yani, the army commander and perhaps most powerful military figure in the country, apparently issued an order to release those in custody.¹³⁰ These events, of course, were occurring just as Shell was finalizing its CoW; clearly, Shell was not about to let the situation in Balikpapan affect its future in Indonesia. Finally, on 28 September, Shell's Balikpapan expatriates were allowed to resume working.

¹²⁸ Telegram from Singapore Office of Political Advisor to Commander in Chief, Far East, dated 24 September 1963 (UKNA, FO 371/169942).

¹²⁹ US Embassy telegram (Jones) dated 26 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indon, Box 3501).

¹³⁰ US Embassy telegram (Jones) dated 26 September 1963 (USNACP, RG 59 Central Files 1963, Inc 10 Indon, Box 3501). I have not found a copy of this order.

As it turned out, Shell's expatriates were only allowed to resume work because of the arrival on 28 September of a KOTI team appointed by the central government.¹³¹ As General Yani essentially headed KOTI in his position as chief of staff of KOTI, presumably it was Yani who appointed and sent the team to ensure that his 25 September order to release the foreign staff was being carried out. The KOTI team leader was a Colonel Sunarso, and the team was accompanied by representatives from the Ministry of Basic Industry and Mining, the US and British consuls, and senior officials from Shell Jakarta. After a day's investigation, Sunarso told the senior Shell representatives that because of the tense situation, it would be best if a temporary liaison team consisting of local Indonesian staff members of Shell were formed to serve as a bridge between expatriates and Indonesian personnel. This liaison team would serve until conditions permitted a resumption of direct contact between expatriates and Indonesian personnel. Senior Shell officials, eager to defuse the situation, agreed to the temporary arrangement. At a meeting the next morning (29 September) of Shell representatives, Colonel Soehardjo and the KOTI team, Soehardjo indicated he supported the idea of a liaison team and said he would appoint such a team after further discussions between his office and Shell. A meeting to discuss the appointments was arranged for the next morning (September 30) because Soehardjo was leaving town the afternoon of the 30. However, that meeting never took place; instead, before he left town, Soehardjo appointed a team of 13 "assistant commissars."¹³²

Through a variety of measures, including the expansion of the authority of the 13 assistant commissars far beyond what had been anticipated by Shell, Colonel Soehardjo was able to maintain control of the facility. For example, direct contact between expatriates and Indonesians other than the 13 assistant commissars was prohibited, and the assistant commissars were regularly unavailable to act as communication channels. This resulted in intermittent communications among the oil field, the pipeline and the refinery. Expatriates were not even allowed to telephone each other except via representatives of the National Front, and even medical doctors could not give orders to staff. Contact with the world outside Balikpapan was extremely limited, and at one point

¹³¹ See footnote four for details on KOTI.

¹³² Letter dated 21 October 1963 from Shell Indonesia to Chaerul Saleh (UKNA, FO 371/169943).

in early October foreigners were even prohibited from speaking on the phone. More importantly, none of the foreign staff was making any management decisions; the assistant commissars had completely usurped their authority. Instructions from the foreign managers were ignored by the assistant commissars, and unauthorized staff signed a number of contracts and over 80 payment vouchers. Further, changes in Indonesian personnel were frozen as of 30 September.¹³³ A team of Shell expatriates from Sumatra was even prevented by local authorities from visiting the facilities. Shell-appointed management was clearly no longer in control of the Balikpapan facility and the nearby oil fields.

There was little that Shell could do but appeal to the central government in Jakarta to intervene, specifically to Minister of Basic Industry and Mining Chaerul Saleh (under whose jurisdiction Shell fell). In the absence of danger to person, Shell obviously did not want simply to pull out the expatriates already in place, as such a gesture might be interpreted as tantamount to surrender. In early October it began working on a plan to replace the British expatriates with other foreign nationals, but it was evidently hoping that the situation would, somehow, resolve itself.¹³⁴ Finally, on 19 October, Shell representatives met with Minister Chaerul Saleh, who had clearly gone to great efforts to avoid meeting them. The Shell representatives described what was happening and then proposed a plan by which they would overhaul the entire management of Balikpapan by removing all current 66 expatriates, replacing 27 expatriates with Indonesians, injecting 34 new non-British expatriates, and essentially eliminating the other five positions held by foreigners. Saleh described Soehardjo as a “cowboy” and a “bad joke” and indicated that things would never be satisfactory as long as Soehardjo was in control. However, he indicated that removing Soehardjo was a very difficult matter; he would consider sending Ibnu Sutowo (a very important GOI oil official, see Chapter Three) to Balikpapan to check out the situation. He also suggested that Shell contact other senior GOI officials, such as First Minister Djuanda, Foreign Minister Subandrio, and General Yani, the idea

¹³³ See British embassy telegrams (Gilchrist) dated 2 October 1963 (UKNA, FO 371/169942), 4 October 1963 (UKNA, FO 371/169924), and 11 October 1963 (UKNA, FO 371/169942), and Shell Indonesia letter to Chaerul Saleh dated 21 October 1963 (UKNA, FO 371/169943).

¹³⁴ See British Foreign Office Secret Note (Warner) dated 4 October 1963 (UKNA, FO 371/169942) and British Foreign Office Restricted Note (Cable) dated 12 October 1963 (UKNA, FO 371/175284).

being that only pressure from these men could get President Sukarno to remove Soehardjo from Balikpapan. Saleh also requested that the situation in Balikpapan be documented, a request that Shell happily complied with.¹³⁵ The meeting clearly indicated that Minister Saleh had little control over Soehardjo and in Saleh's view Sukarno was the only one who had the power to remove him.

Unfortunately for Shell, the meeting with Chaerul Saleh on 19 October changed nothing over the next two months. The situation remained the same in Balikpapan, and even worsened, as Shell management continued to be effectively frozen out and acts of harassment continued.¹³⁶ On 4 November Shell representatives saw Minister Chaerul Saleh and First Minister Djuanda, both of whom commented on the difficulty of removing Soehardjo given the favor he enjoyed with President Sukarno.¹³⁷ On November 13, Minister Saleh at another meeting with Shell representatives said he had appointed Sutowo to deal with the situation. Saleh also indicated that he would shortly issue new regulations which would abolish the post of GOI Commissioner and assistant commissioners in an effort to reduce Soehardjo's control over Shell Balikpapan. He even suggested that he might visit Balikpapan himself and take Soehardjo, who was currently in Jakarta, with him. Saleh made it clear, however, that he had no power to remove Soehardjo from his positions as military commander for East Kalimantan and regional head of the National Front, and thus the situation would continue to be difficult as long as there were British expatriates.¹³⁸ However, Saleh did not issue any decrees, nor did he visit Balikpapan, and nor, for that matter, did Sutowo. Meanwhile, Shell began withdrawing the expatriates in early November, though it was unable to replace them yet.

In mid-December, things finally began to change, and by the end of the month newly-appointed Shell management was in control of the facility. On 12 December, Minister Chaerul Saleh issued a decree that, *inter alia*, approved Shell's new personnel program and eliminated the assistant commissioners.¹³⁹ However, on 18 December this decree was rescinded (the explanation given was that it needed improvement), which

¹³⁵ British Embassy telegram (Oliver) dated 21 October 1963 (UKNA, FO 371/169943).

¹³⁶ Shell Indonesia letters to Chaerul Saleh dated 26 November and 28 November 1963 (UKNA, FO 371/169943).

¹³⁷ British Embassy telegram (Oliver) dated 4 November 1963 (UKNA, FO 371/169943).

¹³⁸ British Embassy telegram (Oliver) dated 13 November 1963 (UKNA, FO 371/169943).

¹³⁹ Surat Keputusan Menteri Perdatam no 932/M/Perdatam/63 dated 12 December 1963.

forced Shell's new Balikpapan management team (headed by an American), finally assembled, to remain in Jakarta. On 20 December Minister Saleh issued a new, slightly modified decree,¹⁴⁰ the primary difference with the 14 December decree being that although the assistant commissar system was rescinded, it could be reinstated upon appeal. In addition, Minister Saleh on 18 December also issued a separate decree which rescinded Decree No. 636 of 21 September, meaning that the security team set up by Decree No. 636 was now abolished.¹⁴¹ Interestingly, these decrees were given to Shell only – they were not made public, though copies found their way to the US embassy. Shell's new management team, consisting of seven expatriates and 12 Indonesians, left Jakarta and arrived in Balikpapan on 21 December. Colonel Soehardjo was conveniently out of town, but the assistant commissar system had already been abolished and there was no trouble at all. The new management team was immediately able to take control of Shell's operations in Balikpapan and the nearby oil field, without incident.¹⁴² Stiles, the new American manager, later told the British Embassy that Soehardjo, at a meeting on 19 December with union leaders (a few days before the new management team arrived), claimed that he had gotten the 12 December decree rescinded and the new decree left open the possibility of a return of the commissar system. He also explained that the new decree had to be complied with and told the unions not to make any trouble.¹⁴³

What is the explanation for the bizarre series of events at Shell's Balikpapan facility in the fall of 1963 which defied the general rule of oil company exceptionalism? How was Colonel Soehardjo able to take over Shell's installations for a three month period in defiance of the Contract of Work as well as Minister Chaerul Saleh and others who supported Shell's operations in Indonesia? The answer probably has to do with the relationship between President Sukarno and Colonel Soehardjo. As Chaerul Saleh had intimated to Shell, Soehardjo was close to President Sukarno and could not be removed without Sukarno's approval; indeed, he had the reputation "as a 'palace man' who would

¹⁴⁰ Surat Keputusan Menteri Perdatam no 946/M/Perdatam/63 dated 18 December 1963.

¹⁴¹ Surat Keputusan Menteri Perdatam no 947/M/Perdatam/63 dated 18 December 1963.

¹⁴² British Embassy telegrams dated 14 December 1963 (Gilchrist), 18 December 1963 (Gilchrist), 20 December 1963 (Gilchrist), and 29 December 1963 (Oliver) (UKNA, FO 371/169943); US Embassy telegrams dated 19 December 1963 (Galbraith) (USNACP, RG 59 Central Files 1963, Inco 10 Indon, Box 3501), 25 December 1963 (Galbraith) and 31 December 1963 (van Swearingen) (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹⁴³ British Embassy telegram (Oliver) dated 29 December 1963 (UKNA FO 371/169943).

often report directly to President Sukarno even before he reported to Army headquarters,” a habit that did not sit well with General Yani.¹⁴⁴ Whether Soehardjo was acting on President Sukarno’s behalf or on his own is unclear, but clearly President Sukarno was protecting and even tolerant of Suhardjo’s actions (in spite of Sukarno’s personal involvement in the negotiations with the oil companies in late May/early June in Tokyo). Within the context of the Sukarno/Soehardjo relationship, it seems likely that Soehardjo’s support for and prosecution of Konfrontasi was a key factor. As we saw in Part I above, Soehardjo as the military commander of East Kalimantan had assisted in the training, or at least permitted the training of, members of the TNKU group which had crossed into and initiated the rebellion in Brunei in December 1962. Moreover, East Kalimantan was strategically located along the border with Sarawak and Sabah (where most of the physical fighting in Konfrontasi occurred); while apparently most of the military incursions prior to September 1963 originated from West Kalimantan, not East Kalimantan, incursions into Sabah that began after Konfrontasi broke out could only come from East Kalimantan.¹⁴⁵ It seems likely that President Sukarno, the impetus behind Konfrontasi, was willing to provide Soehardjo with abundant leeway, provided Soehardjo conducted Konfrontasi in accordance with Sukarno’s wishes. That is, Sukarno was willing to overlook Soehardjo’s seizure of Shell’s facilities in defiance of the CoW as long as Soehardjo supported Sukarno’s Konfrontasi efforts.

Why, then, was Colonel Soehardjo so determined to control Shell? Aside from the question of whether Soehardjo was acting on behalf of President Sukarno, Soehardjo clearly held some strong feelings against the British, evidenced not only by his words and actions but also by his returning the facility to Shell control once British personnel were gone and the non-British management team arrived. This may of course have something to do in part with patriotic feelings stirred up by Konfrontasi, but Soehardjo’s strong anti-British feelings “reportedly resulted from the suffering his family experienced at the hands of the British at the time of the battle of Surabaya in the first year of the Revolution.”¹⁴⁶ Thus, it may be that Soehardjo’s actions were more anti-British than

¹⁴⁴ Bunnell, *Kennedy Initiatives*, p. 269 (footnote 72).

¹⁴⁵ See *Indonesian Involvement in Eastern Malaysia*, pp. 47-74.

¹⁴⁶ Bunnell, *Kennedy Initiatives*, p. 269 (footnote 72). This fierce battle was in November 1945, and even today in commemoration 10 November is celebrated as Heroes Day in Indonesia.

anti-Shell (though Shell was British-owned). It is also possible, though there is no evidence, that Soehardjo thought the facilities of Shell – its refining operations and supply of oil – would be very useful for the army if significant fighting broke out in Kalimantan. In any case, something in December 1963 happened – it is unclear what the deciding factor was – that either changed Soehardjo's mind or his influence with Sukarno. It may simply have been that Shell, with the replacement of most of its expatriates in Balikpapan and the arrival of a brand new management team in Jakarta in mid-December – had finally met Soehardjo's clear precondition of expulsion of British nationals. It is also possible that Sukarno bowed to pressure from Chaerul Saleh, General Yani and others who realized the importance of Shell's continuing its operations efficiently and productively, something that clearly was not happening under Soehardjo's control.¹⁴⁷

7. Status at End of 1963.

At the end of 1963, the status of the seized British companies was as follows. Three of the four British firms in Jakarta which were taken over by the DPS-KBKI in mid-September 1963 – Harrisons & Crosfield Jakarta office, Commercial Union insurance, and JA Watties - remained under GOI control. In these three cases, expatriate management had been displaced; at Watties, it appeared that Indonesian staff were mostly managing operations, while at the other two GOI representatives were clearly in charge. While the owners of all three firms had lost control of management, at least in the case of Watties it appeared that operations at the office and on the 25 plus estates

¹⁴⁷ According to Shell, Soehardjo was finally removed from his position as military commander of East Kalimantan in early 1965, apparently because he had concealed the number of casualties in the Konfrontasi fighting, even lying to President Sukarno (see US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389)). Crouch and Sundhausen noted that Soehardjo was removed as East Kalimantan military commander in February 1965 and sent to Moscow to study so that General Yani could better control the escalation of Konfrontasi (Crouch, *Army and Politics in Indonesia*, pp. 73, Sundhausen, *Road to Power*, pp. 187). There are conflicting reports of his activities after September 1965; Mackie reported that after the 30 September 1965 attempted coup Soehardjo "was suspected of PKI affiliations and went underground. He was later arrested." (Mackie, *Konfrontasi*, pp. 144, footnote 24) He was also rumored to have been involved in guerilla activity along the Sarawak border in 1967-8; see pp. 42 of Justus van der Kroef, "Indonesian Communism since the 1965 Coup," *Pacific Affairs* 43, no. 1 (1970). A collection of Soehardjo's speeches and writing from 1962 while he was military commander of East Kalimantan was published in 1963; for an excerpt in English, see pp. 431-4 of Feith and Castles, *Indonesian Political Thinking*.

managed by the firm continued as normal, suggesting that there may not have been a real break with ownership. The owner-appointed management of Dunlop Rubber, the fourth British company taken over by the DPS-KBKI in September, was able to regain control of the company after about a month, though a GOI supervisory team remained on premises and seemed to interfere continually in varying degrees. With respect to Shell Oil, its operations at the Pladju refinery had been restored to owner control after one day, but its operations at Balikpapan had been returned to owner control only in late December. As for the numerous British enterprises placed under supervision by the Governor of West Java, supervision was either non-existent or nominal at best; there are no reported cases of significant interference in management or control. Outside Jakarta, West Java, and Shell's operations in Pladju (South Sumatra) and East Kalimantan, the only other reported takeover activity was (a) the appointment by the Ministry of Peoples Industry of a joint 'supervisor' for the Semarang (Central Java) offices of Shell, BAT and Maclaine Watson (however, this person in no way interfered with operations of management and apparently had little contact with the companies) and (b) as noted previously, the takeover by the Department of Finance of Commercial Union's office in Surabaya.

Interestingly, the Governor of East Java in early October issued two regulations involving British firms there. These decrees did not seek to control or supervise the companies, but instead sought to establish "assistance teams" that could help improve production at the firms. The teams were meant to be composed of various officials from the East Java provincial government. These decrees only came to light in mid-November when the East Java Governor sent them to four British manufacturing companies in the Surabaya area and asked for suggestions about how to implement them. The companies never responded, and nothing more was heard regarding the decrees except once in mid-January, when, as we shall see in Chapter Five, the teams made a brief appearance. The intent behind the decrees is not clear, though it may have been an attempt to forestall any labor union takeovers (the idea being that the Governor could argue that government

teams were already in place in the companies and so there was no need for the labor unions to take them over).¹⁴⁸

III. The Takeover of Malaysian Enterprises and Aftermath.

In contrast to the official government “no touch” policy toward British companies in the fall of 1963, the GOI policy in the case of Malaysian enterprises was to place them all under government control. There was no equivocation by the GOI in the case of these enterprises, and these takeovers were clearly motivated by foreign policy considerations, primarily the outbreak of formal Konfrontasi in September 1963. There were no reports of labor union or worker activity which precipitated the imposition of GOI control, another indication that the reason was strictly related to Konfrontasi. Unfortunately, however, there is little reliable information available with respect to the takeover of these companies. In particular, it is unclear how many firms were taken over; a GOI report in early 1967 claimed that 20 Malaysian rubber remilling firms had been taken over, but I have found evidence of only 10 (see Appendix A). (This is in addition to about 20 estates owned by individual Malaysians.) In general, the best we can do for the moment is to describe the measures the GOI took against these businesses.¹⁴⁹ These initial measures appeared chaotic, impromptu and uncoordinated, suggesting that the various authorities and officials of the GOI were not altogether on the same page.

The first measure taken was the revocation on 15 October 1963 of the business license of the Overseas Chinese Banking Corporation, a bank headquartered in

¹⁴⁸ See Governor of East Java (Wijono) Decree Nos. Pol 1650/63/PST and Pol 1651/63/PST dated 9 October 1963; US Surabaya Consul telegram (Black) dated 3 January 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹⁴⁹ As we saw in Chapter Three, the Malaysian business presence in terms of foreign investment, consisting of enterprises from Singapore, Malaya, Sarawak and Sabah, was fairly small in Indonesia at that time. With the exception of the Overseas Chinese Banking Corporation, most Malaysian businesses appeared to be in the rubber remilling business or rubber smokehouse business and located in either Sumatra or Kalimantan. Some of these firms seemed to have a strong position in the rubber remilling industry; for example five Malaysian firms supposedly accounted for over 50% of the total rubber remilling production in Palembang (a major rubber remilling center) in 1963. Most of these businesses were owned by Malaysians of Chinese descent.

Singapore, by the Indonesian Central Bank.¹⁵⁰ It is unclear how big OCBC's operations in Indonesia were, but presumably it had branch offices in at least Jakarta and Medan (the business capital of North Sumatra which had a large ethnic Chinese population). The revocation of OCBC's license was taken even before the GOI announced what measures it was going to take against Malaysian firms.

On 29 October 1963, President Sukarno issued a decree under which the GOI took control over (*dikuasai*) all rubber remilling enterprises and smokehouses that were partially or wholly owned or financed by either Malaysian citizens or people who resided in Malaysia.¹⁵¹ The decree cited national economic development and confrontation in the economic field against Malaysia as reasons for the measure. The decree specified that the Ministry of Agriculture and Agrarian Affairs was to take control over (*penguasaan*) and be responsible for these enterprises, though no firms were specifically named.¹⁵² It also indicated that screening to determine ownership status should be turned over to provincial governments. Though the decree was limited to remilling companies and smokehouses instead of all Malaysian companies, it was expansive in three ways; first, it included firms that were only partially owned/financed as well as fully owned/financed, second it included not just firms that were owned but also firms that were financed, and third it included not just businesses partially or wholly owned/financed by Malaysian citizens but also by anyone who resided there.

¹⁵⁰ Surat Keputusan Menteri Urusan Bank Sentral (Notohampirprodjo) No 35/63Kep/MUBS dated 15 October 1963. The decree indicated that the Central Bank had been instructed to take this measure by an order from the Commander of the First Operating Unit of KOTOE (Instruksi Panglima Kesatuan Operasi I, Kommando Tertinggi Operasi Ekonomi No. 2/KO-I/63 dated 3 October 1963). OCBC itself was formed in 1932 by the merger of three banks (Allen and Donnithorne, *Western Enterprise*, p. 194).

¹⁵¹ Keputusan Presiden/Panglima Besar Komando Tertinggi Operasi Ekonomi (Sukarno) No 7/KOTOE 1963 Tentang Penguasaan Perusahaan-Perusahaan Remilling Karet Dan Rumah-Rumah Asap, dated 29 October 1963.

¹⁵² Curiously, prior to mid-October the GOI ministry in charge of rubber remilling and smokehouse firms (regardless of nationality) was the Ministry of Peoples Industry. On 12 October, responsibility for these firms was transferred to the Ministry of Agriculture and Agrarian Affairs by a joint decree issued by both Ministers (Sadjarwo and Azis Saleh). The reasons for the transfer of responsibility are not clear, but presumably it was in preparation for the assumption of control over the Malaysian firms. Likewise, whether Minister of Agriculture and Agrarian Affairs Sadjarwo was acting on his own initiative or was under orders from higher authorities is also unclear. Surat Keputusan Bersama Menteri Perindustrian Rakyat (A. Saleh) dan Menteri Pertanian dan Agraria (Sadjarwo) No. 139/SK/X/63 dan SK 236/PA/1963 Tentang Penjerahan Urusan Rumah Pengasapan Karet dan Urusan Perusahaan Remilling Karet Kepada Menteri Pertanian Dan Agraria, dated 12 October 1963.

The next measure was a regulation issued by Minister of Agriculture and Agrarian Affairs Sadjarwo on 31 October that again indicated GOI policy was not yet coordinated.¹⁵³ This regulation established a ‘Center for Rubber Estates in Riau Province’ (*Pusat Perkebunan Karet Negara Riau* or ‘PPN Karet Riau’) whose function was to control (*penguasaan*) and manage (*menjelenggarakan ketatalaksanaan*) estates, rubber remilling firms and smokehouse that (a) were partially or wholly owned or financed by Malaysian citizens or people residing in Malaysia and (b) were located only in Riau province (on Sumatra island). It is unclear why the regulation was limited geographically to Riau only. The regulation did not even mention Sukarno’s decree on Malaysian remilling and smokehouse firms issued two days before, though the language of “partially or wholly owned or financed by Malaysian citizens or residents of Malaysia” was practically identical. Instead, the regulation stated that the decision to take over the companies was reached during discussions between the Minister of Agriculture and Agrarian Affairs and representatives of KOTI/KOTOE on 25 October, and that the measures were being taken while awaiting a decision from the President. Of course, only a few days had elapsed since the issuance of Sukarno’s decree on 29 October, so it is perhaps understandable that there was some confusion, but certainly there was an obvious lack of communication. In addition, the limiting of the regulation to Riau province is also very puzzling. The regulation did not state who the members of the PPN Karet Riau were. It did provide, however, that until the PPN Karet Riau was formed, matters would be handled by a preparatory body which was headed by an official from the BPU PPN Karet (the management board for state-owned rubber companies) and consisted mostly of officials from the Ministry of Agriculture and Agrarian Affairs based in Riau province. In implementing GOI control, the preparatory body was also charged with ensuring the continuation of production and sales. The Governor of Riau would provide advice to the body, and the Governor was also responsible for ‘screening’ the enterprises, which presumably meant ascertaining the ownership of the businesses to ensure they were owned/financed by Malaysians.

¹⁵³ Peraturan Menteri Pertanian Dan Agraria (Sadjarwo) No 23 Tahun 1963 Tentang Pelaksanaan Penguasaan Perkebunan-Perkebunan, Remilling-Remilling dan Rumah-Rumah Asap Didaerah Tingkat I Riau, dated 31 October 1963.

On 27 November, President Sukarno issued another decree that effectively placed all Malaysian companies under the control (*penguasaan*) of the GOI.¹⁵⁴ This decree thus in theory significantly expanded Sukarno’s decree of 29 October, which was limited only to rubber remilling and smokehouse firms. Specifically, the decree “froze” (*dibekukan*) and then placed under GOI control (*dikuasai*) all companies in the field of trade, production (agriculture or mechanical), and service (including ships and other means of transport) that were partially or completely “owned/financed/controlled” by Malaysian citizens or those who resided in Malaysia. The decree cited the development of the national economy as well as Konfrontasi against Malaysia in the economic field as reasons for the measure. The decree instructed various GOI ministers and officials to implement the measure, and provided that all implementing measures would be coordinated by the Commander of the First Operation of KOTOE. Thus it appeared that KOTOE would in effect be in charge of the takeovers. In addition, the decree specified that “screening measures” (not defined, although presumably meant to ascertain ownership) were to be undertaken primarily by provincial Governors.

Minister of Agriculture and Agrarian Affairs Sadjarwo then issued two rather confusing regulations that attempted to coordinate with the two Presidential decrees, though again the process did not appear to be particularly smooth. On 16 November the Minister issued Regulation 25, which was designed to implement Sukarno’s decree of 29 October; however, something was wrong with the decree, and it had to be amended and then reissued again on 10 December.¹⁵⁵ The final version stated that control (*penguasaan*) and management (*ketatalaksanaan*) over the rubber remilling and smokehouse firms referred to in President Sukarno’s decree of 29 October would be given to the BPU PPN Karet, the overall managing board for the state-owned rubber companies. (This seemed to contrast slightly with the Minister’s Regulation 23, which in the case of Riau indicated that Malaysian companies in Riau would be controlled by a

¹⁵⁴ Keputusan Presiden (Sukarno) No. 241/1963 Tentang Pembekuan dan Penguasaan Semua Perusahaan Jang Sebagian atau Seluruhnya Dimiliki/Dimodali/Dikuasi oleh Pihak-Pihak Bewarga-Negara “Malaysia” atau Warga Negara Republik Indonesia Jang Berdomicili/Bertempat-Tinggal di Daerah “Malaysia,” dated 27 November 1963.

¹⁵⁵ Peraturan Menteri Pertanian dan Agraria (Sadjarwo) No. 25 Tahun 1963 (Disempurnakan), Tentang Pelaksanaan Keputusan Presiden/Panglima Besar Kotoe No. 7/KOTOE/63, dated 16 November 1963, and modified and reissued on 10 December 1963. I have not found a copy of the 16 November version.

PPN Karet Riau, although its membership was not certain.) Each province in which one of these firms was located was to form a screening team to investigate the status of the firms; the screening teams would be headed by the provincial Governors and comprised mostly of officials from the Ministry of Agriculture and Agrarian Affairs based in the respective province. The BPU PPN Karet was to implement control over the firms only after receiving confirmation from the screening team of their status, and in managing the firms it was to ensure the continuity of production and sales. In each province, the BPU PPN Karet was to be advised by a supervisory board (*Badan Pengawas*), comprised of the provincial Governor (who served as chairman), four officials from the Ministry of Agriculture and Agrarian Affairs who were based in the province, a representative from a state bank, and an unspecified number of representatives from farmers and workers organizations who were to be appointed by the Governor.

The second regulation issued by the Minister of Agriculture and Agrarian Affairs was Regulation 1 of 1964, which was intended to supplement President Sukarno's decree of 27 November.¹⁵⁶ This regulation did several things. First, regarding Malaysian-owned businesses in Riau, it expanded the scope of Minister Sadjarwo's regulation of 31 October 1963 – which had applied only to estates, remilling and smokehouse businesses – to cover all Malaysian businesses in Riau. It made a few adjustments to the composition of the Riau “preparatory board” and also said that if any of the businesses were not related to rubber then control should be given to the appropriate management board. The bottom line was that in Riau province, but nowhere else, the PPN Karet Riau and preparatory team would remain. The reason for this distinction between Riau and other provinces was not given. Second, the regulation indicated that the provisions of Regulation 25 regarding screening teams, control/supervision and management, and advisory boards should be extended to all Malaysian companies, not just remilling and smokehouse firms. If a Malaysian firm were not in the rubber industry, control over it should be given to the appropriate state management board, which should manage the company in the same way as the BPU PPN Karet. In addition, the screening teams were

¹⁵⁶ Peraturan Menteri Pertanian Dan Agraria (Sadjarwo) No 1 Tahun 1964 Tentang Pelaksanaan Keputusan Presiden Republik Indonesia No. 241 Tahun 1963, dated 6 January 1964.

to be expanded by the addition of an unspecified number of representatives from workers organizations. This was clearly a gesture to the workers.

There appears to have been no implementing regulations issued by other ministries in respect of Malaysian businesses. President Sukarno did, however, issue one last decree targeted against Malaysians.¹⁵⁷ Under this decree, issued in early April 1964, the GOI froze and then seized all bank accounts registered in the name of Malaysian citizens or in the name of Indonesian citizens who lived in Malaysia. However, account holders were allowed to withdraw a total of Rp. 50,000 per month for daily needs.

The actual number of Malaysian companies taken over under these decrees, and how the decrees were implemented in practice, remains unclear. As indicated earlier, the GOI reported in 1967 that 20 Malaysian remilling firms were taken over (as well as about 20 estates owned by individuals, mostly of Chinese descent), though other GOI records name only 10 (see Appendix A).¹⁵⁸ An *Antara* (the state news agency) article of 28 November 1963 indicated that 143 Malaysian remilling companies and 259 smokehouses had been placed under GOI control, though these numbers seem extraordinarily high.¹⁵⁹ Other *Antara* reports indicate that screening was underway by mid-November.¹⁶⁰ If the decrees were followed, once Malaysian ownership was established then control over the remilling and smokehouse firms was to go to the BPU PPN Karet, the managing board for all state-owned rubber companies.

In practice, it appears that over the next several years the Malaysian remilling companies were controlled by three separate groups. At least ten of the factories were handed to provincial or local governments to manage, at least six factories were “rented” to private Indonesian businesses, and some four remained under the control of the BPU PPN Karet (see Appendix A for details).¹⁶¹ A decree issued by KOTOE in mid-

¹⁵⁷ Keputusan Presiden (Sukarno) No. 73/1964 Tentang Pembekuan dan Penguasaan Rekening Pada Semua Bank Jang Tertjatat atas Nama Warganegara “Malaysia” atau Warganegara Republik Indonesia Jang Berdomicili/Bertempat Tinggal di Daerah “Malaysia,” dated 2 April 1964.

¹⁵⁸ See p. 1 of Laporan Kedua of the Panitia Ad Hoc Interdepartemental Urusan Penyelesaian Penguasaan Perusahaan2 Asing dated 9 January 1967 (ANRI, EKUIN files).

¹⁵⁹ *Antara*, 28 November 1963 (p. 7 of ‘Ekonomi dan Keuangan’ section).

¹⁶⁰ See, e.g., *Antara* dated 10 November 1963 (p. 3 of ‘Ekonomi dan Keuangan’ section) and 11 November 1963 (p. 12 of ‘Ekonomi dan Keuangan’ section).

¹⁶¹ See p. 1 of Laporan Kedua of the Panitia Ad Hoc Interdepartemental Urusan Penyelesaian Penguasaan Perusahaan2 Asing dated 9 January 1967 (ANRI, Ekuin files); see also list of Malaysian companies in Pengembalian Remilling2 Ex Malaysia Kepada Pemiliknya (160/IX/EKUIN/68) (ANRI, EKUIN files).

September 1964 indicated that the companies could be transferred to both state enterprises and “progressive” private Indonesian enterprises meeting the following requirements: (i) experience and skill in the rubber trade, (ii) responsible enough for the safety and maintenance of production equipment, (iii) able to remove, and operate without, elements of Malaysian capital, and (iv) such other requirements as KOTOE may impose from time to time.¹⁶² The practice of “renting out” the companies to private Indonesian businessmen suggests that the government may not have had the resources or personnel to manage the companies, but it may also have been a case of doling out patronage to supporters. The private companies were required to sign contracts with the government, under which the private companies agreed to pay deposits of Rp. 100 million as well as annual lease payments. It is unclear how the lease payments were determined. One government report indicated that six private companies (NV Metro Trading, PT Teluk Harapan, Rachman Tamin, Daood Djafar, PT Piola, and PT Windu) had each paid the Rp.100 million deposit as well as made a combined total of Rp.373 million in lease payments (out of the total of Rp.398 million due) for the years 1964-7.¹⁶³ Pursuant to decrees issued in late October 1964, money from the rents was supposed to be used to encourage the growth of smallholder rubber and was to be turned over to a body named *Dana Tanaman Keras* for that purpose. That same body was also assigned the duty of exercising “technical supervision” over the Malaysian companies, even though they were now leased out to private Indonesian companies; it is unclear what “technical supervision” entailed in practice.¹⁶⁴

An analysis of the Chinese in the South Sumatran rubber industry provides some details of the takeover and management of the five Malaysian remilling factories located in Palembang, which together accounted for 53% of the production in 1962 of remilled

¹⁶² See Decree of Commander of Operation Unit I KOTOE (Leimena) No./26/KO-I/64 dated 16 September 1964 (English translation only, from BKS-PPS, Keputusan 2, V-2, 1964-5).

¹⁶³ Letter dated 18 December 1968 from Menteri Negara Ekonomi, Keungan dan Industri (acting via secretary Selo Soemardjan) to Menteri Keuangan (ANRI, R-16, No. 69).

¹⁶⁴ Peraturan Menteri Koordinator Komparteman Pertanian dan Agraria (Sadjarwo) No SK 107/Kompag/1964 Tentang Penggunaan Uang Sewa Perusahaan-Perusahaan Remilling/Rumah Asap Karet Milik Warga-Negara “Malaysia” Jang Disewakan Oleh Pemerintah Kepada Pengusaha-Pengusaha Swasta Nasional, dated 26 October 1964, and Peraturan Menteri Koordinator Komparteman Pertanian dan Agraria (Sadjarwo) No SK 109/Kompag/1964 Tentang Pengawasan Technis Atas Perusahaan-Perusahaan Remilling dan Rumah Asap Karet Milik Warga-Negara “Malaysia” Jang Disewakan Oleh Pemerintah Kepada Pengusaha-Pengusaha Swasta Nasional, dated 26 October 1964.

rubber produced in the area (Palembang was a major center for this business).¹⁶⁵ These five factories, Hok Tong, Sunan Rubber, Sumatra Rubber, Remco and Remifa (see Appendix A), were all owned by Malaysian Chinese. Hok Tong was managed by the PPN Karet, Sumatra Rubber and Remco apparently were initially leased to a company named PT Peksin (which was owned by five state-owned banks), while Remifa was leased to a pribumi Indonesian and Sunan Rubber to an Indonesian Chinese. Owner-appointed management was allowed to remain for the companies leased to private firms, but in the companies controlled by the government or its agents top Chinese managers were removed. A dispute over control of Sumatra Rubber broke out between the central GOI (acting through PT Peksin) and the regional government of South Sumatra, though it is unclear what the disagreement was about. In July 1965 the central government finally relinquished control over Sumatra Rubber in exchange for the regional government ending a requirement that the remilling companies enter into compulsory remilling contracts designed to squeeze the remillers to the benefit of regional interests.

IV. Conclusion.

The full outbreak of Konfrontasi in September 1963 resulted in two waves of takeovers of foreign companies by the Indonesian government. A handful of British companies in Jakarta were seized by the DPS-KBKI labor federation, forcing an ambivalent GOI to place these companies under government supervision, a deliberately ambiguous term that not only avoided the severe connotation of terms like ‘nationalization’ and ‘expropriation’ but also gave the GOI time to figure out what to do with the companies. Thus, these takeovers resulted primarily from domestic political instability. In practice, supervision varied from company to company but overall seemed fairly light. More importantly, President Sukarno and the GOI came out unequivocally against further takeovers of British companies, imposing a prohibition on further

¹⁶⁵ Thomas and Panglaykim, “The Chinese in the South Sumatra Rubber Industry,” pp. 178-88. See also *Far Eastern Economic Review* dated 12 December 1963 (‘Round Up’ section), reporting that five Malaysian remilling firms in Palembang had been taken over by the provincial government of South Sumatra. The discussion in this paragraph comes from Thomas and Panglaykim’s account pp. 178-88.

seizures. Shell Oil was treated somewhat ambiguously; on the one hand, the immediate return of its Pladju facility was a testament to oil company exceptionalism, but on the other hand the treatment of its Balikpapan facility showed the limits of that principle.

The contrast between the takeovers of the British firms and the takeovers of the Malaysian firms, which began in late October, is instructive. Unlike the case of the British firms, there was no equivocation by the GOI in the takeover of the Malaysian firms. The GOI did not need the trigger of labor union/worker activity to seize control of these firms; President Sukarno, without any pretenses or ambiguity, was obviously determined to move against them, though the process itself was rather belabored and uncoordinated. Clearly the takeover of Malaysian companies was GOI-driven and essentially a weapon of foreign policy used in the Konfrontasi conflict. In legal terms, the seizure of the Malaysian companies was a clear-cut case of confiscation, while the takeover of the British firms was far more ambiguous and varied from company to company.

The reasons for this contrast are not all that clear, but we can guess. In the first place, there was little to fear from Malaysia regarding retaliation given (i) the relative economic insignificance of the companies, (ii) that economic relations with Malaysia had already been severed, and (iii) that Konfrontasi had already broken out. In a very real sense, the seizure of these Malaysian companies was principally a symbolic gesture in the Konfrontasi conflict. The situation regarding the British companies was quite different. The GOI did not initiate the takeovers, and seemed ill-prepared to deal with them in the chaos of the week of September 16. Moreover, British economic interests in Indonesia as a whole were far more significant than Malaysian economic interests, and thus seizing the entirety of British enterprises risked greater retaliation, resistance and economic disruption, particularly in the case of Shell. While it was easy enough to act against newly formed Malaysia, to act directly against a western power like Great Britain risked greater problems. As we shall see in the next Chapter, however, over the course of the next year these circumstances would change.

In the larger picture, the outbreak of Konfrontasi had great ramifications. As we saw in Part I above, it ended the only serious attempt by the GOI under Guided Democracy to reform the Indonesian economy, which would continue to deteriorate

quickly after the scuttling of the economic stabilization package. In foreign relations, Konfrontasi was in effect an undeclared war with Malaysia and Great Britain which not only added an element of great uncertainty to Indonesia's foreign affairs but also firmly ensconced the conflict with imperialism and OLDEFOs as the dominant feature of Indonesia's foreign policy. This policy course would eventually result in Indonesia's alliance with the PRC and isolation from the rest of the world. Konfrontasi also spilled over into domestic politics in numerous ways. As we shall see in the next Chapter, in late 1963 the PKI would make a number of decisions that would result in 1964-65 in its becoming much more visible and volatile on the domestic front, and Konfrontasi was a vehicle used by the PKI in its quest for further power. One of the means by which the PKI asserted this new attitude was the attempted seizure of a number of British firms in January 1964, which would trigger a process of creeping confiscations of these firms over the course of the year. Aiding this newfound assertion of influence by the PKI was the lifting of martial law in May 1963, which in reducing the powers of the army allowed for a limited revival of the larger political parties, chiefly the PKI but also the PNI.

Complementing the events of 1963 – the outbreak of Konfrontasi, the jettisoning of the economic stabilization program, the lifting of martial law, the two waves of takeovers of foreign companies - were significant developments within the GOI resulting from the death (by illness) of First Minister Djuanda on 7 November 1963. In the first place, the government lost an administrator of great experience and skill who was able at times to act as a moderating influence on President Sukarno. Secondly, Djuanda's death marked the intensification of the ongoing power struggle not only to influence President Sukarno but also to succeed him. In particular, Ministers Subandrio and Chaerul Saleh emerged as the two principal rivals for power behind Sukarno, with Subandrio the frontrunner.¹⁶⁶ In November 1963 after Djuanda's death the cabinet was reshuffled again and also restructured; the small Pimpinan Kabinet was reorganized and renamed the Presidium Kabinet, whose apparent purpose was to enable a small group of high cabinet officials to provide advice and guidance to President Sukarno. The Presidium Kabinet was comprised of three individuals who now had the titles of Deputy Prime Minister (with Sukarno acting as Prime Minister and President): First Deputy Prime Minister

¹⁶⁶ Agung, *Twenty Years Indonesian Foreign Policy*, p. 313; Mackie, Konfrontasi, p. 240.

Subandrio, Second Deputy Prime Minister Leimena, and Third Deputy Prime Minister Chaerul Saleh (who seemed to replace Djuanda, as both Subandrio and Leimena were Deputy First Ministers in the old structure). Subandrio retained his position as Foreign Minister, and was named Coordinating Minister of the newly formed Compartment of Foreign Affairs and Foreign Economic Relations. Chaerul Saleh retained his position as Minister of Basic Industry and Mining and was also elevated to the position of Coordinating Minister for the newly created Compartment of Development, which had in it the Ministry of Basic Industry and Mining (Minister Chaerul Saleh), the Ministry of Peoples Industry (Minister Azis Saleh), the Ministry of Agriculture and Agrarian Affairs (Minister Sadjarwo), the Ministry of Labor (Minister Ahem Erningpradja) and four other ministries.¹⁶⁷ Over the next two years, the influence of both Subandrio and Chaerul Saleh would grow as each jockeyed for position around President Sukarno amidst the general condition of quickly accelerating domestic political struggle.

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¹⁶⁷ See Simanjuntuk, *Kabinet Kabinet Republik Indonesia*, pp. 238-43. Adam Malik was also appointed to the cabinet as Minister of Trade.

Chapter Five: The Creeping Confiscations of British Enterprises in 1964

The third phase of the takeovers of foreign businesses in Indonesia from 1963-65 was the creeping confiscation of British companies over the course of 1964. Altogether some 42 British enterprises, many of which were in the estate business (accounting for some 86 British-owned estates), were confiscated by the GOI.¹ The course of the takeovers and the reasons behind them were very confusing, reflecting a situation that in general was extremely ambiguous, and I hope to impart some of this messiness and confused state of affairs – on the part of the GOI as well as the companies – in the following pages. I argue that initially the primary reason for the takeovers was domestic political struggle and instability in the form of a challenge to the GOI by the PKI, and that once the companies were put under government supervision they became even more susceptible to the vagaries of Indonesian politics, especially to competition within the GOI itself for the valuable economic resources they represented. Most of the takeovers by the government were accomplished in a very gradual manner, though in a few cases it was done quickly, and the timing varied from company to company. The method of GOI takeover invariably involved the usurpation by government-appointed personnel of managerial authority from owner-appointed managers and the eventual expulsion of the latter, a process that the companies for the most part were unable to resist, though a variety of ways were tried. Hence I use the term “creeping confiscation” to describe this drawn-out process. By the end of 1964 virtually all British companies – with the major

¹ The number of enterprises taken over does not include the four British companies taken over in September 1963. In addition, the figure of 86 estates does not include (i) the seven estates owned by British H&C/Lonsum in Java and Sulawesi that were taken over in September 1963, which would raise the total of British-owned estates taken over to 93, nor (ii) at least 12 non-British estates that were taken over during 1964 because they were managed by a British company, which would raise the total number of estates taken over in 1964 to 98.

exception of Shell Oil, a reflection of oil company exceptionalism - were firmly under the control of the GOI and had been effectively confiscated.

Perhaps the main reason for the ambiguity and drawn-out nature of the takeovers was because it was not the GOI which initiated them. Instead, the entire process started with the seizures or attempted seizures (most were not successful) of British companies in January 1964 by SOBSI-affiliated labor unions and the National Front. As we saw in Chapter Two, SOBSI was the PKI-controlled labor federation, and the National Front was also dominated by the PKI by 1964. Thus, it appears that the PKI was behind these attempted seizures. In fact, these January seizures were just one of many measures taken by the PKI in 1964-65 as it broke out of its shell of ‘domestication’ and went on a major political offensive, with Konfrontasi and its strongly nationalist and anti-imperialist stance providing an excellent vehicle through which the PKI could flex its agitational muscles. The greatly increased visibility and volatility of the PKI resulted in domestic politics becoming increasingly polarized at all levels, and battle lines were drawn most especially between the army and the PKI. The show of strength exhibited by the PKI led to the observation by some commentators that by late 1964 (if not sooner according to some) the domestic political power structure no longer took the form of a roughly equal but uneasy partnership between President Sukarno and the army, but rather had transformed into a rough ‘triangle’ of power among President Sukarno, the army, and the PKI. The PKI-led attempted seizures of British companies in January 1964 were in direct contravention of Presidential Decree 194/1963, which as we saw in the previous Chapter was issued by President Sukarno in September 1963 in the wake of the seizures of a few British companies and specifically prohibited the takeover of British firms unless ordered by the President himself. I argue that the attempted seizures by the PKI constituted a direct challenge to President Sukarno and the government over the course of Konfrontasi. These attempted seizures, and the different responses by regional governments, precipitated central government intervention in which the GOI in late January and early February placed all the affected British companies under its “control and supervision.”

The key question was what exactly did this government intervention mean? As with the September 1963 takeovers, the GOI studiously avoided the use of the words ‘nationalization’ or ‘expropriation,’ for GOI officials were aware from their experience

with the takeovers of Dutch companies in 1957-58 that such terms gave rise to the obligation to pay compensation to the companies under generally accepted international law principles. Instead, the terminology the GOI generally used to explain the companies' status was that the companies were under the government's *penguasaan* (control) and/or *pengawasan* (supervision). Such phraseology not only avoided the severe connotations of 'nationalization,' but also gave GOI officials plenty of time and leeway in determining just what was meant by these ambiguous terms. Indeed, it is arguable that the GOI in fact did not initially know what to do with these companies once they were put under its control but instead was playing for time. Complicating the situation was that the implementation of "control/supervision" was left to the discretion of the individual ministers under whose sectoral jurisdiction the companies fell, so that there was little coordination. Certainly, most of the companies were initially uncertain what these terms meant, though most were generally resigned to eventually losing their assets. Indeed, I argue that the placement under government control and supervision of the British companies affected by the attempted seizures in fact ultimately led to the confiscation of those companies as the GOI gradually wrested control over the companies away from owner-appointed management. In many instances it is not clear precisely when control over a company changed hands; hence the term "creeping confiscation" applies not only to the process within British firms individually but also to British firms as a group over time. Though the timing varied significantly, even within the same industry, ultimately all British businesses, with the important exception of Shell Oil (reflecting oil company exceptionalism) and the minor exception of Dunlop Tire, were effectively confiscated by the GOI by the end of 1964.

In general, the ministers under whose "control and supervision" the British companies were placed were given great discretion over how to implement it. However, I argue that the economic resources of the individual companies, in this case primarily precious foreign exchange revenues, were the major determining factor in how the minister implemented control/supervision. Usually a ministry takeover team was installed at the company, and it was this team which gradually usurped control/authority from the owner-appointed management, who were allowed to stay on for different lengths of time. Minister of Peoples Industry Azis Saleh did not seem to take a hard line toward the

British companies under his supervision (none of which generated much foreign exchange), as control over these companies was only gradually tightened. On the other hand, Minister of Agriculture and Agrarian Affairs Sadjarwo seemed much more aggressive in implementing GOI control over the estates, which constituted by far the largest sector of the British companies put under GOI control/supervision and as noted in Chapter Three were large earners of valuable foreign exchange. In fact, as we shall see in this Chapter, the takeover of these British estates triggered a major conflict within the GOI over control of these precious resources. Clearly, government ministers and other officials viewed the estates as valuable economic resources and as instruments of patronage, a means of doling out resources to supporters and increasing their own prestige, power and wealth, and likewise conversely viewed it as critical to keep such valuable resources and control over manpower away from their rivals inside and outside the government. There were, of course, other comparatively minor considerations present in the way in which the individual ministers and officials implemented “control/supervision,” such as attitudes towards foreign investment in general and outside pressures (often from labor unions).

The ambiguous position of the British companies was effectively resolved in late November 1964 with the issuance by President Sukarno of Presidential Decree 6/1964. This decree was a clear affirmation by President Sukarno, who had not issued any decrees with respect to foreign companies since his decree 194/1963 in September 1963, that all British companies in Indonesia (except Shell) were under government control and management. The motivations for the issuance of this decree were unclear, but a major factor appears to have been to settle the conflict within the GOI over control of the valuable British estates. It may also have been a reflection of Indonesia’s increasingly strident anti-imperialist foreign policy, a topic we shall examine in the next Chapter. This decree, like others before it, studiously avoided the usage of terms such as ‘nationalization’, ‘expropriation’ or ‘confiscation,’ though in practice it left no doubt that the British estates had been effectively confiscated by the GOI.

This Chapter is divided into six Parts. Part I traces both the PKI political offensive begun in early 1964 as well as the course of Konfrontasi over 1964. Part II analyzes in detail the attempted seizures of British enterprises by PKI-linked groups in January 1964

and the GOI response to this. Part III traces the creeping confiscation of the British companies by the GOI over the course of 1964, while Part IV analyzes the major struggle for control over the British estates that broke out within the central government. Part V discusses Presidential Decree 6/1964 of late November 1964 and its impact, and Part VI offers some concluding observations.

I. Background: The PKI in Domestic Politics and the Course of Konfrontasi.

As suggested in the introduction to Chapter Four, the outbreak of Konfrontasi in September 1963 had far-reaching implications for Indonesian domestic politics in that it provided the PKI with an opportunity to become a much more visible, volatile, and aggressive political force and thus interject itself into the prevailing political power structure of an uneasy, competitive partnership between President Sukarno and the Indonesian army. The PKI took full advantage of the strongly nationalist and anti-imperialist thrust of Konfrontasi, and in early 1964 went on the political offensive – indeed, this Chapter argues that the PKI-led attempted seizures of British companies in January 1964 were one manifestation of this new political dynamism. The overall effect of the PKI's new aggressiveness was a much intensified polarization of domestic politics throughout 1964 and 1965, and the Indonesian army in particular was on the defensive as it continued to jockey for position with President Sukarno. As we saw in Chapter Four, a major contributing factor for the army's decline was the lifting of martial law on 1 May 1963, which in addition to reducing the powers of the army also resulted in a significant increase in activity by the PKI, the PNI, and other groups. Section A of this Part I outlines the PKI's political offensive over 1964.

Section B traces the course of Konfrontasi over 1964. Konfrontasi continued to be the most important foreign policy issue for Indonesia over most of the year, and it also continued to be intertwined with domestic politics. Indeed, one of the many paradoxes of the conflict was that given the enormous attention paid to it domestically, one would have

expected Konfrontasi to develop into a major military engagement; however, the conflict never reached that level, though it clearly set Indonesia firmly on a strongly anti-imperialist course in its foreign policy. This is partly a reflection, I believe, that the parties in Indonesia most involved with the conflict – President Sukarno, the army, and the PKI, among others – each recognized that little could be gained by a full-scale war, instead seeking to keep the conflict at a very low level of intensity and using it to advance their own domestic political interests. In fact, as we shall see in this Chapter, Konfrontasi in many respects provided the backdrop for the takeovers of British companies in 1964, though initially not in a way one might expect.

A. The PKI and Domestic Politics.

The political offensive launched by the PKI in early 1964 and the PKI's emergence as a dynamic force in domestic politics over the course of the year, taking major political initiatives of its own, has been noted by numerous scholars.² Whether this political offensive actually resulted in a paradigmatic shift in the balance of power into an uneven triangle of power among President Sukarno, the army and the PKI as commonly thought is unclear given the ease in which the PKI was destroyed in late 1965 (see Chapter Seven, Part III), but it is certainly arguable that the PKI political offensive in 1964-65 resulted in a *feeling* that the balance of power was changing. The public visibility and volatility of the PKI also undoubtedly contributed to the rapid polarization of Indonesian politics, particularly between the PKI and its opponents, even as the army and President Sukarno continued to jockey for position. Moreover, after 1963 President Sukarno increasingly appeared to identify publicly with the PKI's position on a variety of ideological issues, suggesting to many observers that both the President and Indonesia had 'turned to the left.' This was accompanied by an apparent intensification of ideological indoctrination in the political sphere in which obtuse ideological abstractions and justifications became the focal point of political conflict, masking deeper struggles for power, as new slogans relating to Konfrontasi emerged and old slogans such as

² See, e.g., Crouch, *Army and Politics in Indonesia*, pp. 51, 69; Mortimer, *Indonesian Communism under Sukarno*, pp. 169, 204-5, 238-9; Sundhaussen, *Road to Power*, p. 181; van der Kroef, *Communist Party of Indonesia*, p. 279; Hauswedell, "Sukarno: Radical or Conservative," pp. 120-1; Feith, "The Triangle Takes Shape."

‘completing the Revolution’ continued to permeate political discourse. As one observer has argued, it was not just the PKI which took advantage of the change in circumstances; the PNI and other parties also tried to increase their power and influence, but the PKI was able to do it much better.³ The principal means for the parties to express themselves was by mobilization of mass support in the form of rallies, demonstrations, and the like, and hence there was a noticeable increase in 1964-65 in these mass actions.

For the PKI, the decisive moment towards this new course appears to have been the meeting of the Central Committee Plenum of the party from 23-26 December 1963. Certainly the decisions taken there were formulated over the course of the year, but this meeting was where they finally coalesced into a new approach, largely because the outbreak of Konfrontasi had enhanced the position of the PKI vis-à-vis Sukarno and party leaders “felt more secure and capable of taking political initiatives.”⁴ The initiative was apparently led by Aidit, the PKI leader, whose report to the central committee outlined a new “comprehensive theory of political change adapting the united front national strategy to the circumstances of Guided Democracy.”⁵ Aidit tasked the PKI with keeping Konfrontasi going so that Indonesia’s new anti-western course would continue and the PKI’s position would thus be strengthened. He judged that the time was right for the PKI to go on the political offensive, in particular that the party could “press its program on the

³ Rocamora, *Nationalism in Search of Ideology*, pp. 8-9, 317-24. Rocamora argues that there was a significant increase in PNI influence from 1963 to 1965 primarily because President Sukarno’s relationship with the army worsened and he came to depend more on both the PKI and PNI for support. Sukarno also recognized that the parties were the most effective means of mobilizing mass support. Aided by the lifting of martial law on 1 May 1963, the increase in the parties’ influence came at the expense of a slow ‘erosion’ of the army’s influence. However, of the 10 political parties only the PKI and PNI were able and willing to compete for influence at the national level. See also Mackie, *Konfrontasi*, p. 241.

⁴ Mortimer, *Indonesian Communism under Sukarno*, pp. 132-40, 205, 226-37, 269-72, 296-304, 353-7 (quoted language from p. 204). Mortimer (p. 204) argues that this enhancement of the PKI’s position vis-à-vis Sukarno came about because when Konfrontasi broke out the PKI “escaped its subordinate ideological role [which it had during the West Irian campaign] and began to provide the theoretical concepts that underwrote the campaign. Sukarno’s themes remained prominent, but they were progressively overshadowed by the innovations devised by the PKI leadership, and Sukarno himself came to borrow more and more extensively from the PKI’s ideological armory.” Mortimer analyzes the decisions taken at this December 1963 central committee meeting in separate chapters, and thus the significance of the meeting as a turning point in the PKI’s approach is somewhat downplayed.

⁵ Mortimer, *Indonesian Communism under Sukarno*, p. 205. For an English translation of this report, see D.N. Aidit, *Set Afire the Banteng Spirit! Ever Forward, No Retreat: Political Report to the Second Plenum of the Seventh Central Committee of the Communist Party of Indonesia (Djakarta 23-26 December 1963)* (Peking: Foreign Language Press Peking, 1964).

government by means of mass mobilization and intense campaigning.”⁶ One major theory Aidit suggested was that the main contradiction in the world was between imperialism and oppressed nations, which led to two core themes regarding the anti-imperialist struggle: first, that the nationalist independence movements in the third world were the central focus of the anti-imperialist struggle, and second that Southeast Asia was the central focus of this struggle and that Indonesia itself would play a central role in ousting imperialism.⁷ Moreover, under the cover of Konfrontasi, the PKI’s immediate tasks were “to strengthen Indonesia’s ties with the militant anti-imperialist countries, expel US influence from the country, radicalize the government, and remove right wingers...from administrative posts,” and in fact these were exactly the party’s main objectives over the next two years.⁸ In a related vein, the report clearly indicated that the PKI had tilted toward the PRC and away from Moscow.⁹

On economic matters, among other ideas Aidit suggested that self-reliance (BERDIKARI - see Chapter Seven) was the answer to Indonesia’s chronic shortage of food and clothing and that “the main effort should be directed toward arousing the peasants to carry out radical land reform,” by which he meant “confiscation of all landlord holdings and their distribution free to landless and poor peasants.”¹⁰ In making radical land reform a centerpiece of the PKI’s revolutionary offensive, Aidit pushed for the peasants to act on their own, and the report was effectively the beginning of the *aksi sepihak* (unilateral action) movement described below.¹¹ In addition to encouraging the peasants to act on their own in implementing radical land reform, Aidit called for the nasakomization (meaning adding representatives from the PKI and other communist organizations) of land reform committees, retooling of the Ministry of Agriculture and Agrarian Affairs, and the establishment of land reform courts.¹²

⁶ Mortimer, *Indonesian Communism under Sukarno*, p. 296.

⁷ Mortimer, *Indonesian Communism under Sukarno*, pp. 227-30. Mortimer seemingly suggests that Aidit was influenced heavily by the PRC in following this line; that may be true, but as we saw in Chapter Two (Part II Section B) President Sukarno had two years before already espoused this notion of imperialism and colonialism being the major problem of the world.

⁸ Mortimer, *Indonesian Communism under Sukarno*, p. 234.

⁹ Mortimer, *Indonesian Communism under Sukarno*, pp. 353-7.

¹⁰ Mortimer, *Indonesian Communism under Sukarno*, pp. 270, 297.

¹¹ Mortimer, *Indonesian Communism under Sukarno*, p. 296.

¹² Mortimer, *Indonesian Communism under Sukarno*, p. 297.

The PKI almost immediately began to follow the new direction laid out at the December 1963 central committee meeting. As I shall argue in Part II, the PKI-led attempted seizures of British firms in January 1964 were one manifestation of this new approach. Then, in May 1964 the PKI also undertook a campaign against US cultural penetration which took the form of a boycott of US films (see Chapter Six). The party also began attacking the army more stridently, demanding the banning of the army-controlled SOKSI labor federation, the reduction of army influence in the provinces, and accusing the army leadership of corruption and other malfeasance.¹³ The PKI was more outspoken in its calls for the “retooling” (meaning replacement of personnel) and/or nasakomization of various governmental agencies and departments. President Sukarno seemed supportive of the PKI calls for these measures with respect to the army as he continued to spar with army leadership for position. For example, the President in May 1964 abolished the body responsible for supervising the loyalty of government officials (known as PARAN, an acronym for the ‘Committee for Retooling Government Apparatus’) chaired by General Nasution and replaced it with a new body (known as KOTRAR, an acronym for ‘Supreme Command for Retooling the Apparatus of the Revolution’) under his own leadership which included General Yani as the chief of staff but did not include Nasution.¹⁴ Naturally, the party also supported President Sukarno in his anti-imperialist foreign policy, such as the growing alliance with the PRC and attempts to hold a second Afro-Asian conference.¹⁵

Perhaps the most well known feature of the PKI’s new political offensive was the *aksi sepihak* (unilateral action) movement referred to above. The thrust of this movement

¹³ Sundhaussen, *Road to Power*, p. 182.

¹⁴ Guy J. Pauker, "Indonesia in 1964: Toward a 'People's Democracy'?", *Asian Survey* 5, no. 2 (1965), p. 91. See also Crouch, *Army and Politics in Indonesia*, p. 80. In another example, as we saw in Chapter Two, in March 1964 the important bodies of regional government officials known the *Tjatur Tunggal*, comprised of the provincial governor (or regent or mayor, as the case may be), local army commander, local police chief and local public prosecutor, were expanded from four to five members to include the local National Front leader and were renamed the *Pantja Tunggal*. Many of these new National Front appointees were PKI members or nominees, and thus the change meant not only an increase in influence for the PKI but also a decrease in the influence of the army. On the other hand, largely because of the escalation of Konfrontasi to the Malaysian peninsula (see section B), in September 1964 Sukarno did order the partial restoration of martial law. As we shall see in Chapter Seven, the cat and mouse game between Sukarno and the army leadership continued into 1965.

¹⁵ Mortimer, *Indonesian Communism under Sukarno*, p. 238. See next Chapter for more on Indonesia’s foreign relations.

was that the PKI encouraged and led peasants in taking unilateral actions to enforce the provisions of the 1960 Basic Agrarian Law, which as we saw in Chapter Two placed both maximum (the amount varied by location) and minimum (two hectare) limits on family landownership, with land redistribution from families whose holdings exceeded the maximum limits to families whose holdings were less than the minimum. The minimum figure of two hectares was quite unrealistic in Java given the enormous population relative to land, and the program had been only spottily implemented by 1964. The fomenting of the *aksi sepihak* was in fact the first time the PKI had departed from the united front strategy developed in the early 1950s and emphasized class struggle as a centerpiece of its program.¹⁶ In the first few months, the PKI began a public relations campaign that included publishing reports of research undertaken in Java regarding the 1960 Basic Agrarian law that emphasized its lack of implementation.¹⁷ The PKI was highly critical of the lack of progress and urged peasants to take matters into their own hands. By April 1964 peasants in Central Java, undoubtedly aided by the PKI, began to take various unilateral actions, which ranged from presenting petitions to organizing demonstrations to seizures of land or crops and led to the first major conflicts with larger landowners and others, including the PNI. By June, peasant unilateral actions had also spread to East Java, where they resulted in serious violence and became a national issue; the central government was obviously divided over the question, and President Sukarno initially appeared to favor the actions.¹⁸ Much of the violence (ranging from destruction of property to kidnapping to killing) pitted PKI-led peasants against NU and ex-Masjumi landlords, and religious conflict became intertwined with class conflict as much of the land at stake was owned by staunch Muslims.¹⁹ By June the *aksi sepihak* had spread to Bali.

The *aksi sepihak* and resulting violence continued well into 1965, despite efforts by the government and the PKI to tone down the conflict. By September 1964 the pushback against the PKI in the *aksi sepihak* appeared to be gaining ground, but the

¹⁶ Mortimer, *Indonesian Communism under Sukarno*, pp. 299-300.

¹⁷ An excellent short analysis of the *aksi sepihak* can be found in chapter seven of Mortimer's *Indonesian Communism under Sukarno*, from which most of the following description derives.

¹⁸ Mortimer, *Indonesian Communism under Sukarno*, pp. 314, 320-1.

¹⁹ Mortimer, *Indonesian Communism under Sukarno*, pp. 317-9.

conflicts and violence continued. As the violence mounted, the government finally tried to intervene decisively; on 12 December 1964, as part of the Bogor meeting of President Sukarno and the 10 political parties (see below), all sides agreed to a vague declaration that emphasized consultation and consensus without insinuation, intimidation or violence in dealing with land questions.²⁰ However, the *aksi* continued for another few months, though at a clearly declining pace. By this time, the ire of many Muslims in East Java was inflamed, and there was a distinct rise in violence against the BTI (the PKI-controlled farmers organization) and its members, with the violence peaking in February and March 1965. The reaction against the *aksi sepihak* was clearly a partial defeat for the PKI, which only begrudgingly admitted that its position in East Java, Central Java and Bali had become precarious.²¹ The precariousness of the PKI's position, and the depth of the conflict aroused by the *aksi sepihak*, would be revealed in late 1965; Central Java, East Java and Bali, where most of the *aksi sepihak* took place, were also the places where most of the killings occurred (see Chapter Seven).

At the national level, much of the opposition to the PKI offensive was led by the Murba party, which as we saw in Chapter Two was led mostly by followers of Tan Malaka such as Trade Minister Adam Malik and was a bitter enemy of the PKI, even though it styled itself as a 'nationalist communist party.' The party's basic approach in countering the PKI was to identify itself as closely as possible with President Sukarno and his ideology while simultaneously trying to get President Sukarno to contradict, inadvertently, positions taken by the PKI.²² Hence, in what was clearly a move directed against the PKI, in April the Murba party proposed that all 10 existing political parties be dissolved and a brand new single party be created, a proposition which resembled previous calls by Sukarno. A raging polemical debate broke out in the newspapers over the next few months over this proposal, and naturally not just the PKI but also the PNI and the NU (the three large parties) opposed the measure. The issue died down in July after the government ordered a halt to the debate.²³

²⁰ Mortimer, *Indonesian Communism under Sukarno*, p. 322.

²¹ Mortimer, *Indonesian Communism under Sukarno*, pp. 323-7.

²² Mackie, *Konfrontasi*, p. 245; Crouch, *Army and Politics in Indonesia*, pp. 64-5.

²³ Pauker, "People's Democracy," pp. 89-90; Mackie, *Konfrontasi*, pp. 245-6; Crouch, *Army and Politics in Indonesia*, pp. 64-5.

The second and best known Murba-led pushback against the PKI was the establishment in early September 1964 of an organization called *Badan Pendukung Soekarnoisme* ('Body to Support/Promote Sukarnoism,' better known by its acronym BPS).²⁴ Though led by figures from the Murba party such as Minister Adam Malik, B.M. Diah and Sukarni, by November it emerged as the focal point of opposition to the PKI and was supported by members of the PNI and the Moslem parties, members of the army such as army commander General Yani, various ministers including Chaerul Saleh (who was associated with the Murba party, though he claimed not to be a member), much of the national press, the smaller Protestant and Catholic political parties, and a host of others whose most common denomination seemed to be opposition to the PKI. The BPS ostensibly was concerned with the explanation and promotion of President Sukarno's teachings, but the real purpose was to rally the anti-PKI forces. This was done by demonstrating that Sukarno's teachings were quite different from communist doctrine and that the PKI was deliberately twisting Sukarno's teachings for its own ends. Another fierce polemic between the PKI and the BPS ensued in the newspapers over the next several months, with extended debates over the meaning of various Sukarnoisms such as *Pantja Sila* and NASAKOM, as each side simultaneously claimed to possess the true understanding and attacked the other side for its interpretation. President Sukarno initially refrained from taking sides (presumably waiting to see what course events would take) and then went on an overseas trip from 17 September to 5 November. He kept silent upon his return, and the debate continued as the two sides waited to see which side Sukarno would support. When tensions over the BPS, the *aksi sepihak* and other issues seemed to reach a boiling point, President Sukarno summoned the leaders of the 10 political parties to the Presidential Palace in Bogor (just outside Jakarta) on 12 December in an attempt at reconciliation. We saw earlier how the *aksi sepihak* issue was resolved, and with respect to the BPS the result was another vaguely worded joint declaration in which the ten parties stated "we are unanimously determined to foster and maintain the revolutionary

²⁴ For short analyses of the BPS, see Pauker, "People' Democracy," pp. 92-5; Mackie, *Konfrontasi*, pp. 279-82; Jones, *Indonesia: The Possible Dream*, pp. 352-8; Justus van der Kroef, "Indonesian Communism's 'Revolutionary Gymnastics'," *Asian Survey* 5, no. 5 (1965), p. 226-9. See also the Intelligence Memorandum dated 2 December 1964 in *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 189-91.

and progressive national unity with Nasakom as its core," and also pledged to refrain from interpreting the doctrines of the others.²⁵

Apparently the above formulation did not satisfy President Sukarno because on 17 December, just five days after the Bogor meeting, he suddenly ordered the dissolution of the BPS. A few weeks later on 6 January he ordered the suspension of the Murba party and its associated organizations and the arrest of over 20 Murba leaders; in February, a number of newspapers which had supported BPS were also shut down. As we shall see in subsequent Chapters, the PKI followed these actions with campaigns directed at both Trade Minister Adam Malik and Minister Chaerul Saleh. It appeared to most observers that the PKI had won a decisive victory, as not only had it had successfully neutralized its strongest challenge to date but also President Sukarno had decisively tilted in its favor. Moreover, as discussed in Part V and in subsequent Chapters, the banning of the BPS and the suspension of Murba coincided with measures taken by President Sukarno in both foreign affairs and with respect to foreign companies.

B. The Course of Konfrontasi.

The outbreak of Konfrontasi in September 1963 into open conflict did not result in the conflict becoming any less ambiguous or ad hoc than it was before September 1963. The events of September did thrust Konfrontasi front and center onto the domestic political scene, and its domestic politicization made it increasingly difficult for President Sukarno to withdraw from the conflict without some measure of face-saving. To a large degree, it seemed as though the tail of domestic politics was wagging the dog of Konfrontasi. Hence, the "campaign against Malaysia was still pursued in a tentative and haphazard fashion, notable more for its high-flown rhetoric than for its effectiveness."²⁶ A major problem in resolving the crisis internationally was that it simply was not clear what exactly Indonesia's goals were, which was perhaps a reflection that President Sukarno and the GOI did not know either. Thus, Indonesia's demands were ambiguous, and Malaysia and the other parties involved were hard-pressed to come up with solutions. The conflict never developed into a full-scale military conflict, though, and was primarily

²⁵ Quoted in Pauker, "People's Democracy," pp. 93-4.

²⁶ Mackie, *Konfrontasi*, p. 200.

played out in the diplomatic arena. Yet, one thing was clear: for President Sukarno, Konfrontasi was a perfect example of the dangers of imperialism and the centrality of the NEFO/OLDEFO conflict, and thus provided him with a concrete example to support his strongly anti-imperialist ideology.²⁷

In the immediate aftermath of the outbreak of Konfrontasi in September 1963, there was a lull in diplomatic activity as the dust settled from the September events. There was a brief effort at mediation led by Thailand, but ultimately this led nowhere as the parties were still cooling off. There was, however, a noticeable increase in rhetoric. On the military side, the September events marked the beginning of a third phase of operations that lasted until around April 1964 and increasingly featured the use of Indonesian troops (rather than TNKU troops) and PARAKU troops (mostly ethnic Chinese disgruntled over Malay political dominance in Malaysia, supported and trained by Indonesian troops) in cross border raids along the long Borneo jungle border, primarily into Sarawak. However, “the scale of military activity was not stepped up significantly beyond the earlier level reconnaissance and probing raids,” though the objectives may have changed from information gathering to creating disturbances and fomenting discontent. The British responded by increasing their troop strength along the border (the British were bound to protect Malaysia under the terms of the London Agreement), and most of the limited fighting was small scale and took place in remote, sparsely populated areas along the border. There were no major pitched battles, and most of the physical conflict was a cat and mouse game between these small groups (from September 1963 through early June 1964, there were only around 20 incursions by groups of 25 or more men) making brief incursions into Malaysian territory and attempts by the Malaysians and British to chase them back.²⁸

The first major effort at diplomatic resolution of the conflict was the result of an initiative by the United States in January 1964. Increasingly fearful of being drawn into the conflict because of ANZUS treaty commitments to Australia and New Zealand (who themselves were in danger of being drawn into the conflict because of commitments to

²⁷ In fact, no less an authority on Konfrontasi than Mackie concluded that ideology was perhaps the best explanation for the outbreak and course of Konfrontasi; Mackie, *Konfrontasi*, pp. 329-333.

²⁸ The information in this paragraph on the military side of the conflict comes from Mackie, *Konfrontasi*, pp. 210-12, quote from p. 210.

the British), the United States was clearly more concerned with Vietnam and its buildup there; moreover, it did not want to see its efforts to cultivate friendly relations with Indonesia, with the goal of keeping Indonesia out of the communist camp, go to waste.²⁹ However, the immediate impetus for US diplomatic intervention came from recently passed (mid-December 1963) US congressional legislation that required the President to make a public determination that it was in the United States' national interest to provide Indonesia with economic and military assistance before the same could be granted. Konfrontasi had obviously made the imminent renewal of US aid to Indonesia more difficult to justify on this ground. At a National Security Council meeting on 7 January 1964, it was suggested that the decision be temporarily deferred while a presidential emissary was sent to President Sukarno explaining how Konfrontasi jeopardized this aid and then giving Indonesia a chance to halt the conflict. Attorney General Robert Kennedy was selected as the emissary, in part because of the "reservoir of good will" built up with Sukarno during Kennedy's intervention in the West Irian conflict in February 1962.³⁰ As the plan was refined over the next week, the Kennedy mission was given two objectives. The main purpose was to "get across as forcefully as possible to Sukarno that the policy of military confrontation which he is pursuing against Malaysia will have disastrous consequences for our relations with his country," and Kennedy was to "use every possible argument to persuade Sukarno to abandon his military activities in Borneo completely, or at least agree to cease-fire." The second, related goal was to bring Sukarno, Philippine President Macapagal, and Malaysian Prime Minister Tunku Abdul Rahman "back to the negotiating table...the Attorney General will not himself attempt to negotiate their difficulties; his job is help clear away the obstacles to the three of them getting together and coming up with an Asian solution."³¹ Tokyo was set as the meeting place.

²⁹ Jones, *Conflict and Confrontation*, pp. 205-6.

³⁰ See Summary Record of the 521st National Security Council Meeting dated 7 January 1964 in *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 16-20.

³¹ See Memorandum from Forrestal to President Johnson dated 13 January 1964 in *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 32-3. See also Instructions from Special Assistant for National Security Affairs Bundy to Attorney General Kennedy dated 14 January 1964 in *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 35-6.

On the evening of 15 January, President Sukarno, Foreign Minister Subandrio, General Yani and other GOI officials arrived in Tokyo, where they were joined from 16-19 January by Robert Kennedy. The initial results of meetings over the several days were promising. When Kennedy left Tokyo on 19 January, he had secured Sukarno's agreement that if Malaysia would also agree, Indonesia would declare a temporary cease fire in the conflict as a preparatory step to a tri-party meeting among representatives of Indonesia, the Philippines and Malaysia. Kennedy then went to Manila for consultations with President Macapagal, during which he secured Macapagal's agreement to a tri-party meeting if there were a ceasefire, and then on to Kuala Lumpur, where he secured the Tunku's agreement to a ceasefire and a tri-party meeting, again provided that Sukarno agreed to the ceasefire. On 22 January, Kennedy arrived in Jakarta to inform President Sukarno of Macapagal's and the Tunku's agreements. After some wrangling over what had actually been agreed to in Tokyo, on the morning of 23 January Sukarno, at a joint press conference with Kennedy, publicly announced a temporary ceasefire. The promise of this announcement, though, was somewhat dampened by Sukarno's statement later in the day, presumably intended for domestic consumption, that Konfrontasi would continue.³²

While the ceasefire did not last long, Kennedy's intervention led directly to two series of meetings among the foreign ministers of Indonesia, Malaysia and the Philippines in Bangkok in early February and early March, which in turn paved the way for an unsuccessful summit in Tokyo in June among President Sukarno, the Tunku and President Macapagal. A major reason for the almost immediate collapse of the ceasefire, and an issue that would plague the diplomatic resolution of the conflict over the next five months, was on the question of withdrawal of military forces. For the Malaysians, 'ceasefire' meant not only cessation of hostilities but also the withdrawal of Indonesian troops from the Malaysian part of Borneo, and it was certainly a pre-condition for any diplomatic talks. The Indonesians, however, argued that ceasefire implied no such

³² For different perspectives on Kennedy's mission, see Mackie, *Konfrontasi*, pp. 225-6; Nishihara, *The Japanese and Sukarno's Indonesia*, pp. 133-4; Jones, *Conflict and Confrontation*, pp. 242-44, 248-51; Jones, *Indonesia: The Possible Dream*, pp. 300-2; Foo, *The US and the Indonesia-Malaysia Dispute*, pp. 157-63; and *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 37-49.

further step, and after the ceasefire announcement of 23 January ordered its troops to stay put. This issue proved to be an insurmountable obstacle in the first Bangkok meeting of foreign ministers from 5-10 February (which occurred despite the ceasefire and lack of withdrawal). Another problem plaguing the discussions at the Bangkok meeting, at least from the Malaysian perspective, was what exactly the Indonesians wanted to do to settle the dispute; the Indonesian side kept pushing for a ‘return to the Manila agreements’ of August 1963, but the Malaysians of course asserted that they had followed these agreements. When the Malaysian side asked the Indonesian side to explain in detail how the Manila agreements had been violated, no answers were forthcoming, and moreover the Indonesians refused to specify what concessions or demands they seeking, other than to secure an admission from Malaysia that it had mistakenly implemented the Manila agreements. The same issues remained unresolved at the second Bangkok meeting of foreign ministers on 4 March. Despite the deadlock, the parties managed after much delay and wrangling to have a meeting of the three heads of state in Tokyo on 20 June, but the summit had no chance. The parties still could not agree on the ceasefire and withdrawal issues, which was merely the tip of the iceberg of disagreement between Indonesia and Malaysia over the formation of the latter, as the Indonesian side insisted that political talks over the existence of Malaysia should accompany the ceasefire/withdrawal process. For the Malaysians, of course, the challenge to the existence of Malaysia was a non-starter, and the summit ended without any agreement. The Tokyo summit was the last sustained attempt at a diplomatic resolution of the conflict - following this meeting, there were no serious high level negotiations to end the dispute until May 1966.³³

Meanwhile, as preparations were underway for the Tokyo summit, the GOI also appeared to be preparing for escalation of the military side of the conflict. On 3 May in a speech before a huge crowd in Jakarta, President Sukarno announced the Dwikora, an acronym for *Dwi Kommando Rakyat* or ‘two people’s commands.’ Such terminology obviously harked back to Sukarno’s ‘Trikora’ speech of December 1961 that signaled the

³³ Mackie, *Konfrontasi*, pp. 226-33; Jones, *Conflict and Confrontation*, pp. 256, 265-6; Jones, *Indonesia: The Possible Dream*, pp. 302-9; Foo, *The US and the Indonesia-Malaysia Dispute*, pp. 163-73; *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, pp. 57-64, 69-71, 75-9, 84-91, 93-6.

final phase of the West Irian conflict (see Chapter Two, Part II, Section B). In the Dwikora speech, the President addressed the supposedly 21 million volunteers who had already registered to fight against Malaysia as part of a campaign started a few weeks earlier to drum up volunteers for Konfrontasi. Describing Malaysia as a threat and challenge to the Indonesian Revolution, Sukarno issued two commands of “increasing the strength and resistance of the Indonesian revolution” and “supporting the revolutionary people of Malaya, Sarawak, Sabah and Singapore in the dissolution of the puppet state of Malaysia.” For one seasoned veteran of the Indonesian foreign office, this proclamation marked “the point of no return for president Soekarno with regard to the handling of the Malaysia issue. Henceforth, to hope for a solution of the problem through negotiation and consultation was not feasible.”³⁴ Symbolically, the speech “subsequently acquired [the status of] the hallowed source of moral authority for the struggle against Malaysia,” and “obeisance to Dwikora came to be required in almost every public utterance about confrontation.”³⁵ On 16 May, President Sukarno established for the first time a special military command known as KOGA (short for *Komando Siaga* or ‘Vigilance Command’) to take charge of military operations against Malaysia. However, in a move that reflected Sukarno’s distrust of the army and led to inter-service conflict, Sukarno named Air Force Commander Omar Dhani as commander of KOGA.³⁶ Yet, despite the ominous nature of these measures, there was no significant intensification of military operations in Borneo, where a stalemate of sorts was reached.³⁷

However, in August and early September 1964 the conflict quickly escalated to its most dangerous phase militarily and threatened to blow up from a small, low intensity conflict to a major war when Indonesia shifted its attacks from the relatively isolated Borneo border to the Malaysian peninsula. On 17 August 1964, some 40 guerillas (about half of whom were from the Indonesian army), landed in the Johore area of the southern Malaysian peninsula. This was the first significant incursion on the peninsula and the

³⁴ Agung, *Twenty Years Indonesian Foreign Policy*, pp. 497-8; see also Mackie, *Konfrontasi*, pp. 244-5.

³⁵ Mackie, *Konfrontasi*, pp. 244-5.

³⁶ Crouch, *Army and Politics in Indonesia*, p. 70; see also Mackie, *Konfrontasi*, p. 213. Crouch (p. 70) notes that General Yani, aware of the implications of the formation of KOGA and its command by an air force officer, persuaded Sukarno within a few weeks to limit the scope of KOGA only to retaliation in the event of a British attack. Moreover, KOGA itself remained a ‘paper organization’ until well into the fall of 1964 when it was reorganized (see below).

³⁷ Mackie, *Konfrontasi*, p. 212.

intent appears to have been either “to arouse pro-Indonesian elements among the Malay communities there or to provoke further communal conflict in an area where serious anti-Chinese riots had broken out in 1964.”³⁸ This attempt was ineffective however, as half the invaders were captured almost immediately and the other half over the next few months. Then, a few weeks later on the night of 1-2 September, some 100 troops (mostly from the Indonesian air force) were dropped by parachute near Labis (also in the Johore area of the southern peninsula), which had a large Chinese population. The objective appears to have been to set up a camp in the jungle area of the nearby mountains and foment local Chinese discontent in hopes of igniting the failed Chinese communist insurgency (known locally as the ‘Emergency’) of the late 1940s and 1950s.³⁹ This operation was also a disaster for the Indonesians and had little military impact. However, these two measures resulted in the serious consideration by the British of retaliatory measures against Indonesia such as “commando raids on the islands of the Riau archipelago and a retaliatory air strike against Indonesian airfields.”⁴⁰ The only measure the British actually took was the sending of an aircraft carrier through the Indonesia’s Sunda Straits (between Java and Sumatra) on 27 August (the British seriously considered sending the carrier back through the Sunda Straits in early September, but did not), but in combination these events threatened a major escalation of Konfrontasi and indeed September 1964 appears to have been Konfrontasi’s most dangerous flashpoint militarily.⁴¹

Malaysia responded to the Indonesian incursions into the peninsula by taking the matter to the United Nations Security Council. The Indonesian representative to the council candidly admitted that Indonesian troops and volunteers had entered into Malaysian Borneo and made no attempt to deny that Indonesia had made the two

³⁸ Mackie, *Konfrontasi*, p. 259. Jones claims that there were over 100 infiltrators; Jones, *Conflict and Confrontation*, p. 270.

³⁹ Mackie, *Konfrontasi*, p. 260.

⁴⁰ Jones, *Conflict and Confrontation*, p. 271.

⁴¹ See Mackie, pp. 261-2; Jones, *Conflict and Confrontation*, pp. 271-2; and Easter, *Britain and Confrontation with Malaysia*, chapter five, especially pp. 99-103. There was indeed an atmosphere of crisis in Indonesia for much of September; it was at this point that President Sukarno ordered the partial restoration of martial law under which regional bodies known as PEPELRADA were formed in each region. Most of these were headed by army officers who usually took orders from General Yani. The PEPELRADA had wide autonomy and the power to detain people or restrict their movements, seize property, and impose curfews. Crouch, *Army and Politics in Indonesia*, p. 76.

incursions into peninsula Malaysia. Instead, he sought to reframe the question into the larger political issue over the formation of Malaysia as a British neo-colonialist plot, implicitly challenging Malaysia's very existence. After a week of debate, a resolution was crafted that (i) regretted all incidents that had occurred in the whole region, (ii) deplored the incident of 2 September, (iii) requested the parties to make every effort to avoid the recurrence of such incidents, (iv) asked the parties to refrain from the use of force and respect each other's territorial integrity, and (v) recommended further talks. Though somewhat weakly worded, the resolution, particularly clauses (ii) and (iv), clearly sided with Malaysia. The resolution was initially passed on 17 September by the Security Council by a nine to two vote, with Bolivia, Brazil, Taiwan, France, Ivory Coast, Morocco, Norway, the USA and the UK voting for it, and the USSR and Czechoslovakia voting against it; however, the USSR finally vetoed it.⁴² Nevertheless, the fact that Indonesia had to rely on the Soviet Union to block the resolution and that the Afro-Asian countries (Taiwan, Morocco, and the Ivory Coast) had voted for the resolution constituted a victory for Malaysia and an implied defeat for Indonesia.

GOI officials apparently realized that the events outlined above had brought it perilously close to the outbreak of a major military conflict with the British and quickly sought to de-escalate the situation. On 16 September, President Sukarno made a secret overture to the Malaysian Prime Minister, indicating that Konfrontasi would be called off if the Malaysians agreed to hold a plebiscite in Borneo within five years. The Malaysians did not accept this, however, and similar feelers made to the British were also ignored.⁴³ There were no more incursions of significance on peninsula Malaysia, just a number of nuisance raids by sea which had no impact.⁴⁴ As one observer noted, the "crisis seemed to have established a threshold for Indonesian activities in Malaya, beyond which they would not go in case it triggered a wider war."⁴⁵ The decision to escalate the conflict into peninsula Malaysia also seriously alarmed the Indonesian army, which was willing to go along with a low level conflict (from which it reaped political benefits as well as weapons

⁴² Agung, *Twenty Years Indonesian Foreign Policy*, pp. 501-2; Mackie, *Konfrontasi*, pp. 264-7; Foo, *The US and the Indonesia-Malaysia Dispute*, pp. 203-11.

⁴³ Jones, *Conflict and Confrontation*, pp. 271-2; and Easter, *Britain and Confrontation with Malaysia*, pp. 104, 107-9.

⁴⁴ Mackie, *Konfrontasi*, p. 262; Jones, *Conflict and Confrontation*, p. 271.

⁴⁵ Easter, *Britain and Confrontation with Malaysia*, p. 109.

and financing) but had not approved of the landings on the peninsula precisely because of the possibility of a great escalation into a conflict they were unlikely to win. Henceforth the army stepped up its involvement in two ways in order to contain the conflict. First, it convinced President Sukarno to reorganize the KOGA into a new structure called KOLAGA (the ‘Mandala Vigilance Command’, reminiscent of the Mandala Command from the West Irian conflict) which allowed the army to exercise much greater control over the conflict. In addition, beginning 1 January 1965, army general Suharto, who had also headed the Mandala command and in 1963 was appointed commander of the army strategic reserve command (KOSTRAD), was appointed deputy commander of KOLAGA. Indeed, in the latter part of 1964 and in 1965,

army leaders carried out a series of maneuvers designed to obstruct the effective implementation of the policy of confrontation. While they probably appreciated that the president himself did not want Indonesia to slip into a full-scale war, they had little faith in his judgment after the militarily ineffective but provocative landings on the Malay peninsula.⁴⁶

Secondly, a very select group of top level Indonesian army leaders, including Generals Yani and Suharto, began in September secretly contacting Malaysian officials to express their intent to keep Konfrontasi limited. In so informing Malaysian officials of the “army’s reluctance to give full support to Sukarno’s campaign in the hope of avoiding misunderstandings that could have led to wider war,” army leaders “were able to reduce the risks of the confrontation campaign while they continued to go through the motions of supporting it.”⁴⁷

After the peak of September 1964, Konfrontasi essentially became a stalemate for the next 20 months, both militarily and diplomatically. The focus of the fighting returned to the border area in Borneo, but this was still limited to very low level fighting, mostly by cross-border incursions. In late December 1964 and January 1965 there was a significant build-up of forces by both sides along the Borneo border (with each side having roughly 20,000 troops there), which though initially ominous only reinforced the

⁴⁶ Crouch, *Army and Politics in Indonesia*, pp. 69-73; quote from p. 73; see also Mackie, *Konfrontasi*, pp. 213-5.

⁴⁷ Crouch, *Army and Politics in Indonesia*, pp. 74-5; quote from p. 75. See also pp. 90-3 of R.E. Elson, *Suharto: a Political Biography* (Cambridge: Cambridge University Press, 2001).

stalemate.⁴⁸ As we saw earlier, from the diplomatic perspective efforts to resolve the conflict petered out after the failed Tokyo summit of June 1964. In terms of foreign relations, by early 1965 Konfrontasi, while still continuing, was very much pushed to the side as anti-imperialism became the dominant theme of Indonesian foreign policy, though of course Konfrontasi provided the springboard for this anti-imperialist focus (see Chapter Six). Domestically, Konfrontasi, while still serving as a rallying cry for many, was also pushed to the side in 1965 as the political struggle among President Sukarno, the army and the PKI played out.

II. January 1964 PKI-Led Attempted Seizures of British Firms and Government Response.

The PKI initiated a wave of takeovers of British companies in January 1964 which eventually resulted in most of the British companies in Indonesia coming under government control.⁴⁹ These events were extremely confusing and at the time it was very difficult to get an accurate picture of what exactly was happening at the individual companies, let alone as a group. The wave began with well-coordinated attempted takeovers of British firms in mid-January in Jakarta/West Java, then in Medan/North Sumatra, and then in Surabaya/East Java; in most cases, the takeovers failed, and owner-appointed management remained in control. Konfrontasi with Malaysia, and Great Britain as the primary backer of Malaysia, was again a common theme of the takeovers. The attempted seizures were initiated through the PKI-controlled SOBSI labor federation and the PKI-dominated National Front and constituted the first time the PKI and its affiliated groups, which were inconspicuous during the September 1963 takeovers, led the takeover of foreign companies in this period. The actions were in direct contravention of President Sukarno's Decree 194/1963 of September 1963, which as we saw in Chapter

⁴⁸ Mackie, *Konfrontasi*, pp. 263-4, 268-71; Jones, *Conflict and Confrontation*, p. 272.

⁴⁹ The only exceptions were (i) Shell Oil, (ii) those companies that had already been taken over in September 1963 and (iii) Chartered Bank, a small molasses company, and two insurance firms; however, the companies in (iii) were finally taken over pursuant to President Sukarno's Decree 6/1964 (see Part V).

Four prohibited the takeovers of British companies except by direct order of the President. These measures were thus a challenge to the central government and were one of numerous measures the PKI took as it went on the political offensive in 1964.

These attempted takeovers led to different responses by different parts of the government. The central government initially took two measures to deal with the takeovers – Second Deputy Prime Minister Leimena's announcement to the public of 20 January and General Yani's order to various regional officials of 23 January (each described below), but these seemed to have no effect in terms of preventing labor union activity from breaking out. The impact of these measures at the provincial levels of government also appears uncertain, as various regional governments each reacted differently, indicating clear divisions within the government. Finally, about two weeks after the wave of takeovers began, the central government intervened more decisively with the issuance of Minister Chaerul Saleh's circular of 31 January placing all affected British companies under GOI control and supervision, which paved the way for the issuance of further decrees by individual ministers regarding the companies. As with the September 1963 takeovers, the terms 'nationalization' or 'expropriation' or 'confiscation' were not used. The placing of the affected British companies under GOI control and supervision initially appeared to be an ad hoc measure which gave the government time to decide what to do with the companies, but it also opened the door to subsequent confiscation.

A. The Attempted Takeovers and Regional Government

Response.

This section traces the takeovers or attempted takeovers of British firms in January by SOBSI-affiliated labor unions and the National Front and the initial reaction of the local or provincial government. These takeovers or attempted takeovers were primarily limited to three distinct areas: Jakarta/West Java, Surabaya/East Java, and Medan/North Sumatra. The takeovers started in Jakarta/West Java on 18 January and within a few days spread to the other two regions. The actions were in direct contravention of President Sukarno's Decree 194/1963 of September 1963, which

continued to be in force; yet despite its continuing applicability, as well as two attempts by the central government (Second Deputy Prime Minister Leimena's announcement to the public of 20 January and General Yani's order to various regional officials of 23 January, each described below) to elicit compliance with it, each regional/local government responded differently to the attempted takeovers. The Governor of Jakarta reacted strongly against the takeovers and took measures to neutralize any further activity, but in the other areas the local government attitude was more ambiguous. In West Java, the takeover of P&T Lands lasted three days but was eventually reversed; West Java Governor Mashudi seemed to have reversed course from his strong anti-takeover stand of September 1963 and appeared supportive of the takeover. In East Java, the Governor did not react decisively against the takeovers and in effect allowed unions in three companies to appoint their own management team, but this union management had no real power or authority. At the far end of the spectrum, the Governor of North Sumatra hesitated, then ignored General Yani's order of 23 January and appointed teams to manage and supervise the companies. It appeared, though, that things for the moment had not really changed significantly in the operation of the companies in North Sumatra.

In form, there were many similarities to the DPS-KBKI labor union takeovers of September 1963. The general pattern was the announcement by labor leaders of a worker takeover (in many cases, the worker group tried to get management to sign a 'surrender' document), followed by the attempted expulsion of owner-appointed management (often expatriate) and the appointment of new management. In some cases, such as P&T Lands, the takeover group then proceeded to the local authorities to report their actions. In addition, like the actions of September 1963, these attempts were all non-violent. Yet, there were also clear differences between the September 1963 and January 1964 actions. Unlike the DPS-KBKI led-takeovers of September, the SOBSI/National Front led takeovers of January were mostly failures, and they were often little more than weak attempts. However, the scope of the takeovers was much larger than in September 1963, as a large majority of British companies in Indonesia were affected, not just five. Moreover, as we shall see in Section C below, the motivation appeared quite different.

Before turning to the takeovers and regional responses, however, it is necessary to discuss briefly the immediate events that ostensibly triggered these activities, though as

we shall see later these events really disguised the underlying reason. As discussed in Part I, on the evening of 15 January, President Sukarno, Foreign Minister Subandrio, General Yani and other GOI officials arrived in Tokyo for meetings with US Attorney General Robert Kennedy to discuss Konfrontasi. Upon arrival in Tokyo on 15 January, Minister Subandrio issued a statement apparently “charging that the British were taking arbitrary measures in Hong Kong against Indonesian interests” and that the GOI was reviewing the situation to see if this was the beginning of a general offensive.⁵⁰ What Subandrio was referring to were several actions taken by the Hong Kong authorities, which at the time was a British colony. First, at the request of Singapore (at the time part of Malaysia), in December 1963 the government of Hong Kong had declined to approve the sale of two merchant ships to Indonesia. Second, also in December, the British government had instructed the Hong Kong government to refuse to issue export licenses for certain commodities which could be used for military purposes, such as 16 aircraft engines for C-130 planes owned by the Indonesian air force. These engines were currently in Hong Kong being serviced. The third action was the detention of two Indonesian ships, the *Ambulombo* and the *Tampomas*, which were owned by PELNI, the Indonesian state-owned shipping firm, and had in the past been used to make the Haj, the Moslem pilgrimage to Mecca. The British government had nothing to do with their detention; they were detained in legal actions by plaintiff writs from one Dutch company and one Chinese company who alleged breach of contract and failure to pay bills on the part of PELNI. The case was scheduled to go to court on 31 January, and the British Foreign Office anticipated that PELNI’s claim of immunity from prosecution (because of government ownership) would prevail.⁵¹ The latter two actions were often cited in the worker takeovers that followed in the next 10 days; the third measure, the seizure of the Haj ships, was in particular emotionally charged. Of course, rarely, if ever, was the background or the reasons for the measures actually discussed.

Finally, before describing the flurry of attempted takeovers and different reactions of the various provincial governments, it should be noted that the central GOI initially

⁵⁰ British Embassy Tokyo telegram (Rundall) dated 16 January 1964 (UKNA, FO 371/175266).

⁵¹ See British Foreign Office Secret Note (“Action Taken by the Hong Kong Authorities against Indonesian Interests...”) stamped 29 January 1964 (UKNA, FO 371/175266).

took two measures to halt the takeovers. The first measure was an announcement published in *Antara*, the GOI news agency, on 20 January, two days after the takeovers began in Jakarta, by acting President Leimena (who as Second Deputy Prime Minister was acting as President in Sukarno's (and First Deputy Prime Minister Subandrio's) absence from Jakarta from 15-21 January). The announcement stated that although the government could understand the desire of the people to take action against British property in response to the British takeover of Indonesian ships and property in Hong Kong, the government hoped the people would not act until government policy was decided. Apparently Leimena's appeal was also broadcast on the radio several times.⁵² The second, more forceful action was an order issued on 23 January – the day President Sukarno declared a ceasefire in Konfrontasi and Robert Kennedy wound up his peace mission in Jakarta - by General Yani, the army commander and chief of staff of KOTI, acting on orders from President Sukarno. Yani's order went out to every regional military commander, police chief, Governor and prosecutor of Indonesia and instructed government agencies to enforce Presidential Decree 194/1963 prohibiting the takeovers of British companies. General Yani's order also singled out Shell Oil, explicitly calling for the prevention of the takeover of that company.⁵³ As we shall see, however, these two measures had limited success in stemming the tide of takeover attempts.

1. Jakarta.

From 18 January through 22 January there were various takeover attempts of three British firms in Jakarta - Unilever, British American Tobacco, and Maclaine Watson. There was also significant worker activity at Shell Oil's headquarters in Jakarta. However, in none of these cases were the takeover groups actually able to take control of the company. The police and the Governor of Jakarta were quick to intervene and as described below actually posted security teams to ensure there would be no more attempts. The Governor of Jakarta's reaction was the swiftest and most determined of the

⁵² *Antara* 20 January 1964 (p.10 of 'Dalam Negeri' section); US Embassy telegram (Galbraith) dated 20 January 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3); British Embassy telegram (Gilchrist) dated 20 January 1964 (UKNA, FO 371/175281).

⁵³ Published in *Antara* on 24 January; see British Embassy telegram (Gilchrist) dated 24 January 1964 (UKNA, FO 371/175281).

regional responses. It should be noted that on 18 January, the day the takeovers started, there was also a peaceful demonstration against the British embassy in Jakarta; the demonstrators presented a resolution protesting the British government refusal to permit spare parts to be exported from Hong Kong, the detaining of the two pilgrim ships, and the brutality of British imperialism, and demanded the severing of diplomatic relations as well as the confiscation of British businesses.⁵⁴

Unilever. From 18-22 January there were various attempts by workers, led by the SERBUNI labor union (an acronym for *Serikat Buruh Unilever*, the ‘Workers Union of Unilever’, affiliated with SOBSI), to take over the Jakarta head office of Unilever as well as its three factories in Jakarta. (In addition to its three factories in Jakarta, Unilever also had a factory in Surabaya; the factories made soap, margarine, coconut oil, toothpaste and other edible oils). The takeover statement for Unilever’s Angke factory cited, among other things, British imperialism, Konfrontasi, the opening of a British offensive as evidenced by the seizure of spare parts for the air force, and the seizure of the two Haj ships, as well as recent statements by President Sukarno, as the reasons for its actions. Management resisted these efforts and immediately called in the police, who were able to prevent the factories from being taken over. However, the police did not have enough manpower to cover the head office as well, and there was more interference with management there. Yet except for one day, 20 January, on which expatriate managers were told by the company not to come into the office, it appears that Unilever-appointed management remained mostly in control at the head office. On 21 January there was a long meeting between management and union leaders which was mediated by a representative from the Governor of Jakarta’s office, and it was agreed that the unions would move out of the head office and Unilever-appointed management would resume full control.⁵⁵

Shell Oil. On 20 January, a joint delegation of workers notified management in Shell’s Jakarta headquarters that workers were taking over the company and would then

⁵⁴ British Embassy telegram (Gilchrist) dated 18 January 1964 (UKNA, FO 371/175266).

⁵⁵ Pernjataan Bersama (worker takeover statement) dated 18 January 1964 (ANRI, R22, 240); British Embassy telegram (Gilchrist) dated 18 January 1964 (UKNA, FO 371/175281); British Embassy telegram (Gilchrist) dated 21 January 1964 (UKNA, FO 371/175281); British Embassy telegram (Gilchrist) dated 21 January 1964 (UKNA, FO 371/175281); Report of Quarles van Ufford dated 10 February 1964 (UA, PS Special Committee & Overseas Committee meetings, Box 43, No. H1172).

hand it over to the GOI. They also intended to appoint their own management. Shell management rejected these claims and the delegation departed peacefully, stopping only to post signs on the building saying “Indonesian property.” Interestingly, just after leaving Shell’s office, the non-communist unions involved in the action came to the US embassy and informed US officials that the attempted takeover at Shell was led by the PERBUM union (which was affiliated with SOBSI and the largest oil workers union in the country) and that the other unions were forced to participate in order to protect their position with the workers.⁵⁶ On 23 January, at a meeting between the Shell manager, Third Deputy Prime Minister/Coordinating Minister Chaerul Saleh and Labor Minister Ahem Erningpradja, Minister Saleh said the GOI had no intention of letting the labor unions take over British companies and that KOTI would soon be issuing orders to stop them.⁵⁷ There were no more incidents of note at Shell’s Jakarta headquarters. Meanwhile, at Shell Pladju there was no worker activity of note. However, in Balikpapan, there was initially some minor interference in management, but full control was restored by 26 January. A small worker takeover team had installed itself in one office for a few weeks, but it had no impact. Communications between Balikpapan and Jakarta were also not allowed for two weeks until 6 February.⁵⁸

British American Tobacco. BAT was a cigarette manufacturing company with factories in Surabaya (East Java), Semarang (Central Java) and Cirebon (West Java) and a head office in Jakarta. On 22 January there was an attempted worker takeover of BAT’s Jakarta head office, but the workers apparently held off pending a meeting with the Governor of Jakarta. Thus the office was never taken over.⁵⁹ (Meanwhile, in Cirebon, West Java, the BAT facility was taken over on 20 January, but management control was restored the next day.⁶⁰)

⁵⁶ US Embassy telegram (Galbraith) dated 20 January 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁵⁷ US Embassy telegram (Galbraith) dated 23 January 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁵⁸ US Embassy telegrams dated 23 January 1964 (Galbraith), 25 January 1964 (Jones), 26 January 1964 (Jones), 6 February 1964 (Jones) and 12 February 1964 (Jones) (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁵⁹ British Embassy telegram (Gilchrist) dated 22 January 1964 (UKNA, FO 371/175281).

⁶⁰ British Embassy telegrams (Gilchrist) dated 20 January 1964 and 21 January 1964 (UKNA, FO 371/175281).

Maclaine Watson. Maclaine Watson was a trading firm with its main office in Jakarta and branch offices in Semarang, Surabaya, Bandjarmasin (Kalimantan) and Makassar (Sulawesi). On 22 January there was an attempt to take over the Jakarta office of Maclaine Watson. At one point the owner-appointed management was actually detained in the office, but the police intervened and by the next day (23 January) owner-appointed management was back in control.⁶¹ In addition, Maclaine's office in Makassar was actually taken over for a few days, but owner-appointed management was restored by the Governor of South Sulawesi, albeit with a security team in place similar to those of Jakarta.⁶²

Thus, in Jakarta the police and the Governor's office initially took firm measures to prevent the takeovers. The Governor's office actively mediated in the attempt at Unilever, and the Governor even assured the British embassy several times that he was carefully monitoring events and would deal firmly with the situation.⁶³ On 24 January, after the issuance of General Yani's order instructing GOI officials to prevent takeovers, the Governor installed teams at the offices of BAT, Unilever, Maclaine Watson and Chartered Bank (which had been threatened with a worker takeover, but nothing ever happened). The role of these teams was not to "supervise" but to ensure that there was no trouble with workers; as the Governor explained to representatives from the British embassy, the teams had no powers of control and their "only function was to keep workers in check and assist in the 'cooling off' process."⁶⁴ The teams were headed by police officers, and other members included representatives from the Governor's office, labor, management, and sometimes the army. (In the case of Unilever, the team was comprised of a police officer (acting as head of the team), two representatives from the Governor's office, some members of the board of directors, and two representatives from

⁶¹ British Embassy telegrams (Gilchrist) dated 22 January 1964 and 23 January 1964 (UKNA, FO 371/175281).

⁶² British Embassy telegram (Gilchrist) dated 30 January 1964 (UKNA, FO 371/175281).

⁶³ British Embassy telegrams (Gilchrist) dated 20 January 1964 and 22 January 1964 (UKNA, FO 371/175281).

⁶⁴ British Embassy telegram (Gilchrist) dated 25 January 1964 (UKNA, FO 371/175281).

the labor unions.⁶⁵) The teams did not interfere at all in management or operations and appear genuinely to have been there for protective purposes.⁶⁶

2. West Java.

On 18 January, numerous workers led by the National Front took over P&T Lands, the large British estate company with 21 estates located in West Java.⁶⁷ Presumably this takeover was effected by occupying the company's head office in Subang. No violence was involved, and European staff personnel were ordered by the management to stay at home.⁶⁸ A takeover statement justifying the seizure was issued, and it specifically referred to: (i) Article 33, Clause Two of the 1945 constitution (which provided that “branches of production which are important for the state and which affect the life of most people shall be controlled by the State”), (ii) MANIPOL (noting that the Indonesian Revolution is a national revolution which opposes imperialism and colonialism, that foreign capital should not play a negative role, and that foreign capital should not help counterrevolutionaries or engage in sabotage), (iii) DEKON (Indonesia is now in its first revolutionary stage, and it is our duty to eliminate the remains of imperialism and feudalism in the economic field and build a national economy free from imperialism and feudalism),⁶⁹ and (iv) the imperialistic steps the British had recently taken which were not friendly to Indonesia, including the creation of the neo-colonialist project Malaysia, the attempted assassination of President Sukarno, the seizure of spare parts for the military in Hong Kong, the seizure of Indonesia Haj ships, undertaking military activities on the Indonesian border of North Kalimantan, undertaking other subversive activities, etc. (all of which related to Konfrontasi). All the above, the statement noted,

have pushed the progressive people of the Subang area into taking progressive revolutionary steps against the British imperialist owners and

⁶⁵Report of Quarles van Ufford dated 10 February 1964 (UA, PS Special Committee & Overseas Committee meetings, Box 43, No. H1172).

⁶⁶British Embassy telegrams (Gilchrist) dated 24 January 1964, 25 January 1964 and 30 January 1964 (UKNA, FO 371/175281).

⁶⁷ See Chapter Three, Part III, section B for background on P&T Lands. The actual number of workers involved in the takeover, their identity and affiliation remain unknown insofar as I am aware.

⁶⁸ British Embassy telegram (Gilchrist) dated 18 January 1964 (UKNA, FCO 371/175281).

⁶⁹ For more on the constitution, MANIPOL and DEKON, see Chapters Two and Four.

their capital in the Subang area....Today [18 January], the step is being taken of taking over the entire P&T Lands which will then become property of the Republic of Indonesia, and we will surrender the company to the central government.⁷⁰

The statement was signed by six leaders of the workers group and also by a representative (*ketua periodic*, or rotating head/leader) of the National Front.⁷¹ A separate statement named 13 individuals to lead various divisions of the company, and apparently separate labor committees were appointed to run individual estates.⁷²

Later that same day, some of the leaders of the takeover group as well as members of the National Front went to meet both Governor Mashudi of West Java and Minister of Agriculture and Agrarian Affairs Sadjarwo in what the British embassy thought was an effort to get official government support (at both the national and provincial levels) for the unauthorized action.⁷³ It is unclear if Minister Sadjarwo ever met with these representatives, but the other delegation did meet with Governor Mashudi and the result was a joint statement issued by Governor Mashudi and the leader of the National Front in West Java, Ibrahim Adjie, who was also the commander of the West Java based Siliwangi division of the army.⁷⁴ The joint statement stated that (i) the complete takeover of P&T Lands on 18 January was done by the West Java management board of the National Front and by the provincial government of West Java, (ii) in a short time there would be discussions with all sides, including the central government in Jakarta, regarding the steps to be taken next, and (iii) the company should be operated as usual and all sides must take responsibility regarding safety and public order, especially regarding material, property and people.⁷⁵

⁷⁰ Piagam Ambil-Alih Perusahaan P&T Lands Didjadikan Milik Negara Republik Indonesia, dated 18 January 1964 (ANRI, R-22, 271). Translations are my own.

⁷¹ The names of these men are mostly illegible, and it is not clear who they were.

⁷² Piagam Penjerahan Pimpinan Perusahaan Bekas P&T Lands, dated 18 January 1964 (ANRI, R-22, 271). British Embassy telegram (Gilchrist) dated 21 January 1964 (UKNA, FCO 371/175281). I have the names of these men, but do not know anything about their background.

⁷³ British Embassy telegram (Gilchrist) dated 18 January 1964 (UKNA, FCO 371/175281).

⁷⁴ Like Colonel Soehardjo in East Kalimantan, General Ibrahim Adjie served simultaneously as the provincial military commander and provincial leader of the National Front. General Adjie, a strong supporter of President Sukarno, was also strongly anti-communist. See p. 16 of O.G Roeder, *Who's Who in Indonesia: Biographies of Prominent Indonesian Personalities in All Fields* (Jakarta: Gunung Agung, 1971).

⁷⁵ Pernjataan Pemerintah Daerah TKI Djabar dan PD FN Djabar (ANRI, R-22, 271).

It seems fairly clear from the above that the National Front played a leading role in the takeover of P&T Lands, though certainly SOBSI was involved and indeed the British Embassy believed that SOBSI was actually behind the takeovers.⁷⁶ Of more immediate interest perhaps were the roles played by West Java Governor Mashudi and Siliwangi commander General Adjie. That the leaders of the takeover were able so quickly to secure a meeting with so high an official as Governor Mashudi indicates that he certainly knew what was going to happen before it did and obviously made no effort to stop it. In addition, there is the evidence of the 18 January joint statement itself (signed by Governor Mashudi) that makes clear that the takeover was carried out by both the National Front and the provincial West Java government. In fact, based on the very fast same day meeting with the workers, the joint statement itself, as well as later statements to the press which encouraged the central government to nationalize the company, it seems likely that Governor Mashudi actually encouraged the workers to act. If so, this was almost a complete reversal of his efforts in September 1963 to prevent a worker takeover. As we shall see, this would not be the first instance of local authorities complicit in labor actions against foreign companies, either by inaction in the face of prior knowledge or downright open encouragement. The role of General Adjie, with his joint positions of commander of the Siliwangi division of the army and leader of the provincial National Front, is harder to fathom – was he directly involved in instigating the takeover, or was he trying to control and limit it? From the section of the statement he signed with Governor Mashudi indicating that “the company should be operated as usual and all sides must take responsibility regarding safety and public order,” it could be inferred that he was trying to control events, but it is difficult to know for sure.

The worker takeover of P&T Lands lasted only three days. It was unclear just who was behind the return to management and what exactly happened. According to the British embassy, it was the supervisory team installed by Governor Mashudi back in September, heretofore largely unobtrusive, which forced the workers to back down; without the supervisory team, it might well have been impossible for the company to reassert control and run the business. Furthermore, the British embassy reported that the

⁷⁶ British Embassy telegram (Gilchrist) dated 18 January 1964 (UKNA, FCO 371/175281).

order to make the workers back off had come from the central government in Jakarta.⁷⁷ The US embassy, in contrast, initially reported that Governor Mashudi and General Adjie were trying to return the estates to owner control. The next day, the US embassy reported that according to the P&T Lands manager it was the army who returned control to owner management.⁷⁸ In any case, by 21 January the foreign staff had returned to their posts, though some estates had not yet been brought back under P&T Lands' control. In addition, some of the workers involved in the takeover were arrested.

However, the temporary takeover signaled that changes were afoot. In the first place, the worker takeover immediately led to greater interference in P&T Lands' affairs by the supervisory team installed back in September by Governor Mashudi. The supervisory team was apparently under new instructions from the central government to take a much greater interest in the company's affairs, especially on the financial side.⁷⁹ If this is true, it is interesting because the central government was now directing a team appointed by the Governor of West Java. Apparently the supervisory team did begin to interfere more in the management of the company; for example, the leader of the supervisory team began insisting on countersigning checks.⁸⁰ Second, in addition to internal pressures on P&T Lands, over the next few weeks there was also increasing national momentum and calls for the GOI to take action with respect to the company. For example, an *Antara* article quoted Governor Mashudi on 30 January as saying "P&T Lands will definitely become the property of Indonesia in the future. We are only waiting for the day, maybe tomorrow or the day after tomorrow. All those arrested (28 in all) at the attempted takeover would now be released."⁸¹ Thus Governor Mashudi, as suggested above, seems to have completely retreated from his September 1963 position of protecting P&T Lands, though without any evidence it is futile to speculate why Mashudi would do this. Similarly, on the same day Minister of Agriculture and Agrarian

⁷⁷ British Embassy telegram (Gilchrist) dated 21 January 1964 (UKNA, FCO 371/175281).

⁷⁸ US Embassy telegrams dated 20 January 1964 (Galbraith) and 21 January 1964 (Jones) (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

⁷⁹ British Embassy telegram (Gilchrist) dated 21 January 1964 (UKNA, FCO 371/175281).

⁸⁰ British Embassy telegram (Gilchrist) dated 7 February 1964 (UKNA, FCO 371/175281).

⁸¹ Quoted in British Embassy telegram (Gilchrist) dated 1 February 1964 (UKNA, FCO 371/175281).

Affairs Sadjarwo told a delegation of workers that P&T Lands would shortly be taken over by the government.⁸² The pressure was clearly being ratcheted up.

3. Medan/North Sumatra.

On 22 January, four days after the attempted takeovers began in Jakarta, British interests in North Sumatra began to experience takeover activity. As we saw in Chapter Three, there were numerous British interests in North Sumatra in the form of estate companies, but virtually all these estates were managed by one of three large estate management firms. The largest was the Harrisons & Crosfield/London Sumatra group, whose operations in Sumatra were run separately from the Jakarta operations and were not affected at all by the takeovers of the H&C office in Jakarta in September. H&C, with its office in Medan, acted as estate managers for the London Sumatra estates and also engaged in shipping, trade, insurance and engineering services, mostly related to marketing the produce of the estates. The estates H&C managed were mostly owned by companies within the London Sumatra group, and there were 17-18 estates altogether. H&C's Medan office was managed by a British national, and altogether there were around five expatriates in the office; of the estates it managed, some five to ten were managed by foreigners and the rest by Indonesians. The second large estate manager was Anglo Sumatra Estate Agency, a 50/50 joint venture between a Belgian estate company and a British estate firm which managed about a dozen estates, about half of which were rubber estates owned by various British companies and the other half palm oil estates owned by different Belgian companies. Anglo Sumatra's office in Medan had three expatriates, including a Swiss manager, but the individual estate managers were Indonesian. The third estate management firm was a British company named Guthries, which had extensive interests in Malaysia but only managed a few estates in North Sumatra. Its head office was also in Medan, and the sole European expatriate (a British national) in the office was the manager. Aside from the individual British estate owners (whose estates were mostly operated by one of these management firms), the only other British interest in North Sumatra was the Chartered Bank, with an office in Medan; however, there was no significant takeover attempt at Chartered Bank and its operations

⁸² British Embassy telegram (Gilchrist) dated 1 February 1964 (UKNA, FCO 371/175281).

were left alone. Since H&C/Lonsum was the largest of the three estate management companies and the one for which there is the most information, the following discussion focuses on it.

On the morning of 22 January, various labor union leaders – it is not clear who exactly they were, how many there were, or where they were from – entered the H&C main office in Medan and read a proclamation announcing the takeover. In addition they asked the manager, a British national named John McLeod, to sign a takeover statement. McLeod refused to do so and instead telephoned the police and the British consul in Medan. Just as the police were arriving, the union leaders left the office and went to see Governor of North Sumatra Ulung Sitepu.⁸³ Around noon, the union leaders returned to the H&C office and announced that at their meeting Governor Sitepu had authorized the takeover of the company by a team appointed by the Governor himself. Hearing this news, McLeod and other H&C representatives rushed off to see Governor Sitepu, who proposed to them that H&C should be taken over the next day as a temporary measure until clarification regarding President Sukarno's intentions toward British enterprises could be received. Around 3:00 in the afternoon, the British consul in Medan met with the Governor, who declared that the takeover at H&C was a fait accompli and he was forced to intervene and take over the company himself to ensure the smooth operation of the company. This declaration came despite there being no actual takeover of the office – all that had occurred had been the declaration of a takeover, and H&C management was still in complete control – and despite previous assurances from the Governor and Chief of Police that there would be no takeovers unless authorized by the central GOI. Governor Sitepu told the British consul that he was in a tough position; if he prevented the takeover, and then was told by the President to allow the takeovers, where would he be then? The best solution was to have a temporary takeover, lasting two to three days, until the picture cleared up. Still later in the evening, the British consul met with General Kosasih, the head of the All Sumatra Regional Command (KOANDA) and probably the

⁸³ According to Feith, Sitepu was a PKI-supported army colonel who had been appointed to the governorship over the summer of 1963. Feith, “The Triangle Takes Shape,” p. 973. Crouch also described him as a leftist army officer thought to be allied with the PKI (Crouch, *Army and Politics in Indonesia*, pp. 77-8). As we shall see, Sitepu’s actions certainly indicated he was sympathetic towards the National Front and labor unions.

highest ranking military official in Sumatra, who was worried that the Governor had gone too far and agreed to make efforts to ensure that H&C management had full access to the office.⁸⁴

The next morning (23 January), Governor Sitepu telephoned the British consul to say that the European managers could go anywhere they pleased. When McLeod and the others arrived at the office, however, they were presented by union leaders with a copy of the decision regarding the takeovers that the Governor was to issue later in the day. This decision, among other things, appointed both a management team and a supervisory team for H&C's office. Another H&C manager, Johnstone, raced off to talk to the Governor about the composition of the team. According to Johnstone, the Governor begged him not to make a fuss, saying that the measures were only to last for two to three days. As it turned out, the Governor did dispatch the Deputy Governor to Jakarta for clarification. In any case, by mid-day the teams appointed by the Governor were in place. It appeared also that similar teams were in place at Guthries, though at Anglo Sumatra the Swiss manager had told the arriving teams that it was impossible to take over half the office (Anglo Sumatra was 50% British, 50% Belgian), whereupon they left to consult with the Governor.⁸⁵

The Governor's takeover decree was a masterpiece of ambiguity, compromise and dexterity which juxtaposed falsehoods and stretched truths so that the Governor could justify his actions.⁸⁶ The preamble to the decree noted the following: (i) that workers took over H&C and its affiliated companies on the morning of 22 January and then at 10:30 surrendered them to the Governor (neither of which had actually happened), (ii) that for the safety of the companies and the continuity of business, the provincial government of North Sumatra would take over the actions of the workers (i.e., assume responsibility for the companies), (iii) that it was in the best interest of the people and the country that the companies should be run smoothly, and to manage and supervise the companies it was necessary to appoint temporary management and supervisory teams, (iv) the opinion of

⁸⁴ The above description of events comes directly from Report of British Medan Consul (Mckay) dated 24 January 1964 (UKNA, FO 371/175281).

⁸⁵ The above description of events comes directly from Report of British Medan Consul (Mckay) dated 24 January 1964 (UKNA, FO 371/175281).

⁸⁶ Surat Keputusan Gubernur Kepala Daerah Sumatra Utara (Sitepu) no 2738/10 dated 22 January 1964 (actually issued on 23 January 1964).

the National Front of North Sumatra, and (v) the announcement of the Acting President of Indonesia (Leimena) on 20 January. By claiming (falsely) that workers had already taken over the company and surrendered it to him, the Governor was in effect saying that he had no choice but to take over the company in order to prevent the company from being managed by the workers; such an action was in essence the only choice left if the Governor were to carry out Minister Leimena's appeal of 20 January that had warned against takeovers by the people. Naturally, the Governor would have to appoint people to run the companies once he took them over. In fact, the Governor actually appointed two teams under the decree, a management team and a supervisory team. The management team was comprised of three people, and its duties were to continue to manage the companies to increase production, not to make any major changes without the consent of the Governor, and to report on developments to the Governor. The supervisory team was comprised of four people, and its duties were to supervise the company so that it ran smoothly and production increased, to ensure that the instructions of the Governor were carried out, and to report on developments to the Governor. The duties of these two teams obviously overlapped, and there was no clear separation of roles nor any explanation of what was meant by supervision.

The ambiguity of the decree over the exact roles of the two teams was cleared up somewhat by the actual membership of the two teams. The three members of the management team were all Indonesian staff employees of H&C. The supervisory team, on the other hand, consisted of (i) a representative from the Governor's office, (ii) the secretary of the National Front in Medan, (iii) the secretary of a labor union, and (iv) a labor union representative within H&C's office.⁸⁷ Presumably the Governor really did want to make sure that the office was properly run, hence he appointed existing staff to the management team. The supervisory team, however, was clearly a concession to the labor unions (and National Front) which had attempted to take over the company. It is unclear how much leeway the Governor wanted to give the labor unions; it seemed the two teams would have to work out for themselves the boundary and scope of their respective roles. As things turned out, the supervisory team indeed managed to retain quite a bit of influence over the next several months.

⁸⁷ Report of British Medan Consul (Mckay) dated 28 January 1964 (UKNA, FO 371/175281).

The situation in the Medan offices of the three British estate management companies over the next few weeks was not altogether clear, but it seems that in practice, with the exception of H&C, there was little immediate change. This only becomes evident in hindsight, however; at the time, there was great confusion and uncertainty over how the situation would play out, and the composition and role of the “supervisory team” seemed quite ominous. H&C seemed to be affected the most. Foreign managers were allowed to go to the offices, and even retained some control over important documents and financial matters, but the day-to-day management regarding the estates was done by the management team and Indonesian staff, with the foreign managers only “advising.” Trade and shipping activities continued to be run by the foreign managers. At the offices of Guthries, a team had been appointed and was in place, but members of the Indonesian staff were on the team and in practice little changed. Anglo Sumatra had experienced hardly any interference in management, and there was not even a takeover team in place at the office as of early February. It also seemed that for the most part British-Indonesian personal relations remained quite cordial.⁸⁸

On the British-owned estates themselves the picture was even murkier. On the morning of 22 January, numerous British-owned estates in North Sumatra – the actual number is not clear - were also taken over by labor unions. These takeovers were obviously coordinated with the attempted takeovers of the management companies’ offices in Medan. For example, at London Sumatra’s Dolok estate, the estate manager was forced by the labor unions to sign a surrender document. The document, also signed by representatives from the KBKI federation, SARBUPRI union (this union represented estate workers and was a member of SOBSI) and BTI (the PKI-controlled organization of farmers), cited Konfrontasi, the British confiscation of spare parts in Hong Kong, the British seizure of the Haj ships, and DEKON and other revolutionary slogans, as some of the reasons why the unions decided to take over all British companies, which the declaration noted were immediately turned over to the GOI.⁸⁹ However, details of what

⁸⁸ Reports of British Medan Consul (Mckay) dated 24 January 1964 and 1 February 1964 (UKNA, FO 371/175281); British Embassy Confidential Report (Oliver) dated 6 February 1964 (UKNA, FO 371/175281).

⁸⁹ Piagram Pernyataan dari Kaum Buruh Dolok Estate dated 22 January 1964 (BKS-PPS, Perusahaan Perkebunan IV-3, GPS 1964-5).

was actually happening on the various estates after 22 January are scarce. There were about seven foreign estate managers on the Lonsum estates, and each of these managers lost effective control of their estates around 22 January and were made inactive. It appears that Indonesian staff members ran the estates in their absence, and there was little change in practice. It is not clear what was happening on the estates already managed by Indonesians, but there also seemed to be no great changes in practice. Anglo Sumatra, none of whose estate managers were British, reported that seven estates had been taken over and were being nominally run by appointees but that there was little interference and things were proceeding normally. Guthries had managed to keep its estates clear from any teams. In sum, there appeared to be little immediate change on the estates except for the rejection of the British managers.⁹⁰

In the meantime, the British consul in Medan was trying to meet with any Indonesian official who could shed some light on the situation and what the GOI's intentions were. In particular, the British consul asked various officials how the Governor of North Sumatra could get away with such blatant defiance of General Yani's order of 23 January affirming that there should be no takeovers of British companies unless ordered by the President. The consul included this charge in a letter sent to the Governor, the regional military commander of North Sumatra and the Police Chief of North Sumatra, only to receive a reply which indicated that the Governor was awaiting further instructions from Jakarta (he had sent the Deputy Governor there on 23 January).⁹¹ In his various reports to the British ambassador in Jakarta, the British consul further noted that the army in general seemed to be following the line of "disapproval without involvement." For example, General Kosasih, the head of KOANDA, clearly indicated his disapproval of the Governor's actions, yet did little to stop them.⁹² No doubt General Kosasih was also waiting to see what Jakarta had in mind.

⁹⁰ British Embassy Confidential Report (Oliver) dated 6 February 1964 (UKNA, FO 371/175281).

⁹¹ Reports of British Medan Consul (Mckay) dated 28 January 1964 and 31 January 1964 (UKNA, FO 371/175281).

⁹² Reports of British Medan Consul (Mckay) dated 29 January 1964 and 31 January 1964 (UKNA, FO 371/175281).

4. Surabaya/East Java.

On 24 January, SOBSI-affiliated unions attempted takeovers of three British-owned factories in Surabaya - Unilever, BAT and Fraser & Neave (a Singapore-based soft drink company which had soft drink/bottling plants in Jakarta and Surabaya). All three facilities were managed by Indonesian nationals. Similar to the other areas, the situation was initially very confusing. As had happened with the attempted takeovers in Jakarta a week earlier, on the same day there was demonstration at the British consul in Surabaya, this time by the Youth Front of East Java, who, citing Konfrontasi, the detention of the two ships in Hong Kong, the sabotaging of the Indonesian air force's spare parts in Hong Kong, and Subandrio's speech on 15 January in Tokyo, declared, among other things, their support for the labor unions' actions to take over all British firms in Jakarta. The entire effort from the demonstration at the consulate to the takeover of the three companies was obviously well-coordinated. The unions appeared to take control of the companies briefly; the manager of F&N actually signed a takeover/surrender document, but managers of the other two complained to the Governor of East Java, who later in the day told the unions somewhat indecisively that control should be handed back to the owners. Instead the unions appointed new management teams at all three companies. Later that day or the next morning, the Governor of East Java, after consultations with the local army and police officials, issued a statement asking the public to pay attention to Presidential Decree 194/1963 (prohibiting takeovers except on the President's order) and instructing officials to report any takeovers. However, the labor unions persisted in their efforts over the next few days, and the British consul reported that there was a tug-of-war between labor unions and local authorities. The US consul in Surabaya also reported that the police had at some point been instructed to restore the situation, but were not acting very decisively. Then, a few days later around the 27-28 January, there were other attempted takeovers at Shell's office in Surabaya and the Nebrutex textile plant outside Surabaya. These efforts failed, however.⁹³

⁹³ Reports of British Surabaya Consul (Brayne) dated 24 January 1964, 25 January 1964 and 20 February 1964 (UKNA, FO 371/175281); US Surabaya Consul telegrams dated 26 January 1964 (Walkin) and 29

The Governor of East Java initially seemed genuinely unsympathetic to the takeovers, but also seemed to be wary of the power of the unions. The US consul in Surabaya reported that in the week before the takeovers, the assistance teams appointed by the Governor of East Java under decrees issued back in October (see Chapter Four, Part II, Section B7) had actually materialized at the plants and urged that the workers comply with Minister Leimena's announcement of 20 January. The Governor also took the measures described above on 24-5 January, but these were not very strong, and he allowed the union-appointed management teams to persist for some time. When managers of the firms pressed him to deal strongly with the unions, he referred them to the police, who in turn complained that they had received no instructions from the Governor.⁹⁴ Thus it appeared that the Governor hoped the situation would die down and he would not have to confront directly the unions. On 27 January the Governor met with the British consul in Surabaya and assured him that steps were being taken, though it was unclear what these were.⁹⁵ On 28 January, the Governor made public an order - actually issued on 7 January – that forbade any more takeovers and ordered all companies to be returned. Interestingly, on 29 January various union leaders met with the Surabaya municipal *Tjatur Tunggul* (comprised of the Mayor, the local military commander and police chief, and the local prosecutor). The Governor's order was read to them, whereupon they requested that the matter be referred to the central GOI. After a few minutes consultation, the Mayor so agreed. As the US consul reported, it was not clear if this event was simply a scripted affair by which the Governor would publicly bow to union pressure or was a genuine move by the Mayor to undercut the Governor.⁹⁶

In fact, despite the confusion, it appears that the union-appointed management teams at Unilever, BAT and F&N had little power and did not wrest control away from existing management. Apparently, the initial union-appointed management team for

January 1964 (Vandivier), and US Embassy telegram (Jones) dated 28 January 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁹⁴ Report of British Surabaya Consul (Brayne) dated 25 January 1964 (UKNA, FO 371/175281); US Surabaya Consul telegram (Walkin) dated 26 January 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁹⁵ Report of British Surabaya Consul (Brayne) dated 27 January 1964 (UKNA, FO 371/175281).

⁹⁶ US Surabaya Consul telegrams (Walkin) dated 2 February 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3). According to Crouch, the mayor of Surabaya was a PKI member; Crouch, *Army and Politics in Indonesia*, p. 143.

Unilever even refused to assume their new duties. The US consul also reported that the KBKI branch of BAT, which was the largest union at the facility, had publicly disavowed the takeover, and that the non-communist unions of Unilever and F&N did not cooperate with SOBSI in the takeovers there.⁹⁷ It is unclear how long the union-appointed teams remained in place. Whether this lack of authority was a result of the Governor's efforts behind the scenes is uncertain.

Another view of these events comes from one of their participants in what is the only first-hand account of a takeover from the workers/labor union perspective that I have been able to find for all the takeovers from 1963-65. The account is particularly instructive for the light it sheds on the organization of the takeover and the attitude of the workers involved. It comes from Mr. Pudji Rahardjo, who worked at BAT's Surabaya factory and was the head of the BAT Surabaya branch of the *Serikat Buruh Rokok Indonesia* (SBRI, or 'Union of Cigarette Workers of Indonesia').⁹⁸ The SBRI was a member union of SOBSI,⁹⁹ but Pudji himself insisted that he was not a PKI member. From Pudji's account, it is clear that SOBSI was behind the attempted takeovers of British companies in Surabaya, and that SOBSI used a demonstration by the National Front at the British consulate in Surabaya as cover for its actions.

According to Pudji, several days before the takeover, the National Front held a meeting in Surabaya at which it informed the attendees (including Pudji) that it was organizing a major demonstration at the British consulate in Surabaya in a few days. However, there was no mention of takeovers at this meeting; in fact, some of the member groups of the National Front, such as the NU and PNI, did not support the takeovers.

⁹⁷ Report of British Surabaya Consul (Brayne) dated 25 January 1964 (UKNA, FO 371/175281); US Surabaya Consul telegrams dated 26 January 1964 (Walkin) and 29 January 1964 (Vandivier) (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁹⁸ The following account comes primarily from my interviews with Mr. Pudji over the summer of 2006, as well as from Pudji's printed, but unpublished, manuscript dated 1 September 1985. Because of Pudji's involvement in the takeover, after the September 30 Movement (see Chapter Seven) Pudji was accused of being a PKI member and jailed for 14 years until his release in 1979. Pudji claims 24 November 1964 was the date of the takeover, but I believe the date is 24 January 1964. Pudji himself cites a story from the 24 November 1964 edition of *Harian Umum Surabaya*, a local paper in Surabaya, as evidence for this date; in fact, the date the article appeared in the paper was 25 January 1964. Regardless of the accuracy of the date, the story is instructive for the insights it provides on the organization of the takeover as well as the motives of the workers.

⁹⁹ According to Hindley, the SBRI claimed membership of 70,000 in 1962; Hindley, *Communist Party of Indonesia*, p. 142. See also Castles, *The Kudus Cigarette Industry*, pp. 81-2.

Then, one or two days before the attempted takeovers, SOBSI held a large meeting of leaders of workers in Surabaya and suggested that because the planned National Front demonstration against the British consulate would be very large and would certainly draw many police, it would be a good time to seize the British businesses. After this meeting, SOBSI formed a group in Surabaya called *Komando Aksi Pengambilan Alih Perusahaan Inggris* ('Action Command to Takeover British Companies'), the purpose of which was to seize the British companies; this group was a local branch of the *Komando Aksi Pengambilan Alih Perusahaan Inggris Seluruh Indonesia* ('Action Command to Takeover British Companies Throughout Indonesia'), based in Jakarta. Apparently SOBSI formed similar local Action Commands in each area and also tried to form teams within some of the companies. Pudji was designated the head of this Surabaya branch of the Action Command; the other two leaders were the leaders of the workers at the Bintang beer factory (ex Heineken managed) and the Fraser & Neave soft drink factory. SOBSI did not appoint the individual members of the Surabaya Action Command, but instead instructed the workers to do so and also provided the broad outlines of the planned takeovers.

On the designated day, the National Front held the demonstration in front of the British consulate, which as predicted drew much police attention and provided an excellent diversion as it resulted in no police presence around the BAT factory. Pudji was in touch with both the National Front and SOBSI on this day. The workers gathered around the BAT factory, and a statement of surrender (*Naskah*) was presented to the factory manager around 9:00 am. However, the manager refused to sign it, resulting in the workers ejecting both the manager and other directors, with the workers occupying the factory; later in the day, the workers turned the plant over to the local government, which then turned it over to the central government. Although the takeover was designed to appear spontaneous, it was in fact not spontaneous at all. Government officials knew the takeover was going to happen and were at the factory ready to take over the factory from the workers. In addition, the other foreign companies in Surabaya were also taken over that day, including the beer factory and the Fraser & Neave plant. However, Pudji believed that there was no person or group behind the scenes influencing SOBSI or the

workers to take over the BAT factory. Workers from other groups such as the NU and PNI also participated.

Why had the workers taken this action? According to Pudji, the workers did this voluntarily because of Konfrontasi with Malaysia. The workers had received a ‘signal’ from President Sukarno that they should take this action. President Sukarno never actually said to take over the companies, but he asked the people to support the movement against Malaysia; to them, Sukarno gave the signal in many speeches by telling the workers to participate in the struggle against Malaysia, that everyone should join in the struggle, and he had urged action from the beginning of Konfrontasi. Pudji believed that the government did want the companies to be taken over, but because the government’s problem was with Malaysia it would have been wrong for the government to take over the companies itself. Hence, the government encouraged the workers to seize the companies. By the time of the takeover, the people were very angry and ready to take action; they had reached the peak of their anger, and the action represented an effort to participate in Konfrontasi by people who loved their country, a gesture of solidarity. Apparently the workers had little problem with BAT itself and were quite happy working there; the company was well managed, often sent workers abroad for training, and had a form of social security for retirement.

B. Central Government Response.

The sequence of events described above posed several challenges to the central government. In the first place, as I shall argue in Section C, the highly visible and publicized takeover attempts were a direct challenge from the PKI to the central government over the course of Konfrontasi. Secondly, the varying local/regional government responses described above called out for a more consistent response from the central government. The central government’s first efforts to deal with the situation, Second Deputy Prime Minister Leimena’s announcement of 20 January and General Yani’s order of 23 January, were ignored by the SOBSI-affiliated unions and the National Front which initiated the takeovers and not followed by several of the regional governments. From the central government’s point a view, a more forceful third response was necessary to meet these challenges.

1. Minister Chaerul Saleh's Circular of 31 January.

The central government's response came on 31 January in the form of a written circular from Third Deputy Prime Minister Chaerul Saleh that initiated a slow, gradual takeover of virtually every British enterprise in Indonesia over the next 10 months.¹⁰⁰ Because of its importance, the circular, which was very brief, is worth examining closely. Addressed to various GOI ministers, the circular placed the British companies which had been "taken over" directly under the control and supervision (*penguasaan dan pengawasan*) of the relevant minister (according to the industry sector, though it did not assign specific companies to specific ministers). The circular indicated that each minister should try to get the former management to continue to assist in order to guarantee the continuation and safeguarding of production and equipment, and for these reasons a settlement with the former management should be made. The ministers could request assistance from the armed forces to maintain security if necessary, and if there were problems the ministers could not resolve they were requested to contact the Presidium Kabinet. The circular also noted that ministers' authority would continue until there was a further decision from the President. The companies that had been taken over were listed in an attachment, and included Shell (Jakarta head office, Semarang office, and Balikpapan), BAT (all offices and facilities), Unilever (all offices and facilities), F&N (Surabaya only), Maclaine Watson (Jakarta head office and Semarang), P&T Lands (including its estates), six estates in Central and East Java, H&C's office in Medan, and about 30 estates in North Sumatra (most of which were managed by either H&C or Anglo Sumatra).¹⁰¹ The circular cited Presidential Decree 194/1963, Second Deputy Prime Minister Leimena's announcement of 20 January, and General Yani's order of 23 January as the bases for the decision, and said the measures were necessary in order to guarantee both the continuation and safety of production and equipment, which were important for the Indonesian economy, and the unity of command of the President.

¹⁰⁰ Surat Ederah No D/VII/0452/H5/1964 (Wakil Perdana Menteri III Chaerul Saleh) Tentang Perusahaan2 dan Perkebunan2 Milik Inggris Jang Telah Diambil Alih, dated 31 January 1964.

¹⁰¹ Curiously, the circular itself did not refer to an attachment. I was able to locate two copies of the circular, one which had the attachment and one which did not.

A few initial points are noteworthy. First, only the companies that had been taken over by unions/workers were now being put under control/supervision. However, as we have seen, in reality very few companies were actually seized by labor unions or the National Front, and those that were taken over (such as P&T Lands) were generally back under the control of owner-appointed management (except perhaps H&C's Medan office and a few of the estates it managed). Second, it appeared that the stated goal of the circular was to ensure that the companies continued to operate with no or minimal interruption. As we have seen, this was a stated goal for some of the previous decrees on the takeovers, and it would be characteristic of many of the future takeover decrees. Left unstated was where the possible interruption might come from; however, given events and the private explanations (see below), it was pretty clear that this was targeted against further labor union (i.e., PKI) activity that might disrupt company operations. Third, individual ministers were charged with authority over the companies, and this spread of responsibility and authority over various ministries would be a key feature in how the GOI assumed control over the companies. Fourth, there was no explanation of "control and supervision"; what exactly did this mean in practice, and how was it to be implemented? As there were no explanations, presumably the individual ministers could act as they saw fit. Fifth, characteristically there was no mention of the terms 'nationalization' or 'expropriation' or 'confiscation.' The notion that the ministers should enlist the former managers to assist in operations certainly suggested that old management was being displaced, however. Finally, despite the mention of Shell Oil in the circular, control/supervision was not exercised over it, another example of oil company exceptionalism. However, as we shall see, the fact that numerous other British interests were not included in the circular made little difference ultimately, as they too were eventually taken over.

There was no official explanation from the GOI to the British government about this and other measures described below, but there were at least several explanations in private. First, on 3 February First Deputy Prime Minister Subandrio told US Ambassador Jones that after lengthy discussions the cabinet had decided that British firms would be allowed to continue to operate but under some form of control which would be detailed

later, and that P&T Lands would be nationalized outright.¹⁰² Jones also reported that at a 9 February meeting with Third Deputy Prime Minister Chaerul Saleh, Saleh “reaffirmed what Subandrio had told me earlier: that [the] GOI was now in [the] process [of] taking control from labor unions and that this is [the] first step in restoring enterprises to British control,” the exception being P&T Lands.¹⁰³ Finally, in a rather tense meeting on 12 February between Minister Chaerul Saleh and British Ambassador Gilchrist, Saleh indicated that the

whole series of decisions regarding British firms represented an effort to prevent any ill-effects arising from the politically-minded workers, while giving them some measure of satisfaction. In the interest of Indonesia production must be maintained. It was intended that real interference with management would be as restricted as possible, and that the profits of firms, their access to foreign currency, their handling of exports (where applicable), would be as before.

In other words, GOI assumption of control was only meant to appease the workers, and interference with management would be as limited as possible, and that behind the scenes little would change. Gilchrist responded that while the GOI’s hand “might have been forced by the Unions, the Government might have been willing partners in the process,” and then suggested that the GOI was trying to force the firms out of Indonesia without properly nationalizing them so as to avoid claims of compensation. Minister Saleh “vigorously” denied this, and said nationalization was not on the agenda and the firms would be returned, citing Shell as an example. When asked when the firms would be returned, Minister Saleh responded that it would depend on two factors: first, “an improvement in the political situation vis-à-vis Britain,” and second “the establishment by the Indonesian Government of greater control over the workers.” Saleh hoped the returns would be as soon as possible.¹⁰⁴

Minister Saleh’s 31 January circular spawned the issuance of various decrees by at least two ministries, the Ministry of Agriculture and Agrarian Affairs and the Ministry of Peoples Industry, the two ministries under which most of the British enterprises fell. It was pursuant to these decrees that the two ministries began to exercise their authority

¹⁰² British Embassy telegram (Gilchrist) dated 3 February 1964 (UKNA, FO 371/175281).

¹⁰³ US Embassy telegram (Jones) dated 9 February 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹⁰⁴ British Embassy telegram (Gilchrist) dated 12 February 1964 (UKNA FO 371/175281).

over the various companies, which was generally done by establishing control/supervisory teams at the companies. As such, these decrees are also worth examining closely.

2. Decrees of Ministry of Agriculture and Agrarian Affairs.

On 1 February, the day after Minister Chaerul Saleh issued his circular, Minister of Agriculture and Agrarian Affairs Sadjarwo issued a decree placing British estate companies that had been seized under the temporary control (*penguasaan*) of the Ministry of Agriculture and Agrarian Affairs.¹⁰⁵ Noting that Minister Chaerul Saleh's 31 January circular had instructed ministers to execute temporary control over the British estates that had recently been taken over by workers, the decree cited the continuity and smooth running of production as the main rationales for the imposition of temporary control. The decree confusingly appointed three separate groups. First, to implement control, the decree directed that a 'Temporary Control Board of British Estates' (*Badan Penguasaan Sementara Perusahaan2 Perkebunan Ingris*) be established in each province concerned. The Temporary Control Boards were to be appointed by Minister Sadjarwo and were responsible to him for the smooth operation of the estates. There were three board members: the head inspector from the estate division (*Djawatan Perkebunan*) as chairman, one representative from the state-owned estate companies, and one representative from the Bank of Indonesia. The second group appointed was at the level of the estates themselves. For each organized or legal unit (presumably this meant each separately incorporated company or estate), there was to be a Head/Manager and Deputy Head/Manager. These two positions were appointed by Minister Sadjarwo and responsible to the Temporary Control Board, and presumably their function was to manage the estates. As a temporary measure, until such appointments could be made by the minister, however, the current leaders/managers of each unit who were of Indonesian nationality should act as Head/Manager and Deputy Head/Manager. The third group was the Supervisory Boards (*Badan Pengawas*) that, like the Temporary Control Boards,

¹⁰⁵ Surat Keputusan Menteri Pertanian dan Agraria (Sadjarwo) No AK/31/MPA/1964 Tentang Perusahaan Perkebunan Inggris Untuk Sementara Langsung Dibawah Departemen Pertanian dan Agraria, dated 1 February 1964.

were established at each provincial level. Their function was to supervise and provide guidance and assistance, and they were composed of the Governor of the province, the *Tjatur Tunggal* (the local bodies comprised of the representatives from the prosecutors office, police, armed forces and provincial Governor), one representative from the National Front, three representatives from labor organizations, three representatives from farmers' organizations, one representative from Bank Indonesia, and the local Inspector of Agriculture. A final important provision in the decree stipulated that in order to safeguard production, the old channels of marketing and payment should be used until there were further instructions. This was a clear sign that Minister Sadjarwo did not want the new appointees to make too many changes.

Again, the decree merits a few comments. First, the swiftness with which the decree was issued after 31 January suggested that a draft had been prepared well beforehand and that Minister Sadjarwo was waiting for an opportunity to use it. Indeed, as we saw in Chapter Two (Part III, Section C), Minister Sadjarwo already had the experience of establishing supervision over Dutch estates when the Dutch companies were seized in December 1957, and in early 1964 he acted even more swiftly. Second, the decree clearly indicated that "control" and the teams were to be temporary; this was a brand new feature, as Minister Saleh's 31 January circular had not indicated the measures were temporary. Third, in characteristic fashion there was again no mention of the terms 'nationalization' or 'expropriation'; the situation was described as "control," without elaboration. Fourth, it was not clear from the decree what the powers, authority and functions of the Supervisory Boards were vis-a-vis the Temporary Control Boards and the unit Head/Managers. The decree seemed to establish the Temporary Control Boards as the overall group in charge, the body to which the Head/Managers, who were responsible for the individual estates and companies, were to report. The degree of supervision the Supervisory Boards could exercise was not clear; in the case of a conflict, who trumped whom? A look at the composition of the teams might provide some clues. The Temporary Control Boards and the Head/Managers were comprised of professionals, mostly from the field of estate management; they were professional managers. However, the membership of the Supervisory Boards were obviously not professional managers but rather mostly individuals from the political sphere (the Governor, *Tjatur Tunggal*,

National Front) and labor and farmers groups. Thus the creation of this group may have been a concession to both local political interests and to organized labor; similarly, it may also have been a gesture or concession mainly to organized labor, with the other members included so that they might act as a counter to labor. Unfortunately, there is simply not enough available information to determine what the real motivations behind these Supervisory Boards were or the role they actually played.

To round out the Ministry of Agriculture and Agrarian Affair's control, on 6 February Minister Sadjarwo issued a second decree which established a Team within the Ministry of Agriculture and Agrarian Affairs.¹⁰⁶ The function of this Team was to provide leadership and guidance to the various Temporary Control Boards and Supervisory Boards, and to provide advice to the Minister of Agriculture and Agrarian Affairs regarding the British estates. Thus it was probably intended to centralize policy making and administration over the estates within the Ministry of Agriculture and Agrarian Affairs so that the various Temporary Control Boards and Supervisory Boards would act in a coordinated fashion. This Team was headed by the minister himself and included eight other officials from the Ministry of Agriculture and Agrarian Affairs and from the management boards of the state-owned plantations. In short, it was a team of career GOI officials primarily involved with estates.

3. Decree of Ministry of Peoples Industry.

On 5 February, the Minister of Peoples Industry, Major General Azis Saleh, established a working team to prepare a plan to organize the imposition of control and supervision over British companies as called for by Minister Chaerul Saleh's 31 January circular.¹⁰⁷ The team, which consisted of officials mostly from within the ministry, must have worked quickly because on 8 February Minister Saleh issued another decree which placed all the facilities and operations of four British-owned manufacturing concerns, Unilever, BAT, Fraser & Neave, and Nebritex (a textile mill outside Surabaya, East

¹⁰⁶ Surat Keputusan Menteri Pertanian dan Agraria (Sadjarwo) No 36/MPA/1964 Tentang Pembentukan Suatu Team di Departemen Pertanian dan Agraria, dated 6 February 1964.

¹⁰⁷ Minister of Peoples Industry (A Saleh) Decree No. 33/SK/II/64 dated 5 February 1964 (English translation only, found in UKNA, FO 371/175281). The words used in the English translation were 'control and supervision,' presumably *penguasaan* and *pengawasan*.

Java), under the control/supervision of the Ministry of Peoples Industry.¹⁰⁸ The decree also established a Control Team (*Badan Pengusahaan Perusahaan Inggris*) within the ministry to take charge of and implement the control and supervision over the companies. (Presumably the ministry at some point issued further decrees, but these two are the only ones available.) Unlike its counterparts from the Ministry of Agriculture and Agrarian Affairs, this decree apparently did not indicate that the control/supervision would be temporary. The control structure in this case was much simpler than that of the Ministry of Agriculture and Agrarian Affairs, which probably reflected that it was only supervising four companies, not dozens of separate estates. Finally, similar to the other decrees, the actions taken by the ministry were described as “control/supervision,” and there was no mention of the terms ‘nationalization’ or ‘expropriation.’

C. Analysis.

As the takeover attempts were led by the PKI-controlled SOBSI and the PKI-dominated National Front, it seems clear that it was the PKI which initiated the seizures. Moreover, because the attempted seizures directly contravened Presidential Decree 194/1963, which was issued by President Sukarno in September 1963 in the wake of the seizures of British companies and specifically prohibited the takeover of British firms unless ordered by the President himself, these actions constituted a direct challenge to the GOI. In fact, as discussed in Part I, Section A, these actions were just one of the first of many measures taken by the PKI in 1964-65 as it embarked upon a major political offensive, with Konfrontasi’s strongly nationalist and anti-imperialist focus providing the vehicle for flexing the PKI’s agitational muscles. As one observer noted, “it was a measure of the PKI’s new-found boldness that this was the first occasion on which it had taken the lead in a major takeover movement, and also the first occasion when it appeared to challenge the president directly over foreign policy.”¹⁰⁹ The episode also highlighted the weakness of the central government viv-a-vis the PKI: writing one year after these events, another commentator argued that

¹⁰⁸ Minister of Peoples Industry (A Saleh) Decree No. 60/SK/II/64 dated 8 February 1964 (English translation only, found in UKNA, FO 371/175281).

¹⁰⁹ Mortimer, *Indonesian Communism under Sukarno*, p. 240.

the government takeover [of the British companies] marked something of a turning point in the operations of the present Indonesian power structure, because there is little question that the government was coerced or let itself be coerced into taking this step and that as a result of Communist pressure it went back, in effect on its own decisions.¹¹⁰

For another observer, the events demonstrated how control over the course of Konfrontasi was slipping from President Sukarno's grasp: "the episode raised serious doubts about Soekarno's capacity to override the PKI on the confrontation issue."¹¹¹

The motivation behind the PKI's initiation of seizures of British firms appears to have been the possibility of a resolution of the Konfrontasi conflict brought about by the Robert Kennedy mission. As we saw in Part I, Section B, over the course of several days in Tokyo beginning on 17 January Kennedy met with President Sukarno in an attempt to de-escalate Konfrontasi by arranging for a temporary ceasefire and tri-party summit meeting. Having secured Sukarno's conditional agreement, Kennedy left Tokyo on 19 January to secure the agreement of Malaysia and the Philippines, which he was also able to do. On 22 January, Kennedy arrived in Jakarta for further meetings with Sukarno, and on 23 January Sukarno announced the temporary ceasefire. The PKI's initiation of takeovers of British companies on 18 January occurred precisely during the course of these Tokyo meetings. The PKI leaders recognized the seriousness of the Tokyo talks and the threat to the PKI's investment in the continuation of Konfrontasi as a vehicle through which the party could exercise the political initiative, as we saw earlier the major thrust of the PKI's new strategy. In fact, on 17 January the PKI's daily newspaper contained a statement by Aidit, the party leader, "who insisted that 'it is our obligation to avoid efforts which have the nature of compromise,' and that efforts to 'crush Malaysia' be continued."¹¹² The subsequent takeover attempts in direct contradiction of GOI policy meant that "Aidit was in effect indicating to Sukarno that he could not restrain his followers in the event of a deal being made with the imperialists, as well as striking at the

¹¹⁰ van der Kroef, *The Communist Party of Indonesia*, p. 282; see also pp. 371-2 of van der Kroef, "Indonesian Communism and the Changing Balance of Power." See also Feith, "The Triangle Takes Shape," pp. 975-6.

¹¹¹ Mackie, *Konfrontasi*, p. 226.

¹¹² van der Kroef, *The Communist Party of Indonesia*, p. 281.

president's sensitivity about being identified with right wing policies.”¹¹³ The PKI’s approach was very clever, for as we have seen the seizures were often justified on the patriotic grounds of supporting the Konfrontasi effort against the British imperialists. The PKI was in effect using Sukarno’s own policies and slogans against him at a time when the President genuinely seemed to want to tone down the conflict. Thus the British companies in effect fell into a conflict between President Sukarno and the PKI over the direction of Konfrontasi, becoming intertwined not only within the politics of Konfrontasi but also within Indonesia’s domestic politics.

In the days after the initial seizures the PKI continued to try to drum up support for the takeovers. On 25 January a KBKI delegation as well as a SOBSI delegation headed by SOBSI leader Njono himself met with Foreign Minister Subandrio. Njono explained that the actions of the labor unions were measures to support Konfrontasi and were also a safety valve for the workers to let off steam against British imperialism.¹¹⁴ On 30 January another Njono-led SOBSI delegation met with Minister of Agriculture and Agrarian Affairs Sadjarwo and the Chief of Police, and on 31 January yet another delegation met with Minister of Peoples Industry Azis Saleh.¹¹⁵ The PKI used these SOBSI meetings to push the GOI to take over officially the companies and to give SOBSI a greater role in their management. For example, after the 25 January meeting with Minister Subandrio, Njono called for greater cooperation between the workers and police and hoped that actions hostile to workers, the people, and the Revolution could be avoided.¹¹⁶ Similarly, at the 28 January meeting apparently SOBSI requested that Minister Sadjarwo open negotiations with the labor unions to settle the question of the taken-over estates, demanded that the GOI support the management teams set up by the workers, and also demanded the release of workers (citing 86) arrested in connection with the takeovers.¹¹⁷ On 4 February, Aidit, the PKI chairman, issued a statement supporting the takeovers. The statement said that the takeovers were Sukarno’s “own child” because

¹¹³ Mortimer, *Indonesian Communism under Sukarno*, p. 240.

¹¹⁴ British Embassy telegram (Gilchrist) dated 27 January 1964 (UKNA, FO 371/175281); see also US Embassy telegram (Jones) dated 27 January 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹¹⁵ British Embassy telegrams (Gilchrist) dated 30 January 1964 and 31 January 1964 (UKNA, FO 371/175281).

¹¹⁶ British Embassy telegram (Gilchrist) dated 27 January 1964 (UKNA, FO 371/175281).

¹¹⁷ British Embassy telegram (Gilchrist) dated 30 January 1964 (UKNA, FO 371/175281).

the GOI had asked the people to take up the struggle to *ganyang Malaysia* ('crush Malaysia'). The fact that Sukarno had ordered GOI officials to negotiate with the workers (it is not clear what this was referring to) was a good sign and much better than negotiating with Robert Kennedy in Tokyo. The statement further called upon the workers to defend the takeovers to the last and even to take over other British firms, both of which would provide the GOI with support in the upcoming Bangkok talks (5-10 February). If the British dissolved Malaysia, then the companies would be nationalized and paid for, but if the British remained stubborn, the companies would simply be confiscated (and not paid for).¹¹⁸

The attempted seizures indeed appear to have been effective in forcing the hand of the GOI because the government intervened by placing the companies under its control and supervision pursuant to Minister Chaerul Saleh's circular of 31 January. The real intention of the GOI in taking this step remains unclear, and there were likely multiple motives. As suggested by Minister Chaerul Saleh to Ambassadors Jones and Gilchrist (Section B above), it appears that placing the companies under GOI control/supervision was at a minimum a compromise solution by which the GOI could head off further labor union (i.e., PKI-led) takeover actions by claiming that the companies were already under effective GOI control. Whatever the GOI's ultimate intentions, clearly most of its officials did not want the British companies to fall under the control of the labor unions, which in all likelihood meant that the companies were under the control of the PKI. Under this GOI 'supervision,' the owner-appointed management could continue to operate the companies as normal, with certain superficial changes. It was left to the individual ministers to adjust to circumstances as necessary. In addition, placing the companies under government control/supervision also gave the government time to ponder its next move; it was a step which made the GOI look as though it were taking action but also allowed the government breathing room to let the dust settle and then decide what to do. On the other hand, it also appeared from his statements to Ambassador Gilchrist that Minister Chaerul Saleh considered the companies to be hostages in the

¹¹⁸ British Embassy telegram (Gilchrist) dated 4 February 1964 (UKNA, FO 371/175281). Aidit also made similar comments in the January-February issue of PKI's theoretical journal *Bintang Merah*; see Mortimer, *Indonesian Communism under Sukarno*, pp. 240-1.

Konfrontasi conflict; the ambiguous status of the companies was a lever to be used against the British, as placing the companies under the government's "control and supervision" clearly opened the door to full scale nationalization, a charge that was leveled by many as the GOI's real objective. The scheme may well have been intended by Minister Saleh to combat labor union and particularly PKI aggressiveness as well as to pressure the British, but in allowing so much discretion to individual ministers it also opened the door for ultimate GOI control, which is exactly what happened.

Though the central government policy clearly did not favor the PKI-led seizures of British firms, undoubtedly some individual GOI officials supported the takeovers. That there was diversity of opinion regarding the takeovers at the provincial level has already been demonstrated by the divergent reactions to the attempted seizures, such as that of Governor Mashudi of West Java or Governor Sitepu of North Sumatra. At the national level, one very public example of this was Minister of Labor Ahem, whose DPS-KBKI labor federation had initiated the seizures of the British companies in September 1963. On 17 January, the Joint Secretariat of Labor, a group chaired by Minister Ahem, issued a statement in the wake of Subandrio's 15 January announcement from Tokyo that urged the GOI to seize all British property in retaliation for the detention of the Haj vessels. This resolution had apparently been drafted before Subandrio's speech, but was only made public after (the takeovers began the day after it was issued).¹¹⁹ On 22 January that same body urged the GOI to accept the management of the taken-over companies and declare the companies the property of Indonesia.¹²⁰ Minister Ahem's position reflected that the GOI was hardly a monolithic entity, speaking in one, unified voice. There were certainly officials within the GOI who were happy to see the companies taken over, and there were certainly some who did not. After all, as we saw in Chapters Two and Three the role of foreign capital in the Indonesian economy since 1949 had been very contentious.

Given the tight press controls and lack of survey opinions or polls, it is also difficult to measure the public attitude toward the takeovers. The account of Pudji

¹¹⁹ US Embassy telegram dated 27 January 1964 (HI, Howard Jones Papers, Box 68, Indonesia Politics and Government 1950-66).

¹²⁰ British Embassy telegram (Gilchrist) dated 23 January 1964 (UKNA, FO 371/175281).

regarding the takeover of BAT Surabaya (Section A4 above) suggests that many workers were responding to constant exhortations by President Sukarno in his many speeches to take actions in support of Konfrontasi. Short of participating in the fighting, what could a worker do to demonstrate support other than seizing a company from the imperialist *dalang* (puppeteer) behind Malaysia, the British. Thus for some workers, seizing British companies was a genuine measure of patriotic support, though it certainly expressly contravened existing government decrees. On the other hand, the refusal of other workers to participate in the seizures indicates that not all workers shared the same beliefs. In the politics of mass mobilization, the aims of the leaders of the mass organizations (e.g., the intent of the PKI leaders to use the seizures as a means of challenging the government's policy on Konfrontasi) did not always match the aims of the followers in the mass organizations (e.g., Pudji's contention that the workers were acting patriotically to support Konfrontasi). Furthermore, how much we can extrapolate from Pudji's explanation concerning the attitude of the general public is impossible to know.

III. Impact of Decrees and Other Measures: Creeping Confiscations.

The placement of various British enterprises under the control and supervision of the government pursuant to Minister Chaerul Saleh's 31 January circular opened the door for the de facto confiscation of most British enterprises in Indonesia. Over the next ten months, various ministries of the GOI gradually assumed control over virtually every British enterprise in Indonesia, with the exception of Shell Oil, a process I call "creeping confiscation" because of its slowness and gradualness. Confiscation was accomplished by the usurpation by government-appointed personnel of managerial authority from owner-appointed managers and the eventual expulsion of owner-appointed managers from the company as well as the prohibition of contact with the foreign headquarters of the company. Most of these takeovers were done under the aegis of the decrees issued by the Ministry of Agriculture and Agrarian Affairs and Ministry of Peoples Industry described in Part II above. In particular, control/supervisory teams from these two ministries began

showing up at British companies in mid-February, and in most cases gradually (though in some cases quickly) over the course of many months usurped the authority of owner-appointed management. The timing varied in each company, and in many instances it is not clear precisely when control over a company changed hands; hence the term “creeping confiscation” applies not only to the process as applied to British companies as a group but also as applied internally within individual British firms.

That the pace of GOI assumption of control varied so much was a direct reflection of both the intentional vagueness of GOI decrees, especially Minister Saleh’s 31 January circular, regarding the meaning of “control/supervision,” and most especially the fact that individual ministers apparently had full discretion to implement whatever measures they felt were appropriate. As I suggested in Part II, while the GOI’s initial intentions in placing the companies under control and supervision cannot be ascertained with certainty, such a strategy did give the GOI a minute to catch its breath, to play for time while it figured out what to do, while at the same time trying to neutralize any further labor union activity. However, it also opened the door for not only the ministers in charge to pursue inconsistent approaches in assuming control, but also the possibility that these ministers might take measures which other officials in the GOI did not agree with (such as with respect to P&T Lands, see below). It also exposed the ministers and their supervisory teams to outside pressures, such as the influence of labor unions (such as the case of Unilever, see below). Other factors influencing the pace of assumption of control may have included the status of Konfrontasi as well as the particular minister’s own disposition and interests, especially his attitude toward foreign investment.

However, I believe that the single biggest factor affecting the pace of assumption of control was the economic importance of the specific company and the opportunities for patronage, influence peddling and increasing power and wealth arising from the economic value of the company. In particular I am referring to the position of the British estates as earners of scarce and valuable foreign exchange, in contrast to the position of the manufacturing companies which generated little to no foreign exchange. An industry comparison confirms that control over the estates was imposed much more quickly than in the case of the manufacturing companies. Most, if not all of the British estates appeared to be under the control of the Ministry of Agriculture and Agrarian Affairs by

the end of June 1964, including some estates that had not been mentioned in Minister Chaerul Saleh's 31 January circular.¹²¹ In addition, by this point there were no British expatriates residing on British estates (there had been about 40 a year earlier), and, as we shall see in Part IV, Minister Sadjarwo in late June began taking measures that indicated a new phase of ministry control over the British estates was beginning.¹²² Contrast this with the four manufacturing companies taken over by the Ministry of Peoples Industry, headed by Minister Azis Saleh, beginning February 1964. Here, GOI control was generally much looser, and British management appeared to last well into the fall of 1964. For example, at Unilever control probably did not pass until November 1964; similarly, in the case of Nebritex, the owner-appointed managers were in charge until after the issuance of Presidential Decree 6/1964 in late November (see Part V).¹²³ As described in Part IV, the reason for Minister Sadjarwo's attempt to assert control over the British estates in early June was precisely because a major fight within the GOI was underway for control over these resources.

¹²¹ Most of the estates not mentioned in Minister Chaerul Saleh's 31 January circular but taken over anyway were in Java, especially Central and East Java, and many (a number of which were not actually British-owned) were managed by JA Wattie. As we saw in Chapter Four, Wattie's Jakarta office had been taken over by the GOI in September 1963, but it appears that it was not until June 1964 that the Ministry of Agriculture imposed more control over these estates. In a letter (on Watties own letterhead) dated 5 June to Watties, a "Government Supervisory Team" (presumably this was the provincial Supervisory Board appointed by the Ministry of Agriculture and Agrarian Affairs) informed the company that it would no longer be sending them correspondence, monthly reports and financial information about the British estates managed by Watties and that henceforth decisions formerly made by Watties would be made by the government. The letter indicated that the Supervisory Board had been instructed to discontinue this practice on 18 March, but for unknown reasons this instruction was ignored until early June. The flow of information indeed ceased after the 5 June letter, prompting Watties to admit that its influence and knowledge of the affairs of the British estates had ended and that it was unable to exercise its managerial responsibilities and functions over them. However, communication with the non-British estates managed by Watties proceeded as normal for a while, even though export sales by these non-British estates to British firms was now prohibited. See letter from Burt Wattie & Co. to Peck of British Foreign Office dated 26 June 1964, with attachments (UKNA, FO 371/175283).

¹²² British Embassy Confidential Note (Gilchrist) dated 17 June 1964 (UKNA, FO 371/175283).

¹²³ Oil company exceptionalism, as I have noted, was entirely different. The only other ministers involved with respect to the British companies were Minister Chaerul Saleh, Minister of Trade Adam Malik, and the Minister of Finance. As Minister of Basic Industry and Mining, Minister Saleh was responsible for Dunlop Rubber, which as we saw in Chapter Four after an initial ministerial tussle over control was generally left alone until mid-1965. Trade Minister Adam Malik did not even act as instructed by Minister Saleh's 31 January circular to put Maclaine Watson under supervision until 1 July 1964 (six months later). The Ministry of Finance, however, did act quickly in September 1963 by placing the Commercial Union insurance operations under its control. Unfortunately, I have no information regarding the revenues of Dunlop Rubber, Maclaine Watson, or Commercial Union. In the cases of Minister Chaerul Saleh and Adam Malik, it appears as though neither were stringently opposed to foreign investment.

In fact, in a report to various GOI ministers dated 24 March, Minister Sadjarwo claimed that 93 estates previously under British management were now under the temporary control of the Ministry of Agriculture and Agrarian Affairs.¹²⁴ In addition to describing the measures taken under the decrees of 1 February and 6 February noted previously, the report described other instructions that the ministry had provided regarding the estates, most of which highlighted the importance of keeping revenues flowing. First, the ministry had instructed that production and sales continue smoothly and the business must be guarded well and operated efficiently. Second, for as long as possible, existing sales and payment channels should be used so as not to create difficulties. Third, for psychological reasons and in order to guarantee the smoothness of production, foreign managers were not allowed to take an active role in the business, but would continue to be given the same facilities as before (this seems to be a reference to houses, cars, etc). Foreigners could, however, act as advisors, but this should be done through the Temporary Control Boards. Finally, Minister Sardjowo noted that for now the old forms of organization were still being used for convenience. Yet, there were some deviations from this in cases where the old management was managing not just British estates but estates of other nationalities; in such case, there was a division, and a new management team was appointed to supervise the British estates, while the old management continued to manage the non-British estates. (This was clearly a reference to Anglo Sumatra's office in Medan, where the Swiss manager and several other expatriates continued to manage the Belgian-owned estates and the GOI team managed the British estates.)

Before discussing several examples of how the various GOI ministry teams assumed control over British companies, I would like to mention briefly the two other methods by which British enterprises were either taken over or squeezed out of Indonesia during this period. First, in at least two cases, P&T Lands (see below) and Maclaine Watson (a trading company), the relevant GOI ministry issued a specific decree which took over the company. In a pattern similar to P&T Lands, Maclaine Watson was initially put under the supervision of the Ministry of Trade in early March 1964, and then on 1

¹²⁴ Report No P140/Kab A/151a/64 dated 24 March 1964 Tentang Kebidjaksanaan Penguasaan Semenetera Perkebunan2 Milik Inggris (ANRI R47, 905).

July 1964 the Ministry of Trade took full control over it.¹²⁵ The second method was simply squeezing out companies by imposing restrictive laws and regulations. For example, the British embassy reported in early February 1964 that new regulations prevented insurance companies from re-insuring abroad, a development that restricted the two remaining British insurance companies to Rupiah-denominated business and surely marked a severe limit on their business.¹²⁶ Similarly, the US Embassy reported in early July that a new March law prohibited foreign companies from acting as shipping agents in Indonesia, a measure that when implemented would effect Maclaine Watson, Harrisons & Crosfield, and others.¹²⁷ In perhaps the best example of this kind of measure, on 18 May 1964 the Coordinating Minister for Finance issued a decree prohibiting foreign banks from establishing branch offices outside Jakarta.¹²⁸ As Chartered Bank was effectively the only foreign bank operating in Indonesia, this decree was clearly aimed at it.¹²⁹ The decree allowed six months for the branch offices outside Jakarta to be shut down (Chartered Bank had branches in Surabaya and in Medan, both of which were accordingly shut down in mid-November 1964).

Rather than doing a company-by-company survey of how the various GOI ministry teams assumed control, I shall focus on three enterprises, P&T Lands, the Harrisons & Crosfield office in Medan, and Unilever. These examples are both illustrative of what probably happened to other companies in the plantation and manufacturing businesses as well as excellent examples of the creeping nature and ambiguity of the takeovers. They also serve to highlight the similarities and differences in how the GOI assumed control over different companies. The P&T Lands case in particular is a fine illustration of the divisions among GOI officials over takeover policy and what to do with the companies. In contrast to P&T Lands, whose managers lost control almost immediately in mid-February, the managers at H&C were able to remain

¹²⁵ Decree of Minister of Trade (Adam Malik) No 60/M/SK/64 dated 7 March 1964 (copy unavailable), and Decree of Minister of Trade (Adam Malik) No 193/M/SK/64 dated 1 July 1964 (English translation only, found in UKNA, FO 371/175283).

¹²⁶ British Embassy telegram (Gilchrist) dated 7 February 1964 (UKNA, FO 371/175281).

¹²⁷ US Embassy telegram (Ellis) dated 5 July 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹²⁸ Surat Keputusan Menteri Koordinator Kompartemen Keuangan no 0254/MK/64 dated 18 May 1964.

¹²⁹ There was also the Bank of China, which was owned by the PRC government; however, in March 1964 the PRC volunteered to turn it over to the GOI, a transaction that was completed in November 1964 (see Chapter Three, Part II Section C).

in a position of semi-authority until June, when they were finally forced out. Unilever's managers lasted even longer, losing control sometime in the last few months of the year. Another difference in the takeovers was the role played by the local supervisory teams appointed by regional authorities prior to the central GOI getting involved; in the case of H&C, there was an apparent conflict between the team appointed by North Sumatra Governor Sitepu and the central government team, with the local team (comprised of representatives of labor unions and the National Front) continually exerting pressure to eject the foreign managers. In the case of P&T Lands and Unilever, it appears that the locally appointed teams quickly faded away. In the case of Unilever there was concerted labor union pressure, despite the ostensible GOI intention to put the company under its supervision to neutralize such pressure. Similar pressure was brought in the case of H&C by the locally appointed team. Finally, the companies' reactions also varied considerably, though in general each was ultimately powerless to stop the loss of control.

A. P&T Lands.

The experience of P&T Lands appeared to be quite different from that of other British companies in the sense that it was among the first to be effectively confiscated by the Ministry of Agriculture and Agrarian Affairs. We saw in Part II Section A that P&T Lands was one of the few companies where there was actually a successful (though temporary) takeover by workers and the National Front/SOBSI. After the end of this three day period there had seemingly been more pressure on the GOI to take definitive action, and there were even calls for outright nationalization of the company. Even after Minister's Chaerul Saleh's 31 January circular and Minister Sadjarwo's 1 February decree, there was still the hint that the case of P&T Lands was different from the other British companies. For example, on 3 February First Deputy Prime Minister Subandrio privately told US Ambassador Jones that P&T Lands would be nationalized, and then on 9 February Minister Chaerul Saleh indicated to Jones that P&T Lands would be treated differently from the other British enterprises taken over and a new basis of operations,

perhaps similar to the oil companies CoWs, would have to be established.¹³⁰ In fact, P&T Lands was treated differently, as its owner-appointed managers lost control of the company almost immediately. While GOI control was initially supposed to be only temporary, as events developed it was in fact permanent control.

Acting pursuant to Minister of Agriculture and Agrarian Affairs Sadjarwo's 1 February 1964 decree, on 13 February the West Java Board for Temporary Control over British Estates (*Badan Penguasaan Sementara Perusahaan Perkebunan Milik Inggeris Dati I Djawa Barat*) assumed temporary control over P&T Lands. *Antara* reported that there was actually a transfer ceremony at the Subang headquarters at which West Java Governor Mashudi spoke and declared that all plantations would become the property of Indonesia.¹³¹ A few days later, Mr. Meyer, the P&T Lands manager, sent a report to London headquarters that indicated: (i) responsibility for management had indeed passed to the GOI, with any remaining old managers to act in an advisory capacity as long as they stayed on; Indonesian departmental heads had been appointed, and foreign staff were not allowed to go to the office, (ii) the new GOI manager and Governor Mashudi were both pushing for full nationalization, and (iii) Meyer thought there was very little chance that the company would be returned, though there was a good chance compensation would be paid at some point.¹³² A circular from the chairman of the parent company Anglo Indonesian Plantations (AIP) to shareholders dated 27 February 1964 noted the GOI's actions were "ostensibly to prevent British enterprises from being taken over by labour unions or other unauthorised bodies, whose feelings were said to have been aroused by the Indonesian policy of confrontation of Malaysia." The chairman's circular further informed that remaining British staff was not "allowed any part in management, and are not being used as advisors..." The circular also advised that developments were being monitored closely and that dependents of expatriates may be evacuated at some point.¹³³ In fact, there was very little the parent company could do in light of these developments, and it had little choice other than to accept the situation and

¹³⁰ US Embassy telegrams (Jones) dated 3 February 1964 and 9 February 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹³¹ British Embassy telegram (Gilchrist) dated 15 February 1964 (UKNA, FCO 371/175281).

¹³² British Embassy telegram (Gilchrist) dated 17 February 1964 (UKNA, FCO 371/175281).

¹³³ AIP Chairman Circular to shareholders dated 27 February 1964 (UKNA, FCO 371/175281).

see how things played out. The reality was that by late February the authority of owner-appointed management had been effectively usurped and it had lost control to the West Java Board for Temporary Control over British Estates. AIP could perhaps take some comfort in Minister Sadjarwo's stated posture that supervision would be temporary and AIP might at some point be able to resume full control, but this possibility seemed remote.

Indeed, two measures by the Ministry of Agriculture and Agrarian Affairs over the next few months made clear that despite Minister Sadjarwo's ostensible intent that supervision would be temporary, mid to late February 1964 constituted a clear point at which de facto confiscation was reached. The first of these measures was a decree issued by the Minister of Agriculture on 18 March 1964 which appointed a new "temporary" manager for each of P&T Land's estates as well as one other position, in all 22 new top managerial appointments.¹³⁴ The decree stated that all these appointees were responsible to the West Java Board for Temporary Control over British Estates. This step constituted an enormous, sweeping change in management; the estate manager was a key position, and now all the owner-appointed estate managers had been pushed aside. The second measure was the establishment of "full control." On 16 May 1964 Minister Sadjarwo issued a decree which placed P&T Lands under full control of the Ministry of Agriculture and Agrarian Affairs - the pretense of "temporary" was dropped altogether.¹³⁵ Citing the consideration that "at the present state of struggle in finishing the Indonesian Revolution it was in the public, national and state interest to do so," the minister, while awaiting the final decision from President Sukarno, took full control over P&T Lands, appointed new directors of the company and expressly forbade any contact between the old owner-appointed directors and the company. The decree did not use the words expropriation or nationalization or confiscation, but instead clung to the word control (*menguasai* and *penguasaan*; *menguasai* is a verb form). According to British embassy reports, Minister Sadjarwo, together with West Java Governor Mashudi and accompanied by a "considerable contingent of military and police," personally served the decree on

¹³⁴ Surat Keputusan Menteri Pertanian dan Agraria (Sadjarwo) No SK98/MPA/1964 dated 18 March 1964.

¹³⁵ Keputusan Menteri Pertanian dan Agraria (Sadjarwo) No SK46/KA/1964 Tentang Penguasaan Perusahaan Perkebunan P&T Lands, dated 16 May 1964. An English translation may be found in British Embassy Note to British Foreign Office dated 7 June 1964 (UKNA, FO 371/175282).

company headquarters in Subang. Expatriate staff were given 48 hours to leave Subang (with the exception of the acting manager and accountant who had to stay on a few extra days), though some could remain in Jakarta until the end of May.¹³⁶ By 28 May, all foreign staff (perhaps as many as 20 plus spouses) had left the Subang headquarters and estates, and by the end of June AIP had but a single representative on the ground in Indonesia (Mr. J.A. Cannell, in Jakarta).¹³⁷

The GOI did not provide a clear reason for the decision to assume “full control” of P&T Lands in mid-May 1964, which I believe reflects both the confusion within the GOI regarding what to do with P&T Lands and other British companies placed under “control and supervision,” and perhaps more importantly the competing interests of groups within and without the GOI for the valuable economic resources represented by P&T Lands.¹³⁸ On the surface, Konfrontasi appeared to be a major driving force behind the takeovers. *Antara* quoted Minister Sadjarwo as saying that the May “action was within the framework of Indonesia’s confrontation of the neocolonialist project of Malaysia and considering the special position occupied by the company so far.”¹³⁹ Indeed, the mid-May decision came about two weeks after President Sukarno issued his famous Dwikora call on May 3 (see Part I, Section B). At the same time, however, Konfrontasi in many instances also provided the excuse or vehicle through which interested parties could act in furthering their own interests, which probably had little to do with Indonesia’s foreign policy. In the case of P&T Lands, extremely valuable economic resources were at stake; as we saw in Chapter Three, the company generated at least \$6.7 million in scarce foreign exchange in 1963, it employed some 30,000 people, and the possibilities for patronage opportunities were considerable.

An excellent illustration of the competing interests and different outlooks within the GOI with respect to P&T Lands can be found in the attitude of the GOI Minister of Trade, Adam Malik, versus those of Minister Sadjarwo and the newly appointed (June

¹³⁶ British Embassy telegrams (Gilchrist) dated 19 May 1964 and 20 May 1964 (UKNA, FO 371/175282).

¹³⁷ British Embassy telegram (Gilchrist) dated 28 May 1964 (UKNA, FO 371/175282).

¹³⁸ On 21 May 1964 the British embassy sent a formal note to the Indonesian Department of Foreign Affairs requesting an authoritative statement regarding the legal status of P&T Lands, but no response was ever received. See British Embassy Note to British Foreign Office (Lewis) dated 8 September 1964 (UKNA, FO 371/175283).

¹³⁹ Cited in British Embassy telegram (Gilchrist) dated 19 May 1964 (UKNA, FO 371/175282).

1964) Minister of Estates Frans Seda (for details of Minister Seda's appointment, see Part IV). Minister Adam Malik appeared to be sympathetic to the company's plight. Malik apparently told AIP that the GOI had taken over P&T Lands "in order to preempt the army and the left wing unions, both of whom thought the degree of supervision insufficiently rigorous, and would themselves have stepped in...if the government had not acted first." Separately, in a meeting in Germany with company representatives after the full takeover, Malik may also have agreed that the company would be purchased by the GOI on a 10 year basis.¹⁴⁰ He also told British Ambassador Gilchrist that "he had done his best to 'save' P&T because he, as Minister of Trade, badly needed the export earnings it fed in."¹⁴¹ In early July 1964, Cannell, the lone remaining AIP representative in Indonesia, was advised by Malik (a) not to put in any claim to the GOI for compensation, (b) to continue to gain control of the company's exports by buying them at favorable prices (see below), and (c) immediately see Minister Seda and "sound him out" regarding some form of joint operation of P&T Lands' estates. The basis for such a joint arrangement would be three-pronged: (i) P&T Lands would continue to own the estates, but (ii) the estates would be controlled and managed by the government, and (iii) P&T Lands would be repaid by the export earnings. Later that same day, Cannell managed to meet both Minister Sadjarwo and Minister Seda jointly. Minister Seda flatly told Cannell that there was no chance of any kind of jointly operated enterprise and that while the takeover of the company had been "hastened by the Malaysia issue," because "of local feeling it had become inevitable that the P&T must be nationalized. Any question of compensation must now depend on how the Malaysia issue works out."¹⁴² A few weeks later Minister Malik, through an intermediary, expressed to AIP his embarrassment that negotiations over the status of P&T Lands had failed, and despite the tough stance by Seda, Malik continued to push (at least for several more weeks) for some kind of joint venture arrangement, perhaps using a Dutch subsidiary vehicle.¹⁴³

¹⁴⁰ British Foreign Office Note to Gilchrist dated 1 June 1964 (UKNA, FO 371/175282).

¹⁴¹ British Embassy telegram (Gilchrist) dated 3 June 1964 (UKNA, FO 371/175282).

¹⁴² AIP letter (Shaw) to British Foreign Office dated 9 July 1964 (UKNA, FO 371/175282).

¹⁴³ AIP letter (Shaw) to British Foreign Office dated 21 July 1964 (UKNA, FO 371/175283). In fact, Ambassador Gilchrist speculated that it may actually have been the idea of a joint operating company which precipitated the transition from temporary control to the full takeover of P&T Lands by Minister Sadjarwo. That is to say, Minister Sadjarwo, in early May 1964 while P&T Lands was still under

What was owner AIP's reaction to the takeover of P&T Lands? In general, AIP recognized that it was powerless to stop the advance. It employed a 'wait and see' approach, which did not prevent it from making efforts to salvage what it could. As we saw above, some of the managers of P&T Lands recognized as early as mid-February that P&T Lands was being taken over and most likely would not be returned. In October 1964 AIP's chairman noted that "even if there should be an improvement in the political atmosphere, it seems unlikely that we shall be in a position to resume operational control of the estates..."¹⁴⁴ Nevertheless, as we saw above, AIP tried to float the idea of some sort of joint operating agreement, and apparently something was still being negotiated in secret with the GOI as late as October 1966.¹⁴⁵

AIP may have also been mollified early by its initially successful efforts to purchase tea from its ex estates on international markets. On 25 March 1964 AIP distributed a general circular warning to the international community that tea grown on P&T Lands estates was being marketed and sold by unauthorized people. AIP asserted its ownership rights to this produce and noted that it would maintain these rights by whatever legal action necessary.¹⁴⁶ It is unclear if this threat was effective, but in June 1964, after P&T Lands had been taken over completely, AIP reported that it had bought P&T Lands tea via a Dutch intermediary at a reasonable price and that it was trying to make this a permanent arrangement.¹⁴⁷ This was one of the arrangements that Adam Malik told Cannell in early July to continue (see above). How much of the estates' tea produce AIP was able to buy, and how long this arrangement continued, are unclear, however. In August 1965, a year later, AIP successfully petitioned a Dutch court to seize

"temporary control" of the Ministry of Agriculture and Agrarian Affairs, may have found out about a possible scheme (presumably supported by Malik) to make P&T Lands a joint enterprise between AIP and the GOI and, viewing such an outcome as non beneficial (because of the loss of control over economic resources), struck preemptively by taking full control over the company, making it impossible for any joint venture scheme to go forward. Gilchrist further noted that when Minister Sadjarwo issued the full control order in mid-May, Third Deputy Prime Minister Chaerul Saleh, who in his capacity as Coordinating Minister for Development was Sadjarwo's nominal superior, was out of the country. The suggestion, of course, was that Minister Chaerul Saleh would not have approved of a measure going beyond temporary control; alternatively, as was the case frequently with President Sukarno, absence from the country gave Minister Saleh plausible deniability in case things went sour. (Gilchrist letter to Shaw of AIP dated 25 May 1964 (UKNA, FO 371/175/282))

¹⁴⁴ 22 October 1964 AIP Chairman Statement to Shareholders (UKNA, FCO 24/1124).

¹⁴⁵ 22 October 1964 AIP Chairman Statement to Shareholders (UKNA, FCO 24/1124).

¹⁴⁶ AIP Circular dated 25 March 1964 (UKNA, FO 371/175281).

¹⁴⁷ British Embassy telegram (Gilchrist) dated 29 June 1964 (UKNA, FO 371/175283).

a consignment of P&T Lands' tea in Amsterdam that had been sent by a Chinese businessman.¹⁴⁸ While AIP's lawsuit was successful, the incident suggests that AIP was unable to control its ex-estates' tea output. On the other hand, AIP claimed that as late as March 1966 it was "organizing the disposal of the entire tea output" of the estates.¹⁴⁹ In what appears to be a separate but similar endeavor, in July 1965 AIP told the British Foreign Office that "they have achieved a fair amount of success in persuading European importers of Indonesian rubber and tea to regard it as 'British' estate produce and to pay, apparently with Indonesian agreement, a percentage commission to the Head Office in London." AIP further reported that they were in unofficial touch with their ex-estates, and that the Indonesian management teams told AIP that they "would rather sell estate produce to Western Europe in view of the higher export commission," as sales to the Soviet Union were considered government-to-government and little commission was available.¹⁵⁰

AIP was also faced with a more important legal decision to make: should it attempt to claim compensation from the GOI based on the argument that P&T Lands had been confiscated? Initially, it was a tricky question, for as shown above the GOI strenuously avoided characterizing the takeover as expropriation or nationalization or confiscation but rather as an assumption of full control, resulting in an extremely ambiguous situation. AIP sought the legal advice of a lawyer in Holland, who responded that absent ratification of the full control measure by President Sukarno, the GOI's actions did not constitute nationalization.¹⁵¹ This advice mirrored that of the legal advisor to the British embassy.¹⁵² In addition, the British embassy itself initially advised Cannell, AIP's representative in Jakarta, not to put in a claim against the moveable assets seized on the grounds that it would not succeed and that it might destroy the possibility of creating a permanent mechanism to buy the ex-estates produce (which, at the time, seemed feasible).¹⁵³ In any event, AIP, made the strategic decision not to pursue openly a claim for compensation because to do so, in the words of its chairman a few years later,

¹⁴⁸ British Foreign Office Note to British Embassy Jakarta dated 13 August 1965 (UKNA, FO 371/180351).

¹⁴⁹ British Embassy Note (Windle) dated 15 March 1966 (UKNA, FO 371/186072).

¹⁵⁰ British Foreign Office Confidential Note dated 14 July 1965 (UKNA, FO 371/180351).

¹⁵¹ AIP letter to British Foreign Office dated 9 July 1964 (UKNA, FO 371/175282).

¹⁵² British Embassy telegram (Gilchrist) dated 26 May 1964 (UKNA, FO 371/175282).

¹⁵³ British Embassy telegram (Gilchrist) dated 29 June 1964 (UKNA, FO 371/175283).

“would presuppose nationalization.”¹⁵⁴ Yet it is not clear how such a status would harm AIP’s interests, except perhaps that it might force the GOI to pay for the estates and thus lead to difficult valuation negotiations, as opposed to the alternative which would simply be to return the estates. Another possible consideration for AIP was the ability of the GOI to pay; in October 1964 the AIP chairman noted that given “the present economic and political conditions in Indonesia, it would be unrealistic at this moment to base any hopes on the receipt of early and adequate compensation....”¹⁵⁵ Thus better to cling to the fiction that AIP still owned the estates, rather than admitting that the estates were lost with no prospects for compensation.

P&T Lands was explicitly listed in President Sukarno’s Decree 6/1964 of 26 November 1964 (see Part V), but AIP had lost control of P&T Lands long before this. Like other companies as well as the British embassy, AIP was somewhat confounded and hampered by the vagueness of the decree. However, like many other British companies who acted at the suggestion of the British embassy, AIP did submit to the GOI in late April 1965 a ‘Reservation of Rights’ letter. The letter referred to the various measures taken against P&T Lands over the past few years and stated that AIP held the GOI liable for the assets of P&T Lands, would not accept responsibility for losses or claims, and reserved all rights. Furthermore, as Decree 6/1964 had the appearance of de facto expropriation, AIP requested the GOI to inform it immediately if the GOI’s intention was to expropriate P&T Lands, and if so what steps the GOI would be taking to make compensation. In addition, AIP offered the idea of entering into some form of production sharing arrangement with the GOI. Finally, if expropriation were not the GOI’s objective, then AIP requested the return of management and control of P&T Lands.¹⁵⁶ As far as I have been able to determine, AIP never received a response to the letter.

B. **Harrisons & Crosfield Medan Office.**

As we saw previously, in late January/early February there was an uneasy coexistence in H&C’s Medan office between the H&C management and the two teams

¹⁵⁴ 28 October 1966 AIP Chairman speech to Shareholders (AEPA, AIP general minute books, No 2).

¹⁵⁵ 22 October 1964 AIP Chairman Statement to Shareholders (UKNA, FCO 24/1124).

¹⁵⁶ AIP letter to Foreign Minister Subandrio dated 27 April 1965 (UKNA, FO 371/180351).

appointed by the Governor of North Sumatra. The first team was a management team comprised of Indonesian staff employees of H&C. The second team, the supervisory team, consisted of a representative from the Governor's office, the secretary of the National Front in Medan, and two representatives from labor unions. Foreign management was in a state of limbo; foreign managers were allowed to go to the office and even retained some control over important documents and financial matters, but the day-to-day management regarding the estates was done by the management team and Indonesian staff, with the foreign managers only "advising." However, as the management team consisted of professional Indonesian staff members from H&C who were asking for and receiving advice from the expatriate managers regarding the estates, the actual estate management part of the business of the office did not seem to change all that much. All correspondence was supposed to be approved by one of the teams. Trade and shipping activities, however, continued to be run by the foreign managers. On the estates, foreign managers had been made inactive and appeared to have no authority at all, and Indonesian staff employees, overseen by supervisory teams, appeared to be running things.¹⁵⁷ H&C's Medan office had been specifically mentioned in Minister Chaerul Saleh's circular of 31 January, and clearly Minister Sadjarwo's 1 February decree also applied to it.

On 5 February John McLeod, the H&C manager, plus representatives from each of Anglo Sumatra and Guthries, the other two British estate management firms in Medan, met in Jakarta with Minister Sadjarwo to discuss their situation. Sadjarwo informed them that under the new decrees a team of three people would be set up in North Sumatra and would be generally in control of all British estates there. Foreign managers would be allowed to stay on in the office in an advisory capacity. The arrangement was to be temporary, and much would depend on the current tri-party talks in Bangkok (5-10 February) regarding Konfrontasi.¹⁵⁸ Sometime in mid-February H&C learned that the Temporary Control Board (established under Minister Sadjarwo's decree of 1 February) would be headed by Mr. Soerowo from the Estates Bureau in Medan. However, as of 18

¹⁵⁷ See Part II above and British Embassy Confidential Report (Oliver) dated 6 February 1964 (UKNA, FO 371/175281).

¹⁵⁸ British Embassy Confidential Report (Oliver) dated 6 February 1964 (UKNA, FO 371/175281).

February neither Soerowo nor the Bank Indonesia representative on the team had received any instructions on how to implement the minister's decree. Then, on 22 February, Soerowo met McLeod and told him that beginning 24 February foreign staff would not be allowed to enter the office, though they would be expected to continue to sign checks and documents. However, by the end of the meeting Soerowo backed away from this position. McLeod reported that according to his sources the order to exclude foreign managers had come from Simpang Ginting, who was the National Front representative on the supervisory team appointed by the Governor of North Sumatra. Ginting had apparently threatened to use the National Front to demonstrate against Soerowo and have him removed.¹⁵⁹ There was clear conflict between Soerowo, the leader of the Temporary Control Board appointed by Minister Sadjarwo, and Ginting, the National Front representative from the supervisory team appointed by the North Sumatra Governor.

The situation continued to be in flux over the next few months. It appears that there was continuing conflict between the Temporary Control Board appointed by the Ministry of Agriculture and Agrarian Affairs and the supervisory team appointed by the Governor of North Sumatra. It also appears that Soerowo did not appoint any other Indonesian managers to H&C, and that he was content to let the management team appointed by the Governor of North Sumatra to continue on, to operate in effect as the 'Head/Managers' and 'Deputy Head/Managers' as set forth in Minister Sadjarwo's 1 February decree. They were, after all, professional staffers from H&C. Foreign managers continued to attend the office and provide advice to the Indonesian management, though there was some pressure from the National Front not to do so. Foreign managers also retained control of financial matters and over shipping and trade matters, which were in fact the key parts of the business. However, not all was well. In late February, McLeod complained that "our organization is slowly crumbling to pieces. Nobody is working properly, as they do not know what or who they are working for, and the 'Strong Men' of

¹⁵⁹ Harper letter to Peck of British Foreign Office dated 3 March 1964 attaching copies of letters from McLeod dated 17, 21, 24, and 26 February 1964 (UKNA, FO 371/175281).

the Unions are disregarding all forms of discipline and planning.”¹⁶⁰ In addition, foreign estate managers never regained their authority on the estates.

H&C’s basic attitude during all this was to stay the course as much as possible, to fight the takeover to the end. It would rather have forced the GOI to nationalize it officially instead of leaving and handing over the assets to the GOI without any hope of compensation.¹⁶¹ McLeod, the manager, had several times tried to secure a meeting with the Governor of North Sumatra, whom he had not seen since 22 January, but was consistently rebuffed. He was determined, however, to continue to have the foreign managers attend the office until the Governor sent written orders to the contrary. Separately, in late February the British consul in Medan did meet with General Thalib, the chief of staff to the All Sumatra Regional Command (KOANDA) that was headed by General Kosasih. Thalib told the consul that the British should make every effort to remain at their offices and in Indonesia, as doing so showed confidence in the Indonesian group representing law and order, and leaving just played into the hands of irresponsible elements.¹⁶² The military, however, continued with their previous policy of disapproval without action.¹⁶³

On 25 April, Soerowo wrote to McLeod and politely asked that beginning 27 April European staff not attend the office. The letter indicated that European staff would continue to receive all their facilities, and they could still give advice when necessary and countersign payments from the bank. Furthermore, they could come into the office from time to time, as long as this was made known beforehand. The British consul in Medan reported that this request was the result of increased pressure from the communist unions and the National Front. However, McLeod ignored this request and along with the other European staff continued to come into the office over the next few days. On 29 April McLeod met with Soerowo, who, among other things, claimed that the instruction came

¹⁶⁰ H&C letter (McLeod) to General Thalib dated 28 February 1964 (UKNA, FO 371/175281).

¹⁶¹ Report of British Medan Consul (Mckay) dated 28 April 1964 (UKNA, FO 371/175282).

¹⁶² Report of British Medan Consul (Mckay) dated 28 February 1964 (UKNA, FO 371/175281).

¹⁶³ The army continued this policy until H&C was completely taken over in June. In late June, the British consul in Medan met again with General Thalib, who indicated that “in the matter of ‘takeovers’ the Governor was supreme and they [the military] were not prepared to interfere in any way at all over this issue.”¹⁶³ The British consul viewed this as confirming previous indications that General Yani had instructed military officials not to interfere in civil matters in the provinces. As we shall see in the next Chapter, however, the army’s non-involvement policy in Sumatra would change in 1965. See Report of British Medan Consul (Mckay) dated 24 June 1964 (UKNA, FO 371/175282).

from the Ministry of Agriculture and Agrarian Affairs. The meeting was not conclusive, and the next day McLeod wrote to Soerowo and claimed he still had the right to attend the office because much of H&C's business – shipping and trading – was not yet subject to official GOI control. McLeod and the other European staff continued to attend the office as before. On 1 May, just after this incident, the supervisory team appointed by the Governor of North Sumatra was quietly withdrawn and dissolved, leading the British consul in Medan to speculate that the entire incident resulted from a demand made by the supervisory team before they would allow themselves to be dissolved.¹⁶⁴

The denouement came in early June. In late May, Soerowo had gone to Jakarta to consult with Minister Sadjarwo over the situation, and thus it seems Soerowo was operating under orders from the minister. On 8 June, McLeod was forcibly prevented from entering the office by a crowd of employees and trade union representatives, and on the advice of the police McLeod instructed the other British staff not to go to the office. It is unclear what Soerowo's role in this incident was, but he certainly did not take any measures to allow the foreign management to return. On 23 June, the British consul in Medan reported that Soerowo had issued orders (for all the British estate firms in North Sumatra) that (i) the Indonesian managers should open separate bank accounts at the local Indonesian Bank, (ii) managers and European staff were no longer permitted to enter the office, (iii) sales of rubber would be arranged through PPN Baru (a trading firm operated by GOI estates) or Tri Bhakti (a GOI-owned trading firm), and (iv) correspondence from UK directors of H&C was to be ignored. These measures were obviously designed to sever completely British owner control over the company. The US consul in Medan later reported that McLeod had actually arranged the involvement of Tri Bhakti and PPN Baru in controlling sales in an attempt to head off "a local plan to siphon this income into local hands." Apparently McLeod had gone through a friend at the Presidential Palace in Jakarta, and acting President Leimena had issued instructions regarding sales to the Governor of North Sumatra. Presumably H&C was hoping to retain a small percentage of proceeds from the sales, but it is unclear if it actually did so.¹⁶⁵

¹⁶⁴ Reports of British Medan Consul (Mckay) dated 28 April, 7 May and 26 May 1964 (UKNA, FO 371/175282).

¹⁶⁵ Reports of British Medan Consul (Mckay) dated 26 May 1964 and 23 June 1964 (UKNA, FO 371/175282); British Embassy telegram (Gilchrist) dated 10 June 1964 (UKNA, FO 371/175282); US

C. Unilever.

In contrast to the takeovers at H&C and P&T Lands, it is very difficult to pinpoint an exact point in time at which Unilever-appointed management lost control over the company. It seems reasonably certain that this point was reached sometime in the fall of 1964, but the circumstances were more ambiguous, as Unilever's loss of control was much more gradual than either of P&T Lands' or H&C's.¹⁶⁶ In addition, it appears that pressure from labor unions was a major factor driving the assumption of government control.

At the time, Unilever Indonesia was wholly-owned by one of Unilever's British holding companies (Unilever itself was mostly publicly owned). Unilever Indonesia's shares had been transferred to this British subsidiary from a Dutch subsidiary to avoid nationalization in 1957-58 when all the Dutch companies in Indonesia were taken over and subsequently nationalized. In October 1963, a Unilever executive from London named Temple had visited Indonesia in hopes of learning more about the situation there. Perhaps reflective of the influence Unilever carried, Temple met separately with both Minister Subandrio and President Sukarno. Subandrio emphasized that Unilever's position in Indonesia was linked to the Malaysia situation and advised that British managers be replaced with others, even suggesting that a Dutchman would be a good choice for the chairman. President Sukarno promised that Unilever would be allowed to continue to run its business provided it did not attempt to introduce any element of colonialism.¹⁶⁷ Acting on Subandrio's suggestion, Unilever in December 1963 appointed a Dutchman, Quarles van Ufford, to replace the British national in charge of Unilever Indonesia. Van Ufford assumed his new post in early February 1964, and at the same time Unilever began to replace other British managers with non-British management.

Medan Consul telegram (Vandivier) dated 24 June 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹⁶⁶ The story of the takeover of Unilever has also been discussed in detail in Fieldhouse's *Unilever Overseas* and Wamsteker's *60 Years of Unilever*, both of which do a fine job highlighting the confusion and ambiguity of the period. Wamsteker in particular was able to interview numerous Unilever executives. My findings are based on embassy records and Unilever archival materials.

¹⁶⁷ Extract of Minutes of Directors Conference dated 1 November 1964 (UA, PS Special Committee & Overseas Meetings, Box 43).

In Indonesia, Unilever's head office was in Jakarta, and it had three factories in Jakarta and one in Surabaya. As we saw in Part II, at the end of January the Governor of Jakarta had installed protective security teams at its head office and factories to ensure that there was no trouble with workers. The teams did not interfere at all in management or operations. Meanwhile at the Surabaya factory, there had been an attempted takeover led by SOBSI-affiliated SERBUNI, but management – which was all Indonesian nationals - was still in control. Nevertheless, Unilever was specifically named in both Minister Chaerul Saleh's circular of 31 January and in Minister of Peoples Industry Azis Saleh's decree of 8 February.

By mid-February, the Ministry of Peoples Industry had appointed supervisory teams for both the Jakarta facilities and the Surabaya factory. On 10 February, the ministry team was installed in the head office in Jakarta with the ostensible mission of maintaining security and production, and a few days later other supervisory teams were put in the Jakarta factories (the same thing was also happening to BAT and Fraser & Neave; the security teams appointed by the Governor of Jakarta departed). The Ministry of Peoples Industry gave assurances that there was no intention to nationalize the company or “interfere with the authority of management over staff” and that the management retained direct control over the staff, although management itself was subject to the advice and possibly direction of the team.¹⁶⁸ The head of the team in the Jakarta head office was Lt. Col. Suwondo, and he was known as the *Kepala Kuasa Usaha* or KKU (in English, he was called the ‘Supervisor’ or ‘Charge d’Affairs’). On 14 February another KKU (from the state-owned soda factory in East Java) was appointed to take charge of the Surabaya factory, though he appears not to have begun his duties until late February.¹⁶⁹

Over the next nine months, the KKUs and the supervisory teams, apparently under labor union pressure, gradually usurped the authority of Unilever-appointed top management. On 12 February, just a few days after his installation, the KKU in Jakarta began requiring that certain measures be followed: these included requiring that internal correspondence be in Bahasa Indonesia (not English), that letterhead should indicate that

¹⁶⁸ British Embassy telegram (Gilchrist) dated 11 February 1964 (UKNA, FO 371/175281).

¹⁶⁹ Report of British Surabaya Consul (Brayne) dated 20 February 1964 (UKNA, FO 371/175281).

Unilever was under the control of the Ministry of Peoples Industry, that the supervisory team had the right to attend board meetings and meet with department heads, and that the monthly Indonesian flag ceremony be introduced.¹⁷⁰ Aside from these measures, initially there seemed to be little interference in management. However, in March the KKU in Jakarta forced various management changes. The KKU sent both the general manager and personnel manager of the Surabaya factory, both of whom were Indonesians, on six months leave. In Jakarta, the German general manager and engineer at one of the factories was forced to transfer to the head office. Unilever reported that the KKU was “clearly acting under pressure from trade unions, who were seeking to remove managers from active participation in the operation of the business and act simply as advisors.” Meanwhile, Unilever’s business was increasingly strained, in part because of general economic conditions and in part because of increasing interference by the KKU and supervisory teams, and for the first time in a very long time Unilever Indonesia was operating at a loss.¹⁷¹

Increasingly concerned, Unilever in late April sent Temple (who had visited Indonesia in October 1963 and met with both Foreign Minister Subandrio and President Sukarno) and another executive from London to Indonesia to assess the situation. On 20 April they met with Minister Subandrio and Mr. Umardji (Deputy Director for Economic Affairs). Subandrio told the executives that he had decided that Unilever was now “hands off” and that he had informed SOBSI of this new policy. He confirmed that Unilever would now be fully in charge of its business, but he also asked for understanding, and the parties agreed that the KKUs should be kept on in an advisory role as consultants. Minister Subandrio said he “wished to regard Unilever as an example of co-operation between the Netherlands and Indonesia,” and he thus advised Unilever to transfer the ownership of Unilever Indonesia back to the Dutch subsidiary and to replace British managers.¹⁷² On 21 April the executives met with Minister of Peoples Industry Azis Saleh, the KKU and the deputy KKU of Jakarta, and others. At this meeting, Minister

¹⁷⁰ British Embassy telegram (Gilchrist) dated 12 February 1964 (UKNA, FO 371/175281).

¹⁷¹ Extract of Minutes of Directors Conference dated 20 March 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

¹⁷² After the settlement of the West Irian conflict in 1962, relations between Indonesia and the Dutch quickly improved.

Azis Saleh stated that he accepted Subandrio's decision, but that it would be best not to change anything to the outside world; he thus advised that the KKU be left in place and not be withdrawn, for otherwise the labor unions may react violently. This suggestion was accepted by the Unilever side, although the details of how this was to be accomplished remained to be worked out.¹⁷³

In fact, it appears that the labor unions were never told about the new status of the KKU. The Unilever executives quickly became aware that "SOBSI is not going to accept the decision of the Government and that our 'supervisors' are not going to show too much courage to make their changed position clear." When one of the foreign executives went to visit a factory in Jakarta in the next day or so, he was met with union-organized worker demonstrations. The union advised Indonesian managers not to attend a managers' lunch with the executive, and only four of 40 Indonesian managers ended up attending. Many managers later privately expressed their embarrassment and offered apologies. Finally, due to labor union pressure only about one-third of the managers attended a farewell dinner for the executive; they were afraid of being 'Slametedized' (so named after the Indonesian manager Slamet who was sent away from Surabaya for six months). It was clear that the labor unions controlled the workers, and it was also clear that the KKU was unable or unwilling to stop these tactics.¹⁷⁴

Control continued to slip away. By the beginning of May, there were only six expatriate managers left in Indonesia. The British nationals had been replaced by managers from Holland and Germany, and the latter were all located at the head office, not at the factories. (It was only due to the intervention of Foreign Minister Subandrio that work permits were obtained for the new managers in the face of union pressure.) In June, the transfer of shares of Unilever Indonesia from the British subsidiary to the Dutch subsidiary was completed, but this change in ownership had little real impact. There was continuing labor union pressure to oust the remaining expatriate managers, and by August expatriate managers were not allowed to enter the Surabaya factory and were

¹⁷³ Confidential Report on Visit to Indonesia 18-23 April 1964 by Temple and Klijnstra (UA, PS Special Committee Supporting Documents, No 2812).

¹⁷⁴ Confidential Report on Visit to Indonesia 18-23 April 1964 by Temple and Klijnstra (UA, PS Special Committee Supporting Documents, No 2812); Extract from Minutes of Directors' Conference dated 1 May 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

allowed to communicate with Indonesian managers only in writing. The business, however, seemed to continue even as Unilever's control deteriorated. Most of the work was done by Unilever-trained Indonesian managers, who performed admirably in spite of the difficult position they were in.¹⁷⁵

In August, the Special Committee of Unilever in London decided to make an offer to the GOI for the GOI to purchase up to 40% of the shares in Unilever Indonesia. Several factors drove Unilever to make this bold step. First was the overall deterioration of the political situation in Indonesia, as the influence of the PKI on the GOI was growing and the GOI increasingly seemed to be moving toward nationalization. Secondly, there was continued great pressure from the unions to oust foreign managers of Unilever. Unilever was planning on sending out a new Dutch finance director in the next two weeks, an action that would certainly create another showdown with the unions. Thirdly, Unilever hoped it could gain some benefit from the promises of Minister Subandrio and President Sukarno. Offering the GOI a share in the business – making it a co-owner - seemed the best way to defuse these problems by striking preemptively.¹⁷⁶ With the GOI as a partner, nationalization would be unnecessary, and the unions could not complain. Indeed, it was a measure both of how Unilever's control over the business had deteriorated so much and of Unilever's sense of the future that Unilever was willing to take this drastic step. Accordingly, in mid-September Quarles van Ufford sent Minister Subandrio a letter requesting a meeting to discuss the sale of part of Unilever's business.¹⁷⁷

Neither Subandrio nor any GOI official responded to Unilever's offer, however. Meanwhile, Unilever's position in Indonesia continued to deteriorate economically as it was faced with some new regulations that would certainly negatively impact the business. In addition, the new finance director arrived in Jakarta in September but was never able to secure a work permit because of labor union pressure. He stayed in Indonesia for

¹⁷⁵ Extract from Minutes of Directors' Conference dated 1 May 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43), and Minutes of Meeting of Special Committee of 18 August 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43). See also Wamsteker, *60 Years of Unilever*, pp. 62-6.

¹⁷⁶ Minutes of Meeting of Special Committee of 18 August 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

¹⁷⁷ Minutes of Meeting of Special Committee of 22 September 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

another seven months, but was unable to work and was finally sent home in April 1965.¹⁷⁸ On 8 November 1964, Quarles van Ufford was told that he was no longer a manager but an advisor; however, van Ufford asked the British embassy to keep this development quiet.¹⁷⁹ In any case, it seems pretty clear that by this point Unilever-appointed management had little authority or control. Indeed, in June 1965 van Ufford would lament that for “almost the whole of 1964 we had a position where the Government had the authority and little responsibility, and we had the responsibility but no authority.” He also noted that

quite early it became clear that the Supervisor himself was basically in sympathy with the demands of the trade unions to nationalize foreign capital. This was our first problem, and the second was that the Supervisor had no real authority or backing to stand up against the unions, and the only way to maintain this position was to give in to most of their demands.¹⁸⁰

For a time after early November 1964 it appeared that the Unilever ship was not sinking, but this was appearance, not reality. Unilever was explicitly mentioned in Presidential Decree 6/1964 (see Part V), but was exempted from this by another decree issued by Minister Chaerul Saleh on 14 December.¹⁸¹ This exemption came on the heels of Dutch government intervention – Unilever Indonesia was now wholly owned by the Dutch subsidiary - and the US embassy commented that this may have been the result of bad publicity generated by the takeover that damaged current GOI efforts to “cultivate [the] Dutch for economic reasons.”¹⁸² Remaining expatriate managers were prevented from entering the office for a few days, but then were allowed back in.¹⁸³ By mid-February 1965, it was clear to Unilever management that control of the company was completely lost to the ‘advisors,’ and Unilever began to consider whether it should take

¹⁷⁸ Minutes of Meeting of Special Committee of 3 September and 15 September 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43); Minutes of Meeting of Special Committee of 30 March 1964 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

¹⁷⁹ British Embassy telegram (Gilchrist) dated 29 November 1964 (UKNA, FO 371/175284).

¹⁸⁰ Report to the Special Committee on 23 June 1965 by Mr. Quarles van Ufford (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

¹⁸¹ British Embassy telegram (Gilchrist) dated 23 December 1964 (UKNA FO 371/175284).

¹⁸² US Embassy telegram (Jones) dated 23 December 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹⁸³ US Embassy telegram (Jones) dated 10 December 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

any other actions. However, it was felt that any action might further jeopardize the company's tenuous position.¹⁸⁴ President Sukarno's Decree 6/1965 issued in April 1965 (see Chapter Seven) made any further action useless. Quarles van Ufford, though, managed to remain in Indonesia until 10 October 1965.¹⁸⁵

IV. Ministerial Politics in the Kompartemen of Agriculture and Agrarian Affairs and the Fight for Control and Influence over the British Estates.

What happened to the British companies once control had been fully assumed by the various GOI teams? The purpose of this section is to address that very question with respect to the estates, since they constituted the vast majority of British enterprises taken over. At the heart of the matter was the ability of the estates to generate revenues, especially foreign exchange, which easily distinguished them from their manufacturing brethren. As one of the few revenue generating sources within Indonesia, the estates were indeed valuable commodities and sought after by many individuals and institutions. Somewhat ironically, many of these estates were not particularly wealthy or productive, but they were perceived to be, and in any case at a time of great economic malfeasance anything was better than nothing. As important economic resources, their fate naturally became somewhat intertwined with the central political issues of the day, in particular the apparent growing influence of the PKI and its allies and the challenges presented thereby. Moreover, the story of the estates highlights the great divisions within the GOI itself, particularly at the ministerial level, and also reflecting larger political differences domestically. It is these divisions within and outside the GOI, and how access to the perceived wealth of the estates was fought over, that are the focus of this Part IV.

¹⁸⁴ Minutes of Meeting of Special Committee of 16 February 1965 (UA, PS Special Committee and Overseas Committee Meetings, Box 43).

¹⁸⁵ US Embassy Bi-Weekly Economic Review dated 15 October 1965 (USNACP, RG 59 Central Files 1964-66, E 2-2 Indonesia, Box 722). It is unclear if Unilever ever delivered a Reservation of Rights letter (see Section V).

Before turning to the British estates, however, it may be useful to discuss the general management pattern of the companies once the GOI assumed full control. As we have seen, control over the companies was left to the various government ministries of the related field who were generally free to manage the company as they saw fit. In other words, there were no universal principles applicable to each taken-over company, and even among companies under the control of a single ministry there was not necessarily uniformity of management. In the first place, expatriate personnel were removed and all contact with the owners severed. Second, the respective ministries then appointed a top layer of directors (often only 3-5 people), some of whom were professional managers from state-owned companies but many of whom appear to have been political appointees with limited managerial expertise. This top layer of appointed directors, who were directly responsible to the respective ministries, were then supported by Indonesian managers and employees who had already been working at the foreign company. It was generally these existing Indonesian employees who executed the day-to-day management of the company, and in some cases they were actually promoted. As a whole though, the picture that emerges from available evidence is that much of the change in personnel occurred at the very top level of director appointees and their staffs. In addition to the top level directors, "advisory" boards, whose exact function was unclear, were often appointed, at least in the early stages of the takeover. Often these advisory board positions were filled by representatives from the mass organizations, National Front, and regional representatives, suggesting that these positions were a concession to such interests.

It was often by appointment to the very top level of directors that most individuals and institutions sought to gain access to the potential resources of the company. That is to say, appointment to these positions was often the subject of fierce struggle. From such an influential position, the appointee could peddle patronage, often by directing contracts toward associates (with kickbacks) or hiring associates as staff members. Indeed, one feature of GOI control, evident when many of the companies were returned in 1967-68, was tremendous bloating of staff. Perhaps more importantly, such positions also allowed for access to and control over foreign exchange and the important resource of manpower, particularly on the estates with their thousands of laborers. In addition, these positions

offered personal benefits, such as salary, other in-kind benefits such as housing, cars, and a food allowance, and access to foreign exchange to import prized but scarce goods from overseas.¹⁸⁶

Nowhere among the taken-over foreign companies was the fight for control over potential sources of wealth and power more fought over and contested, and the interplay with domestic politics more evident, than in the case of the British estates.¹⁸⁷ As we saw earlier, Minister of Agriculture and Agrarian Affairs Sadjarwo was very quick to a promulgate several decrees in early February regarding British estates once Minister Chaerul Saleh issued his circular of 31 January. These two decrees established a central control team within the Ministry of Agriculture and Agrarian Affairs, headed by Minister Sadjarwo himself, whose purpose was probably to centralize control over and coordinate administration of the estates. In addition, Temporary Control Boards of three individuals were appointed at the provincial level to administer GOI control in the relevant provinces. At the estate level, individual Indonesian managers or deputy managers were to be appointed to manage the estates. In addition, the provincial level temporary control boards were to be advised and assisted by Supervisory Boards consisting of regional representatives and representatives of mass organizations such as labor and farmers groups. The pace of assumption by the Ministry of Agricultural and Agrarian Affairs of control over the estates varied somewhat, but it appears that by early to mid-June, if not before, most of the British estates were firmly under the ministry's control.

Early to mid-June as the time when most British estates finally came under the control of the Ministry of Agriculture and Agrarian Affairs was certainly no coincidence, because it was precisely in early June 1964 that a major contest within the GOI for control over the seized estates had its genesis in the form of a reorganization by President Sukarno of the Ministry of Agriculture and Agrarian Affairs. Prior to this point, the Minister of Agriculture and Agrarian Affairs was the only cabinet level official from the agricultural realm, and it was part of the "Development Compartiment" (a grouping of

¹⁸⁶ For a nice description of some of these issues, see the Indoconsult Report prepared in April 1968 in connection with the possible return of the P&T Lands estates (UKNA, FCO 15/217).

¹⁸⁷ There were 86 British-owned estates taken over in 1964, which added to the seven taken over in 1963 yields a total of 93. In addition there were at least 12 non-British estates taken over in 1964 because they were managed by British-owned firms. Thus the total number of estates under the Dwikora structure described below was 105.

ministries involved in economic development, such as industry, workers, agriculture, etc.) headed by Coordinating Minister Chaerul Saleh (who in addition to being Coordinating Minister for Development was also Minister of Basic Industry and Mining as well as influential Third Deputy Prime Minister). On 3 June, the field of agriculture was elevated to the level of a “Compartment,” with Minister Sadjarwo serving as Coordinating Minister for the “Agriculture and Agrarian Affairs Compartment.” This Agriculture and Agrarian Affairs Compartment had five brand new ministerial positions under it: the Minister of Farmers (also Sadjarwo), the Minister of Forestry, the Minister of Fishing, the Minister of Agrarian Affairs, and finally the Minister of Estates.¹⁸⁸ Frans Seda, who to this point had not held a position in government administration, was appointed to fill the new position of Minister of Estates. The individual ministers within the Agriculture and Agrarian Affairs Compartment were presumptively subordinate to the overall authority of the Coordinating Minister (Sadjarwo), but as we shall see in practice it was not often clear what the power relationships actually were.

The reasons for the appointment of Frans Seda as Minister of Estates were somewhat mysterious, at least initially. Seda, who held a degree in economics from a Dutch college, was a strong Catholic and staunch anti-communist, and at the time of his appointment was head of the small Catholic Party of Indonesia, which was effectively in opposition to Sukarno’s government.¹⁸⁹ Recalling the circumstances of his appointment, Seda said that when President Sukarno called him in to discuss the appointment, it was not even clear which ministry he would head up - there was talk he may be the new

¹⁸⁸ These changes to the Ministry of Agriculture and Agrarian Affairs actually preceded by several months a major cabinet reshuffle in late August 1964. See Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 238-44.

¹⁸⁹ Frans Seda was born in 1926 on the island of Flores in eastern part of the Dutch East Indies. After completing primary school in Flores, Seda moved to central Java in 1940 to attend the Muntilan Catholic middle school. He was very active during the Indonesian Revolution, joining a number of youth and militia groups such as KRIS legion of Yogyakarta. He finished high school in 1950 in Surabaya. Later that year he left for Holland for study, where he was a member of various student organizations, and he earned a degree in economics in 1956 from the Katholieke Economische Hogeschool in Tilburg, the Netherlands. After returning to Indonesia in 1956, he was very active as an economic advisor to various organizations, as an educator, and as a politician. He was a founder of the Catholic Atma Jaya University in Jakarta, and served as the dean of its economics faculty from 1960-64. He also was the chairman of the small Catholic Party from 1961 to 1968, and as such was a member of both the MPRS and DPR from 1960-64. Interviews with Frans Seda 10 February 2006 and 10 October 2006; *Frans Seda: Ad Multos Annos*, (Jakarta: Universitas Katolik Indonesia Atma Jaya, 1991), pp. 357-65, O.G Roeder, *Who's Who in Indonesia, Second Revised Edition* (Singapore: Gunung Agung, 1980), pp. 255-6. Seda died in December 2009.

Minister of Fishing. Seda told Sukarno that he was against the PKI and against nasakomization,¹⁹⁰ but Sukarno apparently still wanted him and gave him a day to think it over. The next day General Yani, the head of the Indonesian army, called Seda to urge him to accept the appointment. Yani informed Seda that the appointment would be for the Minister of Estates and that Yani supported his appointment because he knew Seda was anti-communist and would keep the estates out of the hands of the PKI. Apparently the army did not mind that many estates were foreign-owned, but did mind if they fell under the control of the PKI. Moreover, Yani urged, it was better for Seda to work within the cabinet than from outside, and the nation needed him to fight the PKI. Seda then accepted the appointment, which was opposed by the PKI.¹⁹¹ From this story it appears that the army was pushing for the appointment of Seda in the hopes that he would prevent the estates from falling under the control of the PKI. It is unclear if Yani's focus was on the British estates only, whose takeover by the GOI was about to be completed, or on all government-owned estates; presumably it was for all government-owned estates, and as we shall see in subsequent Chapters Minister Seda's authority also extended to foreign owned estates. President Sukarno's position on the appointment was also unclear: was he pressured into it by the army, or did he have his own reasons, such as nasakomizing the cabinet or possibly countering the influence of Minister Sadjarwo? Whatever the reason, Seda's appointment directly contradicted the popular notion that President Sukarno in 1964 was 'turning to the left.'

Certainly it was evident at the time that there was a great likelihood that Seda, the anti-communist Catholic, and Minister Sadjarwo, the left leaning ex BTI and PNI man, would not get along. As we saw in Chapter Two, Sadjarwo had been a Minister of Agriculture/Agrarian Affairs since April 1957, the first cabinet appointed by President Sukarno under martial law. Sadjarwo was originally a member of the PKI-controlled BTI (*Barisan Tani Indonesia*, a large farmer's organization) and later the left wing of the PNI, and was often seen as sympathetic to the PKI and its allies. As events transpired, Seda

¹⁹⁰ As we saw earlier, 'nasakomizing' the cabinet and other parts of the government administration meant appointing individuals from the three main political component groups – nationalist, communists and religious elements – to positions in the government so that all three would be represented. In particular, it became a rallying cry for the PKI and its allies to push out GOI officials and replace them with PKI supporters.

¹⁹¹ Interviews with Frans Seda 10 February 2006 and 10 October 2006.

and Sadjarwo did not get along at all, and one of the areas they quarreled over was the treatment and control over foreign estates. According to Seda, Sadjarwo did not believe in compensating the estate owners for their seized estates and simply took the estates over. Seda, on the other hand, believed in the compensation principle for seized assets and thus defended the estates against the PKI and others who wanted to take them over (see subsequent Chapters). Seda did recognize, however, that Sadjarwo was under great pressure from the PKI to take over the estates. Another area of disagreement was the nasakomization policy, with Seda against it and Sadjarwo favoring it. The extent of their general disagreement was so great that Seda often simply disregarded various decrees issued by Sadjarwo, refusing to implement them.¹⁹² As we shall see, however, it took Minister Seda well over a year to gain control over the already-seized British estates.

In late June 1964, now Coordinating Minister Sadjarwo issued a series of three confusing and ill-coordinated decrees concerning the administration of the seized British estates.¹⁹³ These decrees had two main effects. Most importantly, it was made clear that Sadjarwo as Coordinating Minister would have exclusive authority over the British estates.¹⁹⁴ Thus it seemed as though Sadjarwo was responding to the reorganization of his ministry and the appointment of Seda in early June by asserting his jurisdiction over the British estates, even though Seda was now Minister of Estates and the presumptive competent authority. It is unclear if this was meant as a challenge to President Sukarno, but it certainly was for Minister Seda.

The second effect was to add a bizarrely complicated supervisory structure over the British estates whose purpose was difficult to ascertain but presumably allowed Minister Sadjarwo to appoint trusted associates in positions that would allow him to control the estates. The Team within the Ministry of Agriculture and Agrarian Affairs in overall charge of the British estates (appointed back in February) was renamed (it became the *Badan Pusat Penguasaan Perusahaan Perkebunan Milik Inggris* or *Badan Pusat Penguasaan* ('Central Control Board')) and its composition enlarged and changed. The

¹⁹² Interviews with Frans Seda 10 February 2006 and 10 October 2006.

¹⁹³ Keputusan Menteri Koordinator Kompartemen Pembangunan Pertanian dan Agraria (Sadjarwo) No. SK 15/KOMPPAG/1964 dated 20 June 1964, Keputusan Menteri Koordinator Pembangunan Pertanian dan Agraria (Sadjarwo) No. SK 16/KOMPPAG/1964 dated 25 June 1964, and Keputusan Menteri Koordinator Pembangunan Pertanian dan Agraria (Sadjarwo) No. SK 17/KOMPPAG/1964 dated 25 June 1964.

¹⁹⁴ This self-appointing authority was specifically granted in Decree 15, cited in the previous footnote.

old eight person team now became a 15 person team, eight of whom were new appointees (including Minister Seda as vice-chairman), with Minister Sadjarwo continuing as chairman. The Central Control Board's specified duties included establishing policy regarding supervision and control of the estates, supervising the implementation of such policy, and providing advice and guidance. A Daily Management Board, consisting of 8 members of the Central Control Board, was also formed to implement the daily duties and responsibilities of the Central Control Board. Yet a third body named *Direksi Penguasaan* was established along with the Central Control Board and the Daily Management Board; it was responsible to the Central Control Board and was charged with leading the business and organization of the British estates as well as supervising the continued implementation of GOI control. It consisted of three GOI officials. The *Direksi Penguasaan* was also assigned direct authority over the provincial Temporary Control Boards established back in February. However, except for this last designation of authority over the provincial Temporary Control Boards, it was simply not clear from the described duties where the responsibilities of one group began and the other left off. The combined effect of these three decrees and the two issued in February resulted in a supervisory structure as follows: at the top level in Jakarta was the Central Control Board, Daily Management Board and *Direksi Penguasaan*; in each province there were Temporary Control Boards and Supervisory Boards (*Badan Pengawas*, consisting of the Governor, *Tjatur Tunggal* representatives, and representatives from the mass organizations); and at the estate level there were the appointed managers and deputy managers. The structure at the top level was extremely confusing and very difficult to deal with, recalled one individual who was intimately familiar with the situation, and the whole enterprise was a “comedy,” run by people who were mostly from political parties and not professional managers.¹⁹⁵

In early September 1964 Coordinating Minister Sadjarwo further complicated the above structure by two measures, both decreed on the same day. It is unclear what prompted these measures; as noted in Part I Section B, September 1964 was the most

¹⁹⁵ Interviews with Soedjai Kartasasmita 22 March 2006 and 20 September 2006. Mr. Kartasasmita graduated from agricultural school in 1949 and worked on a Dutch plantation for a few years before working on various state-owned plantations from the early 1950s until late 1964 or early 1965, when he was appointed as a director of Dwikora II. He later became coordinator of Dwikora I and II.

dangerous and tense period of Konfrontasi, though this may have been coincidental. In the first measure, all the seized British estates were to be grouped into five working units known as Dwikora.¹⁹⁶ As ‘Dwikora’ was President Sukarno’s famous two commands made in his speech on 3 May 1964 that subsequently became one of the most popular slogans of Konfrontasi (see Part I, Section C), the use of this name by Minister Sadjarwo explicitly linked the ex-British estates to the Konfrontasi struggle and the Indonesian Revolution. Each Dwikora unit was to be led by managers appointed by Coordinating Minister Sadjarwo, and these managers were charged with supervising, controlling and managing the estates in its group. These five Dwikora units were geographically and company based. For example, Dwikora I was all the H&C/London Sumatra estates in North Sumatra, Dwikora II was a mixture of other estates in Sumatra, Dwikora III was a mixture of estates primarily on Java, Dwikora IV were almost exclusively the P&T Lands estates, and Dwikora V were a grouping of estates in East Java whose management had been accused of illegal activity, resulting in the takeover of the estates.¹⁹⁷ This was the beginning of the Dwikora estate structure, which would undergo numerous changes and evolve into a bureaucratic superstructure where the contest for access to the resources of the British estates was played out.

The second change decreed by Coordinating Minister Sadjarwo in early September 1964 was the establishment of ‘advisory boards’ (*Badan Pertimbangan*) at each of the *Direksi Pengusahaan* level, the Dwikora unit level, and individual estate level.¹⁹⁸ These advisory bodies were supposed to provide advice regarding production and security, and to help ensure the continued production of the estates. Although the chairmen of these advisory boards were from the *Direksi Pengusahaan* and the Dwikora unit managers and estate managers, respectively, most of the remaining members were representatives of mass organizations, such as workers and farmers groups, who were appointed by the National Front. In fact, in order to qualify for appointment as

¹⁹⁶ Keputusan Menteri Koordinator Kompartemen Pertanian dan Agraria (Sadjarwo) No. SK 75/KOMPPAG/1964 dated 10 September 1964.

¹⁹⁷ In early 1965 these estates were regrouped into seven Dwikora by Minister Seda (see Appendix B for this final regrouping).

¹⁹⁸ Keputusan Menteri Koordinator Kompartemen Pertanian dan Agraria (Sadjarwo) No. SK 76/KOMPPAG/1964 Tentang Pembentukan Badan2 Pertimbangan Untuk Penjempurnaan Pengusahaan/Pengusahaan Perusahaan Perkebunan Inggris, dated 10 September 1964.

representative of one of the mass organizations on the *Badan Pertimbangan*, the individual had to be a member of the National Front. Interestingly, all members had to pledge an oath to the Coordinating Minister, though the contents of the oath were not disclosed. Thus the purpose of the advisory boards appeared at a minimum to be to appease the PKI, the National Front, and workers and farmers' mass organizations by placing their representatives in apparent positions to access the wealth and resources of the estates via the appointments to the boards. How much power and authority the new advisory boards actually exercised is unknown; as noted, they were chaired (and thus presumably controlled) by the appointees from the related units (the *Direksi Penguasaan*, and the managers of the Dwikora units and individual estates). Furthermore, they were only supposed to meet once per month, and their decisions were not supposed to conflict with the decisions of the Coordinating Minister. Similarly, it is unclear whether Minister Sadjarwo did this of his own accord or was pressured into it by these groups. The concept, of course, was not novel, and we have already seen similar arrangements in the decrees issued by Minister Sadjarwo in February.

In late October 1964 Coordinating Minister Sadjarwo revised the structure yet again by revamping the *Direksi Penguasaan* into a three man team comprised of a General Director, Marketing Director, and Production Director. As the titles suggest, the General Director was to be responsible for general affairs, the Marketing Director for selling the produce from the estates, and the Production Director for production.¹⁹⁹ The purpose of these changes was left unstated, but presumably it was an attempt to coordinate the three specified activities throughout the five different Dwikora units by centering authority for the activities in three individuals at the central level. The appointments were notable in particular because of the appointment of Mirza Mustakim as Production Director; he would later be appointed by Minister Seda as head of the entire Dwikora structure.²⁰⁰ Mustakim was also staunchly anti-communist and had little

¹⁹⁹ Surat Keputusan Menteri Koordinator Kompartemen Pertanian dan Agraria (Sadjarwo) No. SK 105/KOMPPAG/1964 dated 20 October 1964.

²⁰⁰ Born in 1925 in Jakarta, Mustakim received a Dutch education through most of high school. He joined the army in 1945 during the war against the Dutch, and throughout his military career (retiring in 1983) was assigned to the intelligence section of the army. His family was closely linked to the NU political party, and he was even appointed to the parliament during Guided Democracy. Interview with Mirza Mustakim 23 September 2006.

experience in business. Thus, his appointment was obviously a political one, probably one forced upon Coordinating Minister Sadjarwo.²⁰¹

Up to this point it seems clear that Coordinating Minister Sadjarwo was principally in control over the British estates, despite the appointment of Seda as Minister of Estates back in early June. However, Minister Sadjarwo's authority over the estates was wrenched away by President Sukarno's Decree 6/1965 of late November 1964 (see Part V), which clearly placed authority over the British estates into the hands of Minister Seda. From this point on Minister Seda would have authority over the British estates (thereafter, it appears that Minister Sadjarwo issued no decrees regarding the estates), though according to Seda's own account many of his own instructions were initially ignored and it would not be until early October 1965 – almost 10 months later – before he was able to overhaul completely management of the Dwikora structure. The reasons behind President Sukarno's clear affirmation of Minister Seda as the competent authority over the British estates are not clear. As we saw earlier, it was Sukarno himself who had initially reorganized the Ministry of Agriculture and Agrarian Affairs into a 'Compartment' and appointed Seda to fill the new position of Minister of Estates. However, it was also evident that there was a strong push by the army in support of Seda, and thus the November 1964 firm placing of the estates under Minister Seda may have been sponsored by the army.

In any case, Minister Seda immediately sought to establish control over the British estates. On 30 November 1964, just four days after Sukarno's Decree 6/1964, Minister Seda issued two decrees that affirmed the general Dwikora grouping of estates but completely replaced the complicated administrative structure Coordinating Minister Sadjarwo had devised.²⁰² The swiftness with which Minister Seda reacted after Sukarno's Decree 6/1964 suggests that the decrees were already prepared and Seda was simply waiting for the right time to issue them. The general thrust of the changes was to centralize all decision-making and control over the estates at the central governmental

²⁰¹ Mustakim indicated in our interview that he and Coordinating Minister Sadjarwo did not get along, which suggests that Mustakim's appointment may have been forced on Sadjarwo.

²⁰² Surat Keputusan Menteri Perkebunan (Seda) No. SK 49/MenPerk/1964 dated 30 November 1964, and Peraturan Menteri Perkebunan (Seda) No. 2/SP/MenPerk/1964 Tentang Susunan, Tugas, dan Pimpinan Perusahaan Perkebunan Dwikora, dated 30 November 1964.

level in Jakarta, including the all-important revenues generated by sales of produce. This was accomplished primarily by creating a *Badan Pimpinan Umum Dwikora* ('Central Board of Directors for Dwikora' or 'BPU Dwikora' for short) that had overall responsibility for all the estates in the Dwikora structure. The BPU Dwikora's duties included formulating policy and planning in the areas of production, sales, personnel, and provisioning/supplying of the entire Dwikora, arranging for the financing of the entire Dwikora, and also arranging for marketing the produce of the Dwikora units. The BPU Dwikora was comprised of four directors plus their staffs and various departments. The BPU Dwikora directors included a 'First Director', who was in overall charge of the Dwikora, as well as a Director of Production (in charge of organizing overall estate production and planting), Director of Marketing (in charge of all sales, as well as procuring supplies needed for production), and associate Director of Finance (who had a somewhat undefined role over financial affairs). The four BPU Dwikora directors were assisted by numerous staff personnel as well as numerous departments (e.g., in the case of the Production Director, a planting department, technical department, and food production department) that were under their direct control. All four BPU Dwikora directors were appointed directly by Minister Seda. The change was a major foundational block in the development of a bureaucratic superstructure that would continue to grow into a self-sustaining behemoth, with an estimated office staff (not counting the Dwikora units or the individual estates) of at least 700 people by early 1967.²⁰³

Minister Seda also decreed a number of other changes. At the Dwikora unit level, Seda affirmed the five unit estate grouping (Dwikora I through V) and further clarified the management structure of these units. The units were to be headed by individual boards of directors (*Pimpinan Kesatuan*) comprised of one senior director, who was in overall charge of the unit, and one or two junior directors. These unit-level boards of directors were directly responsible to the BPU Dwikora and were charged with implementing the plans of the BPU Dwikora, especially in the production realm (but not in the sales/marketing area). Four staffing divisions were established in each Dwikora

²⁰³ Diary of Stanley Pull (from visit to Indonesia March-May 1967) p. 7 (UKNA, FCO 15/235). Pull was a director of Watties, the estate management firm whose Jakarta head office was taken over in September 1963. Pull returned to Indonesia in 1967 as a representative of various British estate companies to report on the prospects for the return of the estates.

unit to assist the directors (a general division, production division, supply division, and purchasing division). Thus, like the BPU Dwikora, each Dwikora unit also had its own staff and bureaucracy, though the staffing appeared to be much smaller than the BPU Dwikora. Within each province where a Dwikora unit was located, Minister Seda also established a supervisory board (*Badan Pengawas*) consisting of the provincial governor and various GOI agricultural officials at the provincial level. Their nominal function was to supervise generally the production activities within the Dwikora unit; however, it is quite likely that these were mostly political appointees.²⁰⁴ Finally, at each level of BPU Dwikora, the Dwikora units, and the individual estates, Production Advisory Boards (*Badan Pertimbangan Produksi*) were to be set up. These bodies were chaired by members of the BPU Dwikora or directors from the Dwikora units or estates, but they were comprised of representatives of mass organizations of workers and farmers who were members of the National Front as well as representatives of regional interests. Their function was to advise regarding production targets, budgeting, and safeguarding production. Clearly these bodies were set up to appease the mass organizations and the PKI, presumably by asserting that such bodies represented the nasakomization of the Dwikora structure; even a staunch anti-communist such as Minister Seda was unable to resist such pressures. As with the BPU Dwikora, however, the Dwikora unit board of directors, the managers of the individual estates, the provincial advisory board members, and the Production Advisory Board members of all three levels were each to be appointed by Minister Seda, assuring him control over these posts.

How much of this structure and its subsequent iterations Minister Seda was actually able to implement over the next 11 months or so is unclear. Years later, Seda described how it took him a very long time to appoint individuals to the various positions because of opposition within the government, presumably in part from Coordinating Minister Sadjarwo. Seda's primary criteria for such appointments were two: first, the individual had to be a professional manager, and second, the individual had to be anti-communist. How successful Seda was in ensuring these criteria were met is not certain, as Seda came under extreme pressure from the PKI, PNI and other parties to appoint their choices to positions within the Dwikora as well as to positions within the ministry itself.

²⁰⁴ Interviews with Soedjai Kartasasmita 22 March and 20 September 2006.

Foreign Minister Subandrio apparently also pressured Seda to appoint PKI members as directors, but Seda was able to resist this. Seda, who claimed that he opposed all parties' (including the political parties and the army) efforts to influence the estates, not just the PKI's, complained about the pressure from the parties to President Sukarno, who told him not to worry, that NASAKOM was his (Sukarno's) problem to deal with. In any case, it appears that over the first nine months of 1965 Minister Seda was gradually able to make some appointments to various positions within the Dwikora structure, though some of these, including the elevation of Mirza Mustakim to the First Director of BPU Dwikora (the head of the entire Dwikora structure) and the appointment of Sjamsudin Aminudin as Director of Marketing for BPU Dwikora, were admittedly motivated primarily by the strong anti-communist stance of the individuals instead of their managerial expertise and knowledge.²⁰⁵ Meanwhile, Minister Seda continued to tinker with the Dwikora structure, including regrouping the estates in early January 1965 from five into seven Dwikora units (see Appendix B for a listing of these estates).²⁰⁶

Minister Seda was not the only one being pressured by various political groups – the political parties, the army, and other organizations – for access to the estates. Mirza Mustakim, who became the First Director (the top position) of the Dwikora structure in 1965, recalled that one of the biggest problems he faced was continued interference by these groups, especially the political parties. They saw the estates as sources of funds and manpower, and because of the NASAKOM policy they all wanted representation on the various Dwikora boards. They were successful to a certain extent in obtaining these positions - Mustakim did appoint many members of the NU political party (which he was affiliated with) to various positions, in part because of the pressure the NU's labor arm was able to exert. They also sought to acquire financial data relating to the estates, such as cash flow statements and salary levels. Apparently the estates continued to generate revenues; though no figures are available, Mustakim claimed that in 1965 sales of produce generated \$15 million in foreign exchange revenue, a substantial sum in

²⁰⁵ Interviews with Frans Seda 10 February 2006 and 10 October 2006.

²⁰⁶ Surat Keputusan Menteri Perkebunan (Seda) No. SK 1/MenPerk/1965 Tentang Perubahan Susunan Perusahaan Perkebunan Dwikora, dated 2 January 1965. Old Dwikora I was split into new Dwikora I and II, old Dwikora II became new Dwikora III, old Dwikora III became new Dwikora V and VI, old Dwikora IV stayed the same, and old Dwikora V became Dwikora VII.

Indonesia at the time.²⁰⁷ Similar pressure was also felt at the Dwikora unit level. Soedjai Kartasasmita, one of the professional managers Minister Seda appointed to Dwikora II, also recalled the great pressure the political parties (not just the PKI) exerted to gain access to the resources of the estates, principally via appointment to positions within the Dwikora structure and on the estates. There was constant plotting and intrigue, and Kartasasmita himself had to fend off many of these maneuverings. There was apparently much greater jostling over the estates in Java than on Sumatra (presumably a function of geographical proximity to the capital Jakarta).²⁰⁸ Other sources also suggest that there was greater politicization in the Dwikora units on Java (Dwikora IV through VII) than those in Sumatra (Dwikora I through III). In fact, one staff member at Dwikora VII (located in East Java) noted that most of the Dwikora VII unit directors were political appointees from different political parties; “politics was king,” and the professional managers were “number two.”²⁰⁹ From these and other accounts, one senses that Minister Seda was not completely successful in keeping the estates away from the reach of various interest groups, though both Mustakim and Kartasasmita claimed he was very effective at it.

In early October 1965 Minister Seda issued two decrees which suggested that the contest with Coordinating Minister Sadjarwo for control over the estates had finally ended in Seda’s favor. The first decree made some further revisions to the Dwikora structure, and the second was a sweeping reshuffling of the major administrative posts within the Dwikora structure. The timing of these decrees, issued on the heels of the September 30 Movement (see Chapter Seven, Part III), was not coincidental. The September 30 Movement introduced a period of great confusion and uncertainty into Indonesian politics as well as the extermination of the PKI, and the allies of the PKI as well as its sympathizers had to tread very lightly. Seda recalled that the September 30 Movement may have helped with the issuance of the decrees, though he was planning on

²⁰⁷ Interview with Mirza Mustakim 23 September 2006. In February 1966 at a conference of Indonesian plantation officials, Minister of Central Bank Affairs Yusuf Muda Dalam claimed that for 1965 the foreign exchange earnings for the Dwikora estates were \$25.5 million, a substantial increase from Mustakim’s claim. However, these numbers were actually estimates based on the performance of the first six months of the year. See *Far Eastern Economic Review* 3 March 1966, pp. 419-20.

²⁰⁸ Interviews with Soedjai Kartasasmita 22 March and 20 September 2006.

²⁰⁹ Interview with Syakdin Darminata 30 May 2006. Darminata graduated from the faculty of agriculture of the University of North Sumatra in 1964 and was hired to work at Dwikora VII in the planting department.

issuing them at some point anyway. Coordinating Minister Sadjarwo opposed the new staffing decree in particular, but was unable to prevent its issuance because Minister Seda was in direct contact with President Sukarno and answered only to him, effectively bypassing Sadjarwo.²¹⁰ This decree involved the appointment of individuals to the 32 highest positions within the Dwikora structure, including the BPU Dwikora board of directors, the directors of each of the seven Dwikora units, as well as appointments to the positions of the newly created post of inspectorate.²¹¹ Though in some cases the decree merely affirmed existing appointments, in general it was a thorough cleansing and reshuffling of positions, signaling that Minister Seda had successfully retooled the Dwikora structure to his liking.

The staffing decree piggybacked off a decree issued the day before which made some modifications to the Dwikora structure and established what appears to have been the final form of the Dwikora structure (at least for a few years).²¹² As the explanation to the decree noted, a primary objective of the decree was to ensure the concentration of policy-making, planning and control, particularly in the area of sales and marketing of the produce, while “de-concentrating” production and security. Within the BPU Dwikora, the position of Associate Finance Director was dropped, so that the BPU Dwikora was led by three Directors (the First Director, the Production Director, and the Marketing Director). Eight new divisions were created within the BPU Dwikora to assist the directors, adding greatly to the numbers of staffing. In addition, new positions of inspectorates and regional coordinators were created. A new Marketing and Services Unit was established within the BPU Dwikora to coordinate the dispatch and storing of estate goods as well as the purchasing of supplies for the estates. At the Dwikora unit level, the board of directors was revamped slightly to have one senior director who was in overall charge of the unit and two junior directors, one for production and one for finance, each with their own staffs. However, Minister Seda kept the existing *Badan Pengawas* (the provincial level board comprised of the provincial Governor and other officials) as well as the *Badan Pertimbangan Produksi* (the boards at all three levels of BPU Dwikora, Dwikora

²¹⁰ Interviews with Frans Seda 10 February 2006 and 10 October 2006.

²¹¹ Surat Keputusan Menteri Perkebunan (Seda) No. SK 143/MenPerk/1965 dated 5 October 1965.

²¹² Peraturan Menteri Perkebunan (Seda) No. 11/SP/MenPerk/1965 Tentang Penjempurnaan Susunan, Tugas dan Pimpinan Perusahaan Perkebunan Dwikora, dated 4 October 1965.

unit, and individual estate which were comprised principally of representatives from mass organizations and was to advise regarding production), instead giving them new names.

Thus, by October 1965 a large administrative superstructure known as Dwikora had been created to manage the 105 (mostly British) estates taken over by the GOI in the course of 1963-64. Uniquely, of all the foreign companies taken over from the entire period 1963-65, only with respect to these estates did such an administrative superstructure develop. Comprised of a central body in Jakarta known as the BPU Dwikora, seven individual Dwikora units in Sumatra and Java into which the estates were grouped, and the individual estates themselves, the superstructure was the end product of a roughly 18 month long struggle within and outside the GOI to assert control over the valuable economic resources represented by the estates. Its primary objective was to centralize in Jakarta, in the hands of the central government (though whose hands within the central government were the subject of great struggle), control over the estates. In particular, sales and marketing were controlled by the BPU Dwikora in Jakarta, which meant that all revenues from the sales of estate produce were controlled by the BPU Jakarta. The seven Dwikora units, and least of all the individual estates, thus had virtually no control over the sales of their produce or the revenue generated by such sales; their primary function was to ensure continued production of the estates according to plans dictated by the BPU Dwikora, and they were mostly dependent on the BPU Dwikora to provide them with funding and material resources for production. On the estates themselves, it appeared that the top level of management was appointed by Jakarta, and that other positions were initially filled primarily by Indonesians who had already been working at the estates. The Dwikora superstructure would continue to grow (as noted, by early 1967 the staff of the BPU Dwikora alone totaled an estimated 700 people) such that by 1967, when the returns of foreign companies were getting underway, there were significant vested interests within the structure that had to be taken into account.

V. President Sukarno's Decree 6/1964 of 26 November 1964 and Aftermath.

Towards the end of 1964, the official status of the confiscated British companies remained somewhat in limbo. By November 1964, almost every British firm (with Shell Oil the major exception), had been put under GOI "control" and/or "supervision." In most cases, such a position had resulted in effective GOI control over the companies, so that by November there were very few British firms whose owner-appointed management retained any semblance of control over the company (Dunlop Rubber being the clearest example). Moreover, most of the companies' head offices had lost contact with their Indonesian operations. In his famous *Tahun Vivere Pericoloso* or 'Year of Living Dangerously' (often shortened to TAVIP) independence day speech on 17 August 1964, President Sukarno had suggested not only that the British companies would not be returned to their owners but that the future of all foreign investment was in peril:

As for the British financed enterprises which were taken over by the workers and are now coming under government control, I had better reaffirm that fundamentally and eventually no imperialist's capital will be allowed to operate on Indonesian soil. Imperialists' capital which is still operating here must fully submit to Indonesian national laws. The ex-British capital will be under full control of the Government. Of course the procedure followed can vary, it can be nationalization with compensation, it may also be confiscation without compensation. The method to be followed will depend on the British standpoint vis-à-vis the liquidation of 'Malaysia.'²¹³

Coordinating Minister Sadjarwo, who as we saw in Part IV above had embarked on a series of measures beginning in June which suggested that the government was not about to return the British estates anytime soon, echoed President Sukarno's position publicly on 16 October, when he announced not only that the British estates would not be returned but also that the question of compensation was wholly dependent on the British

²¹³ Sukarno, *Address by the President of the Republic of Indonesia on 17th August 1964* (Djakarta: PN Penerbit Pradnjaparamita III, 1964), p. 60.

attitude.²¹⁴ Yet despite these pronouncements, there was still no decree or law issued which affirmed the implied position that “control or supervision” meant either confiscation or expropriation/nationalization.

The issuance by President Sukarno of Presidential Decree 6/1964 on 26 November 1964 conclusively dashed any hopes that control over the British companies might be returned to their owners, though it did not answer the confiscation versus expropriation question.²¹⁵ The issuance of this decree was a major capstone, for Presidential Decrees were in effect the highest law of the land, and President Sukarno had not issued any decrees regarding the takeovers since Presidential Decree 194/1963 in September 1963 that forbade takeovers absent Presidential approval. Thus the decree served in part as a sort of postfactum Presidential affirmation of the imposition of government control (and consequent wrenching away of owner control) over the British companies over the course of 1964.

Declaring that the steps already taken by the GOI against British companies were in accordance with Konfrontasi against Malaysia, Decree 6/1964 stated that it was necessary to clarify the control by the GOI over the companies by integrating all decisions/decrees of the GOI that had previously been issued into one basic law in the form of a Presidential Decree. The decree then stated that all British companies in Indonesia that were listed on an attachment were now fully and directly controlled (*dikuasai*) and managed (*diurus*) by the central government, effective from the date of Minister Chaerul Saleh’s circular of 31 January 1964. The decree further specified that the control and management of the companies in various sectors would be carried out by specifically-assigned individual ministries. The ministries and companies listed in the decree were: (i) the Ministry of Trade was responsible for trading companies (Maclaine Watson), (ii) the Ministry of Peoples Industry and the Ministry of Basic Industry and Mining were responsible for industrial companies (Unilever, BAT, Fraser & Neave and Nebritex were placed under the Ministry of People Industry; Dunlop Rubber was placed under the Ministry of Basic Industry and Mining), (iii) the Department of Revenue and

²¹⁴ Van der Kroef, “Indonesian Communism’s Revolutionary Gymnastics,” p. 219; see also Agung, *Twenty Years Indonesian Foreign Policy*, p. 401, and *Far Eastern Economic Review* dated 22 October 1964, p.160.

²¹⁵ Penetapan Presiden (Sukarno) No 6/1964 Tentang Penguasaan Dan Pengurusan Perusahaan2 Milik Inggris Di Indonesia, dated 26 November 1964.

Finance was responsible for insurance companies (Ocean Insurance of the Commercial Union insurance group, Sun Insurance, and Union Insurance of Canton), (iv) the Ministry of Estates was responsible for estates (Harrison & Crosfield, Guthrie & Co, P&T Lands, JA Wattie, Anglo Sumatra, Ross Taylor, Grummit Reid, PT Indraswari (Francis Peek)), and (v) the Central Bank of Indonesia was put in charge of Chartered Bank.²¹⁶ The decree specified that the companies should be managed by safeguarding production and working efficiency and that ministers should further arrange for the payment of wages, salary and social security benefits of the workers of the companies. Issues arising from the implementation of the decree were to be resolved by the individual ministries, mindful of the principles specific to the industry and individual companies. In addition, all forms of control and management by various GOI bodies that conflicted with the decree should either be cancelled or conformed.

A few observations regarding Presidential Decree 6/1964 are necessary. First, the words ‘nationalization’ or ‘expropriation’ or ‘confiscation’ were not used; the measures were described as the government fully controlling (*dikuasai*) and managing (*diurus*) the companies. The GOI obviously wanted to retain some flexibility regarding the official status of the companies, as there was no explanation either of what this meant vis-à-vis expropriation or confiscation or of how long this state of affairs would last. Second, Shell Oil was not listed or affected by the decree, again reflecting oil company exceptionalism. Third, the companies were placed under individual ministries that apparently had some leeway in how they would manage the company (the ministers had to be mindful of the special principles in their fields and the “integrity” of the businesses themselves). Finally, as can be seen in Appendix A, there were literally dozens of small British estate holders which were not even mentioned. Many of these estates, however, were managed by Anglo Sumatra, Guthries, JA Wattie or Indraswari (ex Francis Peek), which were mentioned in the decree. It is quite possible that the GOI was simply not sure of the ownership of many of the estates; many of the ownership arrangements were indeed

²¹⁶ A decree issued by Chairul Saleh on 14 December exempted Unilever from Presidential Decree 6/1964. (British Embassy telegram (Gilchrist) dated 23 December 1964 (UKNA, FO 371/175284)) In addition, a clarification to the Decree issued on 28 December by the State Secretariat added J Arthur Rank Films to the companies under GOI control and also listed eight estates managed by PT Indraswari (ex Francis Peek). See Letter of State Secretariat of Republic of Indonesia No F/III/5043/B18/64 dated 28 December 1964.

tangled and difficult to figure out. Listing the largest estate companies and the primary managing agents may instead have been enough to get the message across. In any case, most of these estates were already under GOI control anyway, and the failure of their names to appear in the decree did not exempt them in practice from GOI control.

It is not clear why President Sukarno finally chose to issue a decree on the takeovers at this time, after 14 months of shying away from issuing decrees on the matter and when virtually all the British companies were already under effective GOI control. One objective of the decree really may have been to integrate and coordinate the administration of the companies under the official Presidential seal of approval. The language of the decree itself suggests that President Sukarno – or his advisors – felt it was necessary to clarify the various decrees regarding the takeovers, to “integrate” them and to cancel other decrees which conflicted with this. But what prompted this? In fact, the various decrees already issued by various GOI ministers were not that different from each other. The only things Presidential Decree 6/1964 really added were (i) a clear statement that the companies listed on the attachment were now under the control and management of the GOI, and (ii) a clear allocation or placement of companies under specific ministries. With respect to (i), the scope of Presidential Decree 6/1964 was somewhat broader than Minister Chaerul Saleh’s 31 January circular by virtue of listing more companies – all the known British companies in Indonesia, as opposed to just the ones affected by the attempted takeovers of January 1964 (which Minister Saleh’s 31 January circular purportedly covered). Presidential Decree 6/1964 also covered the four companies initially taken over in September 1963 by the DPS-KBKI, whose status until this point still had not been clarified. However, most of the companies listed in Decree 6/1964 had already been taken over under other decrees or in practice. There may also have been some significance attached to the description in Presidential Decree 6/1964 as the companies being under the “control” and “management” of the GOI, as compared to “control” and “supervision” under Minister Saleh’s 31 January circular; the term “management” is stronger than “supervision” in terms of indicating government control, and parts of Decree 6/1964 certainly highlighted management of the companies. In a related vein, the decree may also have been a message to some ministers to take more forceful measures over the companies already nominally under their control. For

example, as noted in Part III, the owner-appointed management of companies under the supervision of the Ministry of Peoples Industry generally seemed to last longer and have more influence than those under the Minister of Agriculture and Agrarian Affairs. Perhaps President Sukarno felt that it was now time for all the ministers to exercise roughly the same level of control/management over the different British companies.

The major change, however, was with respect to (ii) above regarding the clear placement of companies under specific ministries, which I believe was a major motivation behind the decree. Most of the companies were already under the control of the ministries assigned under Decree 6/1964, with the great exception of the estates. As we saw in Part IV above, prior to this point the British estates were under the control of Coordinating Minister Sadjarwo, but under Decree 6/1964 they were placed under the control and management of Minister of Estates Seda. Hence, the decree may have been meant to resolve the conflict over control of the estates triggered in June 1964 with the creation of the Compartiment of Agricultural and Agrarian Affairs. In fact, after this date virtually all the GOI decrees involving the British estates would be issued by Seda, not Sadjarwo.

There may also have been some reasons relating to foreign relations and domestic politics behind the issuance of Presidential Decree 6/1964, though these are also somewhat obscure. There does not appear to be anything happening in Konfrontasi per se at the time that would have triggered such a move. The tension of September seems to have abated somewhat, and the conflict was essentially mired in stalemate in Borneo. In fact, on 20 November Foreign Minister Subandrio and British Ambassador Gilchrist had a very cordial meeting which the United States hoped might lead to British moves to further ease tensions.²¹⁷ A better explanation internationally may be the general direction of Indonesian foreign policy. This will be discussed in more detail in the following Chapter, but for now we can note that one effect of Konfrontasi was greatly increased stridency in President Sukarno's anti-imperialist stance in foreign relations such that anti-imperialism became the primary focal point of Indonesia's foreign policy, which increasingly left Indonesia isolated in the world. The UN Security Council debate in

²¹⁷ See p. 186 of *Foreign Relations of the United States, 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

September over Indonesia's actions on the Malaysian peninsula had been a slap to Indonesia's face. As we shall see in the next Chapter, Indonesia similarly failed to win support for Konfrontasi within the non-aligned movement, and as relations with the United States deteriorated dramatically, the Peoples Republic of China had stepped in to fill the void. Indeed, after President Sukarno's return from his extended overseas trip of 17 September to 5 November, these developments became increasingly evident, and thus it could be that Presidential Decree 6/1964 was a reflection of this increasingly rabid anti-imperialist stance and resulting isolation. Moreover, as we shall see in subsequent Chapters, this decision was the first in a string of several over the next five months under which foreign investment was virtually eliminated from the country. Insofar as domestic politics, it also coincided roughly with other measures taken by President Sukarno that seemed supportive of the PKI, such as the dissolution of the BPS in mid-December and suspension of the Murba party in early January (see Part I, Section A and Chapter Seven).

Regardless of the possible explanations for Presidential Decree 6/1964, as most of the British companies had already been taken over in practice, control over only a few British companies changed as a result of the decree. One of these was Chartered Bank, which had been forced to close its Surabaya and Medan offices in mid-November (see Part III) but still operated its main office in Jakarta. In a rather messy situation, the Central Bank took control over Chartered Bank's Jakarta office on 8 December. The British manager was allowed to stay on for a few weeks in mostly an advisory capacity (Chartered Bank's head office had revoked his authority when the takeover occurred).²¹⁸ Other companies, such as Nebritex (a textile factory), witnessed the complete takeover by GOI teams who were already on site but prior to that time were content to allow British management to run the company. In Nebritex' case, the British manager was also allowed to stay on as an advisor for at least several more weeks.²¹⁹ The situation at Unilever, as we saw earlier, was more ambiguous; expatriates were allowed to stay on, but they exercised little influence. Besides Unilever, there appears to have been only two cases

²¹⁸ See British Embassy telegrams (Gilchrist) dated 5 December 1964, 8 December 1964, 15 December 1964 and 21 December 1964 (UKNA, FO 371/175284); US Embassy telegram (Ellis) dated 8 January 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, boxes 1072-3).

²¹⁹ See British Embassy telegrams (Gilchrist) dated 30 November 1964 and 1 December 1964 (UKNA, FO 371/175284).

where owner-appointed management survived into 1965. The first was Dunlop Rubber's management, which withdrew in July 1965; the takeover in March 1965 of the Goodyear tire factory, which made tires for Dunlop Rubber, was a major reason Dunlop threw in the towel.²²⁰ The second case was Shell Oil, which we shall examine in more detail in the next Chapter. For the rest of the companies, the decree merely resulted in the drying up of whatever limited communication there had been between the head office and Indonesia.

Presidential Decree 6/1964 did galvanize the British government in two ways, however. The first was the sending of several formal diplomatic notes to the GOI. The British government had sent notes after the formal takeovers of P&T Lands (16 May) and Maclaine Watson (1 July) inquiring as to the status of these specific companies. Beginning in September, and mostly at the prompting of the Rubber Grower's Association (a London-based group of British estate owners), the British Foreign Office began to consider sending a note to the GOI seeking clarification of the status of British firms. The Foreign Office, however, was under no illusions that the companies would be returned.²²¹ Before a formal note could be delivered, though, Presidential Decree 6/1964 was issued, which then spurred the Foreign Office to take action. On 1 December, the British embassy delivered Note 644 to the GOI Ministry of Foreign Affairs. The note expressed concern over the treatment of British companies and requested that the GOI "clarify its intentions towards British enterprises and...define their present status under Indonesian law." The note further suggested that GOI measures amounted to "de facto dispossession and expropriation and thereby give rise to an obligation to provide compensation in accordance with international law." Unless an explanation was forthcoming, the British government would be forced to assume that this indeed was the

²²⁰ See Dunlop Rubber Co letter to British Foreign Office dated 2 July 1965 (UKNA, FO 371/180350) and British Embassy letter (Cambridge) dated 28 July 1965 (UKNA, FO 371/180351).

²²¹ British Embassy Note (Oliver) dated 21 July 1964 (UKNA, FO 371/175283); Minutes of Meeting and Letter from Rubber Growers Association to British Foreign Office dated 22 September 1964 (UKNA, FO 371/175283); British Foreign Office Confidential Note (Cable) dated 26 October and British Foreign Office Minute (Tonkin) dated 18 November 1964 (UKNA, FO 371/175284).

GOI's intention.²²² The GOI never replied to the note. The British government sent two more notes over the next eight months, but these too were ignored.²²³

The second measure the British government took over the next half year was to provide some assistance to British companies that sought to make compensation claims. The tricky part in this, of course, was that despite Presidential Decree 6/1964 officially it was still not clear what the GOI intended to do with the companies, and thus a claim for compensation because of nationalization was not as clear as in other cases. (Subsequently British officials began a mad search of newspapers and other materials to see if there were any statements by GOI officials that might shed light on the GOI's intentions.) The most important of these measures was assistance in drafting 'Reservation of Rights Letters,' which were letters from the individual companies to Foreign Minister Subandrio. The impetus for this again came from the Rubber Growers Association, which asked the Foreign Office to comment on its draft letter. The Foreign Office did so and then coordinated the delivery of the letters to the GOI via the British embassy in Jakarta.²²⁴ By early May 1965, no less than 32 Reservation of Rights letters had been delivered.²²⁵ In addition, the British government drafted compensation claims forms for the various companies.²²⁶

²²² British Embassy Note 644 dated 1 December 1964 (UKNA, FO 371/180350).

²²³ British Embassy Note 79 dated 25 February 1965, and British Embassy Note 273 dated 20 July 1965 (UKNA, FO 371/180350).

²²⁴ See RGA letter to British Foreign Office dated 29 January 1965, British Foreign Office Note (Cable) to RGA dated 9 March 1965, and British Foreign Office Note (Murray) dated 1 April 1965 (UKNA, FO 371/180350).

²²⁵ The Reservation of Rights letters were for the most part virtually identical. Typically, the letter began by referring to the various GOI measures taken in respect of the company, including Presidential Decree 6/1964. The letter then noted that these measures appeared to constitute de facto expropriation and asked that the company be restored if that were not the case. The letter also indicated that the company was holding the GOI "liable for all the assets of the company taken over, the day to day operation of the company, and any loss of income or profits during the period of such control. This company will not accept responsibility for any losses, debts or claims which may arise....This company accordingly reserves all of its rights during the operation of the said Presidential Decision No 6..." The letter further indicated that the company would take measures to obtain prompt and adequate compensation. See, e.g., Anglo Sumatra Rubber Company Reservation of Rights letter to Foreign Minister Subiandro dated 4 May 1964 (UKNA, FO 371/180351). In some cases, companies listed their assets and properties on a separate attachment. It is unlikely that these letters had any real legal value, and practically they appeared to have no impact on the GOI, as it appears never to have responded to any. As useless as they were, they did set the record straight and provided a good indication of which firms were taken over.

²²⁶ These were basically forms in which the individual companies could describe their lost assets and property in some detail; the company would then give the completed form to the British government, which could use the information in future legal actions. However, it is unclear if the British government actually

These measures, however, were too-little-too-late and of little use to the companies in resisting the takeovers, and indeed highlighted the impotence of the British government. Even before the takeovers began, the British government acknowledged that it was powerless to do anything about them. In July 1963 the Foreign Office recognized that the only potential economic weapon it held over Indonesia in the event British companies were confiscated was the possibility of pressuring the United States to withhold aid, in effect to try to sabotage Indonesia's stabilization efforts. Of course, as we have seen, at that point the US was fully committed to ensuring the success of the stabilization effort. British Ambassador Gilchrist even went as far as to suggest that British fixed assets in Indonesia 'were doomed.'²²⁷ The outbreak of Konfrontasi and the abandonment of the stabilization effort in September 1963 took away even this one potential lever. At the same time, Konfrontasi rendered the threat of military force, even if the British wanted to go this far, a non-viable one; as the two countries were already engaged in a low level military conflict, the GOI had little to fear from the opening of hostilities. Further, there was considerable pressure from the Americans not to allow Konfrontasi to get out of hand and engulf the world powers. Finally, as there were few, if any, Indonesian businesses located in the United Kingdom, the common response of a retaliatory expropriation was unavailable - there were no assets to be seized. The British government was certainly aware of this weakness, and throughout the period of takeovers frequently lamented its lack of power. A February 1964 Foreign Office note nicely summarized this recognition: referring to the takeovers, it noted there

is no real hope of reversing the process, although a political settlement with Indonesia might postpone the end for a few years...It must be recognized that in these circumstances there is no effective action we can take to restrain the Indonesians. We are already being as unpleasant to them as we can without frightening the Americans and our only Indonesian hostage – the sixteen aircraft engines- would be an insignificant bargaining counter. Probably the only considerations that

distributed the forms, and if distributed and then returned they do not seem to have made any impact. See British Foreign Office Confidential Minutes dated 11 February 1965 (Tonkin) (UKNA, FO 950/793), and 17 March 1965 (Puleston) and 19 March 1965 (Puleston) (UKNA, FO 950/792).

²²⁷ British Foreign Office Confidential Note (Warner to Gilchrist) dated 30 July 1963 (UKNA, FO 371/169923); British Embassy telegram (Gilchrist) dated 6 August 1963 (UKNA, FO 371/169924) and British Foreign Office Confidential Note (Warner to Gilchrist) dated 14 August 1963 (UKNA, FO 371/169924).

seriously deter the Indonesians are their present economic difficulties and their fear of alarming the United States and Japan.²²⁸

VI. Conclusion.

The takeover by the GOI of British enterprises in Indonesia in 1964 was triggered by the attempted seizure of British enterprises by PKI-linked groups in what was one of several measures initiated by the PKI as it went on the political offensive in 1964. In a series of well-coordinated actions, the PKI used patriotic support for Konfrontasi in an attempt to prevent President Sukarno from de-escalating the conflict as a result of the Robert Kennedy mission in January. These attempted seizures contravened Presidential Decree 194/1963 and thus were a direct challenge to the central government, and they successfully forced the government to place all affected British companies under GOI control and supervision. Hence, domestic political conflict and instability was the immediate cause behind the takeovers, as the British enterprises were, in effect, hostages of Indonesian domestic politics and to a lesser extent foreign policy, caught in a web of domestic political and international conflict and the interaction between the two.

In leaving it up to each ministry to determine the appropriate level of control and supervision, the government opened the door to the creeping confiscation of British companies over the course of the year. Most of the takeovers were accomplished in a very gradual manner as owner-appointed management was displaced by GOI-appointed management. Despite the disclaimers and studious avoidance by government officials of terms like nationalization, expropriation or confiscation, the end result was clearly the confiscation of the companies. A major factor determining the pace of confiscation was the perceived economic wealth of the companies, particularly the estates whose benefits included revenue, highly prized foreign exchange, a salary with many in-kind benefits such as housing and food, and perhaps even control over the thousands of workers on the estates. Consequently, there was a great struggle for control over the estates within the GOI itself between Ministers Seda and Sadjarwo, who were also at different ends of the

²²⁸ British Foreign Office Confidential Note (Cable) dated 14 February 1964 (UKNA, FO 371/175266).

political spectrum, with Seda ultimately the winner. Minister Seda's emergence as the victor by late 1964 was at a minimum an example of the political balancing President Sukarno was known for, but it also clearly bucked the supposed trend of Sukarno's 'drift to the left.' In addition to the struggle within the GOI, there was also great pressure from the political parties, the army and other groups for access to the wealth of the estates, primarily by securing a position within the giant Dwikora structure or a management or staff level position on the estates. Hence, many appointees were political ones and not based on the managerial skill of the individual. However, such competition over resources was not unusual in Indonesia during the early 1960s. As one individual with intimate knowledge of the situation has observed, the same thing was happening in the government-owned estate system.²²⁹ The politics and economics of the time were simply that way, and it was virtually impossible to escape from.

President Sukarno's Decree 6/1964 signaled the end for British enterprises in Indonesia. It not only affirmed that British companies already placed under GOI supervision and control were there to stay, but also led to the takeover of the few remaining British firms that were not yet under GOI control. Moreover, it signaled the end of the struggle within the GOI for control over the taken-over estates. By the end of 1964, virtually every British company was completely under GOI control, with the major exception of Shell Oil, a reflection of oil company exceptionalism. As we saw in Chapter Four, however, the position of Shell in East Kalimantan in the fall of 1963 indicated that even Shell was not totally immune to this principle, and in 1965 this principle would be subjected to heavy pressure.

With the takeovers of British companies complete by the end of 1964, American companies, led by oil companies Stanvac and Caltex, were probably the most important remaining foreign companies in Indonesia, though certainly Belgian estate interests were also significant. Belgium as a country, however, was not nearly as visible, powerful, or representative of imperialistic interests and ambition as the United States, whose relationship with Indonesia was rapidly deteriorating. President Sukarno appears to have made some major decisions regarding British and American companies around the same time; as we shall see in the next Chapter, within two weeks of issuing Presidential Decree

²²⁹ Interviews with Soedjai Kartasasmita 22 March and 20 September 2006.

6/1964 in late November, President Sukarno appears to have decided to target American companies for takeover. The American phase of the takeovers of foreign companies was about to commence.

Chapter Six: The American Phase in Early 1965

In the roughly six week period from late February to mid-April 1965, the government of Indonesia took over 13 foreign companies. The size of the enterprises and the different industries they represented, as well as the takeover process and treatment of the enterprises, varied considerably, but the common thread was that 11 of the 13 were American-owned.¹ Moreover, this wave of takeovers virtually eliminated American foreign investment in Indonesia, and thus the GOI seizures of the early months of 1965 can be grouped together into an American phase of takeover activity.² These takeovers were a direct reflection of the deterioration of the bilateral relationship between the United States and Indonesia, which reached an all-time nadir in 1965. Thus, the companies fell victim to Indonesia's foreign relations, although intertwining Indonesian domestic politics also played an important role. The decline in the US-Indonesia relationship was itself multi-causal, but major factors were the dominance of anti-imperialism as the defining thrust of Indonesian foreign relations in 1965 and American support for Malaysia in Konfrontasi.

While 1965 in Indonesia is primarily known as the pinnacle of the domestic political conflict among President Sukarno, the army and the PKI, it was also the pinnacle of Indonesia's anti-imperialist foreign policy. We saw in Chapter Two that President Sukarno, who under Guided Democracy formulated and controlled Indonesia's foreign policy, initiated in 1960 a strongly anti-colonialist and anti-imperialist element to Indonesia's foreign relations. The primary feature of this approach was the identification

¹ Of the two non-American companies, the first was Shell Oil, which was taken over along with the other two major oil companies (both American companies, Stanvac and Caltex). The second non-American company was PT Filma, which originally was owned by the American company Proctor & Gamble but in late 1963 was sold to Indonesians acting via a Swiss company (see Chapter Three, Part I Section B3).

² Thereafter there was only one American company – Singer Sewing Company – with an operational presence in the country which was not under official government management or control, and its operations were quite small. As we shall see in the next Chapter, it was quickly taken over in May 1965.

of colonialism and especially imperialism as the principal evil and the root of all tensions in the world, as well as the notion that the world was divided into two camps, NEFOs ('newly emerging forces') and OLDEFOs ('old established forces'). As we saw in Chapter Four, the Konfrontasi conflict with Malaysia and the British was a major test case for these ideas, because the creation of Malaysia was seen as a means for the OLDEFO Great Britain to continue to involve itself in Southeast Asian affairs. In fact, Konfrontasi accelerated and intensified the anti-imperialist thrust of Indonesian foreign policy so that by 1965 it was by far the dominant feature of Indonesia's foreign affairs. Indeed, by 1965 Konfrontasi against Malaysia and the British had expanded into confrontation against all the imperialist and colonial powers of the world, and it led to Indonesia's withdrawal from the United Nations in January 1965 and relative diplomatic isolation. Perhaps the greatest symbol of this new orientation, however, at least in the minds of many observers, was the anti-imperialist alliance with the Peoples Republic of China that developed over late 1964 and 1965 and culminated in President Sukarno's famous proclamation in August 1965 of the Jakarta-Phnom Penh-Hanoi-Peking-Pyongyang axis.

In this world view, the United States was the greatest imperial power in the world, and the relationship between the USA and Indonesia declined accordingly. The outbreak of Konfrontasi ended the upward drift in US-Indonesian relations during the Kennedy administration, and over the course of 1964 US-Indonesian relations became increasingly strained, despite the efforts of US Ambassador to Indonesia Howard P. Jones. US support for Malaysia in Konfrontasi, as well as increasing US involvement in Vietnam, were also more immediate causes for the decline, at least from the Indonesian point of view. Certainly the domestic political situation also was a factor, as the apparent 'drift to the left' of Sukarno and Indonesian politics over late 1964 and 1965 also influenced Indonesia's foreign relations and caused the US to adopt new policies, including the fomenting of armed conflict between the PKI and the army in hopes that the army would prevail. The negativity of the diplomatic relationship spilled over into Indonesian daily life; from August 1964 through September 1965, there were repeated demonstrations and attacks, often led by the PKI youth front, on US installations in Indonesia, such as USIS (United States Information Service) libraries and even consulates. By March 1965,

relations had deteriorated so badly that US President Johnson sent Ellsworth Bunker to Indonesia to assess the state of the relationship and provide recommendations, which immediately led to the adoption of America's 'low posture' policy in the following months. The takeovers of American companies in the first part of 1965 clearly reflected this deteriorating relationship.

The course of the takeovers and the subsequent treatment of the American companies during this period also reflected to a large degree the economic importance of the respective companies.³ In an apparent slap to oil company exceptionalism, all three major foreign oil companies – Shell, Stanvac, and Caltex – were placed under GOI control and supervision, but in reality the GOI continued to let owner-appointed management run the companies and rarely interfered in management and operations, making control/supervision over the big three during this period for the most part nominal. The greatest pressure the GOI brought to bear on the oil companies was for the Indonesianization of top management.⁴ Following the three major oil companies, the next most important businesses to be taken over were the two large American rubber estate companies, Goodyear Plantations and United States Rubber, both generators of precious foreign exchange. After the takeover of these estates was announced, the GOI quickly appointed a management team that within a week displaced owner-appointed management and assumed control. However, in a few short weeks the Ministry of Estates indicated its willingness to enter into a form of production-sharing arrangement that featured a buy-out of the companies using the future produce of the estates as payment in kind, with owner-appointed representatives allowed to stay on in advisory and monitoring capacities and the foreign companies continuing to market the produce overseas. Again, the ability to generate foreign exchange revenues was a driving factor in this

³ The overall value of American companies in Indonesia at this time is extremely difficult to pinpoint, as estimates range from as high as \$500 million to as low as \$178 million. The US government, for example, estimated that the total value in 1965 was about \$500 million (see Memorandum of Conversation dated 22 January 1965, p. 215 in *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*); Lindblad estimates the total value as of 1959 was \$401 million (Lindblad, *Bridges to New Business*, p. 172); Gillespie argues that the value as of 1960 was \$178 million (see JL Gillespie, "Rhetoric and Reality: Corporate America's Perceptions of Southeast Asia, 1950-1961," *Business History Review* 68 (1994), p. 351).

⁴ As we saw in Chapter Three, there was a newcomer to the Indonesian oil scene in 1962, American-owned Pan American Oil, which in 1965 was still in the exploring stage and not producing any oil. It too was placed under nominal GOI supervision.

arrangement. The other American companies taken over were mostly in the manufacturing and services sectors and did not generate significant amounts of foreign exchange. In each case owner-appointed management was displaced fairly quickly by GOI-appointed managers (though in several cases there appeared to be some confusion and infighting within the GOI over what to do with the companies) and no compensation was offered. Of these, the two largest were the Goodyear Tire factory in Bogor, just outside Jakarta, which employed around 1200 people, followed by Union Carbide, whose battery factory in Jakarta employed some 300 people. It was probably the American film consortium, the Motion Picture Export Association of America, though, which had the biggest presence in Indonesia, as the films it imported were distributed and shown throughout the country. The other three companies, National Cash Register, American and Foreign Insurance Association, and Hawaiian Sumatra Plantations, had very small presences in Indonesia.

The GOI takeover of these companies was ostensibly triggered by labor union and worker activity, either in the form of an actual seizure/takeover or a threatened takeover. SOBSI, the PKI-controlled labor federation, and KBM, the labor federation of the PNI, were the two labor groups leading the takeovers.⁵ Of course, for the PKI, the SOBSI-led takeovers or attempted takeovers were another part of the political offensive begun in 1964 (see Chapter Five) that culminated in the great political conflict and cataclysm of 1965, and also were clear expressions of the PKI's view that the United States was Indonesia's – and the PKI's – greatest imperialist enemy. The KBM/PNI's motives for the takeover actions were less clear, however, though certainly its actions appeared nationalistic and supportive of Indonesia's foreign policy, in particular against US imperialism (including against US involvement in Vietnam) and pro-Konfrontasi. Moreover, as discussed in the next paragraph, at least some of the takeover actions by both SOBSI and KBM were supported (if not orchestrated) by President Sukarno. In the case of Goodyear Plantations and United States Rubber, great labor union and worker

⁵ KBM, short for *Kesatuan Buruh Marhaenis*, was the renamed DPP-KBKI, which as we saw in Chapter Two (Part I, section B3) was fighting the DPS-KBKI leadership for control over PNI's KBKI labor federation in 1962-63. By the end of 1963, the DPP-KBKI emerged victorious, and in 1964 the federation changed its name to KBM. The KBM grew quickly, and by 1965 had 1.6 million members, including some 500,000 from its affiliated plantation workers union (Rocamora, *Nationalism in Search of Ideology*, p. 357).

pressure, led by a group dominated by SOBSI and KBM, led directly to GOI intervention ostensibly intended to preempt labor union seizures. In the case of the big three oil companies, labor union takeover was not imminent, though there was certainly some pressure, with PKI-linked groups also leading the way; again, the GOI acted preemptively in taking over the oil companies. In both the case of the rubber companies and the oil companies, it appeared that the primary reason for GOI intervention, at least in the minds of some GOI officials, was to prevent the companies from falling under the control of the PKI (via its labor arm). In all other cases, there was an actual seizure of the company or its assets by labor or other groups, with SOBSI/PKI-linked and KBM-linked groups playing leading roles, which precipitated GOI assumption of control.

A key difference between the SOBSI-led seizures of British enterprises in January 1964 and the takeover or threat of takeovers by SOBSI and other groups of American companies in early 1965 was that the seizures of American companies had the support of President Sukarno. As discussed in the previous Chapter, the SOBSI-led attempts in January 1964 to seize British companies were actually a direct challenge by the PKI to President Sukarno over the direction of Konfrontasi, and hence the GOI initially acted somewhat hesitantly with respect to the British companies. In the case of the American takeovers in early 1965, it appears that President Sukarno himself decided to proceed with the takeovers of the American companies and instructed the labor unions to begin agitating. The US embassy in Jakarta reported that at an 8 December 1964 meeting including President Sukarno, Third Deputy Prime Minister Chaerul Saleh, Coordinating Minister for Agriculture and Agrarian Affairs Sadjarwo, Minister Chaerul Saleh's assistant Suryo Sediono, and possibly others, the President decided to proceed with the takeovers of American companies

at first occasion. Labor group heads were called in on following day and instructions were despatched [sic] Dec 10 to labor groups [to] begin agitations which will create atmosphere for 'protective' takeover by GOI along lines Dutch and British assets takeover pattern. Slogans to be used are US intervention in Congo and US support for Malaysia.⁶

⁶ US Embassy telegram (Jones) dated 14 December 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

It was not specified which labor leaders and groups received instructions. In an effort to confirm the foregoing, an official from the US Embassy met with Minister Chaerul Saleh's assistant Sediono, who was the original source for this information; Sediono would only indicate that the specific target was the Goodyear estates in Sumatra, that the takeover could not be stopped, and that the oil companies were safe because they operated under the CoWs.⁷ No decree was ever issued publicly confirming this decision, though it is quite possible that there may have been some internal GOI decree or instruction, and it is unknown to whom the decision was transmitted. Moreover, as we shall see in this Chapter, despite the direct involvement of President Sukarno in the takeovers of both the rubber estates and the oil companies, the GOI seizure of the companies was far from smooth or coordinated and there were still clearly divisions within the GOI about the takeovers, such as the protection by the army and police in North Sumatra that prevented the physical takeover of the American estates by demonstrators. In any case, even in the context of different opinions and interests within the government, with the authority of President Sukarno behind the takeovers it is clear in retrospect that the American companies were in for a very difficult time, and perhaps the only real uncertainty was how GOI control would be established and implemented.

One interesting feature of the takeovers of 1965 was the refinement of the GOI's position on whether its actions constituted nationalization or expropriation. As we saw in previous Chapters, in order to evade the customary practice of paying compensation for nationalizations or expropriations, the GOI carefully avoided the use of these terms, using instead words like 'control' or 'supervision' or 'management' to describe its actions. The refinement the GOI added in 1965 was a clear statement in almost every decree issued that the ownership rights of the foreign owners would not be affected by the GOI's assumption of control/supervision/management of the firms. As the US embassy in Jakarta pointed out numerous times, it was an attempt to separate ownership itself from the various attributes of ownership such as control and management. In effect, the GOI was arguing that even though the foreign owners no longer controlled or managed their

⁷ US Embassy telegram (Jones) dated 14 December 1964 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3). Mr. Sediono confirmed in 2006 that this December 1964 meeting with President Sukarno and other officials regarding the takeovers of US companies took place. (Interview with Suryo Sediono 15 July 2006)

companies, the owners still owned the companies, and thus there could not be any claims of nationalization because there had been no change in ownership.⁸ In fact, the GOI takeovers of the American companies, like the GOI takeovers of British and Malaysian companies, undoubtedly constituted confiscations, with the very important exception of the big three oil companies. The argument separating management and control from ownership is patently false; management and control are obviously the greatest single attributes of ownership and are quite inseparable, particularly in the business world. As the British embassy often described the predicament of the British companies, the situation was akin to having no authority or responsibility but suffering all the consequences. As I shall show in this Chapter, with the exception of the big three oil companies, the GOI swiftly took over management control of the companies or their assets, leaving the owners and their appointed managers with no say whatsoever in the running of the business, such that the owners clearly lost control of the company to the fullest extent possible.

This Chapter is divided into five Parts. Part I analyzes Indonesian foreign policy generally from late 1964 to 1965, with a particular emphasis on the US-Indonesian relationship. I then shift to an analysis of the takeovers of American companies as they occurred chronologically. Part II describes the takeovers of the Goodyear and US Rubber estates, and as there is a comparatively rich amount of source material these two will be the primary case study for the American takeovers of 1965. Part III analyzes the takeovers of the oil companies, which because of their importance merit close examination. As we shall see, the GOI decision to assume control over the two estate companies and the big three oil companies reached the highest levels within the GOI. Part IV then examines the takeovers of the other American companies, and is followed by a brief conclusion in Part V.

⁸ This appeared to be a novel approach internationally in arguments over nationalizations. This line reached a rather absurd climax in 1967 when then Finance Minister Frans Seda told a shocked British Foreign Minister Brown that that the British should pay the GOI for managing the British estates for several years and keeping them safe from the PKI! (Interviews with Frans Seda, 10 February 2006 and 10 October 2006) Indeed, the GOI clung to this line of ‘no nationalizations’ even as the companies were returned in 1967-68; the GOI continued to eschew the use of ‘nationalization,’ ‘expropriation’ and the like and instead insisted on using terms such as ‘return of management.’

I. 1965: the Pinnacle of Indonesia's Anti-Imperialist Foreign Policy.

The year 1965 was the pinnacle of President Sukarno's anti-imperialist foreign policy. This policy identified imperialism, colonialism, and NEKOLIM (an acronym for neo-colonialism, colonialism and imperialism) as the primary evil in the world, and it divided the nations of world into the two camps of NEFOs and OLDEFOs. President Sukarno, who controlled Indonesia's foreign policy under Guided Democracy, initiated elements of this policy as early as 1960, and the conflict with the Dutch over West Irian in 1961-62 and most especially Konfrontasi with Malaysia and Great Britain cemented this policy as the dominant element of Indonesian foreign policy. In effect, by 1965 Konfrontasi against Malaysia and the British had expanded into confrontation against all the imperialist and colonial powers of the world, leading to Indonesia's relative diplomatic isolation, withdrawal from the United Nations in January 1965, and the anti-imperialist alliance with the Peoples Republic of China that reached a zenith with President Sukarno's declaration in August 1965 of the Jakarta-Phnom Penh-Hanoi-Peking-Pyongyang axis. The United States was identified as the greatest imperial power in the world under this policy, and the relationship between the USA and Indonesia consequently declined, aggravated primarily by US support for Malaysia and to a lesser extent by increasing US involvement in Vietnam. Like other aspects of Indonesian foreign policy, this deteriorating relationship spilled over into and became intertwined with Indonesian domestic politics, particularly in the form of demonstrations and assaults against US facilities and, of course, the takeover of US companies. Relations reached such a low point that the US government dispatched presidential emissary Ellsworth Bunker to Indonesia in April 1965 to assess the relationship, and following the recommendations of Bunker and others the US adopted a 'low posture' policy.

A. Foreign Policy Generally, late 1964-65.

Both ideologically and practically, the major impetus for the ascension of anti-imperialism as the dominant thrust of Indonesia's foreign relations from the second half of 1964 through September 1965 was Konfrontasi against Malaysia and the British;

ideologically because Konfrontasi appeared to confirm for President Sukarno the centrality of the NEFO-OLDEFO conflict in the world, and practically because it had the effect of leaving Indonesia increasingly isolated from the rest of the world, as most nations, with the exception of the Peoples Republic of China and a few countries within its orbit, were unwilling to follow Indonesia's increasingly militant stance. Konfrontasi intensified the anti-imperialist thrust of Indonesian foreign policy so that, as one observer noted, it was "metaphysically transformed" into "a grander confrontation of the entire imperialist world in 1965."⁹ This policy led to Indonesia's leaving the United Nations in early January 1965 and a failed attempt to build a rival CONEFO (Conference of Newly Emerging Forces), Indonesia's increasing isolation from the countries of the non-aligned movement (which in theory included Indonesia's staunchest allies), the anti-imperialist alliance with the PRC, and of course the deteriorating relationship with the United States.

This anti-imperialist thrust of Indonesian foreign policy appears to have accelerated particularly after the ill-fated Indonesian incursions onto the Malayan peninsula in August and early September 1964, which as we saw in the previous Chapter was the most dangerous phase militarily of Konfrontasi. As a result of these incursions, Malaysia took the matter before the United Nations Security Council, which, had it not been for a last minute Soviet veto, would have clearly and overwhelmingly found against Indonesia by a nine to two vote (with Taiwan, Bolivia, Brazil, the Ivory Coast and Morocco, all 'non-western' and 'underdeveloped' nations, voting against Indonesia). Soon after this UN vote, President Sukarno went on an extended overseas trip from 17 September to 5 November, where one of his major stops was the Second Conference of the Non-Aligned Movement in Cairo from 5-10 October.¹⁰ Undeterred by Indonesia's

⁹ Mackie, *Konfrontasi*, p. 276; see also Bunnell, "Guided Democracy Foreign Policy 1960-1965," pp. 45-6, noting that by 1965 Indonesia developed a policy of "full 'confrontation' against imperialism and colonialism."

¹⁰ The first conference was the Belgrade conference in September 1961. There was a confusing but intriguing interplay of politics in the early 1960s among members of the non-US and non-USSR blocks that resulted in at least two interconnected strands of alliances. The first was the non-aligned movement generally, many members of which viewed the USA-USSR conflict as the most dangerous conflict in the world and sought non-alignment and peaceful coexistence as the best way to deal with this. As noted, this view was challenged by President Sukarno's emphasis on imperialism as the world's central conflict and the NEFO/OLDEFO division. Indeed, Indonesia, with the support of the PRC, organized and held the moderately successful Games of the Newly Emerging Forces (GANEFO) in November 1963 in Jakarta as an alternative to the Olympic games, after Indonesia was suspended by the Olympic committee for refusing to invite Israel and Taiwan to the Asian games in Jakarta in 1962. (See Agung, *Twenty Years Indonesian*

lack of support at the UN vote a few weeks earlier, Sukarno unsuccessfully tried to enlist the endorsement and support of the 47 nation meeting for Indonesia's struggle against Malaysia. Moreover, the meeting only accentuated the split in the non-aligned movement between the larger group (led by India) which favored peaceful coexistence and non-alignment between the American and Soviet blocks and identified the American/Soviet conflict as the pre-eminent one in the world, and a smaller block (led by Sukarno) that favored a more militant anti-imperialist approach.¹¹

President Sukarno's speech at the Cairo conference, entitled 'The Era of Confrontation,' emphasized the continuing conflict between the NEFOs and OLDEFOs and neatly framed most of the elements of Indonesia's anti-imperialist policy for the next year.¹² In the speech, President Sukarno insisted that the old order forces, including colonialism and imperialism, were still powerful and "their influence still extends throughout the world." Political independence alone was not enough, but the new countries should also "build social justice, develop welfare and work for the prosperity of the country." Moreover, "being faced by the pressures and interferences of those old powers, even after independence, our further development is dependent upon our strength to combat those forces of domination. Even after independence we have to face those forces, and we have to conquer them." Hinting at what would later be enunciated as the BERDIKARI (self-reliance) policy, he noted that "if our independence is to be real, we must rely on ourselves, we must consolidate our resistance to the forces of the old powers of domination through solidarity amongst all who seek to eradicate those forces and to build a new world." Peaceful coexistence between the USA and USSR was not the biggest problem in the world, he asserted; instead, the more "complicated and urgent

Foreign Policy, pp. 433-5.) The second overlapping strand was the Afro-Asian movement, the first and only meeting of which was the Bandung Conference of 1955 hosted by Indonesia. Indeed Agung and Hauswedell both note that Indonesia and the PRC beginning in late 1963 were trying to drum up support for a second Afro-Asian meeting in 1964, but were initially foiled by the moderate group of non-aligned nations (led by India, Egypt and others) who successfully countered with the Second Non-Aligned Conference in Cairo – only after the Cairo conference was held was agreement reached to hold a second Afro-Asian conference (which actually was never held). (Agung, *Twenty Years Indonesian Foreign Policy*, pp. 343-7, 519-31; Hauswedell, *The Anti-Imperialist United Front*, p. 342.)

¹¹ Agung, *Twenty Years Indonesian Foreign Policy*, pp. 347-52; Leifer, *Indonesia's Foreign Policy*, p. 102; Hauswedell, *The Anti-Imperialist United Front*, pp. 341-44.

¹² For a copy of the speech, see Sukarno, "The Era of Confrontation (Address by President Sukarno to the Second Conference of Non-Aligned Countries, Cairo, 6 October 1964)," (Department of Information, Republic of Indonesia, 1964). Cited portions from pp. 11-12, 15, and 19-20.

matter” was the “serious problem of peaceful coexistence between the old forces of domination and the new developing nations,” citing in particular the big powers’ military bases and economic power. “We must understand that economic development will bring benefits to our people only when we have torn up by their roots all the institutions, all the links that make us subservient in any way, in any fashion, to the old order of domination.”

Indonesia’s failure at the Cairo conference to garner support for Konfrontasi and establish anti-imperialism as predominant over ‘peaceful coexistence’ did not detract from further efforts to win over members of the Afro-Asian movement over the first six months of 1965. Indeed, preparations for the second Afro-Asian conference, scheduled for June 1965 in Algiers, “absorbed an extraordinary amount of Indonesian diplomatic energy and attention in the first half of 1965,” and no less than three separate meetings were held in Indonesia in March-April to prepare for the conference and celebrate the 10th anniversary of the first meeting in 1955 in Bandung.¹³ A primary objective of Sukarno was to exclude Malaysia from the Afro-Asian movement, but this sticky question “became entangled with that of Russia’s inclusion in the conference,” which was opposed by the PRC, and despite much diplomatic maneuvering the questions remained unresolved right up to the eve of the conference and threatened a very open split in the movement.¹⁴ There were also other issues dividing the members, including the question of whether to adopt the strongly anti-imperialist line advocated by Indonesia and the PRC, or the alternative ‘peaceful coexistence’ line advocated by India and others, as well as concern that CONEFO might be forced on some members.¹⁵ However, the movement was spared resolution of these issues because of the overthrow of the host Algerian government on 19 June, just a few days before the conference was to begin, which forced the initial postponement of the conference until November, and ultimately the conference was never held.

¹³ Mackie, *Konfrontasi*, pp. 289-91, quote from p. 289.

¹⁴ Bunnell, “Guided Democracy Foreign Policy 1960-1965,” pp. 69-71; Mackie, *Konfrontasi*, p. 290. See also Agung, *Twenty Years Indonesian Foreign Policy*, pp. 528-36.

¹⁵ For details see Agung, cited in the previous footnote, and Hauswedell, *The Anti-Imperialist United Front*, pp. 344-61.

Another important development in Indonesian foreign policy from late 1964 through September 1965 was the emergence of the anti-imperialist alliance with the Peoples Republic of China. Indonesia's escalation of Konfrontasi in late August and early September 1964, its failure at the UN, and President Sukarno's subsequent failure to gain the support of the non-aligned countries for Konfrontasi at the Cairo Conference all contributed to the alliance with the PRC that had been germinating for the past year but coalesced in late 1964.¹⁶ The PRC since the mid-1950s had pursued a broadly anti-imperialist united front approach in its foreign policy that was aimed primarily against the involvement of western nations in Asia,¹⁷ and it had also attempted to develop closer relations with Indonesia that for a variety of reasons were unsuccessful. However, aided by Konfrontasi's cementing of anti-imperialism as the focus of Indonesian foreign relations, both countries' foreign policies were now aligned in an anti-imperialist front that (using different terminology) identified imperialism and the NEFO/OLDEFO conflict as the primary conflict of the world, so that in 1965 each became the other's major foreign ally.¹⁸ As one observer noted, "the developing convergence of Chinese and Indonesian foreign policy aims and interests led to a tacit power alliance that seemed to obscure the conflicts underlying their relationship."¹⁹ This anti-imperialist alliance operated primarily in the three main arenas of Southeast Asia (in which Konfrontasi and the Vietnam war were both hot spots), the Afro-Asian world (see above), and in challenging "the superpower dominated system."²⁰

There were also a number of practical reasons for the alliance beyond its ideological foundation of anti-imperialism. From the Chinese perspective, the alliance was critical because of the Sino-Soviet split, which was heavily exacerbated by the 1963 USA-USSR test ban treaty and which left the PRC searching for allies opposed to both superpowers.²¹ (Not coincidentally, this mirrored the USSR-Indonesia relationship, which began to decline swiftly in 1963 due to a combination of factors, including the

¹⁶ Bunnell, "Guided Democracy Foreign Policy 1960-1965," p. 65. On the Indonesian-PRC relationship during this period, two excellent works are Mozingo's *Chinese Policy Toward Indonesia* and Hauswedell, *The Anti-Imperialist United Front*. See also Agung, *Twenty Years Indonesian Foreign Policy*, chapter 15.

¹⁷ Mozingo, *Chinese Policy Toward Indonesia*, chapter three.

¹⁸ Hauswedell, *The Anti-Imperialist United Front*, pp. 213, 234.

¹⁹ Mozingo, *Chinese Policy Toward Indonesia*, p. 192.

²⁰ Hauswedell, *The Anti-Imperialist United Front*, pp. 242-4.

²¹ Mozingo, *Chinese Policy Toward Indonesia*, pp. 205-6.

outbreak of Konfrontasi (which Moscow did not favor), Indonesia's delay in making payments on the huge loans taken from Moscow from 1956 to the early 1960s, Indonesia's lack of support for Moscow's attempt to participate in Afro-Asian meetings, and the growth of the Indonesian-Sino alliance.²²) Moreover, the PRC also viewed Malaysia as proof of "the imperialists' intention to establish a chain of anticommunist regimes in Southeast Asia and thus a sufficient reason for Peking to join forces with any power opposed to the federation. The formation of Malaysia thus intensified China's determination to pursue a militant anti-imperialist strategy in the region."²³ From the Indonesian perspective, the PRC filled the vacuum created by Indonesia's international isolation (itself largely the result of Konfrontasi). In addition, President Sukarno may have also been trying to take advantage of great power politics; the American CIA reported that on 8 January 1965 the President in a meeting with right wing political leaders claimed he was bringing

Indonesia closer to communist China for one important reason: he expected communist China and the United States to be at war within a few years, either through American escalation of the Vietnam war or through a direct American attack on communist China...the United States will be so worried about Indonesian support of China, should a war break out, that it will go to any lengths to bring Indonesia back to the neutral camp. Sukarno said he believes that the United States will even turn its back on Malaysia and withdraw support to that country in return for an Indonesian commitment to pull away from communist China.²⁴

Finally, the decline in foreign aid to Indonesia after 1963 from the United States and other western countries and the Soviet block, combined with the possibility of PRC aid, may also have been a practical consideration from the Indonesian perspective.²⁵

²² Leifer, *Indonesia's Foreign Policy*, p. 93; see also Weinstein, *Dilemma of Dependence*, p. 297.

²³ Mozingo, *Chinese Policy Toward Indonesia*, pp. 192-3.

²⁴ CIA Intelligence Information Cable dated 13 January 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64-2/65, Box 246), p. 3. Similarly, the CIA a few months later reported that Sukarno believed that the gradual worsening of US-Indonesian relations, combined with the PRC-Indonesian alliance, would "induce the US to step in on the side of Indonesia in its confrontation against Malaysia," and that "facing the prospect of an all-out war with China over Vietnam, the Americans will find it necessary to repair their relations with Indonesia," the price of which would be US support for Indonesia against Malaysia (CIA Intelligence Information Cable dated 4 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume IV, 3/65-9/65, Box 247), p. 2.).

²⁵ Mackie, *Konfrontasi*, pp. 285-6.

Late 1964 was the pivotal time in the development of the Sino-Indonesian relationship. On 4 November, at the tail end of his world tour from 17 September to 5 November, President Sukarno met in Shanghai with Chinese premier Zhou En-Lai, after which the PRC-Indonesian alliance seemed to grow visibly. This secretive visit was followed a few weeks later by the visit of PRC foreign minister Chen Yi to Jakarta from 27 November to 3 December, during which Chen Yi offered a \$50 million credit to Indonesia for economic development. The press release issued at the end of this visit “revealed an unprecedented degree of agreement between Djakarta and Peking on a wide range of global regional issues,” including PRC support for Indonesia in Konfrontasi and the common struggle against imperialism and colonialism.²⁶ The alliance was cemented in late January 1965 by the visit of Indonesian First Deputy Prime Minister and Foreign Minister Subandrio, who led the largest delegation of high ranking GOI officials (42 in all) to visit the PRC during this period. The 28 January joint statement issued in conjunction with Subandrio’s visit “announced mutual agreement on virtually every major international question,” including targeting the United States as the leader of imperialism in Asia and other parts of the world, full support for Konfrontasi, and expansion of technical cooperation, trade and military contacts.²⁷ Though the relationship was certainly not without problems, over the next eight months it continued to grow and found primary expression in a flurry of personnel exchanges between the two countries and mutual support in the diplomatic arena.²⁸ The relationship culminated with President Sukarno’s declaration in his annual 17 August independence day speech of 1965 of the formation of the anti-imperialist axis of Jakarta-Pnom Penh–Hanoi-Peking-Pyongyang.²⁹ However, this axis, while it generated great publicity (and alarm among some), never

²⁶ Mozingo, *Chinese Policy Toward Indonesia*, pp. 208-9; see also Agung, *Twenty Years Indonesian Foreign Policy*, pp. 438-9. Mozingo notes that it was also in November when the PRC turned over the assets of Bank of China to the GOI in a transaction agreed to in March 1964. This bank was widely believed to be the PRC’s “main source of leverage on the Chinese business community in Indonesia and as the ever ready provider of funds for the PKI.” (Mozingo, p. 209)

²⁷ Mozingo, *Chinese Policy Toward Indonesia*, pp. 211-2.

²⁸ For details, see Hauswedell, *The Anti-Imperialist United Front*, chapters six, seven and eight. The PRC, moreover, was strongly supportive of the arming of a ‘fifth force’ of peasants and workers in Indonesia to counter the army. See Agung, *Twenty Years Indonesian Foreign Policy*, pp. 441-2, and Chapter Seven.

²⁹ See p. 16 of the English language version of the speech, Sukarno, “Reach to the Stars! A Year of Self-Reliance: Address by President of the Republic of Indonesia 17 August 1965,” (Department of Information, Republic of Indonesia, 1965).

materialized and in fact seems not to have been supported by its other members, and hence its primary impact was symbolic rather than substantive.³⁰

The development of the Indonesian–PRC anti-imperialist alliance paralleled the growth of the PKI-PRC relationship. Prior to 1963, the PKI actively tried to navigate a middle course between the two major communist powers and pursue its own independent path, though it often tilted slightly towards the Soviet line.³¹ In 1962, the PKI began to tilt toward the PRC side for a variety of reasons, including PKI wariness of Moscow's attempts to limit the independence of communist parties around the world, the Chinese emphasis on the anti-imperialist struggle (as opposed to the Soviet emphasis on peaceful coexistence), which the PKI increasingly favored ideologically in part as it brought the party closer to President Sukarno, and internal party dynamics.³² In the summer of 1963, just as the Sino-Soviet split became evident and both sides were trying to bring other communist parties into their respective camps, PKI chairman Aidit went on an extended world tour that included visits to both the Soviet Union and the PRC. Upon his return to Indonesia, it was clear that Aidit had decided in favor of the Chinese side, a tilt that was officially confirmed at the party's late December 1963 central committee meeting, which as we saw in Chapter Five was the same meeting at which the PKI decided to launch its political offensive in 1964 (see Chapter Five, Part I, Section A).³³ Over the course of 1964-65, the PKI's displeasure with Moscow and its alignment with the PRC were increasingly evident. Moreover, while the PKI clearly retained its independence from the PRC and was hardly an 'agent' of the Chinese as some critics charged, "the PKI's ideology in the final years of Guided Democracy showed a marked increase in borrowing from Chinese communism," so that in many areas there appeared to be a close ideological relationship.³⁴

Another event that exemplified Indonesia's increasingly hard anti-imperialist line was President Sukarno's sudden decision to leave the United Nations in early January 1965. This decision "caught most if not all of the Indonesian leadership by surprise," and

³⁰ Hauswedell, *The Anti-Imperialist United Front*, pp. 273-88.

³¹ See generally Mortimer, *Indonesian Communism under Sukarno*, chapter eight.

³² Mortimer, *Indonesian Communism under Sukarno*, pp. 345-51.

³³ Mortimer, *Indonesian Communism under Sukarno*, pp. 353-7; Mozingo, *Chinese Policy Toward Indonesia*, pp. 217-20.

³⁴ Hauswedell, *The Anti-Imperialist United Front*, pp. 449-57; quote from p. 452.

“appalled members of the Indonesian Foreign Office, the diplomatic community, foreign governments, and influential segments of the Indonesian public.”³⁵ The main reason for the decision was Malaysia’s joining the UN Security Council at the beginning of 1965 for a one year term, a decision actually announced months earlier, but as the date neared President Sukarno evidently became increasingly infuriated. On 31 December, Sukarno in a speech announced that Indonesia would leave the UN if indeed Malaysia took up its new position, and after this threat failed to halt Malaysia’s accession to the Council the President a week later in a speech on 7 January declared that Indonesia was in fact leaving the UN and its sister organizations.³⁶ Around the same time, President Sukarno began to lobby strongly for the establishment of a body to rival the UN known as CONEFO (an acronym for ‘Conference of Newly Emerging Forces’), which would be headquartered in Jakarta and as the name suggests would consist of all countries of the newly emerging forces allied against imperialism. With substantial PRC financial and technical support, Indonesia in April 1965 began building a facility to house such a body.³⁷ However, despite the elevation of the concept to a featured plank of Indonesia’s foreign policy for much of 1965, CONEFO never materialized, and when the building was finished it became the home of Indonesia’s parliament. Indeed, the primary impact of the Indonesian withdrawal from the UN was only to increase Indonesia’s isolation and strengthen the alliance with the PRC as Indonesia’s primary foreign ally.³⁸ Indonesia

³⁵ Jones, *Indonesia: The Possible Dream*, p. 359. See also Hauswedell, *The Anti-Imperialist United Front*, pp. 372-3.

³⁶ For excerpts from these two speeches, see pp. 30-33 of “Indonesia Leaves the United Nations,” (PN Perdana, Jakarta Executive Command, 10th Anniversary of First Asia Africa Conference, 1965). The withdrawal from the UN and its sister organizations became official on 20 January when Foreign Minister Subandrio delivered an official notification to the UN in the form of a letter, a copy of which can be found on pp. 33-37. Among other factors, the letter cited the influence of the neo-colonial powers and the “absurd colonial manoeuvre” of Malaysia’s accession to the UN Security Council as reasons for Indonesia’s withdrawal.

³⁷ Hauswedell, *The Anti-Imperialist United Front*, pp. 379-81; see also Agung, *Twenty Years Indonesian Foreign Policy*, pp. 534-5. Hauswedell notes that Sukarno had suggested the idea of CONEFO as early as 1963, but it was only after Indonesia withdrew from the UN that it really began to push the idea.

³⁸ Agung, *Twenty Years Indonesian Foreign Policy*, p. 439; Mozingo, *Chinese Policy Toward Indonesia*, p. 210. Some commentators have suggested that the alliance with the PRC was a major factor in Sukarno’s decision to leave the UN (see, e.g., Sullivan, *The United States and the New Order*, p. 114); Hauswedell, however, argues that the decision to leave the UN was also a surprise to the PRC, which despite public statements did not wholeheartedly support the decision because it conflicted with the PRC’s own strategy toward the UN. (Hauswedell, *The Anti-Imperialist United Front*, pp. 373-78.) In any case, it seems fairly clear that one result of Indonesia’s withdrawal was the strengthening of the bilateral Sino-Indonesian relationship.

completed its withdrawal from ‘imperialist’ international organizations on 17 August 1965 when it withdrew from the World Bank and IMF.³⁹

The decision to leave the UN was also couched in the language of self-reliance or BERDIKARI, a concept that assumed primary importance in Indonesian economic policy in 1965 and also acquired increasing traction as an explanation for Indonesia’s international posture over the same period.⁴⁰ We shall explore the importance of BERDIKARI in depth in the next Chapter, and so at this point I only touch on it as it related to Indonesia’s foreign policy. The idea that Indonesia would have to stand alone and rely on herself in international affairs naturally fed off the practical reality of Indonesia’s increasing isolation in the world community as it promoted stringent anti-imperialism and withdrew from the UN. As we saw above, President Sukarno had hinted at the importance of self-reliance in foreign relations in his speech at the Cairo conference in October 1964, suggesting that “if our independence is to be real, we must rely on ourselves,” and that “economic development will bring benefits to our people only when we have torn up by their roots all the institutions, all the links that make us subservient in any way, in any fashion, to the old order of domination.” In his speech on 31 December announcing that Indonesia was prepared to leave the UN, Sukarno explicitly linked the possibility to BERDIKARI, noting that although many newly-independent nations considered that the pinnacle of independence was membership in the UN, in fact “the crowning of independence is not membership in the United Nations...The crowning of independence is to be able to stand on your own two feet...As an independent nation we must be able to stand on our own two feet.”⁴¹ Moreover, the President’s 7 January speech declaring Indonesia was withdrawing from the UN was entitled ‘The Crown of Independence is not Membership of the UN but Standing on One’s Own Feet.’⁴² Over the course of 1965 President Sukarno continued to develop this theme of self-reliance as an antidote to the poisonous influence of imperialism such that

³⁹ See p. 116 of Bank Indonesia’s *Report for the Years 1960-65*.

⁴⁰ BERDIKARI is an acronym for *berdiri di atas kaki sendiri*, or ‘standing on your own feet.’ See Chapter Seven, Part I.

⁴¹ *Indonesia Leaves the United Nations*, pp. 30-1.

⁴² ‘Mahkota Kemerdekaan Bukan Keanggautaan PBB, tetapi Berdiri diatas Kaki Sendiri.’ Mackie, *Konfrontasi*, p. 305 note 11.

“the doctrine of self reliance was characterized as the highest realization, the ‘summit,’ of an independent foreign policy.”⁴³

B. Deterioration of Relations with the United States, 1964-65.

The United States was targeted as the greatest imperial power in the world under Indonesia’s strongly anti-imperialist foreign policy, and the relationship between the USA and Indonesia declined and reached a nadir in 1965. Within the broad rubric of Indonesia’s anti-imperialist foreign policy, United States support for Malaysia in Konfrontasi, made evident in late July 1964 when Malaysian Prime Minister Tunku Abdul Rahman met in Washington with US President Johnson, was perhaps the most important factor in the deterioration of the relationship. Increasing US involvement in Vietnam over 1964-65 also symbolized US imperialism, particularly in Southeast Asia, adding further fuel to Indonesia’s anti-US rhetoric, though it never “became a matter of pressing national concern for most Indonesian leaders.”⁴⁴ The United States government, in turn, was dismayed by Indonesia’s apparent ‘turn to the left’ in 1964-65, both internationally with the pinnacle of the anti-imperialist foreign policy, and domestically as the PKI went on the political offensive and seemed to gain public support and President Sukarno increasingly seemed to favor it (see Chapter Five, Part I, Section A, and Chapter Seven, Part III, Section A). The declining relationship suited the PKI, which had for a number of years identified the United States as its principal enemy. Similar to other events and trends in foreign policy, this deteriorating bilateral relationship became intertwined with Indonesian domestic politics and manifested itself in the form of very public and visible demonstrations against and seizures of US facilities and the takeover of US companies. The declining state of bilateral relations eventually resulted in President Johnson dispatching Ellsworth Bunker to Indonesia in the first two weeks of April to assess the situation, and Bunker’s recommendations paved the way for the adoption of what was termed a ‘low posture’ policy.

The outbreak of Konfrontasi in September 1963, combined with the assassination of US President Kennedy that November, left US policy towards Indonesia in tatters, and

⁴³ Weinstein, *Dilemma of Dependence*, p. 166.

⁴⁴ Weinstein, *Dilemma of Dependence*, p. 130.

over the next three to four years the United States seemed unable to regain its footing in the relationship.⁴⁵ We saw in Chapter Five that the US initially attempted to remain neutral and mediate in the Konfrontasi dispute with the Robert Kennedy mission in January 1964, but after this the US played an insignificant role in resolution of the conflict. Moreover, the US increasingly seemed to favor the Malaysian side, as the policy of accommodation of Sukarno and Indonesia favored by US Ambassador Howard Jones slowly gave way to a more-hard-line approach. In late March 1964 US Secretary of State Dean Rusk, testifying before the US Congress on the possibility of further US aid to Indonesia, noted that resolution of Konfrontasi would be of paramount importance. This remark was covered widely in the Indonesian press, and the next day in Jakarta at a building dedication attended by US Ambassador Jones, President Sukarno declared that Indonesia would never accept aid with political strings attached, and if so offered would tell them to – using English – “Go to hell with your aid.” This outburst, apparently directed at Ambassador Jones and the United States, predictably drew much press coverage and criticism back in the US.⁴⁶ Perhaps more substantively important were developments in early May 1964. As we saw in the previous Chapter (Part I, Section B), on 3 May in a highly publicized speech President Sukarno announced the Dwikora, the two people’s commands, to supposedly 21 million volunteers registered to fight, in what seemed to be an escalation of Konfrontasi. Apparently reacting to this, in a 5 May speech new US Assistant Secretary of State for Far Eastern Affairs William Bundy stated that the US would be forced to eliminate entirely remaining aid programs if Indonesia expanded Konfrontasi to the point where it could be characterized as aggression. Bundy’s comments “caused a stir,” and a few days later at a two hour meeting among US Ambassador Jones, President Sukarno and Minister Subandrio, Subandrio said that bilateral relations were “approaching an all time low” and that “Indonesia would have to react strongly to Bundy’s statement and suggested that it might be in the interest of both parties for his government to announce that it would no longer accept any American assistance.” Both Sukarno and Subandrio had apparently concluded that Bundy’s

⁴⁵ See generally Bunnell, *Kennedy Initiatives*, Parts III, IV and Epilogue, and Simpson, *Economists with Guns*, chapter four.

⁴⁶ See Jones, *Indonesia: The Possible Dream*, p. 321; Simpson, *Economists with Guns*, pp. 131-2; and Sullivan, *The United States and the New Order*, pp. 74-81.

statement signaled “a major change of direction in US policy.”⁴⁷ Moreover, the public nature of the comments bothered both Subandrio and Sukarno as much as their content, and Subandrio suggested that the GOI was being repeatedly embarrassed by statements of US officials. Subandrio also used the occasion to blame the US for Indonesia’s economic problems by failing “to fulfill its promises regarding balance-of-payments assistance,” a charge that Ambassador Jones quickly attacked, saying Indonesia had done that herself by imposing an economic blockade against Malaysia. Jones believed this episode may have been the first time President Sukarno received “an accurate picture of what happened.”⁴⁸ Perhaps not coincidentally, around the same time the campaign against American films commenced (see Part IV, Section C).

The pivotal point of the bilateral relationship, however, came in late July-August 1964, when during Malaysian Prime Minister Tunku Abdul Rahman’s visit to Washington the United States clearly sided with Malaysia in Konfrontasi, a decision that triggered a vitriolic Indonesian response over the next month.⁴⁹ As one historian has noted, the “White House’s decision to invite the Tunku to visit Washington in July confirmed the slow but steady ascent of the hard-liner current and ratified an important shift in US policy toward Malaysia.”⁵⁰ After several days of meetings between US President Johnson and the Tunku, a joint communiqué was issued on 23 July that said the US president “agreed to provide military training in the United States for Malaysian personnel, and to consider promptly and sympathetically credit sales under existing arrangements, of appropriate military equipment for the defense of Malaysia.”⁵¹ In addition, the communiqué also “reaffirmed the support of the United States for a free and independent Malaysia.”⁵² Certainly from the Indonesian perspective, the message that the US government now openly sided with Malaysia was abundantly clear.⁵³ On 10

⁴⁷ Jones telegram dated 9 May 1964 in *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*, p. 98. This telegram contains an extended description of the meeting.

⁴⁸ *Indonesia: The Possible Dream*, pp. 303-4.

⁴⁹ For US Ambassador Jones, this watershed period was when “the boom was lowered” (Jones, *Indonesia: The Possible Dream*, p. 342). See generally Jones, *Indonesia: The Possible Dream*, pp. 342-49; Foo, *The US and the Indonesia-Malaysia Dispute*, pp. 187-203; Simpson, *Economists with Guns*, pp. 133-6.

⁵⁰ Simpson, *Economists with Guns*, p. 133.

⁵¹ Cited in Foo, *The US and the Indonesia-Malaysia Dispute*, p. 191.

⁵² Cited in Jones, *Indonesia: the Possible Dream*, p. 342.

⁵³ Jones, *Indonesia: The Possible Dream*, pp. 345, 347-8.

August, just a few days after the passage of the Gulf of Tonkin resolution by the US congress cleared the way for greater US involvement in Vietnam, the GOI established diplomatic relations with North Vietnam.⁵⁴ On 15 August, the USIS library in Yogyakarta was seized and ransacked by a mob of several thousand. Then, in his 1964 independence day address on 17 August entitled *Tahun Vivere Pericoloso* or ‘The Year of Living Dangerously,’ President Sukarno, among other things, scathingly attacked the United States, in particular the Johnson-Tunku communiqué, declaring it “full of hostile words against Indonesia,” and “really too much...it really exceeds all bounds.”⁵⁵ In one US government analysis, the speech explicitly confirmed Sukarno’s

accelerated swing to the left during the past 18 months. It charts a course – both international and domestic – which is close to the immediate objectives of the Indonesian Communist Party. The speech precludes any real relaxation of the intensified anti-Americanism in Indonesia of the past few months. Although the anti-American campaign may ebb and flow to suit the purposes of Sukarno or the Communist Party, the long range intent will remain unchanged: get the US out of Southeast Asia.⁵⁶

Moreover, as we saw in Chapter Five, the speech was accompanied by an escalation of Konfrontasi in the form of attacks on the Malaysian peninsula.

The US-Indonesia relationship deteriorated steadily after this point, and from December 1964 through April 1965 entered a period of increasing frenzy and hostility marked by increasingly harsh anti-imperialist rhetoric, the seizure of US companies, and repeated demonstrations and mob assaults against US facilities.⁵⁷ The US was the main target of President Sukarno’s anti-imperialist rhetoric as anti-imperialism became the primary focus of Indonesia’s foreign policy.⁵⁸ The escalation of US military involvement in Vietnam in February 1965 added fuel to the fire, as it was viewed as a clear example of US imperialism in Southeast Asia. This rhetoric spilled over onto the ground in the form of demonstrations and attacks on US facilities; the official GOI involvement in these

⁵⁴ Simpson, *Economists with Guns*, p. 134.

⁵⁵ See pp. 54-5 of the English language version of the speech, *Address by the President of the Republic of Indonesia on the 17th August 1964*.

⁵⁶ See Current Intelligence Memorandum dated 20 August 1964, pp. 134-36 in *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

⁵⁷ See generally Sullivan, *The United States and the New Order*, pp. 99-110; Simpson, *Economists with Guns*, pp. 152-63; Gardner, *Shared Hopes, Separate Fears*, pp. 187-92.

⁵⁸ Jones, *Indonesia: The Possible Dream*, p. 360.

actions is still unknown, but certainly the Indonesian government did little to discourage such actions. The USIS library facilities in five cities (Jakarta, Yogyakarta, Surabaya, Medan, and Makassar) in Indonesia were “prime target[s] for displays of anti-Americanism” by mobs, many of which were supposedly led by PKI or National Front elements.⁵⁹ Some of these facilities were attacked earlier (e.g., the 15 August sacking of the USIS library in Yogyakarta), but the demonstrations and attacks intensified during this period. On 4 December, the USIS library in Jakarta was sacked, with some 20% of its books destroyed, and on 7 December the library in Surabaya was similarly attacked, forcing the GOI to intervene and place the library under its protection. There were similar incidents at the other USIS libraries over the next few months (including the Medan facility on 18 February, just as the demonstrations on nearby US plantations reached a peak – see Part II), leading the US to announce on 4 March that all USIS libraries would be shut down.⁶⁰ In late February, a large group of university students even forced their way into US Ambassador Jones residence to protest the death of Malcolm X; later that day, a leader of the group privately explained to a US official that the group had been deemed “counterrevolutionary” by the PKI and was therefore forced to “prove its revolutionary credentials if it were not to be banned by the president.”⁶¹ US personnel and facilities were also subject to minor inconveniences, such as mail boycotts and electricity outages, and there were some boycotts against American ships and airplanes. In late February, President Sukarno banned from Indonesia four US-based publications, *Time*, *Life*, *US News and World Report*, and *Newsweek*.

The targeting of the United States as the main imperialist enemy and the increasingly strained US-Indonesia relationship also dovetailed with the PKI’s attitude toward the United States. After the seizure and nationalization of Dutch companies from late 1957-59, the PKI increasingly began to view the United States as its most dangerous imperialist enemy, initially identifying “United States penetration in the economic, political and social spheres” as a major threat.⁶² US economic penetration meant not

⁵⁹ Sullivan, *The United States and the New Order*, p. 99.

⁶⁰ Sullivan, *The United States and the New Order*, pp. 99-101. The facilities and books in Jakarta and Surabaya were not returned to the US.

⁶¹ Gardner, *Shared Hopes, Separate Fears*, p. 190.

⁶² Mortimer, *Indonesian Communism under Sukarno*, p. 167.

only US aid generally and support for economic reform and stability, but also US businesses operating in Indonesia. With the resolution of the West Irian issue in the summer of 1962, in the PKI's outlook the United States overtook the Dutch and became the “number one enemy and the most dangerous enemy of the Indonesian people,” particularly as the US supported economic stabilization attempt of 1963 became a major issue.⁶³ As we saw in Chapter Four, the PKI was one of the most vocal opponents of the stabilization attempt, in part because if successful the reform program would certainly have drawn Indonesia closer to the US. Over the course of 1963 the PKI had been very critical of the United States policies, but the outbreak of Konfrontasi provided another arrow in the PKI's anti-American/anti-imperialist quiver, especially when US support for Malaysia became clear in July 1964, such that a major objective of the PKI's strategy was to expel US influence from Indonesia.⁶⁴ Over the course of 1964 there were various calls by the PKI and its affiliated groups for the takeover of US companies, and as we shall see in Part IV, Section C, the PKI in May 1964 initiated an anti-American film boycott that “became the high point of struggle in the campaign against US ‘cultural penetration’” and mirrored President Sukarno's own protests against the same.⁶⁵ Moreover, as discussed in this Chapter, the PKI targeting of US economic penetration reached a pinnacle in 1965 with the takeover of American companies, a process in which the PKI through its labor arm SOBSI was intimately involved.

The deterioration of US-Indonesia relations, combined with President Sukarno's intensified anti-imperialist thrust in Indonesian foreign policy as well as the perceived alignment of Sukarno's interests with the PKI's and the apparent growing influence of the PKI over 1964-65, leading many to believe that Sukarno and Indonesia had ‘turned to the left,’ led to a reassessment of US policy toward Indonesia.⁶⁶ This reassessment process gained momentum after August 1964 as US officials were increasingly dismayed

⁶³ Mortimer, *Indonesian Communism under Sukarno*, pp. 168, 198-200. After the Cuban missile crisis, the PKI “took the most vigorous anti-US action, calling for the seizure of American enterprises, sponsoring a boycott of US ships by Surabaya dock workers, and organizing a demonstration in the same city that did some damage to the US consular office.” (Mortimer, p. 200)

⁶⁴ Mortimer, *Indonesian Communism under Sukarno*, pp. 234-5.

⁶⁵ Mortimer, *Indonesian Communism under Sukarno*, pp. 243-4.

⁶⁶ See generally Bunnell, “American Low Posture”; Simpson, *Economists with Guns*, chapter five; Foo *The US and the Indonesia-Malaysia Dispute*, chapters five and six; Sullivan, *The United States and the New Order*, pp. 92-8, 125-59.

over the direction Indonesia appeared to be heading, and by the summer of 1965 culminated in the abandonment of Ambassador Jones' policy of accommodation in favor of the 'low posture' policy featuring a reduced US presence. According to one observer, "the substance of US overt policy was one of largely consistent restraint in responding to President Sukarno's often provocative and hostile 'march to the left,'" an approach conditioned in part by the simultaneous escalation of US involvement in Vietnam and recognition of the limits of US influence in Indonesia.⁶⁷ However, covertly the US government, acting primarily through the American CIA, on 19 November 1964 approved and sometime later initiated a program whose two "broad objectives" were to (i) "create an image of the PKI as an increasingly ambitious, dangerous opponent of Sukarno and legitimate nationalism," and (ii) "encourage, coordinate and where possible, covertly assist 'individuals and organizations prepared to take obstructive action against the PKI.'"⁶⁸ As one historian has described, the introduction of this covert program effectively inaugurated the shift to the US low posture policy, and though the extent of the covert campaign remains classified, over the course of 1965 the US certainly implemented aspects of this covert campaign, in particular encouraging the army to move against the PKI.⁶⁹

Meanwhile, as the relationship with Indonesia continued to worsen, the US government dispatched presidential emissary Ellsworth Bunker to Indonesia both to assess the situation and to pave the way for the introduction of the new low posture policy.⁷⁰ This decision to send Bunker was made in mid-March 1965 and was in part precipitated by the recent seizure of American estates and the perceived "dangers of an imminent seizure of the American oil companies."⁷¹ Bunker, who as we saw in Chapter Two was in good standing with the Indonesians because of his role in resolving the West Irian issue in 1962, was in Indonesia from 30 March to 14 April 1965 and met with numerous Indonesian officials (including four times with President Sukarno and twice

⁶⁷ Bunnell, "American Low Posture," p. 30.

⁶⁸ Simpson, *Economists with Guns*, pp. 141-2, quoting from Political Action Paper dated 19 November 1964, a copy of which can be found on pp. 181-4 of *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

⁶⁹ Simpson, *Economists with Guns*, p. 142 and chapter six generally.

⁷⁰ Bunnell, "American Low Posture," p. 41.

⁷¹ See Memorandum from George Ball to President Johnson dated 18 March 1965, pp. 251-2 of *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

with First Deputy Prime Minister and Foreign Minister Subandrio). In his written report to President Johnson dated 23 April, Bunker concluded that Indonesian-US relations were “unlikely to improve in the near future” and listed three “ostensible reasons” given by President Sukarno for the deterioration of US-Indonesian relations: US support for Malaysia, US intervention in South Vietnam, and the US presence and bases in Asia.⁷² However, Bunker also argued that more fundamental reasons for the state of the relationship were (i) “Sukarno’s ambition to solidify the Afro-Asian nations in a struggle of the NEFOS...against the OLDEFOS...and to occupy himself a dominant position in the struggle,” (ii) “Characterization of the West as representative of neo-colonialism and imperialism (NEKOLIM), therefore as the enemy of the newly independent countries. The US as the most powerful leader of the developed countries is identified as enemy No. 1,” (iii) “the influence of the PKI...which looks to Peking for inspiration and whose avowed purpose is to drive the US out of Indonesia,” (iv) “Sukarno’s proclaimed Marxism and his avowed intention of doing away with capitalism in the process of socializing Indonesia,” (v) “Sukarno’s view that creation of national unity and a sense of national identity are more important than economic development...” (vi) “Sukarno’s confidence that he can bend the PKI to his will; hence his emphasis on NASAKOM...” , and (vii) “Sukarno’s mystical belief in his own destiny, hence his conviction that it is his mission to lead his country to unity and power; and because of doubts about his health, to accelerate the process.” Nevertheless, there were some “elements of strength” in the situation, principally the military, the moderate Muslim political organizations, and other moderate political elements. However, a “large and widespread US presence provides the PKI and other extremist elements targets for attack. A defense of the US presence, even by the forces of law and order, is embarrassing to them and to those friendly to US since it subjects them to attack as defenders or stooges of the imperialists.” Hence, the report recommended that “US visibility should be reduced so that those opposed to the communists and extremists may be free to handle a confrontation,” that the US “should maintain contact with the constructive elements of strength in Indonesia,” and that US policy “be directed toward creating conditions which will give the elements of potential

⁷² Portions of the Bunker Report can be found on pp. 255-63 of *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

strength the most favorable conditions for confrontation.”⁷³ These conclusions were then followed by a list of general and specific recommendations.

The Bunker report not only provided the “single most comprehensive formulation of the political assessment and policy rationale on which the low posture strategy was predicated,” but Bunker’s prestige also helped secure President Johnson’s approval of the new course.⁷⁴ Over the next few months, the US drastically reduced its presence and personnel in Indonesia and adopted a very low public profile, and for a three month period from May to July 1965 there was a relatively quiet interlude in US-Indonesia relations. US Ambassador Jones left Indonesia for good in May (he had served as US ambassador since 1958), and was replaced in late July 1965 by hardliner Marshall Green, whose arrival seemed to trigger a new period of tensions in August and September. However, Green’s arrival also put an exclamation point on the low posture policy, which, along with many of Bunker’s recommendations, Green continued to implement.⁷⁵

With respect to the takeovers of US companies in early 1965, like the British government in 1964 the US government was unable to stem the takeover tide. Its primary lever, economic aid, had evaporated with Konfrontasi. In March 1965 a US State Department internal memorandum prepared in connection with an upcoming meeting with representatives of American companies in Indonesia noted that “we have no effective leverages to influence Djakarta’s conduct. We have tried conciliation on the one hand and warnings on the other, with no evident effect.” The memo urged that the companies withdraw all non-essential personnel, that the companies replace American personnel with non-US expatriates, and that the companies “avoid precipitating a confrontation” between themselves and the GOI. The memo noted that while the US government would “urge the Government of Indonesia to respect its contracts with the companies, we cannot now foresee what response would best serve the United States national interest if the Government of Indonesia breaches these arrangements and the companies withdraw.” Finally, the memo stated that “we anticipate continuing hostility

⁷³ Bunker Report, pp. 255-7 in *Foreign Relations of the United States 1964-68: Volume XXVI, Indonesia, Malaysia-Singapore, Philippines*.

⁷⁴ Bunnell, “American Low Posture,” pp. 41-2.

⁷⁵ Bunnell, “American Low Posture,” pp. 47-58.

towards the United States in Indonesia as long as President Sukarno is alive.”⁷⁶ Thus the US embassy, like the British embassy, could only deliver notes protesting the takeover of American companies and asking the GOI to restore the status quo.⁷⁷

II. Goodyear Sumatra Plantations and United States Rubber Plantations

The first American companies to be taken over in this period were the Goodyear Tire and Rubber Company (“Goodyear”) estates and United States Rubber Corporation (“USR”) estate in North Sumatra, three of the oldest and largest rubber estates in Sumatra.⁷⁸ The takeover of these estates was a highly visible affair, coming on the heels of large labor union and worker demonstrations organized by the ‘Action Command for the Destruction of US and Belgium Imperialism,’ though in neither case were the estates actually seized by the demonstrators, despite constant press reports to the contrary. Rather, the GOI decision to take over the companies was cast as a pre-emptive strike to prevent a takeover by workers. The decision was made at the highest levels of the Indonesian government, as President Sukarno, First Deputy Prime Minister Subandrio, Third Deputy Prime Minister Chaerul Saleh, Coordinating Minister for Agriculture and

⁷⁶ US Department of State Confidential Memorandum (Barnett) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, FN-9 US-Indon).

⁷⁷ For copies of these notes, see US Embassy telegram (Ellis) dated 21 May 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3). In a report containing an interesting analysis of the takeovers, the US embassy also at one point suggested to the State Department that “following the British and Dutch examples, this Embassy and the State Department should continue to keep in mind the necessity for the laying of the proper basis by American companies for eventual compensation claims, including the submission of appropriate communications to the Government of Indonesia after consultation with individual American companies whose interests have been affected.” (US Embassy telegram (Ellis) dated 16 August 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3)) It is unclear if the US government ever submitted any such communications. However, as we shall see in Chapter Seven, the US embassy appeared to be much more proactive at the end of the year as it weighed in with respect to the threatened takeovers of the oil companies.

⁷⁸ A very small American-owned estate named Kwala Gunung was also taken over at the same time, but as it was relatively insignificant in size it will not be discussed here. Interestingly, the US embassy reported that several days after First Deputy Prime Minister Subandrio’s decree of 26 February implementing the takeover of the Goodyear and USR estates was issued, Kwala Gunung was sold to an Indonesian company, presumably in an effort to recoup some of the investment before the GOI could actually take it over. The GOI apparently initially agreed to this transaction, but later there were reports that the US owner had filed a lawsuit to regain its property; what eventually happened to the estate is unclear.

Agrarian Affairs Sadjarwo, and Minister of Estates Seda were all involved. Moreover, these takeovers were almost certainly the outcome of the decision by President Sukarno on 8 December (described in the introduction to this Chapter) to proceed with the “protective takeovers” of American companies and subsequent instructions to labor unions to begin agitations to create the necessary atmosphere and conditions for government intervention. The GOI takeover of these estates was also unique in several ways. First, it was the first time the GOI publicly used the formula of ‘takeover of management without takeover of ownership’; all takeovers following this would henceforth follow that formula. Second, and more importantly, the takeover of these two companies was the first time the GOI actually followed the takeover with negotiations to compensate the owners, though these discussions were not immediately finalized. As we shall see in this Chapter and the next, even thereafter the GOI would entertain compensation/buyout discussions only with respect to the big three oil companies and non-British foreign estates, including Goodyear and US Rubber.

A. Background and Initial Measures.

Goodyear operated two rubber estates in North Sumatra, the Dolok Merangir estate and the famous Wingfoot estate.⁷⁹ However, as described below, Wingfoot in mid-1964 was set to be exchanged for two GOI estates adjacent to Dolok Merangir in settlement of the one-third rule, which as we saw in Chapter Three required foreign estate holders to give up one third of their holdings in exchange for extensions of remaining concessions under the 1960 Basic Agrarian Law. The failure to implement this exchange became a fascinating additional complicating layer to the entire sequence of the takeover and return of the Goodyear estates. USR operated an estate in North Sumatra named Kisaran, which was actually a compilation of different adjacent concessions.⁸⁰

According to the US Embassy, while the PKI had been waging a propaganda effort against Goodyear and USR since the early part of 1964, the first takeover action of

⁷⁹ These are described in Chapter Three, Part Two, Section B. Briefly, Wingfoot was about 16,000 hectares in size and Dolok Merangir was about 6,000 hectares; together, the estates employed about 10,000 laborers, plus around 50 Indonesian staff employees and about 15 foreign staff.

⁸⁰ The estate was about 17,500 hectares and employed around 7,200 workers, with an Indonesian staff of 85 and foreign staff of 13. See Chapter Three, Part Two, Section B.

any significance against the estates took place in August 1964 in connection with the proposed exchange of Wingfoot. Goodyear and the GOI had agreed a few months before that Wingfoot would be exchanged under the one-third rule for two GOI estates adjacent to Dolok Merangir named Dolok Ulu and Naga Radja, which were ex-Dutch estates nationalized in 1958-59 and together totaled about 8,000 hectares, about half the size of Wingfoot. Goodyear was ready to give up the entire Wingfoot estate in exchange for these two estates, which meant that Goodyear's holdings could be consolidated in one area (Wingfoot and Dolok Merangir were some distance apart).⁸¹ On 15 June 1964, Third Deputy Prime Minister Chaerul Saleh issued a decree approving the exchange.⁸² A few weeks later, Coordinating Minister of Agriculture and Agrarian Affairs Sadjarwo issued another decree directing what would happen to Wingfoot after the exchange was completed; the decree specified that 'Wingfoot North' and 'Wingfoot East' would be turned over to the government's state owned rubber plantation unit known as PPN Karet, but 'Wingfoot South' would be used by two private firms, PT Hapinis and NV Oriental Tyre.⁸³ PT Hapinis was closely associated with the NU political party; it was apparently owned by high ranking officials of the party.⁸⁴ On 29 July Wingfoot was symbolically handed over to the government in a signing ceremony, with the physical transfer scheduled for August 10.⁸⁵

The physical exchange never took place, however. As described by the American consul in Medan,⁸⁶ opposition to the swap initially came from the management of PPN Karet VI, the GOI enterprise that managed Dolok Ulu, one of the two estates to be exchanged. The PPN Karet managers apparently did not want to lose an estate under their control, and they also feared losing their jobs once Goodyear began managing the estate.

⁸¹ See US Medan Consul telegram (Heavner) dated 27 August 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

⁸² Decree of Third Deputy Prime Minister (Chaerul Saleh) No 96/PM/1964 dated 15 June 1964 (English translation only, *Warta Cafi*).

⁸³ Surat Keputusan Menteri Koordinator Kompartamen Pembangunan Pertanian dan Agraria (Sadjarwo) No. SK 7/KOMPPAG/64 dated 25 June 1964.

⁸⁴ US Embassy Bi-Weekly Economic Review dated 9 August 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

⁸⁵ US Medan Consul telegram (Heavner) dated 27 August 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

⁸⁶ The description of events in this paragraph comes from a much more detailed description found in US Medan Consul telegram (Heavner) dated 27 August 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

SARBUPRI, the SOBSI-affiliated estate workers union, then turned the fight into a political one, building mass opposition to the exchange among the workers of Dolok Ulu. Aside from the PKI's general attitude against foreign investment, it is unclear what was motivating SOBSI; it could have been the consideration that a company linked to NU, a political enemy of the PKI, might take over a portion of Wingfoot.⁸⁷ In any case, the ostensible reason for worker opposition was that the workers of Dolok Ulu were not consulted about the exchange. The Governor of North Sumatra, the same Ulung Sitepu whom we saw in the previous Chapter, then got involved and sent in teams to investigate the situation, just as Jakarta announced on 9 August that the exchange would be postponed by a few days. These teams appointed by Governor Sitepu found for the workers, and the chairman of the team was sent to Jakarta to report on the situation. Meanwhile, SARBUPRI had "brought the workers to a fever pitch," and on the night of 14 August the Wingfoot manager called the American consul in Medan for help, saying there would be an attempt to take over Dolok Merangir the next day. The American consul then telephoned the Indonesian police and army, and by the next morning a large contingent of police had arrived on Dolok Merangir. A crowd of workers – presumably from Dolok Ulu, though the consul report does not say - attempted to take over the estate, but were repulsed by the police, with warning shots fired. Back in Jakarta, Foreign Minister Subandrio told US Ambassador Jones that, with President Sukarno's approval, he had instructed General Yani to take special steps to protect Goodyear and instructions would be sent to all security forces to protect American property.⁸⁸ Nevertheless, on 20 August, Minister of Estates Seda informed Goodyear that he, Minister Saleh and Minister Sadjarwo had decided to postpone the Wingfoot exchange.

⁸⁷ Perhaps not coincidentally, as described in Part I, Section B, these events occurred around the same time that a major shift in US-Indonesia relations occurred, with the US President Johnson-Tunku meeting in late July, President Sukarno's recognition of North Vietnam on 10 August, the seizure of the USIS library in Yogyakarta on 15 August, and finally Sukarno's independence day speech on 17 August. In addition, this was soon after all the British estates had effectively been taken over by late June (see previous Chapter).

⁸⁸ US Embassy telegram (Jones) dated 15 August 1964 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables and Memos (1 of 2), Volume II, 6/64-8/64, Box 246).

B. Intensification, December 1964 – February 1965.

Things were fairly quiet on the American estates until the middle of December 1964. There were a number of calls for takeovers, small demonstrations and actions against the companies, such as graffiti on the walls and worker slowdowns, but nothing significant in the way of takeover activity. However, in mid-December, rumors of a takeover of the estates began to swirl around in Jakarta and on the estates themselves, rumors undoubtedly triggered by President Sukarno's 8 December decision to proceed with the takeovers of American companies and subsequent instructions to labor leaders to begin agitating. US Rubber officials reported that President Sukarno and Ministers Seda and Sadjarwo were considering a symbolic worker takeover of the estates, and that at a labor meeting at Kisaran there was open talk among workers of a takeover, indicating that labor agitation was underway.⁸⁹ Meeting with US Ambassador Jones in Jakarta on 11 December, President Sukarno said he would do his best to stop any takeover, but cryptically added that the US government needed to "be careful in its relations with Asian-African countries."⁹⁰ In light of Sukarno's decision just a few days earlier, such a pledge to prevent any takeover was patently false.

Separately, General Mokoginta, the new All Sumatra Regional Commander (KOANDA), assured the American consul in Medan that he would prevent any seizures of American estates.⁹¹ Similarly, the Medan police chief on 23 December told the American consul that a takeover of American estates would not be permitted, and that Jakarta had not issued any new orders; the next day, though, the military commander for North Sumatra indicated that Jakarta had not decided the issue, though he thought the American estates would be allowed to continue their operations.⁹² Meanwhile, the Wingfoot exchange still had not occurred, even though PT Hapinis had begun occupying a 4,000 hectare portion of Wingfoot in October. Goodyear was powerless to stop this

⁸⁹ US Medan Consul telegram (Heavner) dated 17 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

⁹⁰ US Embassy telegram (Jones) dated 11 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁹¹ US Embassy telegram dated 13 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

⁹² US Embassy telegram (Jones) dated 23 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Medan Consul telegram (Heavner) dated 24 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

advance, and in late December relations between Goodyear and Hapinis were exacerbated by a fire that broke out in a warehouse on Wingfoot being used by Hapinis.⁹³ Goodyear officials were assured separately by Ministers Saleh and Seda and the Governor of North Sumatra that the decision on the Wingfoot exchange now rested entirely with President Sukarno, but no decision was made.⁹⁴

In mid-January 1965, the intensity of the takeover campaign spiked, though there were no actual attempts to seize the estates. As the American consul in Medan reported,

hardly a day passed without a speech, a petition, or a resolution from some far left source demanding the take over of all American enterprises in Indonesia...The PKI and its allies also generated a constant flow of rumors about imminent takeover actions, tried in various ways to intimidate Indonesian staffs of the American estates, and employed such psychological warfare tactics as publicly naming the officers-to-be of the soon-to-be-taken over American plantations.⁹⁵

The primary instrument behind this new intensity was the ‘Action Command to Crush US and Belgian Imperialism,’ which in a well-organized propaganda campaign continually issued calls for takeovers of the American estates and also held numerous mass labor meetings designed to rally workers. Indeed, the Action Command was able to work most effectively through its member labor unions, which were the primary implementers of the Action Command’s calls for takeover. That is to say, as we shall see below, labor unions and workers were at the public forefront of takeover activity by virtue of their demonstrations and actions against the estates in February, but their activities appeared to be organized by the Action Command.

Established on 11 January 1965 for the sole objective of “crushing US and Belgian imperialism,” the Action Command operated only in North Sumatra.⁹⁶ According to Sayuti Hasibuan, who studied the Action Command at length, it had six member labor

⁹³ US Embassy Bi-Weekly Economic Review dated 24 December 1964 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

⁹⁴ US Embassy telegram (Jones) dated 16 December 1964 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

⁹⁵ US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁹⁶ For details of the Action Commands’ activities, programs and interaction with the regional government of North Sumatra during this period, see pp. 199-229 of Hasibuan’s *Political Unionism and Economic Development*. However, Hasibuan incorrectly notes the Action Command/labor unions were successful in taking over the estates, which, as we shall see, they were not.

organizations (SOBSI, KBM, GOBSII, SKBI, SARBUMUSI, and RKS SS/SB), but was clearly dominated by SOBSI and KBM, who were “more committed” to takeovers of foreign companies than the other member organizations. It was led by a Major Muis, an ex-army major from GOBSII who was a compromise candidate agreeable to both SOBSI and KBM. Apparently SOBSI and KBM were fierce rivals within the Action Command, and thus it was necessary to have a neutral leader who was not a threat to either; in fact, Muis himself said that the divisions within the Action Command were so great that the only thing the member labor groups could agree on was taking over the American and Belgian estates. Indeed, Hasibuan suggests that neither the PKI nor the KBM actually cared that much about who was the leader as long as the takeovers proceeded, and for the PKI not having a visible leadership role helped with its united front strategy and made it seem less threatening. Hasibuan also argues that the Action Command was not simply a tool of the PKI, that in its takeover demands the Action Command represented the interests of other member groups as well, even though SOBSI and KBM were the dominant members who set the program and agenda.⁹⁷ As we shall see below, though the actual identity of the demonstrators was not always clear, it appears that SARBUPRI (the SOBSI-associated plantation workers union) and other PKI-linked organizations were very prominent in the demonstrations. Certainly many observers (including US officials) thought that the PKI was behind the demonstrations and actions.⁹⁸

Despite the increased pressure from mid-January 1965 for a takeover, officials at the regional government and central government levels initially seemed to hold firm. First Deputy Prime Minister and Foreign Minister Subandrio told US Ambassador Jones on 17 January that he had issued instructions to prevent labor unions from taking over the estates, even claiming that the GOI had prevented SOBSI from taking over the estates on 14 January.⁹⁹ On 13 January All Sumatran Commander Mokoginta and Medan police chief Sujono both assured the American consul in Medan that they would not permit the takeover of American estates. General Mokoginta said that General Yani ordered that if civilian authorities failed to maintain order, then Mokoginta and the military should take

⁹⁷ Hasibuan, *Political Unionism*, pp. 201-11.

⁹⁸ See, e.g., Pelzer, *Planters Against Peasants*, p. 38.

⁹⁹ US Embassy telegram (Jones) dated 17 January 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64-2/65, Box 246).

charge and prevent disturbances; Mokoginta further said he would “clobber” the PKI if they made any trouble.¹⁰⁰ Even Coordinating Minister for Agriculture and Agrarian Affairs Sadjarwo apparently told representatives from SARBUMUSI, the NU labor organization, that now was not the time for a takeover, in spite of the representatives’ arguments for an immediate seizure.¹⁰¹ Meanwhile, on the Wingfoot estate exchange issue, Minister Subandrio also told US Ambassador Jones on 17 January that he had instructed Minister of Estates Seda to proceed with the exchange. However, on 28 January Minister Seda told Goodyear officials that he was in the process of sending instructions to Medan to proceed with the exchange when he received a telephone call suggesting that he wait for a while; Seda did not identify the caller, but waited as suggested.¹⁰² Oddly enough, on 1 February Goodyear received a letter from Coordinating Minister of Agriculture and Agrarian Affairs Sadjarwo demanding that Goodyear surrender 5,900 hectares of Wingfoot and 1,000 hectares of Dolok Merangir. The reason for this demand was not clear but apparently involved the land being occupied by squatters, and in any case no further action was taken.¹⁰³

In mid-February mass demonstrations apparently aimed at seizing the estates broke out on those properties. There had been much smaller demonstrations prior to this, but none of any importance that were aimed primarily at taking over the estates. The actual identity of the demonstrators was not often clear; apparently (although reports are vague) most were workers, though it is unclear if they were workers on the actual estates on which the demonstrations took place. Nevertheless, as highlighted above the demonstrations were certainly organized by the Action Command to Crush US and Belgian Imperialism. None of the demonstrations was violent, and there was no significant property damage. These demonstrations broke out just as the United States began the public phase of its retaliatory bombing of North Vietnam, which was often

¹⁰⁰ US Medan Consul telegram (Heavner) dated 13 January 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹⁰¹ US Medan Consul telegram (Heavner) dated 18 January 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹⁰² US Embassy telegram (Jones) dated 28 January 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹⁰³ US State Department telegram (Klippert of Goodyear) dated 18 February 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

cited as one of the reasons for the demonstrations. In addition, most of the local newspapers mistakenly reported that the takeovers were successful.

On 15 February there were demonstrations at each of Dolok Merangir, Wingfoot, and Kisaran, as well as the small Kwala Gunung estate owned by Hawaii Sumatran Plantations. USR reported that the demonstration at Kisaran was led by SARBUPRI, the SOBSI-affiliated union, while the American Medan consul reported that the demonstration at Kwalau Gunung was led by the 'PKI.' In each case, the demonstrators proclaimed that the estate was taken over, and at Kisaran and Kwala Gunung leaders handed 'takeover letters' to management, which were promptly rejected. At Kisaran and the two Goodyear estates, numerous police and security officials were on hand and prevented any takeover, while at Kuala Gunung the manager called in the police, who promptly arrived. None of the estates were actually taken over, as the security forces were in control.¹⁰⁴ On the 19, 20 and 21 February there were more demonstrations at Kisaran, followed on 22 February by a smaller demonstration at Wingfoot. The demonstrations of the 19 and 20 at Kisaran were comparatively small, with security forces remaining in control the entire time. The one on 20 February involved only about 300 people, who were immediately dispersed by security forces. However, on 21 February there was a giant day-long demonstration outside USR's main office at Kisaran involving an estimated 7,000 workers. This was by far the largest of the demonstrations and was clearly aimed at taking over the estate. Once again, though, security forces, numbering over 600 police and military personnel, prevented any seizure, denying the demonstrators access to the grounds, though they were forced to fire warning shots. Finally, on 22 February there was a small demonstration at Wingfoot that included several top Indonesian staff members but apparently was never threatening in the least; the police allowed the demonstrators to post flags and signs, but the police themselves

¹⁰⁴ See two US Medan Consul telegrams (Heavner) dated 15 February 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy Bi-Weekly Economic Review dated 19 February 1965 (USNACP RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); for an excellent and detailed summary of all of the February takeover events, see US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3) from the American consul in Medan, who was an eyewitness to many of the events.

later removed them.¹⁰⁵ Thus, in no case were any American estates actually taken over by demonstrators.

The reaction of government officials was mixed. I shall start with the reaction of the smallest unit of government and then proceed to higher levels. On 16 February, the day after the initial demonstrations on each of the American estates, the Bupati (district chief, the administrative unit below the provincial level) of the district in which Wingfoot was located told Goodyear officials that he was going to set up a control committee to deal with worker demands for a takeover. The Bupati explained that the committee was necessary to “placate” the workers, that he needed such an instrument to ensure that Wingfoot was not seized, and that the committee would not have any policy-making or administrative power. He also requested office space at Wingfoot for the committee. Goodyear, with the advice of the US consul in Medan, quickly protested this action, and the US consul also sent letters to various regional authorities protesting the action. The committee was never formed, apparently because the local military forbade the Bupati from doing so.¹⁰⁶ It is extremely difficult to judge the Bupati’s intentions; he may have genuinely intended to protect Wingfoot, but he may also have had other things in mind.

In Medan, the provincial capital, authorities seemed to be split. As indicated by the response to the Bupati’s action regarding Wingfoot, police and military officials (who actually were part of the national GOI structure and not part of the provincial government) had consistently been against the takeovers and had acted decisively during mid-February to prevent the takeovers.¹⁰⁷ On 21 February, the US consul in Medan met All Sumatran Commander Mokoginta, who said US property would continue to be protected against takeovers. The General explained that only the central GOI could order takeovers, and that no such order had been received; rather, he understood the GOI policy

¹⁰⁵ See US Medan Consul telegrams (Heavner) dated 19, 20, 21 and 22 February 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215), and US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹⁰⁶ See two US Medan Consul telegrams (Heavner) dated 17 February 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹⁰⁷ Indeed, police and military guards had even constantly occupied Kisaran since October 1964. See US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

was against such actions.¹⁰⁸ This resolve of the Indonesian military contrasted sharply with the military's efforts to remain neutral in the case of takeovers of the British estates in North Sumatra in January 1964 (see Chapter Five, Part II, Section A3).¹⁰⁹ However, non-military authorities in North Sumatra seemed much less determined to take action against the takeovers. Governor of North Sumatra Sitepu never made a public statement against the takeover attempts or denying the prevalent press reports that the estates had been taken over (nor did Mokoginta for that matter), though he did send a delegation to Jakarta to report on the situation. This report turned out to be so untrustworthy that Minister of Estates Seda called in the managers of the American estates to give their own versions of what happened. In fact, the US consul in Medan (though not necessarily objective in this matter) reported that high provincial authorities "continually expressed approval for the 'revolutionary spirit' of the takeover effort and an understanding of the 'people's anger against the imperialists.'"¹¹⁰

Meanwhile, back in Jakarta at the central GOI level, the mood seemed to shift from the assurances of President Sukarno, First Deputy Prime Minister Subandrio and other officials to US officials over the past few months that no takeovers would be allowed, to the idea that the GOI should take over the estates, though opinions clearly differed. Indeed, as late as 20 February and 23 February, Third Deputy Prime Minister Chaerul Saleh told US embassy officials (and President Sukarno also around that time told US Ambassador Jones) that the GOI did not intend to take over the estates.¹¹¹ However, the Goodyear and USR managers were told via private sources that at a meeting on 18 February of President Sukarno, Minister Chaerul Saleh, Labor Minister Sutomo, Minister of Estates Seda, and State Minister Oei Tjoe Tat it was decided that the estates would be supervised temporarily by the GOI in order to maintain the peace and production. A few days later Minister Seda called the managers of Goodyear and USR to

¹⁰⁸ US Medan Consul telegram (Heavner) dated 21 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64-2/65, Box 246).

¹⁰⁹ This may have been due to personal differences between generals Mokoginta and Kosasih (who held Mokoginta's position of KOANDA in early 1964), as well as to the sharpening of the conflict between the army and the PKI over the previous year.

¹¹⁰ US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹¹¹ US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inc Rubber Indon, Box 1215).

Jakarta to discuss the situation. On 21 February, before the meeting with the estate managers, Seda met with the US embassy economic counselor and told him that “recent events had created political problems that must be solved” and the GOI had to “exercise stronger supervision” over the estates. He also indicated that he, First Deputy Prime Minister Subandrio and National Front Minister Sudibjo would go to Medan in the next few days to settle the situation. On 22 February, the managers of Goodyear and USR, Seda and a few of his assistants, representatives from the team sent by the Governor of North Sumatra, and the US embassy economic counselor met in Jakarta. After the American managers gave their report, Seda said that the provincial authorities in North Sumatra were instructed to maintain order until the central GOI made its decision. Seda explained that the “problem is more than one of rubber production; it involves [the] national and international political situation,” and that he, Minister Subandrio and Minister Sudibjo would come to Medan in the next few days to provide the GOI decision on the estates.¹¹²

C. GOI Takeover.

On 24 February, First Deputy Prime Minister Subandrio, Coordinating Minister for Agriculture and Agrarian Affairs Sadjarwo, Minister of Estates Seda, Minister of Agrarian Affairs Hermanses, National Front Minister Sudibjo, Minister seconded to Presidium Kabinet Nyoto, SOBSI Chairman Mohamed Munir, and SARBUPRI Chairman Warso Sukarto, arrived by plane in Medan.¹¹³ Minister Subandrio, after a short meeting with leaders of the Action Command to Crush US and Belgian Imperialism, then went to Prapat (on Lake Toba), some four hours drive away, where he addressed a

¹¹² US Embassy telegram (Jones) dated 22 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64-2/65, Box 246). The US embassy, as well as the two American managers, believed that this meant that the estates would be placed under some sort of GOI supervision, and as events turned out, they were correct. In fact, on the same day back in North Sumatra at Kisaran, local health officials had come out to inspect USR's hospital, apparently already under orders from the Ministry of Health to begin preparation for the takeover (see US Medan Consul telegram (Heavner) dated 28 February 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Box 1215); US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3), p. 9).

¹¹³ The following description of events comes primarily from the wonderfully detailed reports prepared by Heavner, the American consul in Medan who was an eyewitness to many of these events. See US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

meeting of North Sumatra's top officials as well as estate officials in Sumatra, both private and government. At this meeting, Subandrio said that what was important was not the issue of takeovers but rather production, which was too low and needed to be increased. Subandrio mentioned the American estates only briefly, saying that Minister Seda and the Governor of North Sumatra needed to reach some decision on them. Interestingly, Governor of North Sumatra Sitepu at the same gathering gave the opening speech in which he said that North Sumatra was the “goose that laid the golden eggs,” and decisions concerning it must be made with great care. This presumed warning shot was answered by Subandrio with a remark that although he was not ashamed of the peoples’ actions (referring to demonstrations and other measures), they were not “clever” and “made it difficult to speak about peace.” Subandrio returned to Medan the next day.

On the morning of 26 February, Minister Subandrio, speaking at the closing ceremony of the Sixth Conference of the North Sumatra PKI, announced that management of the American estates would be taken over. Separately, at about the same time in a meeting set up the day before with the American estate managers and the American consul, Minister Seda informed the American managers that the estates were being taken over and then read to them the decree implementing the takeover.¹¹⁴ Issued by Subandrio (not Minister of Estates Seda) in his capacity as First Deputy Prime Minister in the name of the Presidium Kabinet, the decree stated that in view of the intensification of the Indonesian Revolution, the determination and ability of the Indonesian people to implement BERDIKARI, and the safety and continuation of production, it was placing the American estate companies under the management (*pengurusan*) of the GOI, without diminishing the ownership rights of the companies. The decree further stated the GOI was responsible for the smooth operation of the companies, and to ensure this the GOI would appoint new Indonesian management, to be assisted by an advisory board, both of which were responsible to the GOI. The American owners were required to provide assistance as needed in order to ensure continued smooth production. To supervise and help with production, a supervisory team,

¹¹⁴ Keputusan Presidium Kabinet (Wakil Perdana Menteri I Subandrio) No. Aa/D/13/1965 tentang Penempatan Perusahaan2 Perkebunan Amerika Serikat Didalam Pengurusan Pemerintah Republik Indonesia, dated 26 February 1965.

consisting of elements from the local authorities, workers, farmers and experts, would immediately be appointed. Finally, the relations and responsibilities between the GOI and the respective owner would be set forth in a separate agreement between the parties.

In the 26 February meeting itself, Minister Seda explained that the decree meant that ownership of the estates was not affected and still remained with the American owners, and he repeatedly indicated that the action was not a nationalization. However, the GOI was assuming all managerial functions over the estates. Minister Seda would immediately set up a takeover team to assume these responsibilities, and the team would be directly responsible to him. The nature of the management arrangement would be set forth in a contract to be agreed to later. The American managers protested, saying that management rights were part of ownership rights, but Seda waved these off. Seda further indicated that the American managers would not be allowed to continue until the management contract was agreed to because the decision had already been publicly announced and the people would become angry if there were no visible change on the estates. Seda also emphasized several times that it was in the interests of their own safety that the managers cooperate. Finally, when queried about the status of the Wingfoot estate exchange, he said the exchange was off. The managers had no choice but to accept the decision, even though they indicated to Seda that they were reserving all rights, were under duress, and had to consult with their home offices.¹¹⁵

Years later, Seda recalled that the primary reason behind the GOI takeover of the American estates was to prevent the PKI from taking them over. Seda believed that the PKI desire to take over the companies was motivated by two primary reasons: first, the PKI was very nationalistic, and second, it wanted to turn the companies into sources of funding and manpower, much as the army had done with the Dutch companies seized and nationalized in 1957-59. He explained that his takeover policy was one of takeover of management and not of ownership, which he believed were easily distinguishable; the latter involved an obligation to pay compensation, while the former did not. Seda also recalled an incident shortly after his return to Jakarta from Medan after the takeovers. Meeting with both President Sukarno and PKI chairman Aidit at the Presidential Palace,

¹¹⁵ See US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

Seda was accused by Aidit of being duplicitous with the Indonesian people by distinguishing between ownership and management, with Aidit arguing that such an arrangement meant that there was no real takeover of the estates. Seda explained to both of them that with outright nationalization came an obligation of compensation, but since Indonesia had no money it could not compensate the owners and thus was better off assuming management only. Moreover, Indonesia was a civilized, cultured nation, not one of thieves, and it did not take the property of others. Seda claimed also to have told Sukarno that the President could find another Minister of Estates if he did not agree with this, and presumably Sukarno did agree as Seda kept his position.¹¹⁶ As we shall see, Seda indeed made determined efforts to reach agreement on compensating the owners of foreign estates taken over under his watch; except with respect to the buyout of Shell Oil (see next Chapter), no other GOI minister under the Sukarno administration attempted to compensate foreign companies for their losses.

Minister Seda moved swiftly to set up a takeover team, issuing a decree later that same day of 26 February.¹¹⁷ The takeover team, comprised entirely of GOI officials, most of whom were from one of the agricultural ministries, met on 2 March with the American managers, the American consul in Medan, and the Governor of North Sumatra and informed the American managers that takeover ceremonies, which included the appointment of new managers, would be held the next day.¹¹⁸ All management authority – including control over bank accounts and funds – was to be surrendered to the new

¹¹⁶ Interviews with Frans Seda 10 February and 10 October 2006.

¹¹⁷ Surat Keputusan Menteri Perkebunan (Seda) No. SK.X.25/MentPerk/1965 dated 26 February 1965 (English translation only, found in US Medan Consul telegram (Heavner) dated 1 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3)). The takeover team was comprised entirely of GOI officials, most of whom were from one of the agricultural ministries: Supardan Soerjohoedjo (assistant to Minister Seda) as chairman, Soesilo (another assistant to Minister Seda), Soerowo (Chief of Inspectorate for Estates in North Sumatra, presumably the same man who was involved with the takeover of the British estates in North Sumatra, see Chapter Five, Part III, Section B), Alimuddin (board member of PPN Karet), Drs. Soeradi (Chief of Inspectorate of Agrarian Affairs for North Sumatra), Sapardan Wirjosoemarto (Chief of Labor Relations Department for North Sumatra-Aceh), and Prasardjo (head of Medan branch of Bank Umum Negara). The duties of the takeover team were (i) to regulate the implementation of inclusion of the American estates in the affairs of the Republic of Indonesia, and (ii) to assume responsibility for and settle all matters that arise from (i) to ensure that the enterprises operate smoothly. The team was responsible directly to Minister Seda and was instructed to complete its duties as soon as possible. Finally, the ‘supervisory body’ as described in Minister Subandrio’s decree of the same day would “stand by” the takeover team.

¹¹⁸ These events are nicely summarized in the second of American Consul Heavner’s long reports; see US Medan Consul telegram (Heavner) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

managers, and from then on American personnel would act only as advisors, and only at the request of the new managers. The takeover team did state that all marketing arrangements and financial procedures would continue unchanged for the time being. The takeover team also informed the American managers that it would let them know when to come to Jakarta to negotiate the management contracts. In addition, the team informed Goodyear that the size of Wingfoot had been decreased (unilaterally) by 4,000 hectares; though not stated, this was an area equivalent to the area PT Hapinis had been occupying since October 1964.¹¹⁹

The next day, 3 March, less than a week after Minister Subandrio's decree taking over the estates was issued, formal transfer ceremonies stripping owner-appointed management of all authority were held as promised on both Kisaran and on one of the Goodyear estates. The ceremonies were apparently quite elaborate and required that USR and Goodyear management sign documents of transfer. Such spectacle, and one that they were forced to participate in as though concluding an arms-length business transaction, must have been a bitter parody for the American managers. New head managers were also appointed: for Goodyear, the manager for both Wingfoot and Dolok Merangir was M. Koesmihadi, and for USR the manager was Makmum Sastranegara (the assistant managers were Bustamen and MPH Pandjaitan). Both Koesmihadi and Sastranegara were officials on GOI-owned PPN estates; Koesmihadi was actually going to be the GOI appointed manager of Wingfoot had the estate exchange occurred. However, Koesmihadi's deputy was none other than Major A. Muis, who was the head of the Action Command to Crush US and Belgian Imperialism, the very same group which campaigned for the takeovers and organized demonstrations against the estates.¹²⁰

3 March 1965 indeed marked the end of owner-appointed management control for both USR and Goodyear. Thereafter, USR American managers were not permitted to enter the offices. Goodyear's foreign managers were initially allowed back into the office as advisors, but by 11 March this was limited to three people, and this apparently

¹¹⁹ See US Medan Consul telegram (Heavner) dated 2 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65- 9/65, Box 247); US Medan Consul telegram (Heavner) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

¹²⁰ US Medan Consul telegram (Heavner) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3); Pemberitahun ('Announcement') dated 5 March 1965 (BKS-PPS, Perusahaan Perkebunan IV-3, GPS 1964-5).

only lasted a few more weeks. On 5 March, the GOI changed the name of the Goodyear operation to Perusahaan Perkebunan Ampera I (Estate Company Ampera I), and the name of the USR operation to Perusahaan Perkebunan Ampera II (Estate Company Ampera II).¹²¹ AMPERA, as we saw in Chapter Two, was short for *amanat penderitaan rakyat*, or ‘message of the people’s suffering,’ one of the most popular slogans of Guided Democracy.

D. Company Reaction and Initial Negotiations.

The home offices and the managers in Indonesia for both USR and Goodyear quickly understood that there was little they could do regarding the takeover of their respective companies. While in theory the GOI takeover was of management only, and not ownership, both companies had seen what had happened to the British companies in the past 18 months and were probably quite realistic in their internal assessments. On 2 March representatives of Goodyear and USR met in Washington DC with various US State Department officials. The company representatives indicated that they had little choice but to go along with the GOI, and under their current operations things could hardly get worse anyway. Neither company had remitted any profits since 1960; high taxes and the incredibly restrictive foreign exchange rules conspired to make remittances very difficult.¹²² Clearly, the companies were not directly profiting substantially from their Indonesian operations. The main reason the companies had remained in Indonesia was because their Indonesian operations provided an important source of latex for their rubber production processes outside Indonesia.¹²³ In fact, by early 1965 most of the production of each company was in the form of latex – 75% for Goodyear and 95% for

¹²¹ US Medan Consul telegram (Heavner) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3); Pemberitahun (Announcement) dated 5 March 1965 (BKS-PPS, Perusahaan Perkebunan IV-3, GPS 1964-5); US Embassy telegram (Galbraith) dated 10 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

¹²² In public statements issued by the companies after the takeover, both companies indicated that the takeover would have a very minimal impact on profits, as neither company had been able to remit profits since the late 1950s. For USR, see *New York Times* and *Wall Street Journal* articles dated 24 March 1965 (quoting chairman George Vila); for Goodyear, see *New York Times* dated 6 April 1965 (quoting chairman Russell De Young).

¹²³ Department of State Memorandum of Conversation dated 2 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc Rubber Indon, Box 1215).

USR.¹²⁴ However, neither company asked for US government assistance regarding the takeovers, and the US government would not get involved in the future in any significant manner.

In retrospect, perhaps the main factor contributing to the companies' equanimity was the hope held out by the GOI's apparent willingness to negotiate some kind of management agreement. This meant that while the companies would clearly lose management and operational control over the estates, the vital supply of latex that was the most important part of the companies' operations would continue to flow. Minister Seda in the meeting on 26 February had repeatedly emphasized that a contract would be negotiated, and as we saw Minister Subandrio's takeover decree also provided for this. President Sukarno told US Ambassador Jones on 27 February that negotiations over the new basis for operations would begin immediately, and suggested something along the lines of the oil companies CoWs; the main concern was division of income.¹²⁵ Further, in the meeting on 2 March between the American managers and the takeover team, the latter indicated that all marketing arrangements would continue for the time being; however, rather ominously during the meeting a telegram arrived from Minister Seda ordering a temporary freeze on USR's cream latex (but not Goodyear's), though this order was soon lifted.¹²⁶ In addition, Third Deputy Prime Minister Chaerul Saleh on 4 March told US Ambassador Jones that it was impossible for Americans to remain in the field for now, that negotiations for the new contract should begin immediately, and that the focus of the negotiation should be division of profits. Minister Saleh also emphasized that it was important to "adjust in [a] way which would prevent workers from seizing [the] initiative and in [a] way which would keep production going."¹²⁷ Jones dutifully passed the

¹²⁴ US Embassy Bi-Weekly Economic Review dated 5 March 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

¹²⁵ US Embassy telegram (Jones) dated 27 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64 -3/65, Box 246).

¹²⁶ US Medan Consul telegram (Heavner) dated 2 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65- 9/65, Box 247). The reason given was to prevent the export to Singapore or a British port, even though the shipments affected were going to the USA. Later Seda said he had issued the order to demonstrate that he was in control. See US Department of State telegram dated 5 March 1965 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹²⁷ US Embassy telegram (Jones) dated 5 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65- 9/65, Box 247).

message along to the companies, and, suitably buoyed, the home offices on 5 March each instructed their managers in Medan to proceed as soon as possible to Jakarta to begin negotiations. The main issues the head offices were most concerned about regarding the agreements were (a) the division and convertibility of profits, (b) the position of company personnel in management and particularly quality control, which was critical to maintain the quality of the latex for exports, (c) the maintenance of existing contracts to market latex (both Goodyear and USR marketed latex produced by GOI estates), and (d) the position of existing properties and assets.¹²⁸ By 8 March – just 5 days after the takeover ceremonies – company representatives were in Jakarta ready to negotiate.

It quickly became apparent, though, that the GOI was not quite ready to deal. While there seemed to be general agreement on the GOI side that a new arrangement was necessary, it was unclear what specifics the GOI had in mind. This hesitation was most likely due to two factors: first, because of the swiftness with which events had transpired, there had been no time for the Ministry of Estates – the GOI ministry in charge of the negotiations - to formulate a policy, and second because there was probably significant disagreement among GOI officials on what the terms should be. In fact, when representatives of the two companies met with Ministry of Estates official Danardojo (presumably this was the same Danardojo Hadisasono who was involved in the GOI management of Harrisons & Crosfield's Jakarta office dating back to early October 1963, see Chapter Four, Part II, Section B3) for the first time on 11 March, Danardojo asked for proposals from the companies by the next day!¹²⁹ Both USR and Goodyear complied and the next day sent in similar letters asking for a return to the status quo pre 26 February and then indicated that they were willing to hear GOI proposals on the arrangement. Apparently there was no response to these letters. Meanwhile, Minister of Estates Seda, with whom the companies had been desperately trying to meet, in an interview with an

¹²⁸ US Department of State telegrams (Klipper of Goodyear and McGrath and Lundstedt of USR) dated 5 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215). After the takeovers, a large portion of the companies' correspondence was sent through the US embassy in Jakarta and the US State Department in Washington; it is thanks to this that such a detailed record of the negotiations is available.

¹²⁹ US Embassy telegram (Galbraith) dated 11 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

Indonesian reporter from McGraw-Hill indicated that the GOI was offering some kind of production sharing arrangement (although this was news to USR and Goodyear).¹³⁰

On 19 March USR and Goodyear representatives were finally able to meet jointly with Minister Seda. The discussions were inconclusive, but Seda did make several points. First, he indicated that there would probably be no change in the marketing arrangements and that existing contracts would be honored, certainly good news for the companies. He also indicated that each company should reduce the number of its personnel, though he agreed in principal to allow the companies to leave 5-6 people: a few engineers and a few quality control people on the estates, and one marketing person to operate from Medan. He also indicated that although there was no possibility of an outright purchase of the estates, there was the possibility of the GOI making installment payments to the companies over time. He also suggested that Belgian and French estates would shortly be treated in the same way (even though nothing had yet happened to them).¹³¹ He asked for further proposals from both companies.

On 26 March, Minister Seda met with the Goodyear representatives (there apparently was no similar meeting with USR representatives) and made what amounted to the GOI's first concrete proposal. Seda offered a choice: the first alternative was for Goodyear to keep its estates, but the GOI would manage them using the current team. The second option, which Goodyear clearly favored, was that it would sell to the GOI the estates, which would henceforth be managed by the Perusahaan Perkebunan Negara (the PPN, the GOI-owned estate companies) but with Goodyear continuing to provide advisory and marketing services. Payment for the estates would be equivalent to book value; installment payments would be made over a ten year period, and would be in the form of sales of latex with price reductions from the normal market prices (in effect, the discounts would be the payment). Goodyear, as part of the marketing and advisory arrangements, would be allowed to keep a marketing supervisor, two chemists (for quality control), two engineers, and one doctor on the estates. If the second option were

¹³⁰ US Embassy telegram (Galbraith) dated 12 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹³¹ See US Embassy telegram (Lundberg of Goodyear to Klippert) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

agreed to, Minister Seda emphasized, it would have to be presented to the Indonesian public as a complete nationalization (presumably Seda was not worried about the stigma of nationalization under this alternative because the GOI was paying for the assets). Goodyear favored the second proposal in part because it had excellent relations with the PPN – at the time, Goodyear was marketing about 80% of the latex produced by the PPN estates in North Sumatra.¹³² Clearly another major benefit of this arrangement was that Goodyear would get some compensation for the estates. Perhaps most importantly, the arrangement would allow Goodyear to continue with the all important latex business. The two obvious initial obstacles were agreeing to a fair price for the estates and then figuring out how to determine the pricing of the latex to be used as payment. Toward the former, Goodyear's head office cabled its negotiator in Jakarta that the estimated fair market value of the estates was USD \$21 million, but that it would settle for \$15 million.¹³³

Over the next several months, various proposals were made, but nothing was agreed to. On 13 April and 15 April, Minister Seda met with Goodyear representatives and USR representatives, respectively, both of whom made similar verbal proposals along the lines of the second alternative presented to Goodyear on 26 March. Each company was to be compensated for its estates over several years via pricing arrangements on produce purchased by the companies. Goodyear asked for \$15 million for its estates, USR asked for \$14 million. Both would be allowed to keep foreign advisors on the estates. The Goodyear foreign presence would be whittled down from 15 to six (two engineers to assist in installing a new latex processing machine, two people for quality control, and one medical doctor on the estates, with one marketing person in Medan). Similarly, USR foreign personnel would be reduced from 13 to seven (one doctor, three scientists (for quality control and USR's food crop program) and one other person on the estates, with two marketing people in Medan). However, in the following weeks the GOI seemed to favor a production sharing arrangement. Minister Seda in early May told USR that Minister Subandrio had approved the concept of compensation

¹³² US Embassy telegram (Jones) dated 26 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

¹³³ US State Department telegram (Klippert of Goodyear to Lundberg) dated 29 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

through a percentage of production, with a repayment period of seven years because USR's concessions were scheduled to expire in seven years; the ministry would make a detailed evaluation of the estate and propose other details. Similarly, in mid-May the Ministry of Estates asked Goodyear to agree in principle to a production-sharing arrangement. A commission would be formed to appraise the Goodyear investment, and once a value was agreed upon Goodyear would be paid off over 10 years at 10% per year by giving Goodyear a percentage of the production from its ex estates. The remainder of the ex-estates production would then be marketed jointly by Goodyear and the GOI under an agreement between the two, although the GOI would not be bound to this. The ministry required that Goodyear sign over its property rights before agreeing to any production sharing arrangement, a condition that obviously was unfavorable for Goodyear.¹³⁴ In sum, it appeared that there was general agreement that (i) both USR and Goodyear would be compensated for their estates over a several year period, (ii) both would be allowed to market produce from their own estates as well as GOI estates, and (iii) both could keep a small contingent of advisors in country (especially for quality control, marketing, and medical services). What was not agreed was how much compensation the companies would be paid, and how (the method of payment: pricing or production sharing) the companies would be paid.

Final agreement was not reached over the next six months. In fact, the negotiations seemed to have died down by mid-June, as neither side appeared to be in a great hurry. In part this surely reflects that the meat of the bargain – the sticky details regarding compensation and payment terms – were extremely difficult to agree to. In addition, from the Ministry of Estate's side, a reason for the slowdown may have been the takeover of all foreign estates pursuant to President Sukarno's Decree of 26 April. As we shall see in the next Chapter, the ministry was extremely busy dealing with the implementation of that decree and probably had little time to iron out details with two companies that were already under ministry control. Similarly, from early October onward the ministry was certainly preoccupied with the aftermath of the September 30 Movement. From the companies' perspective, they appeared to be in no hurry in large

¹³⁴ US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

part because they continued to market latex from Indonesia, in spite of the lack of a formal agreement with the GOI governing the future arrangement. The exact arrangements are unclear, but both the companies continued with their marketing of GOI PPN estate latex (probably the relationship existing at the time of the takeover continued) well as latex from their ex estates. As long as this was continuing profitably, there was little reason to complain. In addition, a small number (2-3) of foreign personnel from the companies remained on the estates or in Medan dealing with quality control and marketing issues and negotiating with the GOI.¹³⁵ However, as we shall see in the next Chapter, agreement would soon be forced upon both USR and Goodyear at the end of 1965.

With the ending of ownership control over the companies, a contest immediately began within Indonesia for control over the estates and the opportunity to exploit the perceived wealth, resources and manpower they represented. The US consul in Medan reported that the newly-appointed GOI management began to “line their pockets.” A favorite method was by the upward revision of local contracts, with the extra going to the management. New management also favored increased sales of sheet rubber, rather than latex rubber, because the sheet rubber could be sold locally with greater opportunities for skimming. The US consul in Medan also reported that at least for the first few months there were continuing disputes between the PKI-controlled labor unions and the new management. Apparently management was resisting labor union calls to nasakomize the management of the estates, which might allow the PKI to access the resources and manpower of the estates. In this effort, the SOBSI labor unions were supported by North Sumatra Governor Sitepu, and the pressure was particularly strong on Goodyear’s Dolok Merangir estate. Other labor groups were also contesting control over the estates as well. There was in addition pressure for the army to have some representation on the board of directors, even though General Mokoginta (the All Sumatra Regional Commander) claimed he was unaware of such a movement. There were also acts of laborer sabotage in

¹³⁵ See, e.g., US Embassy Bi-Weekly Economic Reviews dated 26 July 1965, 1 October 1965 and 19 November 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); and US Embassy telegrams (Green) dated 2 September 1965 and 25 September 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); interview with Loh Thim Fatt dated 25 April 2006 (Medan). Mr. Loh joined USR in 1965 shortly after the estate was taken over and worked in the Medan office. Most expatriates from both Goodyear and USR slowly left Indonesia in the several months after 3 March.

retaliation for the illicit sale to the laborers of parcels of land by various takeover committees and groups seeking to cash in; when the land was not delivered, workers contaminated the latex. These circumstances had all contributed to a decline in production, at least in the short term.¹³⁶

There was perhaps no better symbol of the ensuing contest for resources than the events concerning PT Hapinis, the company controlled by high-ranking officials from the NU political party. As we saw earlier, back in June 1964 Coordinating Minister of Agriculture and Agrarian Affairs Sadjarwo had promised PT Hapinis a part of Goodyear's Wingfoot estate once the Wingfoot estate exchange was finalized. Even though the estate exchange had been postponed, Hapinis by late 1964 had indeed begun to occupy a large southern portion of the Wingfoot estate, a situation that Goodyear was powerless to stop. In late June 1965, almost four months after the GOI takeover of the estates, Minister Sadjarwo decreed that Hapinis had the right to exploit *all* the rubber from the Wingfoot estate; the profits were reportedly to pay for the construction of a new party headquarters. Minister Sadjarwo, as we saw in the previous Chapter, had great differences with Minister of Estates Frans Seda and with respect to the foreign estates had not played a very public role since President Sukarno's Decree 6/1964, which clearly gave Minister Seda authority over the British estates. While it is not clear what the Sadjarwo/NU relationship was or what Sadjarwo was getting in return, this latest measure was certainly an affirmation of the attitude by many GOI officials that the ex-foreign estates were items to be exploited, bargained over, and used as patronage. According to the US embassy, Minister Seda was not consulted regarding Minister Sadjarwo's decree and was furious when he heard about it, arguing that since Goodyear still owned the estate, it was not the GOI's to give away. The measure also raised the ire of the Action Command to Crush US and Belgian Imperialism, the body that was so active in demonstrating against the American estates and apparently was still around. It appears, though, that despite the protests the concession was initially granted.¹³⁷ It was finally

¹³⁶ US Medan Consul telegram (Heavner) dated 16 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3); US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inc Rubber Indon, Box 1215).

¹³⁷ US Embassy Bi-Weekly Economic Reviews dated 26 July 1965 and 9 August 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 -E8, Indonesia, Boxes 722-3); US Embassy telegrams (Lavinder of Goodyear

reversed by Minister Seda in May 1966 after the sale negotiations were concluded and the Goodyear and US Rubber estates were merged into the GOI-owned estate system (see Chapter Seven, Part III, Section C).¹³⁸

III. The Oil Companies.

Next up were the big three foreign oil companies, Caltex, Stanvac and Shell, which were officially taken over on 19 March 1965, some three weeks after the American estates.¹³⁹ Similar to the takeovers of the American estates companies, there is a very limited record of the behind-the-scenes activity within the GOI prior to the actual takeovers that provides some clues as to the motivations behind the takeovers, but this evidence is very confusing. Like the estate companies, the decision to take over the oil companies was made at the highest levels of the GOI and came as there appeared to be mounting pressure from labor unions, but the actual GOI takeover occurred before there was any physical seizure or takeover by third parties. The end result, however, was unique among all the foreign companies taken over in Indonesia from 1963-65 and exemplified oil company exceptionalism: while the companies were in theory placed under GOI control and supervision, in reality GOI control and supervision did not displace owner-appointed management nor did it significantly disturb the oil companies' operations.¹⁴⁰

to Klippert) dated 8 July 1965 and 9 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Medan Consul telegram (Heavner) dated 3 September 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215). Sadjarwo's decree apparently designated Wingfoot as a 'pilot project' to be managed by PT Hapinis.

¹³⁸ Surat Keputusan Menteri Perkebunan (Frans Seda) No. SK.50/MenPerk/1966 dated 17 May 1966.

¹³⁹ For a description of the operations of the big three, see Chapter Three, Part II, Section A. Although American-owned Pan American Oil was also taken over, its story will not be discussed in the following pages because its operations were comparatively insignificant. Pan American International Oil Company was owned by Standard Oil of Indiana, and the Indonesian subsidiary was named Pan American Indonesian Oil Company. As noted in Chapter Three, it signed a CoW in 1962 and commenced exploration activities in 1963, but never found any significant reserves and never produced oil. It pulled out of Indonesia in early 1967 after spending some \$28 million on exploration. See US Embassy telegrams (Green) dated 18 October 1966 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389) and 17 January 1967 (USNACP, RG 59 Central Files 1967-9, PET 6 Indon, Box 1356).

¹⁴⁰ It should be noted, though, that as we shall see in the next Chapter Shell was actually bought out by the GOI at the very end of 1965 along with most of the non-British estates; however, the buyout of Shell again

A. Prelude.

As we saw in the previous Chapters, the GOI had since the beginning of the takeovers in September 1963 maintained a policy that Shell – and in practice, Stanvac and Caltex - was not to be interfered with. This policy, of course, was not followed in the case of Shell's East Kalimantan operations from late September through late December 1963. There also had been a number of minor worker takeover attempts at various Shell facilities in January 1964, though these were never fully carried out, and over the course of 1964 there were various worker strikes and demonstrations at Shell's facilities and at Stanvac's operations. Stanvac, in fact, was forced to withdraw its expatriates from the Pendopo oil field to the refinery at Sungai Gerong in early 1964 because of PERBUM (*Persatuan Buruh Minyak*, the oil workers labor union, affiliated with SOBSI) pressure. The departure of the expatriates did not seem to stop the strikes and demonstrations, though none of them involved any significant attempt to takeover the company.¹⁴¹ Caltex's operations apparently did not experience nearly as many demonstrations, presumably because it had no refinery acting as a central operations area and its fields were far from major centers of population. In addition, PERBUM, for a number of reasons, also was significantly weaker at Caltex than the other two.¹⁴²

In late February and early March 1965, at the peak of the anti-American period described in Part I above, pressure to take over the oil companies mounted. This pressure seemed to come from two sources: the first was within the GOI itself, and the second from workers and specifically PERBUM, which was directing the workers. The reasons may have been intertwined in that GOI officials were reacting to PERBUM actions, but again the picture is very murky; the GOI decision may have been made before there was even a significant worker attempt to grab the companies. On 23 February the general manager for Caltex was informed by military sources that a certain group was planning to take over US oil companies in the next few days. Apparently Third Deputy Prime

proved exceptional in that it appears to be the only one which both endured and which the GOI actually paid for.

¹⁴¹ Interview with John Karamoy 12 September 2006, and interview with Sudono 26 September 2006. Mr. Karamoy was the field manager for Stanvac's Pendopo field from early 1964 until late 1966. Mr. Sudono also worked for Stanvac at the Pendopo field in the mid-1960s.

¹⁴² Interview with Madjedi Hasan, Wisaksono Noeradi, and Anton Wahjosoedibjo 5 October 2006. Each of these men worked for Caltex in the mid-1960s.

Minister Chaerul Saleh, who was also the Minister of Basic Industry and Mining (under whose jurisdiction the oil companies fell) was involved in the plan, because “for political reasons [he] wants to assert his revolutionary character.”¹⁴³ The veracity of this claim is impossible to verify; similarly, it is unknown who was part of the ‘group,’ or whether this group was actually involved in the takeovers that followed. It was certainly true, though, that Minister Chaerul Saleh was under pressure from the PKI beginning early 1965. After the shutdown of the ‘Body to Support Sukarno’ and the Murba party in late December and early January (both of which were virulently anti-PKI, see Chapter Five, Part I, Section A), the PKI had intensely campaigned against those associated with Murba, and Minister Saleh and Trade Minister Adam Malik (who were both linked with the Murba party, though Minister Saleh was not officially a member) were particularly targeted. Both were demoted in a minor cabinet reshuffle of late March, though both remained in the cabinet. It is uncertain if President Sukarno was acting under pressure from the PKI or had his own reasons for the demotions, but what is clear is that Chaerul Saleh in particular was engaged in a real struggle with the PKI, with both sides trying to gain favor with President Sukarno.¹⁴⁴

On 3 March, Julius Tahija, an Indonesian who was one of the highest ranking managers at Caltex, informed the US embassy that for the first time that morning Caltex’s Jakarta headquarters had been smeared with slogans, reflecting increased PKI pressure aimed at forcing a takeover of American oil companies. In addition, Tahija said that the army territorial commander in central Sumatra had removed several “troublemakers” from Caltex’s oil fields. No interference with operations had been experienced, and the army commander there was fully aware of the importance of the continued flow of oil. In fact, Tahija claimed that President Sukarno and key military figures were quite aware that the “moment anything happens indicating interference with control of Caltex (even such [an] occurrence as occupation of Caltex Headquarters in Jakarta) insurance companies will withdraw insurance on tankers and lift of oil from Indonesia will be halted.” Tahija also asserted that some takeover plans had been made

¹⁴³ US Embassy telegram (Jones) dated 23 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64-2/65, Box 246).

¹⁴⁴ See Mortimer, *Indonesian Communism under Sukarno*, pp. 76-8, and Crouch, *Army and Politics in Indonesia*, pp. 66-7.

by the GOI already, including the naming of personnel at key positions at Caltex, but that implementation of the plan would depend on the “power interplay between Sukarno, Subandrio and the PKI, and the Army.” He explained that President Sukarno had given First Deputy Prime Minister Subandrio much rope, but was beginning to doubt some of the things Subandrio had done, and if Sukarno found that Subandrio had hurt Indonesia’s position then Sukarno would get rid of him. Many people, especially in the army, were worried about the way Subandrio was handling affairs in Indonesia, and the army was “particularly concerned about oil continuity of its fuel supplies without which it would soon be immobilized.” The army was “trying to stay neutral in [the] internal political struggle.” The implication was that Subandrio was in a position to influence the PKI’s attacks on the oil companies: “if Subandrio pushes his pro-PKI program to the point where oil companies are taken over this could well produce serious clash between the armed forces and the PKI and elements cooperating with it.”¹⁴⁵

On 13 March, Tahija was told by Minister Chaerul Saleh confidentially that the day before (12 March) at a meeting of unnamed top GOI officials in Bogor the decision had been made to take over the management of the three oil companies in the next few days. Minister Saleh indicated that after the takeover operations would proceed normally and the CoWs adhered to. Although specifics of the takeover were vague, Saleh gave a sense of the thinking at the meeting. First, Caltex’s American employees could stay or leave, and Caltex could continue to transfer oil in its own tankers. If Caltex elected not to do so, Russian tankers were ready to step in, and the USSR was also ready to assist the GOI with marketing the oil. Second, army leaders at the meeting strongly believed that the PKI had gone too far (with what exactly is unclear) and were going along with the decision in order to ensure continuing domestic supply.¹⁴⁶ However, a day or two later Tahija also met with the “three military chiefs” (presumably this meant the leaders of the army, navy and air force) who assured him that they would oppose anything “which

¹⁴⁵ US Embassy telegram (Jones) dated 3 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65 – 9/65, Box 247). US Ambassador Jones, for one, believed there was “considerable wishful thinking” in Tahija’s analysis and doubted that the oil situation would be the trigger for an army-PKI clash. Jones turned out to be correct about the ‘trigger,’ but as we shall see in the next Chapter the oil companies did play a role in the power struggle between General Suharto and President Sukarno.

¹⁴⁶ US Embassy telegram (Jones) dated 13 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

would affect oil operations in any drastic way.”¹⁴⁷ Meanwhile, on 15 March Minister Subandrio gave US Ambassador Jones “categorical assurances that GOI had no present intention of disturbing American oil companies or abdicating contracts” and also said he had told Chaerul Saleh the same day to “lay off” the oil companies.¹⁴⁸

In fact, Minister Chaerul Saleh seems not to have ‘laid off’ at all. According to the British embassy, in the week before 19 March Minister Saleh met with the political committee of PERBUM and asked them what they wanted to do. The response was “kick out the foreigners,” which Saleh explained would lead to many difficulties. When this group persisted with the demand, Saleh said he would consult with President Sukarno. Apparently he did so and two days later called back the political committee, enunciating a three point plan which had the President’s approval. The first point was that “maximum difficulties” should be made for the American oil companies, but not to the point of takeover; further instructions would be given depending on how American/Indonesian relations developed. Shell was to be left alone for the time being because “they were sincere and had a good record.” The second prong was that there should be maximum pressure for Indonesianization of top management of the oil companies. The third prong was the complete revision of the CoWs. In fact, later in the week but unbeknownst to Minister Saleh, Permigan, the GOI partner to Shell, told Shell that there must be complete and immediate Indonesianization of Shell and even provided names of the Indonesians they wanted to fill the positions.¹⁴⁹

¹⁴⁷ US Embassy telegram (Jones) dated 15 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65 – 9/65, Box 247). In contrast to Tahija, the general manager of Caltex thought that the military did not really care as long as the domestic oil supply continued unaffected and fulfilled their needs.

¹⁴⁸ US Embassy telegram (Jones) dated 16 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65 – 9/65, Box 247).

¹⁴⁹ British Embassy telegram (Rogers) dated 19 March 1965 (UKNA, FO 371/180361). Another source suggests that Minister Saleh had no intention of bowing to PERBUM/PKI pressure but instead devised a plan to deflect it. In this version, Minister Saleh decided that something had to be done to prevent the possible disruption of operations of the oil companies because of PERBUM pressure, so he met with President Sukarno who agreed and gave Saleh “an open mandate to implement any plan that he might be able to devise to take the initiative out of the mounting PKI-led nationalization drive.” In meetings with the agitators, Minister Saleh “feigned agreement” with their nationalization goal, agreed that “demonstrations would be conducted against the companies at an unspecified date in the near future,” and also agreed to ensure “that the non-communist unions would also participate” in the demonstrations. However, PERBUM got wind of Saleh’s trickery and brought forward the date of the demonstrations; Saleh and his staff, hearing of this development, stayed up all night preparing a decree to put Saleh’s plan into effect, and when

On 18 March, there was a worker strike at Shell's Pladju refinery as well as a demonstration at Stanvac's Sungei Gerong refinery. The strike at Pladju was led by PERBUM and lasted only one day; it was unclear how much the strike affected operations, but by the next day operations had returned to normal.¹⁵⁰ The demonstration at Stanvac's Sungei Gerong garnered much attention and was widely reported in the press as an attempted takeover of the facility, but despite such reports no takeover occurred or was really even close to occurring; in fact, operations apparently were not significantly disturbed and things were back to normal the next day as Sungei Gerong was immediately put under army and police protection. The attempt was led by PERBUM acting via the 'Oil Workers Action Unit at Sungei Gerong' (*Kesatuan Aksi Buruh Minyak Sungei Gerong*, a group comprised of the seven major oil worker unions), as apparently the Muslim unions were opposed to it.¹⁵¹ While the takeover attempt was hardly threatening, the *Kesatuan Aksi Buruh Minyak Sungei Gerong* did issue a 'proclamation,' signed by representatives from PERBUM, the KBM, and SARBUMUSI (the NU labor federation), declaring that Sungei Gerong had been seized. The proclamation referred to (i) the attitude of the imperialist USA, the enemy of Indonesia who gave \$4.0 million of weapons as aid to Malaysia, (ii) the attitude of President Sukarno, who said all foreign capital should be taken over, (iii) the necessity to take concrete steps to support President Sukarno regarding the foreign capitalist imperialist Americans in Indonesia, and (iv) the attitude of the *Kommando Aksi Buruh Minyak* that was displayed on 11 March (this may have been a reference to the meeting between Minister Chaerul Saleh and PERBUM representatives). The proclamation then declared that by the actions of the workers on 18 March the American company at Sungei Gerong and the Pendopo oil field had become the property of the Republic of Indonesia in accordance with Article 33 of the Indonesian constitution. The proclamation further asked that President Sukarno take over Stanvac's property and make it the property of Indonesia, and also instructed the workers to

the demonstrations proceeded the next day Saleh announced his decision. As we shall see, this story contains some elements of what happened. See Bartlett et al., *Pertamina*, pp. 201-2.

¹⁵⁰ British Embassy telegram (Rogers) dated 19 March 1965 (UKNA, FO 371/180361); British Embassy telegram (van Reeven of Shell) dated 19 March 1965 (UKNA, FO 371/180361).

¹⁵¹ US Embassy telegram (Jones) dated 19 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

continue working and that the oil workers and the armed forces should work together to safeguard oil production and distribution.¹⁵²

The next day, 19 March, events reached a climax. Early in the morning, there were incidents at the Jakarta headquarters of Stanvac and Caltex. At Stanvac, a crowd of about 200 gathered outside as 15 representatives from PERBUM, SARBUMUSI, and *Buruh Marhaenis* (another labor group) met inside with Stanvac's general manager. At this meeting the labor representatives said they were taking over the company and asked the general manager to leave. The general manager refused both demands, saying that Stanvac was only a contractor under the CoW and any takeover orders could come only from the GOI. The crowd then left and went to Caltex headquarters, where eight representatives met with Caltex management and declared that Caltex operations were being taken over. Similar to Stanvac's response, Caltex management refused to accept the takeover on the grounds that Caltex "could not take any orders from anyone except the GOI" under the CoW. The crowd then left, saying they had an appointment with Minister Chaerul Saleh. Neither of these incidents was violent, and neither interfered with the companies' operations or amounted to anything close to a takeover of the companies. Nevertheless, police advised that Caltex expatriate managers be sent home, and most Indonesian and expatriate staff were accordingly sent home for the day.¹⁵³ Apparently the worker delegations did meet later that morning with Minister Chaerul Saleh. The New York Times reported that "[a] thousand Communist-led workers had presented a petition to Dr. Saleh this morning, asking him to seize the oil companies," to which Saleh reportedly answered that the decision would be made by President Sukarno.¹⁵⁴ Shortly thereafter, Minister Saleh met with President Sukarno and Minister Subandrio.¹⁵⁵

B. The Takeovers.

Emerging from the meeting with First Deputy Prime Minister Subandrio and Third Deputy Prime Minister Chaerul Saleh on the afternoon of 19 March, President

¹⁵² Proklamasi dated 18 March 1965 (ANRI, R22 240).

¹⁵³ US Embassy telegram (Jones) dated 19 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (1 of 2), Volume IV, 3/65 – 9/65, Box 247).

¹⁵⁴ *New York Times* 20 March 1965.

¹⁵⁵ British Embassy telegram (van Reeven of Shell) dated 19 March 1965 (UKNA, FO 371/180361); *New York Times* 20 March 1965.

Sukarno told reporters that the GOI was taking over management of the foreign oil companies. Minister Saleh elaborated on Sukarno's statement, saying that the President had already telegraphed military authorities in Sumatra to place the companies under temporary GOI authority and supervision.¹⁵⁶ He further said that the decision was made "to stem oil worker's and people's enthusiasm to take over foreign oil companies on account of US support for Malaysia and to safeguard security and proprietary rights of the foreign oil companies." He indicated that management and supervisory teams would be appointed, but the companies would remain responsible for operations and were obligated to support the GOI teams.¹⁵⁷ Separately, he also arranged for the companies to meet with him the morning of the next day, 20 March.

Surprisingly, Minister Saleh was unable to make this 20 March meeting, having been called away to Bogor for very urgent KOTI meetings. Instead, the short meeting took place between representatives of Caltex, Shell, Stanvac and Pan American and three officials from the Ministry of Basic Industry and Mining, including one of Saleh's deputies.¹⁵⁸ The companies were given three documents: a letter from Minister Saleh himself and two decrees implementing the takeover. The letter from Saleh, which was in English and was read aloud at the meeting, is worth quoting at length for its reasoning behind the GOI's decision to take over the companies. It noted that recent events "are the logical consequences of our revolution which is part of the revolution of mankind for a better world to live in." There have been "rising demands which in essence is the breaking off of the rules, norms and conditions which arise from and have been pushed along by the imperialistic mind in all its manifestations in the political, economical as well as the social and cultural field." These events include the

contradictory and even conflicting political relations between the Indonesian and the US and British governments concerning the 'Malaysia' issue, the strengthening of solidarity between the Afro-Asian nations striving for their common goals, and the march of the New Emerging Forces, all are unbreakable and interrelated and constitute a part of the

¹⁵⁶ *New York Times* 20 March 1965.

¹⁵⁷ British Embassy telegram (van Reeveen of Shell) dated 19 March 1965 (UKNA, FO 371/180361).

¹⁵⁸ British Embassy telegram (van Reeveen of Shell) dated 20 March 1965 (UKNA, FO 371/180361); US Embassy telegram (Jones) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

recent developments which took place, namely demands made by the workers-unions concerning the oil companies.

The GOI was “aware of its responsibilities and recognizes the vitality and role of the oil industry in the development as well as in the defense of the state,” and especially now at the current stage of Konfrontasi the GOI “has to safeguard its interest but simultaneously has to meet to a certain extent the aspiration and potentialities of the people. Therefore in light of recent events the Government is determined to take [measures] to safeguard the continuation and smooth functioning of the oil operations.” The letter seemed to be suggesting that Konfrontasi and other events had stimulated the people/workers to action, and the GOI, because of the importance of oil production to the country, was stepping in to safeguard its interests. The letter continued: “The oil industry will be placed and custody [sic] under direct government control temporarily while recognizing and maintaining the proprietary rights of the foreign partners.” The cooperation of the companies was requested in order to “avoid any possible stagnation in functioning of the industry,” and the smoothness of the GOI measures would be the “measuring staff” for the companies’ understanding and would “be decisive for the further cooperation in the future.”¹⁵⁹

Two decrees implementing GOI supervision were also given to the companies at the 20 March meeting. The first decree, issued by Third Deputy Prime Minister Chaerul Saleh in the name of the Presidium Kabinet, placed Caltex, Shell and Stanvac under the temporary control/supervision (*penguasaan/pengawasan*) of the GOI without diminishing the proprietary rights of the companies.¹⁶⁰ The decree indicated that the Minister of Basic Industry and Mining (Chaerul Saleh) would appoint supervisory teams to assist in implementing the supervision. The management of the oil companies was obligated to continue to share responsibility over the efficient operations of the companies, and was also obliged to assist the supervisory teams. The three elements of

¹⁵⁹ Letter from Third Deputy Prime Minister Chaerul Saleh No D/II/0946/H5/1965 dated 19 March 1965 (found in US Embassy telegram (Ellis) dated 22 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389)).

¹⁶⁰ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/26/1965 Tentang Penetapan Perusahaan2 Minjak Caltex, Shell Dan Stanvac Dibawah Penguasaan/Pengawasan Sementara Pemerintah Republik Indonesia, dated 19 March 1965; a separate almost identical decree covering Pan American Oil Company was later issued - Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/27/1965 dated 19 March 1965.

(i) assumption of management, but not ownership, (ii) the appointment of supervisory teams, and (iii) the obligation of owner-appointed management to continue to assist the teams, were almost identical to the terms of the GOI takeover of the American estate companies the previous month. The decree cited the following reasons for the measures: (a) the increasing intensity of Konfrontasi against the puppet Malaysia, and the interests of security and safety of the entire oil industry for the benefit of the revolutionary struggle in facing increasing revolutionary enthusiasm, (b) that the political attitude of the USA and Great Britain had caused the anger of the oil workers and laborers to emerge and who therefore took the step of proclaiming the takeover of the companies, and (c) the framework of the commemoration of the 10 year anniversary of the first Afro-Asian conference (i.e., Bandung in 1955). The second decree was issued by Minister Saleh in his capacity as Minister of Basic Industry and Mining (the Ministry which oversaw the oil companies) and appointed the supervisory teams for each of Caltex, Stanvac and Shell.¹⁶¹

Oil company representatives were finally able to meet separately with Minister Chaerul Saleh and his assistants on 22 March. Minister Saleh seemed to make different points with each company, or at least each company seemed to come away with different impressions. In the meeting with Caltex, Saleh said the companies would soon be receiving written statements regarding the functions of the teams. Saleh indicated that “political pressures” had forced him to take these steps, but that he hoped they would be

¹⁶¹ Decree of Minister of Basic Industry and Mining (Chaerul Saleh) No. 146/Perdatam/65 dated 19 March 1965 (English translation only, found in British Embassy telegram (Rogers) dated 20 March 1965 (UKNA, FO 371/180361) and US Embassy telegram (Ellis) dated 22 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389)). Each team was responsible for safeguarding the smooth operation of the respective oil company, based on the instructions of the Minister of Basic Industry and Mining, to whom the teams were fully responsible. The teams were to have their office at the head office of the oil companies and could even appoint assistant teams. All expenses were to be paid by the respective oil company. Each team was comprised of five members: (i) one member from the board of directors of the foreign company’s GOI partner (Pertamin in the case of Caltex, Permina in the case of Stanvac, and Permigan in the case of Shell), acting as chairman, (ii) one representative from the Ministry’s Oil and Gas Directorate (MIGAS), (iii) two members from the company itself, and (iv) one union representative to be appointed by the Minister of Labor. The appointees, except for the labor representatives, were named in the decree; (A) for Caltex, they were Drs. Soekotjo from Pertamin, Ir. Harsono from MIGAS, Julius Tahija and Delma Juzar from Caltex, with the union representative yet to be named, (B) for Stanvac, Soemarmo from Permina, Ir Sjarif Lubis from MIGAS, Sjarifudin Sumintardja and Jahja Sumitramihardja from Stanvac, with the union representative yet to be named; and (C) for Shell, Sultan Assin from Permigan, Sjamsir Pulungan from MIGAS, F. Werbeta and Ir. Singgih Sudarsono from Shell, with the union representative yet to be named.

temporary and that everything at Caltex could continue on a relatively normal basis. However, should the team find Indonesians “capable of fulfilling higher grade positions,” then the expatriates in those positions likely would be asked to leave. When Caltex complained about the actions of some union members, Saleh indicated he would send the takeover team over the next day to inform the unions that the team, not the unions, had authority.¹⁶²

In the meeting with Stanvac representatives, Minister Saleh indicated that the GOI had acted under an article of the CoW which allowed the GOI to take measures based on the GOI’s defense needs. In addition to defense, the GOI had acted in the interests of the security of the company. He indicated the measures were temporary and that the length would depend upon the internal and external political situation, in particular the Malaysia issue, but that he hoped operations would continue normally. Saleh also suggested that the team would work within the terms of the CoW except in the special cases of defense and national revolution; otherwise, normal management functions would continue as usual, and Stanvac could appeal decisions of the team to him. He further indicated that there would be sub-teams at Stanvac’s installations and that they might occasionally “take over management prerogatives.” Finally, the Stanvac manager also reported what had been heard about Minister Saleh’s meeting earlier that day with the supervisory teams. Saleh apparently instructed the teams to be “passive” if the companies cooperated, but “active” if the companies did not cooperate and pursued policies “contrary to the Indonesian revolution.” The CoWs would continue for now, though in four months time there may be renegotiations, and the teams would be in place for a 3-4 month trial period.¹⁶³

In the meeting with Shell representatives, Minister Saleh indicated several reasons for the imposition of GOI supervision over Shell, despite its not being an American company. First, although recent labor activities had been directed against the American companies, it was only a matter of time before Shell began experiencing such labor

¹⁶² US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁶³ US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US Embassy telegram (Howard of Stanvac to Esso) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

activities. Second, the GOI did not want to give the impression that “American companies were being discriminated against.” Regarding the function of the supervisory team, Minister Saleh gave some unclear answers. He indicated that the team would supervise the activities and decisions of the Shell board of directors, but that the team would do so without disturbing the company’s operations under the CoW. When queried, Saleh said the company would be managed half by the team and half by the Shell board, though how this would be done apparently was not said. Further, on matters such as defense and “sovereign rights” (which were cited as other reasons for GOI supervision), the team would assume management authority. When Shell pointed out the difficulties of division of management responsibility, Saleh responded by expressing the “hope that reasonable cooperation could be developed in the spirit of mutual consultation.” In addition, Saleh noted that the duration of supervision would depend on the company’s cooperation as well as the Malaysia issue. Finally, he admitted that the GOI was worried about recent labor union activities and that these measures were intended to “curb such activities.”¹⁶⁴

In addition to the meetings with the companies on 22 March, Minister Saleh also issued a third decree concerning the organization, duties, authority and working procedures of the supervisory teams.¹⁶⁵ This decree essentially expanded the duties set forth in Saleh’s decree of 19 March; presumably the extra three days allowed the Ministry of Basic Industry and Mining to reflect more about what it wanted the supervisory teams to do. The decree kept the structure of the teams intact, although it did formalize the composition of the five man teams as one representative from the GOI partner company, one representative from MIGAS, two representatives from the foreign oil company, and one labor representative, each of whom were to be appointed by the Minister of Basic Industry and Mining. The teams were given authority over the following: (i) to implement and safeguard the instructions of the minister, (ii) to stipulate and direct each action by management to adjust the operations of the company to the

¹⁶⁴ British Embassy telegram (van Reeven of Shell) telegram dated 23 March 1965 (UKNA, FO 371/180361).

¹⁶⁵ Decree of Minister of Basic Industry and Mining (Chaerul Saleh) No. 153/M/Perdatam/65 dated 22 March 1965 (English translation only, found in US Embassy telegram (Ellis) dated 29 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

regulations and guidelines and policies of the government, (iii) to exercise actively day to day supervision of all activities and actions of management in the areas of exploration, production, processing, transportation, storage and administrative matters, (iv) to bring in line all actions of management contrary to the regulations, guidelines or policies of the government, (v) to request all information and explanations deemed necessary pertaining to the oil company, and management was obliged to assist the team in carrying out its tasks, (vi) to supervise all activities within the orbit of the oil company in order to prevent anything that may hamper production, and (vii) to handle all issues from inside or out of the company and to settle them in line with laws, regulations and guidelines of the government. In carrying out their tasks, the teams were expected to make contacts and cooperate closely with agencies and organizations within and without the Ministry of Basic Industry and Mining, at the capital city as well as in the provinces. The Deputy Minister of Mining Affairs was designated as the minister's representative with day to day authority, including the power to suspend members of the teams. Finally, the teams were expected to provide monthly reports to the minister on their work. The powers contained in the decree were obviously extremely broad and could easily result in the effective displacement of owner-appointed management; the trick for the oil companies would be to see how much these broad powers were actually exercised.

On 24 March, just five days after GOI supervision was announced on 19 March, the supervisory teams were formally installed at separate ceremonies at the Jakarta headquarters of each company. The ceremonies were "quiet, with no large crowds or demonstrations," but the one at Stanvac was filmed by local TV. At each ceremony, Minister Chaerul Saleh made both a short speech and a later "longer speech for political consumption," in which he instructed the teams to act in accordance with the Revolution, the defense of Indonesia, the struggle to crush Malaysia, and for the welfare of the people. He also said that future cooperation between the GOI and the oil companies would depend on the "assistance, cooperation and understanding" the companies gave to the supervisory teams.¹⁶⁶ The swiftness of events left the oil companies reeling, with

¹⁶⁶ US Embassy telegram (Jones) dated 25 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

hardly any time to react, and the big unresolved question was just how much the supervisory teams would interfere with their operations.

It should also be noted that Third Deputy Prime Minister Chaerul Saleh issued yet another decree concerning oil just as all of these events were unfolding, but its exact purpose and relationship to the foreign oil companies is unclear.¹⁶⁷ The decree formed a team to “Upgrade National Defense in the Field of Oil,” which was headed by the Minister of Basic Industry and Mining (Saleh himself) and included the Minister of Labor, the Minister/Secretary General of the National Front, the Commanders of the army, navy, air force and police, the Deputy Minister of Home Affairs, the Deputy Attorney General, the Chairman of KOTI’s Oil Affairs team, the three President Directors of the SOE oil companies, and an unstated number of representatives from oil labor organizations. The team was charged with following, investigating, and evaluating all developments and problems in oil affairs and formulating proposals in order to increase national defense. The team was also allowed to establish sub-teams at the regional level to assist the team (the composition of these regional teams was also specified and consisted of the regional *Pantja Tunggal*, as well as single representatives from each of the Ministry of Basic Industry and Mining, the Ministry of Labor, the three GOI oil companies, and an oil labor organization). What motivated this decree is unclear; the formation of the group may have been Minister Saleh’s response to the army’s concerns over the country’s oil supply and its obvious impact on the army’s operational capabilities. One observer suggested it was intended to check the influence of labor unions.¹⁶⁸ It is unclear if the team ever actually met or whether it carried out any of its assigned activities, and it does not appear to have been a factor in the supervision of the oil companies.

¹⁶⁷ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/26/1965 Tentang Pembentukan Badan Peningkatan Ketahanan Nasional Dalam Bidang Minyak, dated 19 March 1965.

¹⁶⁸ Aden, *Oil and Politics in Indonesia*, pp. 260-1.

C. Company Reaction and Impact of GOI Control and Supervision.

Although the oil companies were clearly somewhat shell-shocked by the dizzying pace of events, in reality there was initially very little they could do but to comply with the GOI measures and wait and see what developed. The speed of events, and the great uncertainty they portended, also were suggestive that the proper approach would be to wait until the dust settled before taking any action. Certainly the oil companies (and obviously Shell) were aware of the takeovers of the British firms in 1963-64 as well as the takeover of the American rubber estates in February. However, they probably correctly sensed that the oil industry was simply too important and too complicated for the GOI to make any immediate and radical changes. As early as 13 March, when Tahija of Caltex was told by Minister Chaerul Saleh that plans were afoot to take over the companies, the general manager of Caltex acknowledged that Caltex was faced with really only two choices: either accept the GOI intervention or get out.¹⁶⁹ A similar choice faced Shell and Stanvac, and each of the three companies adopted the ‘accept, wait and see’ alternative. None apparently requested the formal intervention of the American government or the British government, instead electing to deal with the matter on their own.

Indeed, the great uncertainty of the situation had both encouraging and discouraging elements for the companies. On the one hand, there were several considerations indicating that the situation was not so bad. The Caltex general manager, for one, thought that the GOI measures were the minimum steps politically that the GOI could have taken to placate labor; the real question was whether the GOI teams would actually interfere in the companies’ operations.¹⁷⁰ Similarly, the general manager of Stanvac felt if the GOI “had kept hands off, Perbum would be able to shut down the companies and that perhaps [the] present set up is the only way to bring peace with the

¹⁶⁹ US Embassy telegram (Jones) dated 13 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁰ US Embassy telegram (Jones) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

labor unions.”¹⁷¹ Second, the companies could derive some satisfaction from the composition of the supervisory teams: of the five members, two were from the companies themselves, one was a professional from the companies’ SOE partner, one was a professional bureaucratic who knew the industry well, and only one represented labor organizations and therefore may be more radical in his demands. Stanvac, at least, felt that such a composition signaled the GOI’s intent that “the company and the team will be able [to] operate together smoothly.”¹⁷² In fact, all three companies thought the composition satisfactory, with the exception of the labor representatives.¹⁷³ Thirdly, the companies certainly believed the GOI recognized that it was unable to step into the companies’ shoes if they did leave. Thus Shell’s managing director thought it unlikely that the GOI would allow the companies to pull out of Indonesia because it would throw the entire Indonesian oil industry into “utter confusion.”¹⁷⁴ Stanvac’s general manager also thought that the GOI was trying to satisfy union pressure without actually abrogating the CoWs (which would have led to arbitration).¹⁷⁵ Over the next few months, the companies apparently did make it clear to GOI officials – if the latter did not already know – the possible impact on the domestic oil situation as well as on overseas sales of crude oil if the companies suspended operations in Indonesia.¹⁷⁶

Fourth, the minor reorganization and reshuffling of the Indonesian cabinet at the end of March seemed to strengthen the companies’ position. In the reshuffle, the Ministry of Basic Industry and Mining was broken up into three separate ministries, the Ministry of Oil and Natural Gas, the Ministry of Mining, and the Ministry of Basic Industry, all under the Development Compartment. Minister Chaerul Saleh held on to the position of Minister of Oil and Natural Gas (he also remained the Coordinating Minister of the

¹⁷¹ US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷² US Embassy telegram (Stanvac Jakarta to Esso) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷³ US Embassy telegram (Ellis) dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁴ US Embassy telegram (Jones) dated 25 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁵ US Embassy telegram (Stanvac Jakarta to Esso) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁶ US Embassy telegram (Ellis) dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

Development Compartment), but other individuals were appointed to the other two ministries. However, Ibnu Sutowo, the medical doctor/army officer who was president-director of the GOI oil company Permina and had become one of the most influential Indonesians in the oil industry (see Chapter Three, Part II, Section A for a brief description of Sutowo), was appointed as Minister of State for Oil Affairs, a brand new position. This minister was seconded to the Presidium Kabinet and thus potentially very influential.¹⁷⁷ Given, though, that there was already a Minister for Oil and Gas – Chaerul Saleh - the position seemed superfluous, and it was unclear what the responsibilities of the two posts were and the relationship between them. There were of course, different interpretations about this move.¹⁷⁸ Stanvac's general manager was inclined to think that it was the result of pressure from the army, afraid that Chaerul Saleh would “succumb to communist pressure... and will wreck oil policy beyond retrievalment [sic].”¹⁷⁹ After a few months, the US embassy reported there was

reasonable agreement among the foreign companies that ...Sutowo was appointed to prevent the PKI and the labor unions backed by it from gaining too strong a foothold in the oil companies. The reason is that both Saleh and Ibnu Sutowo are ambitious, but for different reasons. Saleh wants to be President, and so is subject to all sorts of political pressure. Ibnu Sutowo just wants to make a lot of money and to run a good oil industry. Both his ambitions and his status as an Army officer insulate him somewhat from the political pressures which are so strong on Saleh.¹⁸⁰

These fears about Minister Saleh's ability to resist political pressure certainly gained credence when in early April Saleh indicated to US Ambassador Jones that the CoWs would have to be renegotiated because things were moving so quickly; he claimed to be seeking a balanced approach to keep the oil companies interested, but the treatment of

¹⁷⁷ For details of the cabinet reshuffle, see Simanjuntak, *Kabinet-Kabinet Republik Indonesia*, pp. 254-5.

¹⁷⁸ Aden suggests it “may have been intended as much to bolster Saleh’s efforts to deflect the union-led takeovers of the foreign oil installations which had occurred in mid-March as to limit Saleh’s control over the oil sector.” (Aden, *Oil and Politics in Indonesia*, pp. 264-5)

¹⁷⁹ US Embassy telegram (Howard of Stanvac to Esso) dated 2 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁸⁰ US Embassy telegram (Ellis) dated 6 July 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); see also US Embassy telegram (Ellis) dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

foreign enterprises was outmoded and needed to be revised “in keeping with the revolution.”¹⁸¹

However, on the negative side, there were also some very evident reasons for the companies to be pessimistic. First was the general overall attitude toward foreign investment, which as we have seen continued to be increasingly negative. One Shell official in London, echoing the interpretation of the British embassy after the takeovers of British companies in 1963-64, thought the GOI’s measures amounted to an attempt to expropriate the company without paying compensation and indicated Shell would not pump any more cash into Indonesia and would keep the supervisory team too busy to interfere.¹⁸² Indeed, the past 18 months had shown that a GOI ‘supervision’ and ‘management takeover’ were the first steps to a full takeover. A second negative factor was the appointment of the labor representatives on the supervisory teams; none of the companies were happy with these members. In addition, Stanvac was very concerned over the composition of the team appointed in late March for the Sungai Gerong refinery. This team was comprised of one army officer, one representative from Permina (the GOI oil company), one representative from MIGAS, and 8 representatives from labor unions (one from each union at the refinery), and thus appeared to be top heavy with labor representatives. Apparently other local teams would have a similar composition.¹⁸³ Third, as noted above, the companies had no real alternative other than to accept initially the GOI measures. Theoretically they could pursue arbitration under the CoWs, but this would be a long drawn out process, and there was no certainty that the GOI would even agree to participate, despite its obligation under the CoWs to do so. In fact, somewhat surprisingly, Stanvac’s shareholders initially concluded that the three decrees effecting the takeover (Minister Saleh’s Presidium decree of 19 March, and his two decrees of 19 and 22 March issued as Minister of Basic Industry and Mining) were so vague that they were unable to conclude that there was a violation of the CoW, even though the decrees

¹⁸¹ US Embassy telegram (Stanvac Jakarta to Esso) dated 6 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). However, CoW renegotiations never materialized but instead were shunted aside by the GOI push at the end of the year to takeover the oil companies. As we shall see in the next Chapter, both Chaerul Saleh and Sutowo played key roles in these developments.

¹⁸² Record of Meeting 24 March 1965 between Barran of Shell and Representatives of the British Foreign Office (UKNA, FO 371/180361).

¹⁸³ US Embassy telegram (Howard of Stanvac to Esso) dated 31 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

certainly authorized actions that would violate the CoW. However, there was nothing to gain now by making a general protest about breach of the CoW.¹⁸⁴ The other alternative was to pull out, thereby losing everything, and retaliate against the GOI by boycotting its crude oil exports, but the companies were not ready to take this drastic, last irrevocable step while any hope remained.

The companies' wait-and-see approach proved fruitful, as the supervisory teams in fact interfered very little in either the companies' management or their operations.¹⁸⁵ The non-interference by the supervisory teams at the oil companies was unique among all the foreign companies taken over from 1963-65; only in the case of the oil companies did the GOI not ultimately exercise management control. Except for greatly pressuring the companies to implement Indonesianization, which will be discussed below, the teams proved to be more of an irritant than anything else. In addition to the teams at Jakarta headquarters of each company, teams were also sent to Stanvac's Sungai Gerong refinery and the Pendopo and Lirik fields (thus covering most of Stanvac's major assets), and to Shell's Pladju refinery and one field in that area (but apparently not to Shell's operations in East Kalimantan). In addition, 'regional' teams were appointed in Riau, where Caltex operations were located, and in South Sumatra, where Stanvac and Shell had operations; the function of these regional teams is not exactly clear, however, but presumably they were meant to involve regional authorities. Yet none of these teams appeared to interfere significantly in operations or management; initially, the teams were even more concerned with obtaining the perks of office (cars, office space, etc.) than with other matters.¹⁸⁶

¹⁸⁴ US State Department telegram (Winkler to Howard of Stanvac) dated 1 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁸⁵ See, e.g., US Embassy telegrams (Ellis) dated 28 May 1965 and 6 July 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). Caltex did on one occasion report some inefficiency problems, however, which were reducing profits by an unspecified amount (see US Embassy telegram (Ellis) dated 11 June 1965 (containing Memorandum of Conversation dated 31 May 1965) (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389)). Similarly, Stanvac reported in early April that due to the promotion of "Indonesians lacking adequate experience" refinery output might drop by as much as 20% for the month, but it is unknown if this actually happened (see US Embassy telegram (Jones) dated 11 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389)). Another close observer of the Indonesian oil industry also suggested that there was no interference (Hunter, "The 1963 Agreements and After," p. 32).

¹⁸⁶ US Embassy telegram (Ellis) dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

Audit, the PKI chairman, even complained publicly in mid-June that the teams had no power.¹⁸⁷

The teams occasionally flexed their muscle, such as the time when Stanvac's team at company headquarters in Jakarta sent a letter to Stanvac's Indonesian employees notifying them that the team could fire them if the employees did not cooperate.¹⁸⁸ In addition, the teams implemented forced indoctrination sessions for Indonesian employees. Julius Tahija, the high-ranking Caltex executive, recalled

‘control/supervision’ meant coordinated efforts to wear us down. The government began to demand elaborate – and meaningless – studies. It also devised humiliations designed to prompt our open opposition. New regulations, for example, required all Caltex employees to attend anti-capitalism indoctrination meetings. The philosophy behind these meetings was that no rank would be respected and everyone would be treated equally.¹⁸⁹

Caltex also reported in early September that its regional team was requesting reports within an impossible time period; however, Caltex did not think this and other minor measures were coming from the top level, but instead that local demands were made “to show [the] activity necessary to justify team membership.”¹⁹⁰

From the companies' perspective, perhaps the greatest irritant the teams brought was greatly increased pressure to Indonesianize the companies' high level staff.¹⁹¹ The problem for the companies was the lack of well-trained Indonesian managers, a problem not unique to the oil industry. Indeed, the oil companies had made substantial efforts in the past decade to Indonesianize their staff, and they had agreed in the CoWs to continue

¹⁸⁷ *Far Eastern Economic Review* 17 June 1965.

¹⁸⁸ US Embassy telegram (Ellis) dated 6 July 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁸⁹ Julius Tahija, *Horizon Beyond*, Entrepreneurs of Asia (Singapore: Times Books International, 1995), pp. 125-6. See also letter dated 13 July 1965 from Panitia Penjelenggaraan Indoktrinasi Pegawai2 Perusahaan Minyak Caltex, Stanvac and Shell to Roeslan Abdulgani (ANRI, R-47 1123), and US Embassy telegram (van Benschoten of Caltex to Hopper USA) dated 14 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁰ US Embassy telegram (van Benschoten of Caltex to Hopper) dated 14 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹¹ As we saw in Chapter Three, by 1965 Caltex had about 124 expatriates, Shell had around 114 expatriates and Stanvac had around 118 expatriates. Pressure to Indonesianize the staff had, of course, been present even before the teams arrived. Shell, for example, had been forced to withdraw the American manager of its Balikpapan refinery (the one who arrived in late December 1963) in early March and replace him with an Indonesian. See US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

with this, yet progress was naturally slow, certainly in part because of supply issues.¹⁹² For example, the new Indonesian manager at Shell's Balikpapan refinery was a public relations person with little experience in production and refining.¹⁹³ It was clear to the companies from the beginning of the supervisory period that one of the main roles of the supervisory teams would be to press for more Indonesianization; Minister Chaerul Saleh told US Ambassador Howard Jones in early April that the rate of Indonesianisasi would have to be stepped up, and another GOI official even told one of Stanvac's employees that the main purpose of the supervisory teams was to increase this.¹⁹⁴ Hence in early June the supervisory team at Caltex put great pressure on Caltex to Indonesianize its finance and medical staff, pressure Caltex thought was coming from the unions and the union representative on the supervisory team. The problem was potentially serious, as there was a shortage of Indonesian medical doctors (Caltex generally brought in foreign doctors) and its Indonesian finance staff was simply not ready.¹⁹⁵ In late June, both Shell and Caltex were informed by their teams in writing that the companies should achieve 75% Indonesianization at all levels (including the board of directors) by the end of the year, and the companies were to begin implementing this program by 1 October.¹⁹⁶ Shell was also told around the same time that "pending a satisfactory solution of the Indonesianization problem no personnel either expatriate or Indonesian should be transferred between the various areas of operation."¹⁹⁷ In mid-August, Caltex's supervisory team sent it a letter outlining a crash program of Indonesianization, and in early September, the team instructed Caltex to appoint an Indonesian to the post of

¹⁹² Indeed, Hunter suggests that the Indonesianization policy over the years "substantially increased problems of maintenance, absenteeism, pilfering, etc., and has made the operation of the refineries increasingly difficult." See p. 76 of Alex Hunter, "The Oil Companies: Diverging Interests?," *Bulletin of Indonesian Economic Studies* 3 (1966).

¹⁹³ US Embassy telegram (Jones) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁴ US Embassy telegram (Stanvac Jakarta to Esso) dated 6 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁵ US Embassy telegram (Ellis) dated 11 June 1965 (Memorandum of Conversation dated 4 June 1965) (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁶ US Embassy telegram (Ellis) dated 6 July 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US Embassy telegram (Stanvac Jakarta to Esso) dated 30 June 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁷ British Foreign Office Note (Brunner to Blair and Ashbrooke) dated 6 July 1965 (UKNA, FO 371/180362).

superintendent of transport within one week.¹⁹⁸ These direct pressures, however, were all generally successfully resisted by the companies, and after the September 30 Movement these demands died down, at least for several months.

If the teams did not interfere in operations and only interfered with management to the extent of pressuring the companies to implement greater Indonesianization of staff members, what then was the function and role of the teams? From the viewpoint of several Indonesians who were on the supervisory teams, the primary role was to protect the oil companies from the workers and labor unions. One member of the Stanvac supervisory team at the Sungai Gerong refinery stated that the purpose of the team was to act as a bumper between Stanvac and the workers, to act as liaison between the two, with the real goal of protecting the company from the workers led by the PKI, which was very strong and wanted to take over the company. As a result, the team did not try to get involved in the management or the business of the company, but tried to restrict and control the workers. There were 12 soldiers on site to assist with the effort.¹⁹⁹ Similarly, one member of the supervisory team at Stanvac's headquarters indicated that the mission of the team was two-fold: first, to learn as much as possible about the business and operations of Stanvac, and second to protect Stanvac from the workers and the PKI so that its operations would not be disturbed. According to him, the supervisory team rarely met with Stanvac's management, but rather communicated through letters or via the Stanvac representatives on the team. Protecting the company from the workers in practice generally meant having a sense of what was going on, and if there were problems to tell the police or the army, but nothing ever happened at the Jakarta headquarters. The supervisory team had to write monthly reports to the Minister of Oil and Gas which highlighted what occurred each month in the business, such as production, exports, operations, etc. He also recalled that training sessions of about two weeks were held with Indonesian employees in which matters such as nationalism, *Pantja Sila*, the constitution

¹⁹⁸ US Embassy telegrams dated 7 September 1965 (Birney of Caltex to Hopper) and 14 September 1965 (van Benschoten of Caltex to Hopper) (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US State Department telegram (Rusk, containing text of Caltex letter to supervisory team) dated 23 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁹ Interview with A Qoyum Tjandranegara, 11 September 2006. Mr. Tjandranegara worked at the Ministry of Basic Industry and Mining and in the fall of 1965 was assigned to the supervisory team at Stanvac's refinery.

and NASAKOM were discussed. Team members also received an honorarium/salary from Stanvac as well as cars and offices.²⁰⁰ The chairman of the supervisory team at Shell echoed these sentiments. He indicated that the team's main job was to safeguard and maintain production, especially from the workers, and to dampen labor disputes so production would not be interfered with, to keep the labor unions under control. Before the team was installed at Shell, this man met with Minister Chaerul Saleh, who told him to safeguard the operations of the company. His team visited Shell's various facilities, met and discussed the GOI's intentions with staff and labor, and did not interfere with the company's operations. Shell even involved the team in the business to a certain extent. He also indicated that the team was only active for a few months because it became heavily involved in the buyout negotiations.²⁰¹ Conversations with several Indonesian employees of the oil companies also indicate that the main role the supervisory teams played was to keep the workers and unions in check.²⁰²

Overall, it appears that labor union/worker agitation did decrease significantly after the supervisory teams were imposed. Whether this inactivity was the result of efforts

²⁰⁰ Interview with Sjarif Lubis, 19 September 2006. Mr. Lubis worked for Stanvac from 1958 to 1961, when he began working at the Ministry of Basic Industry and Mining. In 1965 he was assigned to the supervisory team at Stanvac's headquarters.

²⁰¹ Interview with Sutan Assin, 28 September 2006. Mr. Assin worked for Shell from 1958-63, then for Permigan, the state-owned oil company partnered with Shell under Shell's CoW. He was appointed the head of Shell's supervisory team in March 1965.

²⁰² John Karamoy, the field manager of Stanvac's Pendopo oil field from early 1964 until late 1966, described how the GOI did not really intend to take over the oil companies, but rather the supervisory teams were meant to counter PERBUM and its demands that the companies be taken over. The GOI could not refuse the PKI, it was too strong, so the GOI had to do something to respond to the PKI's takeover demands. The message behind the installation of supervisory teams was that the company was now under the control of the GOI, so there was no need for PERBUM to take the company over, a message that the supervisory team often repeated to the workers. (PERBUM was very strong at Pendopo. In fact, before the supervisory team arrived, Karamoy had once been 'kidnapped' for about eight hours by PERBUM members, who told him they were taking over Pendopo and then asked him to join them, which he refused.) The team, comprised of two men from the army, a captain and a lieutenant, knew that their mission was to protect the company, to be in the middle between the company and the workers/PKI. The team did not interfere in the operations at Pendopo, but instead let Karamoy do his job. The team was provided with housing (already built), cars, and some expenses (e.g., gas and water) which were very cheap. (Interview with John Karamoy 12 September 2006) Another Indonesian employee of Stanvac at Pendopo confirmed that the role of the supervisory team was to safeguard production. He also indicated that the team did not interfere with operations and that the team was very successful in controlling the activities of PERBUM and other affiliates of the PKI. (Interview with Sudono 26 September 2006) Similarly, an employee of Caltex at the time also confirmed that the main purpose of the regional supervisory team in Rumbai (Riau) was to counter the PKI/PERBUM in the region, and that the supervisory team did not interfere in Caltex's operations and sometimes even facilitated them. One way the team neutralized the PKI/PERBUM was by imposing a requirement that all strikes and demonstrations had to be approved in advance by the team. (Interview with Madjedi Hasan 5 October 2006)

by the supervisory teams, or just a natural consequence of the GOI “takeover” satisfying labor union demands, is unknown. Nevertheless, it is quite clear that, reflecting oil company exceptionalism, the GOI “management takeover” of the oil companies was in name only and did not interfere in any significant way with the companies’ management or operations.

IV. Other American Companies.

Somewhat overshadowed by the GOI takeover of American estates and the big three oil companies was the seizure and takeover of other American businesses, each of which had a significantly smaller presence in the country than either the estates or the oil companies. The GOI takeover of these companies came quickly in succession after the ‘takeover’ of the big three oil companies on 19 March: Goodyear’s tire factory on 22 March, followed by Union Carbide’s battery plant on 3 April, AIFA insurance company around 4 April, National Cash Register on 10 April, and American film companies in mid-April. This period, as we saw in Part I, was exactly when US-Indonesian relations were reaching their low point. However, a major difference between these takeovers and those of the American estates and oil companies was that labor groups and other organizations actually physically seized these companies and thus triggered GOI intervention, unlike the estates and oil companies where the GOI ostensibly acted preemptively to prevent such a seizure. The failure of the GOI to act preemptively in the case of these other companies, I suggest, was a clear reflection of the lesser economic value of these companies as compared to the estates and oil companies, most notably as generators of foreign exchange revenues. As a result, the GOI takeover of these firms was a generally messy and seemingly uncoordinated affair. I start in Section A with the Goodyear tire factory, which was seized by labor groups on 20 March, one day after the GOI placed the big three oil companies under its control, and then taken over by the GOI on 22 March. Section B then analyzes the takeover of three other American companies that were first seized in late March and early April by the KBM labor federation in an obviously coordinated fashion that occurred just as US emissary Ellsworth Bunker was

arriving in Jakarta to assess the US-Indonesia bilateral relationship. Finally, Section C examines the takeover of American film companies, whose experience in 1964-65 seemed to track precisely the US-Indonesian relationship.

A. Goodyear Tire Factory.

The Goodyear tire factory in Bogor (near Jakarta), the largest remaining American company in Indonesia, was the next company to be taken over by the GOI.²⁰³ The GOI takeover occurred on 22 March, just three days after the GOI takeover of the oil companies. The takeover of Goodyear's tire factory has a number of interesting elements, including a takeover first by the city government of Bogor, followed by a workers takeover that precipitated the central government takeover.

On 20 February, Mr. Corbin, Goodyear's general manager, was informed by the *Pantja Tunggal* of the city of Bogor that the *Pantja Tunggal* was temporarily taking over the factory in order to protect the factory from sabotage.²⁰⁴ This announcement came suddenly and was not preceded by any worker or labor union activity or any indications of sabotage. Corbin was told that a team was to be appointed to supervise the company, but he was assured that the team would not interfere at all in management or operations, that the supervision was to be nominal.²⁰⁵ The mayor of Bogor, as chairman of the *Pantja Tunggal*, then issued two decrees implementing the takeover.²⁰⁶ The first decree, No. 554, placed the company under the *Pantja Tunggal*'s supervision, appointed an executive supervisory team (comprised of the members of the *Pantja Tunggal* other than the mayor), instructed the workers and management to work as usual, and also ordered the

²⁰³ As discussed in Chapter Three (Part II, Section B), the tire factory employed about 1,200 people, including 11 American expatriate managers, and the operations of the tire factory were entirely separate from Goodyear's rubber plantations in Sumatra, both separately incorporated and separately operated. The factory produced both automobile and bicycle tires (including automobile tires for Dunlop Tire) and was one of two automobile tire manufacturers, the other being a very small state-owned enterprise.

²⁰⁴ The *Pantja Tunggal* were five person local governmental bodies set up at the provincial and lower levels of government, in the case of cities like Bogor consisting of the mayor, the local army commander, the local chief of police, the local attorney general, and a representative of the National Front.

²⁰⁵ See US Embassy telegram (Jones) dated 23 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64 - 3/65, Box 246); and US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²⁰⁶ Decree No 554/1/65 of the Bogor Municipality Pantja Tunggal, and Decree No 555/1/65 of the Bogor Municipality Pantja Tunggal, each dated 20 February 1965 (English translation only). These decrees, as well as the letter of 24 February, can be found in US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

local National Front branch to explain what was happening to the local community and mass organizations in order to prevent any actions which contradicted the decree. The second decree, No. 555, appointed a second supervisory team, which presumably took direction from the executive team. The decree instructed the supervisory team not to interfere in the internal affairs of the company, especially in the marketing and distribution areas, and also specifically stated that the team had no executive operational authority except as decided by the *Pantja Tunggal*. This team was also directed to report immediately to the *Pantja Tunggal* any instances of sabotage or malfeasance. There were seven members appointed to the team; one representative from each of the prosecutor's office, the police and the local military command, one member from the National Front, and three labor federation representatives (Usman from KBM, A. Zaidan from SARBUMUSI (the NU affiliated labor federation), and Sumardjo from SOBSI). In response to a written protest from Goodyear, the mayor of Bogor sent Goodyear a letter dated 24 February stating that the intent was to control security and provide physical protection (to prevent sabotage or subversive actions that "may come from parties opposing smoothness" in the course of the Indonesian Revolution) and not to interfere with management or production.

It appears that these measures genuinely were intended to safeguard the Goodyear factory. Most importantly, the team did not interfere at all in management or operations of Goodyear. Goodyear did make available office space to one or two police officials (representing the supervisory team), who interrogated some Indonesian employees, but otherwise management and operations were left undisturbed.²⁰⁷ Presumably the presence of the team was intended to dissuade union activity, and it is quite possible that the team did implement measures to control the workers. Certainly the supervisory team was structured in a way both to appease the unions and to keep workers and unions under control; as we saw above, despite the presence of one member of the National Front and three representatives from labor organizations on the supervisory team, the defined duties of the team were quite limited, and there were other members of the team, as well as the executive team and the *Pantja Tunggal* itself, to rein in unwanted activity by the union

²⁰⁷ US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

members. Indeed, there appeared to be little union activity for about a month, with the notable exception of a 14 March meeting among mass organizations and labor groups in Bogor which called for the takeover of the company with labor representation in management.²⁰⁸ The question then arises as to whether the Bogor municipality acted on its own in implementing these measures, independent of the central GOI; there is no evidence either way on this point, though one of the decrees and the 24 February letter did refer to an instruction from the Minister of Basic Industry and Mining dated September 1964. In fact Corbin, the Goodyear general manager, did protest the *Pantja Tunggal*'s actions to the Ministry of Basic Industry and Mining, but the ministry refused to take any action.²⁰⁹

However, what measures, if any, the supervisory team took against the unions proved ineffective, as on 20 March labor groups successfully seized the tire factory. This action occurred just one day after the big three oil companies were placed under GOI supervision on 19 March. The labor action was led by the Goodyear Workers Action Unit (*Kesatuan Aksi Buruh Goodyear*), a group comprised of at least five labor groups: *Serikat Buruh Goodyear* (Goodyear Workers Organization), SOBSI, KBM, SARBUMUSI and SEPESGO. The US embassy, as well as foreign news reports, certainly believed that the PKI/SOBSI was the real leader of the group and the takeover effort. The groups arrived early in the day, called two expatriate managers to the factory, and at a meeting around 9:15 am with the expatriate managers and all the Bogor *Pantja Tunggal* (whose supervision the company was already theoretically under) announced the takeover. The Goodyear managers were told to await a written decree, and then expatriate managers were barred from entering the factory.²¹⁰ As the mayor of Bogor subsequently explained to Corbin, the *Pantja Tunggal* then peacefully

turned over control of the factory to insurgent labor group due [to] political pressures and to avoid possible property damage [to] plant [and] to ensure safety [of] Americans. After meeting with EC members, labor returned control to [the] *Pantja Tunggal* which immediately organized

²⁰⁸ US Embassy telegram (Corbin to Goodyear Akron) dated 19 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²⁰⁹ US Embassy Bi-Weekly Economic Review dated 5 March 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

²¹⁰ US Embassy telegrams (Goodyear Bogor to Goodyear Akron) dated 20 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

temporary committee representing outside labor officials, Pantja Tunggal and certain Goodyear employees.²¹¹

This temporary committee then approached the Ministry of Basic Industry and Mining to set up a central GOI team. It appeared that this temporary committee formed by the *Pantja Tunggal* remained in charge until the GOI team arrived, as the American expatriate managers were not allowed to return to the factory. However, it is not clear who the members were.

A Takeover Statement dated 20 March was also issued by the Goodyear Workers Action Unit and signed by representatives from five labor groups (Serikat Buruh Goodyear, SOBSI, KBM, SARBUMUSI and SEPESGO).²¹² The signors for KBM, SARBUMUSI and SOBSI were none other than Usman, A. Zaidan, and Sumardjo, respectively, the same three who were on the supervisory team appointed by the Bogor *Pantja Tunggal* back on 20 February. The takeover statement cited *Ganyang Malaysia*, various actions taken by the imperialist United States (including support for Malaysia and aggression in Vietnam), and President Sukarno's statements in MANIPOL regarding imperialists, as reasons for ejecting the Americans (who were enemies of the Indonesian Revolution) from Indonesia. It also cited the following as reasons for the takeover: to prevent sabotage from business elements, the great demands of national responsibility, the idea that the factory can benefit the Indonesian Revolution and strengthen the endurance of the Revolution, and the takeover demands of the 14 March meeting. The declaration stated that the factory would be immediately turned over to the GOI to become Indonesian property and appointed a three-member temporary team (*Pimpinan Perusahaan Sementara*) to lead the factory. This three-man team was comprised of Usman, A. Zaidan, and Sumardjo, the same labor union leaders. As the composition of the team the *Pantja Tunggal* appointed on 20 March is unknown, it is unclear if these three men stayed in their new posts for long.

The central government, which was already preoccupied with the takeovers of the oil companies on 19 March, very quickly stepped in. On 22 March, just two days after the

²¹¹ US Embassy telegram (Corbin to Goodyear Akron) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹² Piagram Ambil Alih Perusahaan Ban Goodyear dated 20 March 1965 (ANRI, R-22 240).

20 March labor union seizure, Third Deputy Prime Minister Chaerul Saleh issued on behalf of the Presidium Kabinet a short decree placing the Goodyear tire factory under the temporary control and supervision (*penguasaan/pengawasan*) of the GOI.²¹³ The decree noted that because car tires were vital commodities for transport and the flow of goods, and because of the intensification of the Indonesian Revolution and the enthusiasm and ability of the Indonesian nation, it was necessary to have control over the tire factory and to form a supervisory team. DEKON and TAVIP (the acronym for the *Tahun Vivere Pericoloso*, President Sukarno's 17 August 1964 independence day speech) were also cited. The decree then placed the tire factory and its units operating in Indonesia under the temporary control/supervision of the GOI, without diminishing the property rights of the owners. In other words, it was to be a temporary takeover of management, not ownership. The Ministry of Basic Industry and Mining would appoint and prescribe the duties of a control/supervisory team (*Badan Penguasa/Pengawas*), and the American employees were required to assist the team as long as required. At a meeting with representatives of Ministry of Basic Industry and Mining the next day, 23 March, Goodyear representatives were handed a letter from Sardju Ismunandar (who had the title of Assistant to Minister for State Enterprise Affairs within the Ministry of Basic Industry and Mining), who was an assistant to Minister Chaerul Saleh.²¹⁴ The letter stated that the reason the tire factory and its enterprises in Indonesia were placed under the temporary control/supervision of the GOI was to safeguard the company in light of several events, including demonstrations by local mass organizations, the takeover by the workers, and the placing of the company under a temporary management team. However, such control/supervision, which would be implemented by the Ministry of Basic Industry and Mining, would not diminish the rights of ownership in the company.

By 24 March, just two days after the GOI placed the company under its control/supervision, a six man control/supervisory team (*Badan Penguasa/Pengawas Goodyear*) was appointed. Its chairman was Soehardi Rekswardojo, the director of the

²¹³ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/28/65 Tentang Penempatan Pabrik Ban "The Goodyear Tire & Rubber Coy Ltd" Dibawah Penggunaan/Pengawasan Sementara Pemerintah Republik Indonesia, dated 22 March 1965.

²¹⁴ US Embassy telegram (Corbin to Goodyear Akron) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); for a copy of the letter, see US Embassy telegram (Ellis) dated 30 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

Chemical Industries Department (*BPU Kimia*) of the Ministry of Basic Industry and Mining. Other members included Nos (who was on the Dunlop Tire supervisory team), Sjahfiri Alim from Goodyear, and Major Sukotjo from the army. The other two members had not yet been appointed, but were to be from the Bogor *Pantja Tunggal* and the Ministry of Labor.²¹⁵ The choice of Sjahfiri Alim, whom we met at the very beginning of Chapter One, is instructive. Alim, who at some point became chairman of the control/supervisory team and in effect the number one man at the factory, not only was sales manager and one of the highest ranking Indonesian employees at Goodyear, but also was close to Minister Chaerul Saleh.²¹⁶ Apparently Alim also already knew Sardju Ismunandar (Minister Saleh's assistant with the title of assistant to Minister for State Enterprise Affairs) and Soehardi Reksowardojo (the director of the Chemical Industries Department (*BPU Kimia*) and chairman of the supervisory team), presumably through his friendship with Minister Saleh; it was Soehardi who appointed him to the supervisory team. Each of these four men - Minister Chaerul Saleh, Sardju Ismunandar, Soehardi Reksowardojo and Sjahfiri Alim - were strongly anti-PKI. Thus, by appointing Alim to the GOI control/supervisory team, the Ministry of Basic Industry and Mining not only had someone who had years of experience working at Goodyear, but also someone known to and trusted by the high level officials in the ministry and someone who would oppose any PKI interference in the company.

The GOI control/supervisory team rapidly asserted its authority, and the owner-appointed management never regained control over the factory. Initially, there appeared to be a power struggle between the GOI team and the temporary team appointed by the *Pantja Tunggal*; Corbin, the Goodyear general manager, without providing specifics, told

²¹⁵ US Embassy telegram (Corbin to Goodyear Akron) dated 24 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹⁶ Alim was a Minangkabau born in 1927 to well-educated parents who were inspectors for the Department of Education during the Dutch colonial rule. Alim himself grew up in Jakarta and Bandung and had received a Dutch education until World War II started. He fought in the war against the Dutch and then in 1951 joined Goodyear in the sales department. He gradually rose in the sales department, and by the time of the takeover he was the sales manager and one of the highest ranking Indonesian employees at Goodyear. Alim met Chaerul Saleh, also a Minangkabau, in the late 1950s or early 1960s through their wives, and the two families became very close. Background material on Alim and his relationships with Minister Saleh and the other officials comes from interviews with Alim family members and interview with Mohammad Mansur dated 11 July 2006. (Mr. Mansur joined the Ministry of Basic Industry and Mining in 1963 and initially worked for Sardju Ismunandar.)

the head office that there were “many signs of internal conflict and power struggle involved in turnover to working team.” In addition, the ministry was “seemingly finding difficulty appointing remaining two members [of the] supervisory team who are acceptable to labor.”²¹⁷ It is unclear how long these problems persisted, though, and there is no further mention of them in the available material. With respect to the role of owner-appointed management, however, there was little doubt that this group no longer had any control or authority. After 20 March, foreign managers were allowed back in the factory only one time on 13 April to collect their passports and accept the GOI team-prepared inventory; thus, 20 March marks a clear date after which owner-appointed managers had little power or influence, and certainly no control.²¹⁸

The company’s initial reaction to these events was to try to stand firm and lodge protests with the relevant authorities. Hence, Corbin had protested the initial takeover by the *Pantja Tunggal* on 20 February with both the *Pantja Tunggal* and the Ministry of Basic Industry and Mining on the grounds that existing police protection was adequate and there was no need for additional protection, but this had no effect. Goodyear also requested the US embassy to lodge an official protest, which was done. Given that the Bogor *Pantja Tunggal* team did not interfere with operations, it appeared, at least until the GOI takeover, as though Goodyear thought the situation was still salvageable.²¹⁹ In fact, on 19 March, the day before the labor union takeover, Goodyear decided to suspend the overseas travel of key expatriates so as not to give the image of abandonment (which

²¹⁷ US Embassy telegram (Corbin to Goodyear Akron) dated 26 March 1965 (USNACP, RG 59 Central Files 1964-66, Incō Rubber Indon, Box 1215).

²¹⁸ In the ensuing weeks, there were obvious signs that control and authority would not be returned to owner-appointed management. For example, Indonesian technicians from the GOI-owned tire plant were brought in to assist, presumably to fill the void left by the expatriate managers. Various announcements and speeches by officials indicated that Americans would not be returning. On 31 March, control over three Goodyear bank accounts was transferred to the Ministry of Basic Industry and Mining. By the end April, Goodyear was told that at least six of its 11 American managers were already ‘redundant,’ and on 14 May Goodyear was told that the ministry had decided that four expatriate managers would be allowed to stay in assist/advisory capacities, in particular with respect to maintaining production and in relations with Goodyear Akron (the home office). A few weeks later, the name of the factory was actually changed to ‘Gelora Yuda,’ meaning ‘spirited war,’ although the tires still had the Goodyear name. See US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Incō 15-2 Indon, Boxes 1072-3).

²¹⁹ US Embassy telegram (Jones) dated 23 February 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume III, 9/64 - 3/65, Box 246); US State Department telegram (Goodyear to Corbin) dated 23 February 1965 (USNACP, RG 59 Central Files 1964-66, Incō Rubber Indon, Box 1215); US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Incō 15-2 Indon, Boxes 1072-3).

could precipitate a takeover).²²⁰ As we saw above, on 21 March Corbin met with the Bogor mayor to demand the return of the factory, but this also had no impact. After the GOI takeover, the home office instructions were to

issue no ultimatum but continue [to] maintain firm stand by insisting in writing [on] our full management and ownership rights. Do not negotiate away company rights. For your information but not for disclosure or action no negotiations appropriate unless on basis [of] full nationalization with appropriate compensation. Make no agreement to any management or assistance agreement but if required to sign anything note protest on same day and obtain copy. Do not refuse to work with supervise team on informal basis...²²¹

Goodyear also took a few proactive measures. At a meeting with Sardju Ismunandar (Minister Chaerul Saleh's assistant with the title of assistant to Minister for State Enterprise Affairs) on 29 March, Corbin took the major step of actually proposing that the GOI take an equity stake in the company (it is not clear how big a stake this was).²²² Apparently no response was received. Smaller measures included the withdrawal of about Rp. 45 million in cash before the ministry assumed control over the bank accounts, as well as an unsuccessful attempt to reenter the factory.²²³ Corbin also considered destroying development manuals and correspondence, but was told by the head office not to destroy the manuals and not to take measures that might antagonize the supervisory team or jeopardize the safety of personnel.²²⁴ Goodyear even consulted with an Indonesian lawyer, who rather understatedly advised that the "supervision and management of your company by the government is definitely an infringement of your articles of incorporation. Since political, social and economical considerations are of

²²⁰ US State Department telegram (Goodyear to Corbin) dated 19 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²¹ US State Department telegram (Goodyear to Corbin) dated 25 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²² US Embassy telegram (Corbin to Goodyear Akron) dated 29 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²³ US Embassy telegram (Corbin to Goodyear Akron) dated 23 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁴ US Embassy telegram (Corbin to Goodyear Akron) dated 29 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US State Department telegram (Goodyear to Corbin) dated 30 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

paramount importance these days, the outcome of legal proceedings may be very disappointing.”²²⁵

As with the case of most of the foreign companies in Indonesia other than the oil companies, Goodyear had little leverage to counter the takeovers and ultimately had little choice other than to accept developments as they unfolded. By the end of April, Goodyear, seeing the proverbial writing on the wall, realized its position was hopeless and had already decided to withdraw its foreign personnel. Certainly the clear signs from late March throughout April that managerial authority and control would not be regained (see footnote 218) were major factors in the decision. On 7 April, the GOI supervisory team chairman, Soehardi Rekswardojo, unofficially proposed that Goodyear enter into a licensing and raw material purchase agreement “as the only way to salvage any American presence, since the Goodyear investment was no longer recognized in actual practice.” Goodyear refused to consider this option; it only would fulfill outstanding raw material orders that were backed by letters of credit, and this was done simply to gain some leverage. After the 7 April meeting, Goodyear also instructed its managers to cooperate with the takeover team only “under duress to ensure the safety of American property and personnel.” Increasingly concerned over the safety of its remaining expatriates, Goodyear began to send them home in the second half of May.²²⁶ In addition, in June Goodyear sought another legal opinion from Indonesian counsel that it had exhausted its remedies under Indonesian law. The response was that President Sukarno’s decree of 24 April (see next Chapter) had legalized the supervision/management of the company by the GOI, that no legal steps could be taken in Indonesian courts, and there were no grounds for compensation as only management rights, not ownership rights, were transferred. Goodyear also enquired if the departure of expatriate management (as representatives of the owner) could be construed as abandonment or voluntary relinquishment that might jeopardize future compensation claims. The Indonesian lawyer opined that “no useful

²²⁵ US Embassy telegram (Corbin to Goodyear Akron) dated 30 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁶ US Embassy telegram (Ellis) dated 25 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

purpose can be served by remaining.”²²⁷ On 8 July, Corbin, the Goodyear general manager and the last of the Goodyear expatriates remaining in Indonesia, left the country.²²⁸

B. The KBM-led Takeovers of Union Carbide, AIFA, and NCR.

In the last week of March, the KBM labor federation, in an obviously coordinated fashion reminiscent of the DPS-KBKI takeovers of British firms in Jakarta in September 1963, seized three American firms in Jakarta, Union Carbide’s Indonesian subsidiary (25 March), the Indonesian branch of the American and Foreign Insurance Association (29 March) and National Cash Register Company’s Indonesian subsidiary (1 April). The three companies’ businesses were very different, and the only thing linking the seizures was that they were targeted exclusively at small American firms by a single labor federation at a time when US-Indonesian relations were reaching their nadir and US President Johnson was sending special envoy Ellsworth Bunker to Indonesia to evaluate the situation. Announced on 22 March, Bunker’s trip was from 30 March through 14 April.²²⁹ An interesting aspect of the takeovers was the very different GOI response to each takeover. I suggest that the different responses reflected both the government’s

²²⁷ US State Department telegram (Goodyear to Corbin) dated 7 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Corbin to Goodyear Akron) dated 17 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁸ US Embassy Bi-Weekly Economic Review dated 12 July 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3). The Goodyear tire factory remained under the chemical division of the Ministry of Basic Industry and Mining (and its successor GOI ministries) throughout the period of GOI control of the company, during which there was little, if any, contact with Goodyear USA. At some point Sjahfiri Alim became the head of the supervisory team and in effect the head of the factory, and apparently the management consisted entirely of ex-Goodyear employees. Alim did appoint an ‘advisory board,’ whose membership came principally from the Ministry of Basic Industry. There was also a man from the army on the board of directors, but he clearly was subordinate to Alim and had little influence in the factory. Another appointment to the board of directors was none other than Sumardjo, the same SOBSI representative who had been appointed by the Bogor *Pantja Tunggal* to its supervisory team and who signed the worker takeover statement on 20 March. Apparently one major problem Alim initially faced was that of eliminating PKI influence from the plant. According to one source, this was accomplished primarily by paying off Sumardjo with benefits such as a car, housing, salary and office space. Later, a list of PKI enemies to be killed in the Bogor area was rumored to have been found, and Alim was the number one target. However, it was Sumardjo who was arrested and then killed in the aftermath of the September 30 Movement (see next Chapter). (Interview with Mohammed Mansur 11 July 2006; interview with Mrs. Sjahfiri Alim 25 July 2006) Regardless of the veracity of the rumors, it seems clear that sweeping the factory of PKI influence was a goal shared by Alim as well as his superiors at the Ministry of Basic Industry and Mining.

²²⁹ Sullivan, *The United States and the New Order*, p. 128.

surprise and confusion at the KBM-led seizures (thus suggesting that there was no collusion between the GOI and KBM) and to a lesser extent competition within the GOI for control over the companies that were perceived to be possible sources of wealth and patronage, even though in fact they were not.²³⁰

The businesses of these three companies were quite different, but all were relatively small operations. Union Carbide operated a battery factory in Jakarta that was established in 1934 and by 1964/5 employed about 300 workers.²³¹ However, the company was in dire straits by this time, as production was running at about 5% of capacity, and the plant only operated about one day a week.²³² NCR, on the other hand, had no factory in Indonesia but rather imported and distributed accounting machines. Its head office was in Jakarta, and it had branch offices in Bandung, Surabaya, Semarang and Medan (the head office in Jakarta was seized first, followed by the branch offices within the week). Its primary physical assets were an inventory of accounting machines as well as several houses and cars.²³³ It is unclear how many employees there were, but it probably did not exceed 20. AIFA, in contrast, was an insurance firm. Its only office was in Jakarta, and its main assets were insurance policies and bank accounts.²³⁴ It probably

²³⁰ Given the lack of available evidence, assessing the KBM's motives is virtually impossible, as is whether the KBM was acting alone or had GOI support. The timing suggests, very circumstantially, that the actions were linked to Bunker's visit and US-Indonesian relations, presumably to demonstrate support for the prevailing official anti-US sentiment. The ensuing GOI confusion regarding the companies seems to suggest, again circumstantially, that there was no official GOI support for the actions, but as we have seen it was not uncommon for GOI officials, including President Sukarno, to act on their own.

²³¹ Union Carbide Indonesia internal magazine article, circa 1978 (private source); and Robert D. Stief, *A History of Union Carbide Corporation: from the 1890s to the 1990s* (Danbury, CT.: Carbide Retiree Corps, 1998). According to Stief, this was one of Union Carbide Corporation's first overseas ventures (Stief p. 34). US Embassy telegram (Ellis) dated 5 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²³² US Embassy telegram (Jones) dated 10 September 1964 (USNACP, RG 59 Central Files 1964-66, FN 9-1 Indon-US, Boxes 871-2). The problems leading to this situation were numerous, including obsolete and inefficient equipment, heavy reliance on imports of raw materials (which due to very limited foreign exchange allocations were very hard to obtain), and very active labor unions which often instigated work slow downs and occasional sabotage. Personal communication from Mal Maloney 15 September 2006; US Embassy telegram (Jones) dated 10 September 1964 (USNACP, RG 59 Central Files 1964-66, FN 9-1 Indon-US, Boxes 871-2); US Embassy telegram (Green) dated 11 May 1968 (USNACP, RG 59 Central Files 1967-9, F9 Indon-US, Box 773).

²³³ US Embassy telegram (Ellis) dated 15 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²³⁴ US Embassy telegram (Ellis) dated 15 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

had fewer employees than NCR. Interestingly, none of the three companies had any expatriate managers; all their managers and workers were Indonesian.

The KBM seizure of each company appeared to be quite similar. Representatives from the KBM, from both the KBM unit at the respective company and also outside KBM members in the case of UCC and AIFA, occupied the factory or office. In the case of UCC and AIFA takeover declarations were read aloud and the Indonesian managers were forced to sign takeover statements. The AIFA takeover statement cited (i) deteriorating US-Indonesia relations, (ii) the fact that AIFA was an American company not in conformity with the Indonesian Revolution, and (iii) the laying off of workers, as reasons for the takeover and indicated that the company was going to be handed over immediately to the GOI. The top-level Indonesian managers of UCC and AIFA were then evicted from the premises and not allowed back in; the top manager of NCR, who lived above the office, was allowed to stay on and assist, though it was clear he had no authority.²³⁵ A takeover team apparently was also established at NCR. None of the three parent companies was able to regain control over their respective Indonesia operations after the KBM seizures.

1. GOI Response: Union Carbide.

The GOI response to the seizures was very different for each company. In the case of UCC, Third Deputy Prime Minister Chaerul Saleh issued no less than three decrees regarding the company, which likely reflect both the confusion and competition within the GOI for control over the company. On 3 April 1965, nine days after the KBM seizure, Minister Saleh, in the name of the Presidium Kabinet, issued a decree formally placing the company under GOI management (*pengurusan*), without, however, harming the proprietary rights of parent Union Carbide.²³⁶ The decree cited the attitude of the USA towards Indonesia (which caused all the workers of the company to be angry and resulted in their taking over the company), the intensification of the Indonesian

²³⁵ See US Embassy telegrams (Ellis) dated 15 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3), and US Embassy telegram (Jones) dated 25 March 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²³⁶ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/46 Tahun 1965 Tentang Perusahaan National Carbon Company (YAVA) Ltd Didalam Pengurusan Pemerintah RI, dated 3 April 1965.

Revolution and the desire and ability of the people to stand on their own feet (BERDIKARI), and the interests of safety and security of production, as reasons for the takeover. The Governor of Jakarta was appointed on behalf of the GOI to take responsibility and control over the company and safeguard its assets, and the relationship and responsibilities between the owners and the GOI were to be stipulated in a separate agreement.

Confusingly, the 3 April decree was not announced publicly until 14 April, by which time another decree had been issued by Minister Saleh on 9 April that superseded the 3 April decree by taking responsibility for the company out of the hands of the Governor of Jakarta and into the hands of the Ministry of Peoples Industry.²³⁷ Without referring to the 3 April decree at all, the 9 April decree took over the management (*pengurusan*) of both the UCC battery plant as well as PT Filma in Surabaya, again “without diminishing the proprietary rights of the owners”.²³⁸ This decree cited the necessity to “guarantee the continuance and increase of production, as well as the safety” of both the battery factory and the Filma plant, both of which had been taken over by workers in connection with both BERDIKARI and the “intensification of the Indonesian people’s revolution which was now confronting the neo-colonialist Malaysia project,” as the reason for the takeover. The GOI body responsible for the companies was now the Ministry of Peoples Industry, and the owners of both companies were obliged to provide the necessary assistance to the new management of the company. No reason was given for the shift of responsibility from the Governor of Jakarta to the Ministry of Peoples Industry; in fact, none of the Governor of Jakarta, his original responsibility for the company, or the 3 April decree was even mentioned. This failure to revoke the 3 April decree was finally corrected by the issuance by Minister Chaerul Saleh of a third Presidium Kabinet decree on 6 May 1965 that specifically revoked the 3 April decree.²³⁹

²³⁷ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/50/1965 Tentang Penempatan Perusahaan2 Pabrik Batu Battery ‘Eveready’ Di Djakarta Dan PT Filma Di Surabaya Didalam Pengurusan Pemerintah Republik Indonesia, dated 9 April 1965.

²³⁸ PT Filma operated a cooking oil/margarine facility which was previously owned by Proctor & Gamble of the USA and quietly sold to Indonesians in late 1963 acting through a Swiss company. Apparently the Filma plant had also been taken over by workers, though there are no available details.

²³⁹ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) no. Aa/D/60/1965 Tentang Pentjabutan Surat Keputusan Presidium Kabinet No. Aa/D/46, dated 6 May 1965.

The sequence of these three decisions indicates there were divisions, or at least uncertainty and confusion, within the GOI over the fate of the company and the battery plant. It took the GOI nine days to react to the union takeover of 25 March, and this decision, though dated 3 April, was not actually made public until 14 April, and even then the public announcement had already been superseded by events. The company was first placed under the care of the Governor of Jakarta (3 April), but less than a week later (9 April) was given to the Ministry of Peoples Industry (headed by Major General Azis Saleh). The issuance of the third decree (6 May) indicates that someone had not received the message of the switch in responsibility, compelling Minister Chaerul Saleh to make it clear again. It is unclear what roles the Governor of Jakarta and the Minister of Peoples Industry played in the decision making process, but it seems likely that they were both eager to be in control of the company and lobbied for such a result, one based on the location of the company (the Governor of Jakarta) and the other based on the type of business the company engaged in (the Ministry of Peoples Industry). Like most of the foreign owned manufacturing interests that were taken over, Union Carbide's Indonesian subsidiary ended up under the Ministry of Peoples Industry.

2. GOI Response: National Cash Register.

The struggle within the GOI over the fate of National Cash Register was even more apparent than that of Union Carbide. In this case the catfight was between Third Deputy Prime Minister Chaerul Saleh on one side and Proxy Minister of Foreign Trade Brigadier General Achmad Jusuf on the other. In early February 1965, cabinet responsibility for foreign trade had been transferred from the Minister of Trade (Adam Malik) to the renamed Kompartment of Foreign Affairs, Foreign Economic Relations, and Foreign Trade, headed by First Deputy Prime Minister and Foreign Minister Subandrio. On 23 March Jusuf assumed the new position of Proxy Minister for Foreign Trade (under the Kompartment of Foreign Affairs, Foreign Economic Relations, and Foreign Trade), and in addition on 31 March Jusuf replaced Adam Malik as Minister of

Trade (the post was renamed Minister of Internal Trade).²⁴⁰ Thus, Minister Jusuf was very new to the cabinet when the KBM takeover of NCR took place on 1 April.

On 10 April, Proxy Minister for Foreign Trade Jusuf issued a decree that effectively took control of NCR away from KBM and placed it under himself.²⁴¹ Citing the necessity to “give order to” and “to control the takeover” of the company by the labor organizations in order to ensure the smoothness of daily operations, the decree appointed the three man takeover team (presumably this was the team established by KBM) to be temporary members of a board of supervisors (*Dewan Pengawas*). This board of supervisors was led by an official from the Directorate of Trade and was directly responsible to Proxy Minister of Foreign Trade Jusuf. However, the composition of this board and its actual role were not stated; it may have been that the three takeover team members and the official from the Directorate of Trade were its only members. Workers of the company were directed to work as usual. In contrast to takeover decrees issued in other cases, this decree did not actually say that the GOI was taking over management of the company, nor did it mention the usual phrase of “without diminishing ownership rights” or that the relations between the GOI and the owner would be set forth in a separate contract. This probably reflected that Proxy Minister Jusuf was unaware of how the GOI takeovers of foreign companies had been implemented. Clearly, however, by putting his own man in charge of the ambiguous board of advisors, the decree did self-establish Minister Jusuf as the one in ultimate control of NCR.

²⁴⁰ See Simanjuntak, *Kabinet Kabinet Republik Indonesia*, pp. 253-4. One commentator suggested that a primary reason for the reshuffle was to “make trade a more effective instrument of foreign policy,” although Jusuf himself was quoted in April as suggesting that the reshuffle was meant to help consolidate authority over economic policy. See pp. 4, 10-11 of “Survey of Recent Developments,” BIES 1. However, it should be noted that the effect of the 10 February restructuring was also to demote Minister of Trade Adam Malik, who as we have seen was under intense pressure from the PKI in the first half of the year, and on 31 March Malik was given the relatively inconsequential position of Coordinating Minister to Implement Guided Economy. Conversely, the reshuffle appeared to place more authority in Minister Subandrio’s hands, possibly including better access to foreign trade revenues. Indeed, other commentators have suggested the 10 February restructuring “was essentially a political move for the purpose of ousting the existing Minister of Trade from his position.” (Panglaykim and Palmer, *State Trading Corporations*, p. 110)

²⁴¹ Keputusan Kuasa Menteri Perdagangan Luar Negeri (A. Jusuf) No. 020/4/MPLN/SK/65 Tentang Pengawasan Atas National Cash Register Company, dated 10 April 1965.

However, on 24 April Third Deputy Prime Minister Chaerul Saleh on behalf of the Presidium Kabinet issued a short decree that placed the company under his control.²⁴² This decree contained the now standard language of placing the company under GOI management (*pengurusan*) without diminishing the proprietary rights of the owners. Minister Saleh's Special Assistant was appointed to control and safeguard the assets of the company, and the governors of the regions where the company had branch offices were appointed to control and safeguard the respective branches; thus, control of the company was taken away from Minister Jusuf. These officials were to nominate managers at the head office and branches, and the relationship between the GOI and the owner of the company was to be set forth in a separate agreement. The reasons cited for the measures included the attitude of the USA (which caused the employees of the company to become angry and takeover the company), the intensification of the Indonesian Revolution, BERDIKARI, and the security of production. The decree did not mention Minister Jusuf's decree of 10 April. Curiously, the decree also did not refer at all to President Sukarno's Decree 6/1965 issued the same day (see next Chapter) under which the GOI assumed control over all foreign companies.

On 6 May, some 12 days later, Minister Chaerul Saleh reversed course and issued a second decree which placed NCR back under the control/management (*penguasaan/pengurusan*) of the Department of Foreign Trade.²⁴³ This decree stated that Minister Saleh's decree of 24 April was mistaken and it was necessary to conform it to Minister Jusuf's 10 April decree. As a result, Minister Saleh's 24 April decree was officially revoked, and NCR was placed under the control/management of the Department of Foreign Trade, without diminishing the proprietary rights of the owners. The implementation of GOI control/management was specifically assigned to the Proxy Minister for Foreign Trade (i.e., Jusuf).

Similar to Union Carbide, these decisions indicate there were divisions, or at a minimum uncertainty and confusion, within the GOI over the control of NCR. Minister

²⁴² Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/54/1965 Tentang Penempatan Perusahaan The National Cash Register Company Didalam Pengurusan Pemerintah Republik Indonesia, dated 24 April 1965.

²⁴³ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/61/1965 Tentang Pentjabutan Keputusan Presidium Kabinet No. Aa/D/54/1965, dated 6 May 1965.

Jusuf initially wrested control of the company away from KBM, but then Minister Chaerul Saleh stepped in and assigned the company to someone under him, only to reverse himself a few weeks later and put the company back under Minister Jusuf. A US embassy report on the situation suggested that because Minister Jusuf reported to First Deputy Prime Minister Subandrio, the struggle really may have been between Ministers Saleh and Subandrio, with Jusuf a proxy for Subandrio.²⁴⁴ Interestingly, as we shall see in the next Chapter, Yusuf was also involved in a jurisdictional conflict over another company, the American Singer Sewing Company. Another interesting feature of this story is that Minister Chaerul Saleh's decree of 6 May returning the company to Minister Jusuf's control and resolving the question of who had control over the company was issued on the same day that Minister Saleh issued the decree regarding Union Carbide that (by revoking a prior decree) finally resolved which GOI body had jurisdiction over that company. That these two cases were resolved the same time is certainly not coincidental, though it is hard to know why Minister Saleh backed off on both; perhaps Saleh was aware that these two companies generated little in the way of revenues.

3. GOI Response: AIFA.

In contrast to both the case of UCC and NCR, the GOI did not issue a decree regarding AIFA and there appeared to be no GOI infighting over the company. The lack of a decree, however, did not stop the GOI from taking control of the company away from the KBM. Instead, within 4-5 days after the KBM seizure, the company was handed over to the Ministry of Finance. The AIFA representative who flew in from Bangkok was told by Ministry of Finance officials that a supervisor would be appointed to administer the company's assets, and that a GOI-owned insurance company would take custody of the physical assets. In addition, the company's insurance policies (fire and accident, and marine) would be assigned to separate GOI insurance companies. Claims incurred on the policies prior to 29 March, the date of the KBM takeover, would be paid from AIFA's Rupiah assets, and claims incurred after 29 March would be paid by the GOI companies. This entire scheme was explained as not infringing upon the ownership

²⁴⁴ US Embassy telegram (Ellis) dated 15 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

rights of AFIA, though obviously that was exactly what was happening.²⁴⁵ Interestingly, this case, along with the takeover of the film companies (see Section C below), were the only takeovers of the period which did not result in the issuance of a GOI decree. In the case of AIFA, it was probably because the company had such a small presence.

C. Film Companies.

More than any other American company, the experience of the American film companies closely paralleled the deteriorating bilateral US-Indonesia relationship. Unlike other US companies, there was a very active and long campaign against the film companies beginning in May 1964 that culminated a year later in March and April 1965, the same time as the other American companies were taken over. This campaign was led by the PKI and was another element of the PKI's political offensive begun in early 1964 (see Chapter Five, Part I, Section A). Another difference was, as the US embassy noted, that the "matter was handled by the GOI more as a cultural and political problem than as an economic one. The PKI certainly saw it in this light and its attacks were almost entirely on the cultural and political level with little emphasis on movies as a branch of American business."²⁴⁶ In addition, unlike the other companies, it was not labor federations that initially seized the film companies' assets (which were just films, as the companies had no operations or production facilities in Indonesia and hence no workers) but instead by a PKI-led group known as PAPFIAS, described below. Moreover, unlike the case of most of the US companies (except AIFA), the GOI never issued a takeover decree; in fact, GOI intervention here does not appear to be coordinated in any respect, but rather very haphazard. Finally, unlike the other US companies, there was some limited early partial resolution of the takeover.

The American film companies were represented in Indonesia by an organization called Motion Picture Export Association of America (MPEAA). Its main office in Jakarta represented at least eight film companies (Allied Artists, Columbia Films, MGM,

²⁴⁵ US Embassy telegram (Ellis) dated 15 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

²⁴⁶ US Embassy telegram (Ellis) dated 19 July 1965 (USNACP, RG 59 Central Files 1964-66, Economic Foreign Trade, Box 1051). The US embassy officer commenting on the case also thought that the "PKI was not initially inspired or directed [by the GOI] to start up its campaign," although clearly President Sukarno never "made any serious effort to stop it."

Paramount Films, 20th Century Fox, United Artists, Universal Pictures, and Warner Brothers), and it also had an office in Surabaya. Some of these individual film companies also had local offices in Jakarta acting as distributors of films. The MPEAA also distributed films, in addition to its main function of acting as representative. The main assets of the film companies in Indonesia were films; there were apparently around 3,000 thirty-five and sixteen millimeter films in storage or in circulation.²⁴⁷

The campaign against American films was led by the ‘Action Committee to Boycott American Imperialist Films’ (PAPFIAS), a group established by the PKI and other organizations in early May 1964.²⁴⁸ As noted in Part I, Section B, this was right around the time that US official William Bundy publicly suggested that an expansion of Konfrontasi might result in a drop in US aid and both President Sukarno and Minister Subandrio were expressing their concern over the deterioration of the relationship to US Ambassador Jones. The chairman of PAPFIAS was Mrs. Utami Suryadarma, identified by the US embassy as an “extreme leftist”; she was also the head of the GOI Board of Censors as well as the wife of Air Force Marshall Surjadi Suryadama.²⁴⁹ Even before this group was established there had been threats of a boycott, but none ever materialized; however, immediately after its establishment PAPFIAS began a very effective boycott against American films.²⁵⁰ At the request of US Ambassador Jones, President Sukarno instructed First Deputy Prime Minister Subandrio to stop the boycott, but Minister Subandrio’s efforts were not effective. For example, by mid-June 1964 over 100 theaters were reportedly shut down, and no films were being shown in the main cities of Java (except for those in the homes of GOI officials, including the Presidential Palace in

²⁴⁷ US Embassy telegram (Jones) dated 17 March 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

²⁴⁸ This summary of the campaign and takeover events over the next few pages is taken from US Embassy telegram (Ellis) dated 19 July 1965 (USNACP, RG 59 Central Files 1964-66, Economic Foreign Trade, Box 1051). See also van der Kroef, “Indonesian Communism’s Revolutionary Gymnastics,” pp. 222-4.

²⁴⁹ van der Kroef, “Indonesian Communism’s Revolutionary Gymnastics,” p. 223. According to Crouch, Suryadama, the air force commander from its inception until 1962 (when he was replaced by Omar Dhani), was close to President Sukarno and sympathetic to the left; he also did not get along with Nasution and other members of the army leadership. Suryadama’s attitude was shared by a number of air force officers, whose “antagonism toward the army had placed them beside the PKI as supporters of the president against the army leadership.” Crouch, *Army and Politics in Indonesia*, p. 84. Crouch also notes that Mrs. Surjadarma’s brother, Utomo Ramelan, was a PKI member and mayor of Solo in Central Java.

²⁵⁰ Jones noted that “one theater owner reported that the Communists had told him, ‘if you show any American films, we won’t raid your theater. We’ll set fire to every automobile that is parked in your parking lot!’” Jones, *Indonesia: The Possible Dream*, p. 325.

Jakarta). In July 1964, the National Front joined the campaign. President Sukarno, who initially had assured US Ambassador Jones that the matter would be taken care of, now appeared to favor the boycott.

Over the next two months, the matter of foreign films rose to the highest levels of the Indonesian government.²⁵¹ The Ministry of Trade and the GOI Board of Censors jointly announced the abolition of the MPEAA on August 19, but specifically provided that foreign films could still be shown, though they would come completely under GOI control and import quotas would be established. The announcement also called for an end to the boycott. (As we saw in Part I, Section B, this came during a pivotal period in the US-Indonesia relationship, after US President Johnson met with the Malaysian Prime Minister and just two days after President Sukarno's 17 August speech castigating the US.) The boycott continued, however, and on 30 August, less than two weeks later, Minister of Trade Malik publicly called for an end to the boycott and even suggested that there was no further need for PAPFIAS. This prompted harsh attacks on Minister Malik by the communist press, and the boycott continued, despite some opposition to it. Then, in what the US embassy considered an attempt to outmaneuver the boycott and its supporters, in late September and October 1964 the Presidium Kabinet stepped in, appointing a three man ministerial committee, including Minister Malik, Minister without Portfolio Oei Tjoe Tat, and Information Minister Achmadi, to make recommendations regarding foreign films. The basic recommendation was that all foreign films would be re-censored, with the two main considerations being whether the film promoted the Indonesian Revolution and protected the negligible Indonesian film industry. On 20 October, a presidential decree gave the Presidium Kabinet general authority over Indonesian film policy. Thus, demonstrative of the polarizations in Indonesian society and government, what had been a fairly simple matter of deciding film policy had reached an absurd result with the matter kicked up to one of the highest GOI executive bodies, the Presidium Kabinet; in addition to deciding upon matters of national importance such as foreign policy, economic growth and the like, this body was also ostensibly charged with deciding what films the Indonesian public would see. It is

²⁵¹ The information in this paragraph comes from US Embassy telegram (Ellis) dated 19 July 1965 (USNACP, RG 59 Central Files 1964-66, Economic Foreign Trade, Box 1051).

unclear if the Presidium Kabinet ever issued any decrees or policy guidelines regarding films, but in any case the GOI was either unwilling or unable to stop the boycott, which continued throughout the end of 1964 and into 1965.

The situation culminated in March and April 1965, just as the US-Indonesia relationship reached its nadir.²⁵² By mid-February 1965 the MPEAA was “seriously contemplating a complete withdrawal from the Indonesian scene,” as there had been almost no revenues for nine months due to the almost complete lack of commercial showings of US films. In addition, there had developed a large backlog of films awaiting Board of Censor (still chaired by Mrs. Utami Suryadarma, chairwoman of PAPFIAS) approval before distribution. Before the MPEAA could reach a decision, however, events moved beyond its control, and over the course of one month, from mid-March to mid-April, the film companies lost control of their most valuable assets, films. On 16 March there were widely publicized demonstrations by PAPFIAS in Jakarta against the MPEAA office (it apparently was still functioning, despite the August 1964 order to shut down); within the same building were also the offices of some of the foreign film companies and their local distributors (where the films were kept). The demonstrators, one of whose leaders was Mrs. Utami Suryadama, seized the MPEAA office and the offices of the distributors of 20th Century Fox, Universal, and United Artists. The police were present but did not stop these seizures, though they did block the demonstrators from entering the Warner Brothers distributor, which along with the offices of MGM, Columbia and Paramount closed voluntarily. On 19 March there were further demonstrations against Columbia and Paramount. Meanwhile, the Jakarta Attorney General had sealed off some of the film company buildings and placed them under GOI custody to preempt PAPFIAS. However, PAPFIAS continued to occupy some of the offices. Around this time the film companies began unsuccessful efforts to remove some of the films from the offices. Then, on 10-11 April the Jakarta military authorities evicted the demonstrators from one of the buildings and sealed off all the distributors offices. A few days later on 15 April, all the distributors’ offices in Surabaya were seized by PAPFIAS during a demonstration. At some point later the National Front acquired control over the offices in Surabaya. On 9

²⁵² As noted above, this summary of events comes directly from US Embassy telegram (Ellis) dated 19 July 1965 (USNACP, RG 59 Central Files 1964-66, Economic Foreign Trade, Box 1051).

May a representative of the MPEAA came to Jakarta to dissolve the distribution organization of each American company and acquire the films. He was able to dissolve the companies, but the military authorities did not allow him access to the distributors' offices, claiming that teams were taking inventories of the films. Nor would the Board of Censors allow the MPEAA to take possession of the many films awaiting the Board's approval. The representative finally left on 20 May without retaking possession of any of the films.

However, the MPEAA was eventually able to recover a small portion of the films. At the end of May, the Board of Censors was revamped and a new chairman appointed in place of Mrs. Utami Suryadarma. In late July and early August, the Board of Censors turned over about 185 feature length 35 millimeter films to the US embassy; it still had another 65 sixteen millimeter films which were never returned.²⁵³ Moreover, most of the films in storage at the offices of the companies and their distributors were not returned either.²⁵⁴

V. Conclusion.

The takeovers of foreign companies in Indonesia in the first several months of 1965 clearly represented an American phase of takeovers, as 11 of 13 companies placed under government control/supervision/management in the roughly six week period from late February to early April were all American-owned and almost the entire American business presence in Indonesia was taken over by the GOI.²⁵⁵ GOI intervention was ostensibly precipitated by labor union takeovers or the threat thereof, most of which were led by either SOBSI, KBM, or both. Neither the labor union seizures nor the takeovers by

²⁵³ US Embassy Bi-Weekly Economic Review dated 9 August 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); US Embassy telegram (Ellis) dated 19 July 1965 (USNACP, RG 59 Central Files 1964-66, Economic Foreign Trade, Box 1051); US Embassy telegram (Galbraith) dated 20 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco Motion Pictures Indon, Box 1202-3).

²⁵⁴ Over the next few years, there continued to be unauthorized showings of these confiscated films, with some suggesting that proceeds often went to army and police officials and other government officials. See Sullivan, *The United States and the New Order*, pp. 613-4.

²⁵⁵ Singer Sewing, which had a very small presence, was the only significant American firm left, and as we shall see in the next Chapter it too would shortly be taken over.

the GOI were violent, although warning shots were fired by police in one of the labor demonstrations against the estates. In each case, with the exception of the big three oil companies, the GOI moved swiftly to assume complete control of the company by ejecting owner-appointed management, installing GOI appointed managers, and severing relations between the company and parent. In an obvious attempt to avoid the repercussions of nationalization, the GOI insisted that the takeover was limited to management, not ownership, and that the rights of the owners were unaffected. Such a characterization was nonsensical, as these takeovers clearly were unacknowledged confiscations of foreign businesses. Moreover, in a major difference with the SOBSI-led takeovers of British companies in January 1964, the takeovers of American estate companies, which acted as a trigger for the seizure of other American business interests, were actively encouraged by President Sukarno, who in early December 1964 gave labor unions the green light to demonstrate against the companies and take other actions to the point where the GOI could claim its takeover actions were protective in nature. In contrast, the SOBSI-led attempted seizures of British enterprises in January 1964 were in effect a challenge by the PKI to President Sukarno and the GOI over the direction of Konfrontasi. Consequently, the hesitation, uncertainty and confusion on the part of the GOI with respect to the British companies that resulted in the gradual, creeping confiscations of British enterprises over the course of 1964 was much less evident in the case of the American companies.

The takeovers of American businesses directly reflected the deterioration of the bilateral relationship between the United States and Indonesia. Indeed, in his independence day speech on 17 August 1965 entitled ‘Reach to the Stars: A Year of Self Reliance,’ President Sukarno cited the relationship between the United States and Indonesia as a principal reason for the takeover of US businesses. It was not just the attitude of Indonesia, Sukarno challenged:

On the contrary, much more depends in the present situation on the attitude of the United States. Whether they will stop supporting ‘Malaysia’ and be friendly again with Indonesia, or whether, on the contrary, they persist in supporting ‘Malaysia’ and thus in being hostile to the Republic of Indonesia – this is the most important issue at present in the relationship between the United States of America and the Republic of Indonesia. It would be well for the US government to weigh all this up because, in the

final analysis, we have the full right – as a sovereign republic – to nationalize or even confiscate any foreign capital at all which is antagonistic to the Republic of Indonesia.²⁵⁶

In thus explicitly linking the takeovers to foreign policy generally and to the relationship between the GOI and the USA specifically, a relationship that was in decline due to US support for Malaysia in Konfrontasi, President Sukarno also made clear that American companies were essentially pawns in, or hostages of, the relationship.

Nevertheless, the differing course of the takeovers and the subsequent treatment of the American companies reflected to a great extent the economic importance of the respective companies. In a nod to oil company exceptionalism, the big three foreign oil companies were placed under nominal GOI supervision, with owner-appointed management continuing to manage the companies and the GOI rarely interfering in management and operations. Indeed, the primary purpose of the GOI's supervisory teams was to ensure continued production and keep the labor unions in check. (However, as we shall see in the next Chapter, the GOI's attitude would change over the course of 1965, and by the end of the year there was great pressure on the oil companies to sell all their operations to the GOI.) In the case of the American estate companies, whose rubber estates produced valuable foreign exchange, while the GOI quickly displaced owner-appointed management, it was also initially content to allow the companies to continue marketing internationally the latex produced from those estates and government-owned estates, and the GOI also entered into negotiations to compensate the owners. As long as the revenues continued to flow, the arrangement was tolerable enough for both sides. In the case of the other American companies taken over, most of which were in the manufacturing and services sectors and did not generate significant amounts of foreign exchange, owner-appointed management was displaced fairly quickly by the GOI.

There were a number of different convergences of trends or events with the takeovers of American companies in the early part of 1965. In the first place, President Sukarno's involvement in the takeovers represented a clear convergence of his ideas with those of the PKI, which had for several years regarded the United States as its greatest

²⁵⁶ See p. 35 of Sukarno's "Reach to the Stars! A Year of Self-Reliance." For the original Indonesian version, see Sukarno, "Takari: Tahun Berdikari, Tjapailah Bintang Bintang Dilangit (Pidato Presiden Sukarno 17 Augustus 1965)," (Government of Indonesia, 1965).

enemy and advocated the takeover of US enterprises. However, while Sukarno supported and encouraged the takeovers, he also seemed to want to keep the companies out of the PKI's hands. Secondly, it should also be noted that President Sukarno's 8 December 1964 decision to proceed with the takeovers of US companies came on the heels of his 26 November 1964 decree to formalize GOI control over the British enterprises (see Chapter Five, Part V). It thus appears that President Sukarno came to some conclusive decisions regarding British and American companies in the two week period spanning the last week of November and the first week of December 1964. Finally, these moves also occurred precisely around the time – late 1964 and early 1965 - when many observers thought President Sukarno and Indonesia had ‘turned to the left,’ both domestically and internationally. Domestically, this direction was signaled by, among other events, the President’s decision to ban the BPS and suspend the Murba party (see previous Chapter), while internationally the increasingly strident anti-imperialist direction of foreign policy was marked by President Sukarno’s decision to leave the UN in early January 1965 and the apparently sudden acceleration of the formation of an anti-imperialist alliance with the PRC.

In his independence day speech of 17 August 1965, President Sukarno cited another benefit from the takeovers of American companies in that it contributed to Indonesia’s implementation of the principle of BERDIKARI, or self-reliance. Sukarno claimed that GOI supervision of US companies was

an important step for the Republic of Indonesia, which, on the principle of Self-Reliance [BERDIKARI], is engaged in building its own national economy, entirely free from both imperialism and feudalism...What is obvious, even a child can understand this, is that with imperialist capital it is impossible for us to build socialism. Let alone socialism, even a national economy is impossible. For that reason, the principle of building an economy without foreign capital has become a principle which, for us, is not subject to amendment any longer.²⁵⁷

Insofar as the takeovers of US companies contributed to this vision of self-reliance, Sukarno’s assertion is certainly true; however, as I have argued in this Chapter, the declining US-Indonesia relationship was the predominant causal factor behind the takeovers of US enterprises. Instead, as we shall see in the next Chapter, it was in mid-

²⁵⁷ See pp. 34-5 of Sukarno’s “Reach to the Stars! A Year of Self-Reliance.”

April 1965, after the takeovers of most all the US companies, that President Sukarno elevated the concept of BERDIKARI to official national policy, the major manifestation of which was the takeover of all remaining foreign businesses in Indonesia. This represented a completely new twist in the saga of takeovers of foreign enterprises in Indonesia; no longer would takeovers be clearly linked to foreign relations with specific, individual countries (as was the case with the takeovers of Malaysian and American companies), and no longer would domestic political instability in the form of labor union challenges play a large, meaningful role (as was the case with the seizure of British firms in September 1963 and January 1964). In contrast, national economic policy would be the governing rationale, and this new guiding policy would result in the virtual elimination of foreign investment in Indonesia by the end of 1965, with the two major exceptions of Stanvac Oil and Caltex Oil.

Chapter Seven: 1965: BERDIKARI and the Nadir of Foreign Investment in Indonesia

The final wave of takeovers of foreign companies from 1963-65 in Indonesia was analytically very different from the previous waves. The previous Chapters have argued that the earlier waves were linked directly to domestic political instability (the seizures of British companies in September 1963 and in early 1964) and to foreign relations (the seizure of Malaysian companies in the fall of 1963 and the seizure of American companies in early 1965) and that the earlier waves involved only companies from the specific countries of Great Britain, Malaysia and the United States. However, the takeovers of this final phase, which perhaps not coincidentally began almost immediately after the American phase, were triggered by an official change in GOI policy in which all remaining foreign companies with any significant operations in the country, no matter the nationality of the owners, were taken over by the GOI, with the important exceptions of two of the big three oil companies, Caltex and Stanvac. In total, six foreign manufacturing facilities and at least 10 foreign estate companies (owning at least 44 estates) plus Shell Oil were taken over in this wave. In addition, the 1958 foreign investment law was repealed, closing the country off to future foreign investment, a largely symbolic gesture as little, if any, new foreign investment had entered the country since the law was passed. Nevertheless, it complemented the first step of seizing foreign companies already in the country by technically shutting the door to any new foreign investment coming in. By the end of 1965, foreign investment in Indonesia, with the two exceptions of Caltex and Stanvac, had been eliminated.

The new official policy was BERDIKARI (the Indonesian acronym for *berdiri di atas kaki sendiri*, or ‘standing on one’s own feet’), meaning economic self-reliance. President Sukarno was its primary proponent, and it was at his urging that the rubber stamp MPRS adopted the principle in mid-April 1965 as a foundation for a major change

in national economic policy. It was also the first major economic policy initiative since DEKON of 1963 and the last economic policy initiative of the Guided Democracy era. Once adopted, it took its place along with DEKON and other slogans in the ideological pantheon of Guided Democracy; indeed, the entire year was designated as the ‘Year of Self-Reliance’ by President Sukarno in his annual independence day speech on 17 August 1965, similar to the declaration of the previous year as the ‘Year of Living Dangerously’ in the President’s 17 August 1964 address (and the naming of other years in previous independence day addresses). As we shall see, the BERDIKARI policy for the most part lacked specific measures and was by no means wholly implemented by the GOI. Its greatest impact was with respect to foreign investment.

The adoption of the BERDIKARI policy in April 1965 reflected a pinnacle with respect to economic affairs in Indonesia in several ways. I suggested in Chapter One that 1965-66 in Indonesia was a culmination of sorts in Indonesia in the three areas of domestic political conflict, economic affairs, and foreign relations, and the previous Chapter described in detail how 1965 was the pinnacle of Indonesia’s anti-imperialist foreign policy. In economic affairs, the adoption of BERDIKARI was firstly an acknowledgement of the horrible condition of the Indonesian economy. 1965-66 was a climax of economic chaos in Indonesia, the product of years of economic neglect that resulted in a virtual collapse of the economy, a primary feature of which was staggering inflation. As we shall see, one of the key points of the BERDIKARI program was its rejection of the Eight Year Development Plan, one of the lynchpins of economic policy under Guided Democracy, in what was deemed a *banting stir*, or ‘drastic turning of the steering wheel.’ The adoption of BERDIKARI and the *banting stir* recognized the Eight Year Development Plan was not working and the economy was heading for, if not already in, a disastrous state. Secondly, in the broader scope of Indonesia’s brief 15 year history, the adoption of BERDIKARI was an apogee of sorts with respect to economic policy-making, as it represented the culmination of efforts to construct a national economy in the aftermath of Indonesia’s political independence. As we saw in Chapter Two, the transformation of a colonial economy into a national economy was a central preoccupation of economic policy-makers, though there was hardly consensus on what this economy should look like. In particular, the role of Indonesians in the economy – the

other side of the coin of the role of foreigners in the economy – and control over the economy and its key assets (the Indonesianization of the economy) were major issues. Hence various plans and strategies such as the Economic Urgency Plan, the Five Year Plan, Guided Economy and the Eight Year Development Plan, were all devised in part to address this issue. The adoption of BERDIKARI can thus be seen as the culmination of these efforts: standing on Indonesia's own two feet, or self-reliance, was now the official goal of economic development.

With respect to existing foreign investment, BERDIKARI was effected via President Sukarno's Decree 6 of 1965, which authorized the takeovers of remaining foreign businesses but left actual implementation of the policy up to the Presidium Kabinet, which in turn delegated implementation to the individual ministries under whose competence the companies fell. Thus the actual takeover of the foreign firms appeared to vary from company to company, much like the situation in which British firms found themselves in 1964. Of these takeovers, only American Singer Sewing involved a physical takeover by labor unions before the GOI intervened, reflecting the drastic diminution of labor union takeover activity after the introduction of Presidential Decree 6/1965. In another interesting twist, the GOI initially continued to insist that, like the takeovers of American firms in the previous wave, it was merely taking over management of the firms, that ownership rights in the companies would not be affected, a position obviously designed to avoid payment of compensation for nationalizations. However, as described in the next paragraph this position was modified with respect to the non-British estate companies and Shell Oil.

Although with the implementation of Presidential Decree 6/1965 all foreign companies were technically under GOI control, there was a major GOI push at the end of the year to eliminate finally the lingering presence of foreign investment in the country. This effort had two key components: an attempt to buyout or take over the management of the big three oil companies, and the final management takeover and buyout of the non-British foreign estate companies. These were the only groups of foreign companies with which the GOI engaged in serious compensation negotiations. In a nod to the power of oil company exceptionalism, Shell Oil was bought out at the end of December 1965 for a price of \$110 million, but Caltex and Stanvac both successfully resisted strong GOI

takeover pressure. In the case of the non-British estates, I suggest the decision to compensate the owners was attributable both to the attitude of Minister of Estates Frans Seda as well the ability of those very estates to generate foreign exchange to pay for themselves, thus creating a minimal burden for the GOI. Hence, though most of the designated values of the estates were very low, most of the compensation payments were never made, and the estate companies in reality had little choice but to agree, at the end of 1965 altogether 16 estate companies owning at least 58 estates agreed to compensation terms with the GOI totaling \$29 million plus Rp. 1.85 billion, generally payable over seven to 10 years.

This final GOI push at the end of 1965 coincided with the culmination of the domestic political power struggle under Guided Democracy in what was the most tumultuous period in the history of independent Indonesia. This was the third and best-known climax of 1965, along with ones in economic affairs and foreign relations. As is well known to even the most casual observer of Indonesian history, the September 30 Movement (known as G30S, short for *Gerakan Tiga Puluh September*, or the Movement of 30 September, so named for the evening on which it started) in which six senior army generals were killed triggered a chain of events that led to the destruction of the PKI as well as an open political power struggle between President Sukarno and his opponents and ultimately to the downfall of Sukarno and Guided Democracy. The September 30 Movement remains controversial and mysterious even today. Given the uneasy partnership between President Sukarno and the army, a relationship compounded by the PKI's political offensive begun in early 1964, it was clear before the events of 30 September that Indonesia had been building toward an internal confrontation for several years, and some form of showdown between the army and the PKI was certainly not unanticipated in 1965. The September 30 Movement was very quickly squashed by General Suharto, and thereafter the army turned its attention toward the PKI, whose members, along with many non-members, were liquidated by a coalition of forces in one of the largest massacres in the 20th century. Second, at the same time, General Suharto along with various army leaders and civilian supporters was engaged in a power struggle with President Sukarno that peaked from December 1965 to early March 1966, with the balance of power tipping away from President Sukarno in favor of his opponents in early

March. Moreover, at the same time as the political conflict was unfolding the Indonesian economy also reached unprecedented levels of inflation and decay. It was amidst this political, social, and economic turmoil that the GOI made its final year end push to eradicate foreign companies from Indonesia, and in at least one case – not surprisingly, that of the oil companies, again reflecting oil company exceptionalism - this final push became intertwined in the domestic power struggle.

This Chapter is divided into three main Parts. Part I analyzes the BERDIKARI doctrine generally, while Part II focuses on the impact of BERDIKARI on foreign investment. Part III analyzes the final push to eliminate foreign investment at the end of 1965, beginning with a short analysis of the domestic political conflict. The Chapter ends with a brief conclusion in Part IV.

I. **BERDIKARI as National Economic Policy.**

The term BERDIKARI began to emerge prominently in national discourse in 1963. Its primary proponent in official GOI circles was President Sukarno, who in the general context of opposition to imperialism and neo-colonialism increasingly began to link economic independence with political sovereignty, arguing that the latter could not exist without the former. However, initially BERDIKARI was little more than one of Guided Democracy's many slogans, without substance or specifics, until at President Sukarno's urging it was adopted by the MPRS as national economic policy in mid-April 1965. It then became so pervasive that the year 1965-66 was deemed the 'Year of Self-Reliance' by President Sukarno in his 17 August 1965 independence day address. Despite its newfound prominence, though, the policy was formulated primarily in terms of broad objectives and lacked specific measures, and except with respect to foreign investment seems not to have been implemented to any great degree, which is undoubtedly a major reason why it has received so little attention in academic literature on Indonesia.¹ In an

¹ For example, the excellent *Emergence of a National Economy*, the best recent account of Indonesian economic history, only mentions this doctrine in passing (pp. 186, 189). Other accounts also devote little attention to it; see, e.g., Robison's *Indonesia: Rise of Capital*, pp. 75-6, and pp. 36-7 and 40-1 of T.K. Tan, "Sukarnian Economics," in *Sukarno's Guided Indonesia*, ed. T.K. Tan (Brisbane: Jacaranda Press, 1967).

effort to redress this situation, this Part I will delve in some detail into the BERDIKARI policy.

A. From Slogan to Policy.

While the term BERDIKARI certainly existed before 1963, it was only during the course of that year that the term began to gain prominence as an economic slogan both publicly and within GOI circles.² The primary proponent of BERDIKARI was certainly President Sukarno, who as we saw in Chapter Two was the formateur of ideology during Guided Democracy, though as we shall see in Section B below the President was likely influenced by the PKI and the examples of North Korea and the PRC. President Sukarno claimed that for him the goal of economic independence (if that can be seen as the primary objective of self-reliance) as a principle component of national independence can be easily traced back to the early 1930s, if not before.³ Nevertheless, the term BERDIKARI itself only gained traction beginning in 1963 and increasingly in 1964-65. For example, the term was not mentioned at all in DEKON, which was announced in March 1963 and was, until the adoption of BERDIKARI in 1965, the ideological basis of Guided Economy. In his 17 August 1963 independence day speech (entitled ‘The Resounding Voice of the Indonesian Revolution’), the President did not use the BERDIKARI acronym but instead the full expression, noting his pleasure that the desire to build a self-reliant national economy was increasingly evident and that it was a sign of economic patriotism.⁴ In 1964, as the term increasingly was sprinkled in his speeches, the President in his famous ‘Year of Living Dangerously’ speech on 17 August 1964

Other sources incorrectly attribute the year BERDIKARI was implemented to 1964. One of the few publications that did follow the emergence of the policy was the *Bulletin of Indonesian Economic Studies* – see its first two volumes in 1965. Insofar as I am aware, there is no study of BERDIKARI, and in fact there are very few references to it in scholarly literature other than those cited in this Chapter.

² Mangkusuwondo, *Industrialization Efforts in Indonesia*, pp. 2-3. Indeed, Mangkusuwondo notes that it was the adoption of BERDIKARI that led him to his dissertation topic.

³ In the undelivered portion of his 11 April BERDIKARI speech discussed below, Sukarno stated that the principle of “standing on our own two feet” had been an idea of his “since the beginning,” citing a 1932 speech in which he explained the concept of ‘self help,’ as well as his ‘self help’ slogan during the Japanese occupation. Conceptually, however, these terms seem very different, even if they share the same goal. See also Hauswedell, *The Anti-Imperialist United Front*, p. 436.

⁴ An English translation of the speech can be found in “Indonesia 1963: Looking Back over the Year”; see p. 33 for the above reference. For the Indonesian version, see p. 28 of Sukarno, “Genta Suara Revolusi Indonesia: Pidato Presiden Republik Indonesia pada Tanggal 17 Agustus 1963,” ed. Departemen Penerangan RI (Jajasan Nasional Djakarta, 1963).

identified BERDIKARI, political independence, and separate cultural identity as the three key principles of independence, a formulation that later became known as *Trisakti*.⁵ In this speech he also approved of North Korean leader Kim Il Sung's formulation of establishing an independent economy as the foundation of independence, as well as North Korea's achievements in this regard.⁶ Yet throughout this period 1963-64, there was no elaboration of what BERDIKARI actually meant and how Indonesia would achieve it, and the term remained a slogan only.

In 1965 the slogan was adopted as national policy in at least several areas. In the first place, it was adopted by the MPRS as official national economic policy in mid-April at the urging of President Sukarno. President Sukarno's 11 April speech to the MPRS and the ensuing MPRS decisions, which we will examine below, were the primary official explanations of the policy, and in fact the rubber stamp MPRS was apparently convened primarily for the purpose of adopting BERDIKARI as national economic policy.⁷ This measure was the last major economic policy initiative of Guided Democracy, and the first since DEKON of 1963. Secondly, to a lesser extent, as discussed in Chapter Six the slogan of BERDIKARI in 1965 also became a corollary of the anti-imperialist policy in Indonesian foreign relations, a result of Indonesia's increasing isolation in the international community due to its strong anti-imperialist emphasis. These two notions of self-reliance in international relations and self-reliance in economic matters clearly gained strength from each other. So imbued had the term become by the summer of 1965 that it was easy for President Sukarno to declare the upcoming year the 'Year of Self Reliance' in his 17 August independence day speech.

President Sukarno's 11 April 1965 speech at the opening of the third MPRS session, entitled '*Berdiri Diatas Kaki Sendiri*,' provided the ideological basis for the adoption of BERDIKARI.⁸ While the purpose of the speech was to announce a new

⁵ See Weatherbee, *Ideology in Indonesia*, pp. 26-7.

⁶ See pp. 57-8 of *Sukarno: Address by the President of the Republic of Indonesia on 17 August 1964*.

⁷ MPRS meetings were important under Guided Democracy for the adoption of economic policies. The first meeting of the MPRS in 1960 approved the Eight Year Development Plan, the second MPRS session in 1963 approved DEKON, and this third session approved BERDIKARI.

⁸ A copy of the speech, including a portion that was not delivered orally but in written form, can be found in Sukarno, "Berdiri Diatas Kaki Sendiri (Amanat Politik Presiden pada Pembukaan Sidang Umum ke III MPRS, 11 April 1965)," (MPRS dan Departemen Penerangan RI, 1965). An official English language version can be found in Sukarno, "Self Reliance: Policy Address by the President at the Opening of the

economic policy that was termed a '*banting stir*,' or sharp turn of the wheel, based on a foundation of BERDIKARI, the first two thirds of the speech focused on political affairs. A continued emphasis of the political portion was on the ongoing struggle of the Indonesian Revolution and its implementation, in particular the confrontation against NEKOLIM (imperialism, colonialism and neo-colonialism). The President argued that a basic principle of the Indonesian Revolution was to stamp out colonialism, especially pointing to Malaysia (which was established to encircle and contain the Indonesian revolution, thereby furthering the imperial interests of the British), and he declared that the struggle against NEKOLIM was succeeding and that the OLDEFOS were in decline. Sukarno also claimed that the Indonesian Revolution was comprised of two stages, the national democratic stage in which feudalism, capitalism and NEKOLIM were uprooted, and a second phase of Indonesian socialism, and that Indonesia had almost completed the first phase and was on the verge of transitioning into the second. He also described three urgent political tasks facing the country: to make a success of Konfrontasi, to bring about cooperation among NEFO countries in holding the CONEFO conference, and to continue the struggle resulting from Indonesia's withdrawal from the UN. Hence, the Indonesian people should be prepared to create a new political and economic climate, based on MANIPOL, TAVIP (the acronym for 'Year of Living Dangerously') and DEKON, aimed at making a success out of the Dwikora struggle (Konfrontasi), ensuring the Indonesian Revolution was a beacon in building a new world with NEFO as its nucleus, and preparing the people to implement the third objective of the Revolution. Thus, the discussion of the economic measures that followed was cloaked in and framed by Indonesia's continuing revolutionary struggle.

Turning to economic affairs, President Sukarno called for a *banting stir* with the goal of achieving BERDIKARI. The reason such a *banting stir* was necessary constituted perhaps the clearest, most concrete measure of the speech: a clear rejection of the Eight Year Development Plan. The plan no longer accorded with reality and had been "left behind by the development and stepped-up progress of the Revolution." Hence, it was now necessary to make a decisive change in policy – *banting stir* – in order to meet the

Third General Session of the Madjelis, Bandung, 11 April 1965," (Department of Information, Republic of Indonesia, 1965). Citations in the text are to the English language version.

needs of Indonesia's revolutionary development. Such a change, however, did not mean that Indonesia should change its identity - a just and prosperous society was still the goal, and *Panja Sila* remained the national identity. To implement this great change, the President suggested that what was needed was self-reliance. Quoting North Korean Leader Kim Il Sung, who was present at the speech, Sukarno said, in English, "In order to build a democratic state, the foundation of an independent economy of the nation must be established. Without the foundation of an independent economy, we can neither attain independence, nor found the state, nor subsist." This notion of economic independence as a key component of Indonesia's independence was the ideological foundation and rationale for the BERDIKARI principle, and the President would continue to emphasize the concept of economic independence in other speeches.⁹ Pointing toward North Korea as a model of achieving self-reliance, Sukarno put forth five basic economic tasks that Indonesia had to fulfill in the context of BERDIKARI: (i) successfully completing nation and character building projects, (ii) solving as soon as possible the problem of insufficient food and clothing, (iii) finishing the projects in the Eight Year Development Plan that were either already under construction or economically important for Indonesia's strategy for struggle, (iv) overcoming the obstacles to development by using the strength of the Indonesian people and its natural resources to produce more goods, and (v) resolving the problem of foreign capital in Indonesia so that the country could reach full freedom in the economic sphere. In this regard, he also noted that at the present stage of the Indonesian Revolution "we have subjected the economic interests of foreign countries in Indonesia to our policy and national laws so that they are more and more pushed out of their position towards total liquidation which may result in additional contribution to Indonesia's own material possessions." Finally, the President emphasized

⁹ See, e.g., Sukarno's speech 'After Ten Years, Still Onward, Never Retreat,' delivered on 18 April 1965, one week after the BERDIKARI speech, at a conference in Jakarta to celebrate the 10th anniversary of the Bandung conference: "For us, economic independence is the prerequisite for real independence in political and cultural affairs. It is indeed so that we seized our political independence as a weapon with which to establish economic independence. Without economic independence, in fact, we are not politically independent; we do not have cultural independence; we do not have independence in diplomacy; we do not have independence in military affairs; yes, without economic independence in fact we do not have any independence at all." (Cited in Feith and Castles, *Indonesian Political Thinking*, p. 469) We saw above that President Sukarno in his TAVIP speech on 17 August 1964 first identified BERDIKARI, political independence, and separate cultural identity as the three key principles of national independence.

several times that “the really existing economic funds and forces” should be the main foundation for realizing BERDIKARI.

The President highlighted that numerous adjustments were necessary so that Indonesia could implement its new ‘Program for Economic Struggle.’ Again charging that the Eight Year Development Program was not working, Sukarno noted that most of the B projects of the plan, which were designed to provide the majority of financing for the plan, were not in accordance with the concept of BERDIKARI because they mostly depended on cooperation with foreign capital along conventional lines.¹⁰ Other adjustments included the integration of all development planning, as well as a priority on finishing infrastructure projects (a fundamental one of which was the project of “mental upgrading of our people within the framework of Nation and Character building including the Indoctrination Program”). There was also to be an emphasis on using Indonesia’s natural resources to make products, with North Korea again providing an example. In the international trade sector, exports must be increased and imports limited only to goods which could not be made in Indonesia. Thus, the President declared he had decided that

import shall only be carried out by the Government. Private entrepreneurs are forbidden to do any import unless they do so on behalf of the Government. To these private entrepreneurs license will only be given to try and become producer-exporters whose export will be done under Governmental guidance. That then is the task which the Revolution puts on the shoulders of private entrepreneurs....

In this connection, imports should help spur production of exports sufficient to finance the imports. With respect to cooperatives, there could only be two kinds: those for production, and those for distribution. In the all important area of financing, Sukarno noted that Indonesia would have to rely on its own strengths and abilities, including the state-owned enterprises, cooperatives and private businesses, and the strength of the people, workers, farmers and the armed forces. The main sources of financing were to be farming, estates, and mining of natural resources, but new sources of income would have to be found. In addition, state-owned enterprises must make a greater contribution to

¹⁰ As we saw in Chapter Two (Part III, Section D), this charge was true; in particular, the oil industry, which was dominated by the big three foreign oil companies, was meant to provide over 75% of the required foreign exchange.

financing development, and more authority should be given to the regions to create their own financing sources. Finally, in order to fight inflation, the GOI budget should be under the control of the President himself. Similarly, to ensure effective implementation of development, the Indonesian Development Bank needed to be restructured, and a centralized planning, implementation and control apparatus at the central and regional government levels needed to be put in place; this was to be led by the President, who would be assisted by a new National Economic Directing Board.¹¹

The MPRS responded to Sukarno's speech by formally endorsing *banting stir* and BERDIKARI as national economic policy.¹² The MPRS decree echoed Sukarno's statement that the national democratic phase of the Indonesian Revolution in which the remnants of imperialism and feudalism were to be eliminated was almost completed, that the next stage of Indonesian socialism was beckoning, and that the Eight Year Development Program needed to conform to the current state of development and revolution with a program based on economic struggle. Such a program involved a *banting stir* based on a policy of BERDIKARI, and the remaining three years of the Eight Year Development Plan (1966-68) were to be based on the foundation of BERDIKARI. The decree noted that for the Indonesian people, the principle of BERDIKIRI meant belief in their own ability to fulfill their material, spiritual and religious needs using their own strengths as the foundation. Thus BERDIKARI meant utilizing real economic strengths and forces, which meant that farming and plantations would be the base and industrial development would become the "spinal cord" of economic development. In order to expand existing economic forces it was necessary to exploit the country's natural

¹¹ There was also a written portion to Sukarno's speech which was not delivered orally but was instead distributed. The general content was the same, though the President took particular care in urging the MPRS to adopt *banting stir* and BERDIKARI and describing why it was necessary to do so. He also noted that self-reliance did not mean isolation from other nations behind a Chinese wall.

¹² Ketetapan Majelis Permusyawaratan Rakyat Sementara Republik Indonesia No. VI/MPRS/1965 tentang Banting Stir Untuk Berdiri Di Atas Kaki Sendiri di Bidang Ekonomi dan Pembangunan, dated 16 April 1965. The following discussion is based on this decree. In addition, there was another very short MPRS decree which affirmed Sukarno's 11 April speech as the basis of the current stage of the Indonesian Revolution and of a new program of struggle for the Indonesian people in the fields of politics, economic, society, culture, and security, and also gave the President the full power and authority to implement it (Ketetapan Majelis Permusyawaratan Rakyat Sementara Republik Indonesia No. V/MPRS/1965 tentang Amanat Politik Presiden/Pemimpin Besar Revolusi/Mandataris MPRS Yang Berjudul 'BERDIKARI' Sebagai Penegasan Revolusi Indonesia Dalam Bidang Politik, Pedoman Pelaksanaan MANIPOL dan Landasan Program Perjuangan Rakyat Indonesia, dated 16 April 1965).

resources and raw materials. It further identified six strengths of the economy: (i) nation and character building projects of President Sukarno, especially those involving mental/religious development, (ii) the manpower of the Indonesian people, including workers, farmers, fishermen and the armed forces, (iii) state-owned enterprises, (iv) projects of the Eight Year Development Plan which were almost completed, (v) cooperatives, and (vi) progressive private entrepreneurs (Article 1).

Much of the rest of the MPRS decree was devoted to adding more substance to the above broad outlines, though most of this substance was in the form of broad goals and objectives rather than specific policies. Without listing any by name, the MPRS identified 12 general, basic types of projects that should have priority of implementation, which in order were those relating to nation and character building, production of food and clothing, security/defense projects, farming/estates, forestry, mining and industrial projects, projects processing raw materials, infrastructure projects in communications, transmigration projects, research and development projects, worker education projects, and projects from the Eight Year Development Plan that had already begun (Article 2). These residual projects of the Eight Year Development Plan should be integrated and synchronized with local and regional projects (Article 4). It was also necessary to strike a balance between political and economic duties in allocating manpower, financial resources, and supply of goods, and also disseminating projects to the local areas (Article 3). Creating an economic climate in accordance with current needs meant rehabilitating the means of production, stabilizing prices using price controls, fighting inflation by having a stable base of production based on concrete planning, fighting the black market, and increasing the purchasing power of the people (Articles 5 and 11). Progressive private capital should be directed toward the area of production (presumably instead of importing), and in order to create a better climate for production obstacles in the licensing/permitting process should be eliminated (Article 13). In addition, there should be a broad retrenchment in non-productive fields (Article 15). In the important area of financing development, funding should be based on the strengths of the country itself. Specifically, (a) the B projects of the Eight Year Development Plan that depended on foreign capital were eliminated, (b) funds were to come from SOEs, the working people (workers, farmers, fisherman and armed forces), cooperatives, and progressive private

elements, and (c) efficient management must be emphasized and wasteful practices eliminated (Article 6). The first source of development funds should be those obtained from processing natural resources from farms, estates, forestry and fisheries, though continuing efforts would have to be made in “digging for” new sources (Article 7), including granting more authority to the regions to develop their own sources (Article 8).

Two areas of the MPRS decree that were, to varying degrees, subsequently implemented were foreign trade and foreign investment. In the area of imports and exports, the decree confirmed Sukarno’s vision of forbidding private firms from importing goods except on behalf of the GOI (essentially placing importing under the GOI’s control); insofar as exporting, private firms would only be given licenses to do so if they endeavored to become “producer-exporters,” and even then exports were permitted only under the leadership of the GOI (Article 9). Moreover, in order to protect domestic industry, purchases (and thus imports) of foreign goods were only allowed if such goods could not be made in Indonesia, and foreign exchange derived from exports should be aimed at strengthening domestic production (Article 14). With respect to foreign companies, the MPRS decided to “implement nationalization and if necessary seize all foreign companies that were enemies so as to achieve complete freedom in the economic and distribution fields” (Article 10).

The remainder of the MPRS decree was mostly concerned with administrative aspects of this new policy. All development projects should be paid for by the national budget, which in turn should be directly controlled by the President (Article 12). Various GOI apparati were to be involved; for example, to provide leadership and guidance and ensure the success of these and other development measures, a National Economic Council (*Dewan Ekonomi Nasional*, or DEPENAS) would be established; its membership was to include groups that were part of NASAKOM, and its specific composition and duties were to be determined by the President (Article 19). There was also emphasis on coordinating the development process between the center and the regions (Article 20). The MPRS further gave President Sukarno, who was to be assisted by two existing planning agencies, MUPPENAS and BAPPENAS, the task of devising by the end of 1965 a detailed plan for implementing this *banting stir* (Article 21). These efforts were not free from political concerns; capitalist bureaucrats (*kabir*) and other counter-

revolutionaries would have to be eliminated from the bureaucracy (Article 22), and the team assisting the President should have elements from *Pantja Sila*, MANIPOL, and NASAKOM (Article 23). The Indonesian armed forces were also specifically targeted, as Article 23 called for the continued mental and spiritual development, including indoctrination, of the armed forces, and noted that its development as both an instrument of the Indonesian Revolution and an instrument of security should be in rhythm with the intensification of the Indonesian Revolution. Finally, lest there be any remaining doubt that President Sukarno was in charge of executing this new policy of BERDIKARI, the last article of the decree explicitly vested the President with full power and authority to implement it (Article 25).

As is evident, President Sukarno and the MPRS only provided a broad outline of *baning stir* and the BERDIKARI policy, leaving most of the details to be worked out and implemented later. Much of the content was limited to broader objectives without specific policy prescriptions. (In this respect, BERDIKARI was quite similar to DEKON, which as we saw in Chapter Four contained broad statements of economic principles that could be interpreted and implemented in various ways.) For example, it was one thing to identify the strengths of the Indonesian economy, but in practice how could these strengths be translated into self-reliance? Likewise, how exactly did one rehabilitate the instruments of production, rein in inflation, eliminate the black market, and increase the purchasing power of the people? How, precisely, was more development financing supposed to be generated from internal sources? There were certainly some specific policy measures, such as the rejection of the Eight Year Development Plan, which was cited as the main reason for the drastic turn of the wheel. Other specific measures were the placing of control over imports and exports into the hands of the GOI, the nationalization of foreign investment, and to a lesser extent the prioritization of development projects (which remained unnamed). Nevertheless, the tasking by the MPRS of President Sukarno with devising a plan to implement the new policy – and effectively leaving the entire implementation of BERDIKARI in the President’s hands - indicated an

awareness that most of these broader objectives would have to be worked out in detail in the future.¹³

B. Influences, Rationale and Implementation of BERDIKARI.

Having outlined generally the BERDIKARI policy as proclaimed by President Sukarno and the MPRS, I now turn to examining the rationale for, and implementation of, the policy. I start with potential influences on President Sukarno as he devised the policy, in particular the PKI, North Korea and the PRC. Each of these three entities was promoting self-reliance when President Sukarno proposed BERDIKARI as Indonesia's national economic policy, and President Sukarno seemed to draw upon the ideas of each in formulating BERDIKARI, though it is impossible to state with certainty the degree of influence these three had on Sukarno's thinking. Of course each of the PKI, the PRC and North Korea was certainly influencing the others to some degree in promoting and implementing self-reliance, making the concept a big mixing pot of ideas. I also examine BERDIKARI in the broader context of Indonesian economic policy since independence. I then turn to what I believe were the principal reasons for the adoption of the policy: the chaotic condition of the Indonesian economy in 1965 and the lack of outside assistance, in effect leaving the President with little alternative. The section closes with a discussion

¹³ Commentary on the BERDIKARI program varied. The BIES noted how under Sukarno it was believed that only political success could solve economic problems and suggested that the combined significance of BERDIKARI and *banting stir* for economic policy could "be seen in the President's nutshell 'economic philosophy' which he asked the MPRS to adopt as a basis for resolving all economic problems: 'thunderous revolutionary spirit, combined with down to earth handling of problems as they arise.'" (See pp. 1-2 of "Survey of Recent Developments," BIES 1) Another observer, commenting a year or so later, suggested that the BERDIKARI policy actually "served to cover the retreat from a Guided Economy in 1965 when greater reliance on the private sector became unavoidable." The economic decline since 1961 had rendered Guided Economy a moot concept. "Significantly, the egalitarian and *dirigiste* catch-cries of the Guided Economy period were quietly forgotten in 1964-5, to be superseded by 'standing on our own feet' – a slogan that could as well have been approved by Benjamin Franklin and Sam Smiles as by Lenin or Mao Tse Tung." (Mackie, *Problems of Indonesian Inflation*, pp. 13, 50) With the advantage of further hindsight, another commentator focused on the political nature of Sukarno's 11 April speech, suggesting Sukarno "charted a political reorientation." Although relating primarily to the creation of a self-sufficient economy, its references to extending BERDIKARI to culture, education, the military and elsewhere "should be seen in the context of Sukarno's fear of political subversion, military intervention and Western cultural penetration, and the apprehension that his domestic opponents, especially the army, would attempt a coup with foreign political and financial backing." Thus the BERDIKARI policy, in addition to its "immediate economic implications, was an attempt to isolate his domestic political opponents from their foreign imperialist and revisionist supporters." (Hauswedell, "Sukarno: Radical or Conservative," pp. 140-1)

of the implementation of BERDIKARI, finding that except with respect to foreign investment little of the policy was put into practice.

President Sukarno's promotion of BERDIKARI as national economic policy closely tracked the policy of the PKI, which had advocated a policy of BERDIKARI since 1963, not coincidentally around the same time that the term gained increasing prominence. In his report to the PKI central committee of February 1963, PKI Chairman Aidit suggested that "the real way out of Indonesia's economic difficulties is not by begging for loans from abroad or making the Indonesian people the servants of foreign capital invested in Indonesia, but by the development of a national economy that can stand on its own two feet," a suggestion that Aidit repeated in late May 1963 with the implementation of the economic stabilization package.¹⁴ In late September, upon his return from a world tour that included visits to the USSR, the PRC and North Korea, Aidit praised the North Korean economic model of standing on one's own two legs.¹⁵ Indeed, one close observer of the PKI posits that after the outbreak of Konfrontasi the PKI rejected the Soviet style developmental model and, "drawing once again on Chinese views, proposed a strategy of self-reliance for Indonesia giving primary emphasis to the agricultural sector."¹⁶ The decisive moment for PKI support for a policy of BERDIKARI appeared to be the December 1963 central committee meeting, which as we saw in Chapter Five was also the moment the PKI decided to embark on a major political offensive. In his report to the meeting, Aidit, recognizing that US aid to Indonesia would dry up after the outbreak of Konfrontasi and that the PRC was probably not in a position to help, again advocated a policy of BERDIKARI, and in 1964 BERDIKARI became the PKI's economic "catchword."¹⁷ In advocating this policy, the PKI was apparently influenced most strongly by the Chinese model, but as we have seen North Korea also provided an example.¹⁸ What then, was the PKI's influence on President Sukarno's adoption of BERDIKARI? Mortimer suggests that the militantly nationalistic atmosphere

¹⁴ Cited in Mortimer, *Indonesian Communism under Sukarno*, p. 264; Chetwynd, *Indonesian Stabilization Attempt*, pp. 51-2, citing Aidit's speech of 26 May 1963.

¹⁵ Donald Hindley, "The Indonesian Communist Party and the Conflict in the International Communist Movement," *The China Quarterly* 19 (1964), pp. 107-8, citing Aidit's speech of 30 September 1963. See also Mortimer, *Indonesian Communism under Sukarno*, pp. 356-7.

¹⁶ Mortimer, *Indonesian Communism under Sukarno*, pp. 248-9.

¹⁷ Mortimer, *Indonesian Communism under Sukarno*, pp. 236-7, 245.

¹⁸ Mortimer, *Indonesian Communism under Sukarno*, pp. 270-1, 248-9.

of Konfrontasi led to the adoption by President Sukarno (aided by the loss of the technocratic and economically pragmatic First Minister Djuanda) of many of the PKI's economic slogans, including BERDIKARI.¹⁹ It is difficult to assess the validity of this assertion that Sukarno simply borrowed BERDIKARI from the PKI, but clearly at a minimum there was a convergence of ideas and undoubtedly the PKI's promotion of the concept did influence Sukarno to some extent.

Another possible influence on President Sukarno with respect to BERDIKARI was the Peoples Republic of China. Chinese leader Mao Zedong first formulated the concept of self-reliance (known in Chinese as *zili gengsheng*) with respect to the PRC in the late 1950s.²⁰ The use of the term, however, dates back to the Yenan era (1937-45) of the Chinese Communist Party, when the CCP was forced during the Japanese occupation and civil war to fend for itself in the remote northwestern area of Yenan. The term re-emerged as the PRC implemented its Great Leap Forward in 1958 and relations with the USSR began to sour, and the periods when self-reliance was most strictly applied were 1958-62 and 1966-70. While the withdrawal of Soviet economic and military aid to the PRC in 1960 was a major reason for the more severe application of the doctrine, indigenous factors, such as a long experience with western imperialism, the Yenan era, and Mao's own vision of socialist development, were also very influential. The policy's basic goals were internally-generated development (using human resources, especially mass mobilization, using local resources, allowing foreign trade but not as the prime catalyst of growth, and rejecting adoption of foreign ideas and knowledge without first adopting them to Chinese conditions) and the avoidance of external dependency (meaning primarily to ensure Chinese autonomy with respect to other nations, and also struggling against the imperialist world economy by creating a broad united front emphasizing collective self-reliance), though there was clearly internal disagreement over how to reach these goals. Foreign trade in particular was to be strictly controlled by the

¹⁹ Mortimer, *Indonesian Communism under Sukarno*, p. 267.

²⁰ For an excellent discussion of self-reliance in the PRC, see generally the dissertation by Friedrich W. Wu, "From Self-Reliance to Interdependence? Post Mao China's Interaction with the Capitalist World Economy" (University of Washington, 1983).

state.²¹ Another feature of Chinese self-reliance was its application below the national level to regional and local units of government and businesses, each of which was expected to become self-reliant.²²

President Sukarno was certainly aware of the Chinese concept of self-reliance because the concept was an integral part of the Indonesian-Chinese anti-imperialist united front campaign. One observer has argued that the three concepts of political sovereignty, economic self-reliance and independent cultural identity were jointly developed by the PRC and Indonesia as key concepts of their anti-imperialist position, with the PRC in particular focusing on enunciating economic self-reliance, while Indonesia concentrated on the other two. This position of self-reliance was in part designed to address the problems associated with foreign economic aid, which often came with attached political strings and was thus seen as a measure to continue western control and domination. Moreover, the Chinese also advocated the nationalization of all foreign capital in Afro-Asian countries as a means toward achieving true self-reliance.²³ Self-reliance was one of the eight guiding principles of the PRC's own foreign aid program in the 1960s, which the PRC also claimed was free of political strings.²⁴

It was North Korea, however, that seemed to provide much of the inspiration for President Sukarno's BERDIKARI concept. In the mid-1960s, North Korea had one of the most self-reliant economies in the world.²⁵ Self-reliance was embodied in the North

²¹ Wu, *Self-Reliance to Interdependence*, chapter two. See also chapter nine of Carl Riskin, *China's Political Economy: the Quest for Development Since 1949* (New York: Oxford University Press, 1987). For shorter discussions, see CH Chen, "Modernization in Mainland China: Self Reliance and Dependence," *American Journal of Economics and Sociology* 51, no. 1 (1992), Asbjorn Lovbraek, "The Chinese Model of Development," *Journal of Peace Research* 13, no. 3 (1976), William Snead, "Self Reliance, Internal Trade and China's Economic Structure," *The China Quarterly* 62 (1975).

²² Riskin, *Quest for Development*, pp. 209-222; Wu, *Self-Reliance to Interdependence*, p. 105.

²³ Hauswedell, *The Anti-Imperialist United Front*, pp. 302-20.

²⁴ See Melvin Gurto, "Communist China's Foreign Aid Program," *Current History* 49, no. 289 (1965).

²⁵ For North Korea, see generally B.H. Koo, *Political Economy of Self Reliance: Juche and Economic Development in North Korea* (Korea: Research Center for Peace and Unification of Korea, 1992), Philip Park, *Self Reliance or Self Destruction: Success or Failure of the Democratic People's Republic of Korea's Development Strategy of Juche* (New York: Routledge, 2002), Gordon White, "North Korean Juche: the Political Economy of Self Reliance," in *The Struggle for Development: National Strategies in an International Context* ed. Bienefeld and Godfrey (New York: John Wiley & Sons Limited, 1982). In the mid-1960s, only a handful of countries were consciously following a policy of economic self-reliance, and the definitions and degree to which countries followed strict self-reliance policies varied considerably. North Korea and the PRC were certainly at the forefront of the practice. The concept was also favored in India, though there it was not strictly applied until 1969-73; see Sanjaya Baru, "Self Reliance to Dependence in Indian Economic Development," *Social Scientist* 11, no. 11 (1983). Self-reliance was also

Korean concept of *Juche*, a comprehensive term that applied not just to the economy but also to politics and society.²⁶ First enunciated by North Korean leader Kim Il Sung in late 1955, the concept was applied most stringently in the 1960s, triggered in part by the withdrawal of Soviet aid by the end of the 1950s that forced North Korea to wean itself off Soviet support.²⁷ North Korea was a strong proponent of economic independence as a prerequisite for political independence, and the primary objectives of economic *Juche* were “to reduce the possibility of political pressure from unreliable large allies by economic means and to mobilize the domestic resources and human energy of North Korea’s own people in order to minimize dependence on outside counties.”²⁸ There were three basic strategies followed under *Juche*: (i) a priority on the development of heavy industry, using the country’s own raw materials and resources, (ii) using mass mobilization techniques and campaigns that emphasized and encouraged the revolutionary enthusiasm of the people, and (iii) allowing foreign economic trade and interaction but only in a supplementary capacity.²⁹ Insofar as the influence of the North Korean *Juche* on President Sukarno, it is fairly evident that Sukarno viewed North Korea as a model of self-reliance, often citing it as an example (as we saw in Sukarno’s 11 April 1965 speech to the MPRS). One observer even suggests that the BERDIKARI concept was “derived from an appreciation of North Korea’s efforts toward an ‘independent and self reliant’ economy,” while another commentator argues that North Korea was “chosen by both the PKI and Sukarno as a model for Indonesia’s economic development.”³⁰

an element of Burma’s practice of the ‘Burmese Road to Socialism’ instituted in 1962 - see p. 52 of Mynt Thein, *Economic Development of Myanmar* (Singapore: Institute of Southeast Asian Studies, 2004). Albania was also a practitioner - see Berit Backer, “Self-Reliance under Socialism: the Case of Albania,” *Journal of Peace Research* 19, no. 4 (1982). Tanzania began employing the doctrine in 1967; see M.A. Bienefeld, “Tanzania: Model or Anti-Model?,” in *The Struggle for Development: National Strategies in an International Context*, ed. Bienefeld and Godfrey (New York: John Wiley & Sons Limited, 1982). In the 1970s self-reliance increasingly came to be seen as an alternative developmental model; for a collection of essays promoting the concept, see J. Galtung, P. O’Brien, and R. Preiswerk, eds., *Self-Reliance: A Strategy for Development* (London: Bogle L’Ouverture Publications, Ltd., 1980).

²⁶ Interestingly, it was apparently in a speech given during his visit to Indonesia in April 1965 when Kim Il Sung first provided an explicit and comprehensive definition of *Juche*: “an independent stand of discarding the spirit of relying on others, displaying the spirit of self-reliance and solving one’s own affairs on one’s own responsibility under all circumstances.” Koo, *Political Economy of Self Reliance*, p. 24, and Park, *Self Reliance or Self Destruction*, p. 17.

²⁷ See Koo, *Political Economy of Self Reliance*, chapter four.

²⁸ Koo, *Political Economy of Self Reliance*, p. 29

²⁹ Koo, *Political Economy of Self Reliance*, pp. 30-36.

³⁰ Weatherbee, *Ideology in Indonesia*, p. 43; Hauswedell, *The Anti-Imperialist United Front*, p. 280.

Diplomatic relations between the two countries were only established in April 1964, and Sukarno visited North Korea the first time for a few days in early November 1964 at the end of his long overseas tour. The President came away suitably impressed by the country's economic achievements, particularly its self-sufficiency in food and clothing, which not coincidentally were, as we have seen, two stated objectives of Guided Economy. Kim Il Sung reciprocated with a visit to Indonesia in mid-April 1965, during which he attended Sukarno's 11 April BERDIKARI speech to the MPRS, and the North Korean leader was supportive of Sukarno's anti-imperialist policies to the point where Sukarno included Pyongyang in his anti-imperialist axis declared in his 17 August 1965 independence day address.³¹

In addition to these external factors, there were also some internal factors at work pushing Sukarno in this direction, in particular if we broaden our lens from the immediate focus of 1965 and view economic policy-making for the period 1950-65 as a whole. As we saw in Chapter Two, the construction of a national economy controlled by Indonesia was the overriding concern of economic policymakers since independence in late 1949, even if there was significant disagreement over what this meant in practice and how Indonesia should get there. Thus the various economic plans implemented over the next decade and a half - the Economic Urgency Plan, the Five Year Plan, the Eight Year Development Plan - all were formulated in part to address this issue. The nationalization of Dutch companies was a significant step in this direction, and under Sukarno's increasingly nationalistic and revolutionary Guided Democracy, there was a greater push. For example, two new laws passed in 1960, the Oil and Gas law and the Basic Agrarian law, further cemented Indonesia's control over her own resources, at least in theory. A related aspect of these efforts to construct a national economy was the drive to be self-sufficient in food and clothing. Indonesia in the late 1950s began to make a number of concerted attempts to achieve self-sufficiency in rice, none of which were successful. Self-sufficiency in food and clothing were also declared goals of Guided Democracy and the Eight Year Development Plan, though neither was achieved.³² If the BERDIKARI program is viewed from the perspective of a desire to construct an independent national

³¹ Hauswedell, *The Anti-Imperialist United Front*, pp. 279-80; Simon, *The Broken Triangle*, pp. 59-65.

³² For details, see Chapter Two, Parts Three and Four.

economy (without which there could be no political independence), then its adoption in 1965 was in a sense the culmination of these various policies and drives over the previous 15 years. BERDIKARI thus simultaneously represented a pinnacle in economic policy-making and the goal of economic development.

Nevertheless, there was also a very practical reason for launching the BERDIKARI policy, one that President Sukarno himself explicitly recognized in his 11 April speech to the MPRS. This was the condition of the Indonesian economy, which reached its own nadir of chaos in 1965-66, expressed by the President as the failure of the Eight Year Development Plan that necessitated the new direction. Here again I emphasize that for Indonesia the year 1965-66 was a culmination in three interrelated areas: the domestic political struggle, foreign relations, and the disastrous condition of the economy. As we saw in Chapter Four, the last meaningful attempt to reform the economy in 1963 was derailed by the September 1963 outbreak of Konfrontasi, which, as was the case with the domestic political struggle and the anti-imperialist direction of Indonesia's foreign policy, seemed to intensify economic deterioration. In the first place, Konfrontasi's outbreak ended any chance of foreign aid, a critical component of the stabilization package, which effectively killed the reform attempt. Secondly, the warlike situation and the trade embargo of Malaysia (including Singapore, through which many of Indonesia's exports passed) resulted in a major decline in exports and thus in precious foreign exchange, which meant there was a concurrent decline in imports; this had the twin effect of contributing to domestic price increases as well decreasing GOI revenues (foreign trade taxes, as we have seen, contributed a sizable portion to GOI revenues).³³ In addition, the increased expenditures associated with Konfrontasi consumed an increasing portion of the GOI budget – by one estimate, Konfrontasi expenditures constituted 19% of the GOI 1965 budget, in addition to the defense budget of 21%.³⁴

In 1965-66, the Indonesian economy was in a state of near collapse. One commentator described the situation as follows: a “decade of ever-increasing economic mismanagement had brought a degree of economic breakdown with few parallels in

³³ Mackie, *Konfrontasi*, p. 220.

³⁴ Hal Hill, *The Indonesian Economy*, second ed. (Cambridge, England: Cambridge University Press, 2000), p. 3.

modern history.”³⁵ A principal problem was inflation, which had been a persistent thorn since independence but under Guided Democracy became a major issue, easily surpassing 100% in 1963 and 1964. However, from late 1964 inflation began devolving into spiraling hyperinflation, reaching almost 600% in 1965 and almost 640% in 1966.³⁶ The primary cause of this devastating inflation was the ever-expanding GOI budget deficits, as GOI revenues simply could not keep pace with ever-increasing expenditures, and the resulting deficits were made up by the simple expedient of printing more money (see Chapter Two, Part IV, for some figures). These budget deficits acted as a safety valve for a whole host of unresolved political issues and especially reflected the political weakness of the central government.³⁷ One consequence of this inflation was the inability of the GOI to direct the economy; indeed, as one observer noted, by 1964 “there was little the government could do to re-establish control over the economy,” and by 1966 the only ways inflation could be checked were “through a dramatic inflow of foreign aid, or through a revolutionary political change to a strong economizing government capable of greatly increasing revenue and slashing expenditure simultaneously.”³⁸ Adding to these inflationary woes was overall stagnation in domestic production, with declining per capita income and deterioration of the ‘social overhead capital’ in the form of infrastructure.³⁹ In addition, Indonesia’s huge accumulated foreign debt of \$2.4 billion had become problematic, and by the end of 1965 Indonesia began defaulting on some of this debt, as Indonesia’s declining export earnings and foreign exchange reserves were not nearly sufficient to cover debt service and projected import needs.⁴⁰ In sum, by April

³⁵ H. W. Arndt, *The Indonesian Economy: Collected Papers* (Singapore: Chopmen Publishers, 1984), p. 29. For more on Indonesia’s economic condition in 1965-66, see chapter three of Bresnan’s *Managing Indonesia*, and Kian Wie Thee, “Indonesia’s Two Deep Economic Crises: the Mid 1960s and Late 1990s,” *The Journal of Asia Pacific Economy* 14, no. 12 (2009).

³⁶ See p. 108 of Stephen Grenville, “Monetary Policy and the Formal Financial Sector,” in *The Indonesian Economy During the Soeharto Era*, ed. Anne Booth and Peter McCawley (Kuala Lumpur: Oxford University Press, 1981). Grenville cites figures of 595% for 1965 and 636% for 1966.

³⁷ Mackie, *Indonesian Inflation*, pp. 10, 20; this volume contains the most comprehensive analysis of Indonesian inflation in the 1960s.

³⁸ Mackie, *Indonesian Inflation*, pp. 50, 41-2.

³⁹ Bruce Glassburner, “Indonesian Economic Policy After Sukarno,” in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca: Cornell University Press, 1971), pp. 426-8. See also Arndt, *Indonesian Economy*, p. 30, and Chapter Two, Part IV.

⁴⁰ Thomas and Panglaykim estimate that Indonesia’s gross export earnings were \$931 million in 1959, \$841 million in 1960, \$788 million in 1961, \$682 million in 1962, \$696 million in 1963, and \$724 million in 1964; these figures would be smaller if oil exports were included on a net basis. (Thomas and Panglaykim,

1965 the Indonesian economy was in serious trouble, and in an attempt to prevent the foundering Indonesian economic ship from sinking altogether President Sukarno's response was BERDIKARI.

While BERDIKARI thus may be seen as a response to Indonesia's economic situation, we can still ask why BERDIKARI was chosen and not some other economic program. In addition to the ideological factors and external influences described above, I believe there was a very compelling, pragmatic answer to this key question: the lack of feasible alternatives, what some observers have referred to as making virtue out of necessity.⁴¹ As noted previously, there was a significant drop-off in foreign aid after 1963 when Konfrontasi broke out, and even the USSR was disinclined to provide new funds. Moreover, with its aggressive anti-imperialist foreign policy Indonesia had successfully isolated itself from most of the world, leaving the PRC as its principal international ally. The resulting situation was one in which Indonesia could expect little foreign assistance (and if it did receive loans, there was the question of how the loans could be repaid, given the country's dwindling foreign exchange reserves), and thus Indonesia had no choice but to rely on herself.⁴² The real difficulty was in figuring out how to do this.

In fact, except with respect to foreign investment, very little of the BERDIKARI program seems to have been implemented in practice. There are a number of possible reasons for this. In the first place, there was the political turmoil and general governmental paralysis following the September 30 Movement in which the culmination of the domestic political conflict took center stage (see Part III, Section A). A second

"Indonesian Exports, Part I," p. 77) There was a sharp decline in exports in the first nine months of 1965; see "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 2 (1965), p. 1. Foreign exchange reserves declined precipitously in the 1960s, from \$337 million in 1960 to \$135 million in 1962, \$35 million in 1964, \$26 million in 1965, and \$23 million in 1966. (Dick et al., *Emergence of a National Economy*, p. 192).

⁴¹ See Arndt, *Indonesian Economy*, p. 174; Hauswedell, *The Anti-Imperialist United Front*, p. 437; Crouch, *Army and Politics in Indonesia*, pp. 95-6.

⁴² Tan suggests that one reason Indonesia adopted BERDIKARI was because it was a requirement for receiving aid from the PRC (the PRC during Foreign Minister Chen Yi's visit to Indonesia in late November pledged \$50 million in credit, though this was apparently never given). (Tan, "Sukarnian Economics," p. 40) It was also reported that Indonesia in the first nine months of 1965 signed agreements for foreign credits worth \$295 million, but some of this appears to be inaccurate (e.g., \$80 million worth of credits from the PRC), and how much credit was actually extended is unknown. (See "Survey of Recent Developments," BIES 2, p. 6)

related reason may have been more basic: that except in a few areas such as foreign investment and foreign trade, BERDIKARI as enunciated by President Sukarno and adopted by the MPRS lacked any specific guidelines or policy prescriptions and was instead a statement of broad policy objectives. President Sukarno – really his advisors – was charged with translating these broader objectives into reality, a very tough task that was compounded by the ramifications of the September 30 Movement. A third reason may have been strong domestic resistance by various groups within Indonesia whose interests were threatened by the program, though this is difficult to prove.⁴³ In the following paragraphs I discuss the two areas where there seem to have been some limited movement toward implementation of BERDIKARI: first with respect to government administration and planning, and second with respect to foreign trade.

With respect to government administration and planning, the GOI took a number of steps toward implementing BERDIKARI, though none of these ultimately had much impact. In early September 1965, a governmental body known as KOTARI (an acronym for *Kommando Tertinggi Economi Berdikari*, or ‘High Command for Economic Self-Reliance’) was formed. Its primary function was to assume most of the tasks of KOTOE (the ‘Supreme Command for Economic Operations,’ the economic equivalent to KOTI, formed a few years earlier to provide direction in economic affairs which was now confined to economic aspects of Konfrontasi), and at some point it was to be replaced by DEPENAS, the National Economic Council authorized by the MPRS in its 16 April decree on BERDIKARI. Thus KOTARI had broad power over economic matters and was meant to provide economic policy direction and to coordinate the same within the various government departments, presumably with an emphasis on BERDIKARI. It reported directly to President Sukarno and was headed by Minister of Internal Trade A. Jusuf,

⁴³ This theory was put forward by Hauswedell, who identified these elements as anti-PRC and anti-communist groups. He argues that the severing of economic and political ties with foreign countries would have in particular threatened those who were “client groups of the West and the Soviet Union,” ending “lucrative sources of income for the Indonesian bureaucracy and the army managers of the economy who profited from economic relations with the West,” and threatening “the army’s sources of arms, training, and political support in the United States and the Soviet Union.” However, in this respect Hauswedell seems to be unaware that in fact all of the foreign businesses in Indonesia (except Caltex and Stanvac) were taken over as a result of BERDIKARI, and he offers no evidence for his assertions. See Hauswedell, *The Anti-Imperialist United Front*, pp. 438-9. This is not to reject the general concept that implementation of most government measures, including BERDIKARI, were resisted by those whose interests it would hurt; as we shall see, though, in the case of BERDIKARI there appear to have been very few attempts to implement it.

whom as we saw in Chapter Six had only been appointed to this new post in March 1965, replacing Adam Malik. Its other members were all ministers and included Minister of Central Bank Affairs Jusuf Muda Dalam, Minister of Light Industry M. Jusuf, Minister of Information Achmadi, and Minister of State Sukendro. In mid-September, President Sukarno instructed KOTARI to increase state revenues, review the tax system, end unnecessary subsidies, and halt the import of consumer goods (which included revising the foreign exchange system). However, except with respect to imports (which we shall examine below), it appears that KOTARI did not implement any regulations in these areas before it was dissolved at the end of November 1965 and its functions assumed by KOTI.⁴⁴

Some individual GOI ministries also adjusted their plans to fit *banting stir* and BERDIKARI, in particular with respect to the adjustments to the Eight Year Development Plan. For example, the Ministry of Basic Industry revamped its planning of projects under the Eight Year Development Plan, continuing some but cancelling others. The underlying concept behind the continued projects was to focus on import substitution, reducing dependence on imported goods such as fertilizer, cement, chemicals, metals and machinery. These new plans, though, appear to not have been implemented to any great extent, as the September 30 Movement effectively put an end to whatever remained of the Eight Year Development Plan.⁴⁵ In addition, Minister for Central Bank Affairs Jusuf Muda Dalam claimed to have implemented BERDIKARI in banking by granting new credit only for expansion of production on estates, farms and in key industries, though its impact was most likely limited.⁴⁶ Some ministries even created special positions associated with BERDIKARI, such as the Assistant to the Coordinating Minister of Light Industry in charge of BERDIKARI, a position created in June 1965

⁴⁴ See "Survey of Recent Developments," BIES 2, pp. 4, 9-10, 14-14; Panglaykim and Palmer, *State Trading Corporations in Developing Countries*, p. 125; and p. 22 of "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 3 (1966). KOTARI's dissolution was no doubt linked to the reorganization of KOTI at the end of November by General Suharto as the political struggle between President Sukarno and his opponents unfolded; see Part III, Section A.

⁴⁵ Bisuk Siahaan, *Industrialisasi di Indonesia: Sejak Hutang Kehormatan Sampai Banting Stir* (Bandung, Indonesia: Penerbit ITB, 1996), pp. 411-21. In reality, as discussed in Chapter Two very little of the Eight Year Development Plan was implemented before 1965 anyway.

⁴⁶ See "Survey of Recent Developments," BIES 2, p. 12.

when the Ministry of Light Industry was elevated to its own Compartment with a coordinating minister and four ministers.⁴⁷

In the area of foreign trade, however, there was a significant but failed effort to implement BERDIKARI. As we saw above, at President Sukarno's urging the MPRS had agreed that private firms should be prohibited from importing goods except on behalf of the GOI (essentially placing importing under the GOI's control) and would be permitted to export only under the leadership of the GOI and only as "producer-exporters" (this was intended to foster production of goods, instead of merely trading for goods made by others and then exporting them). In late November 1965, two decrees were issued that beginning in 1966 would limit importing to the GOI and private firms acting on behalf of the GOI. However, these regulations were never implemented in practice, and in April 1966 the new government announced it was abolishing them.⁴⁸ Nevertheless, except for foreign investment, this effort appears to be the strongest attempt to devise specific measures to implement BERDIKARI policies.

II. BERDIKARI and Foreign Investment.

In contrast to its general lack of implementation in other areas, BERDIKARI was applied to foreign investment. The result was a final wave of takeovers in 1965 in which all remaining foreign investment in Indonesia, with the exceptions of Caltex and Stanvac, was taken over by the GOI. Altogether, six foreign-owned manufacturing facilities and at least 10 foreign estate companies (owning at least 44 estates) were taken over by the GOI on the basis of BERDIKARI. BERDIKARI's implementation with respect to foreign investment marked a dramatic shift in the takeovers of foreign firms in Indonesia in the mid-1960s because it signaled that the position of foreign firms in the Indonesian economy had changed as a matter of national economic policy, not as a result of foreign relations (such as the takeover of Malaysian companies in the fall of 1963 and the

⁴⁷ Simanjuntak, *Kabinet-Kabinet Republik Indonesia*, p. 257.

⁴⁸ See Glassburner, "Pricing of Foreign Exchange," p. 398; Panglaykim and Palmer, *State Trading Corporations in Developing Countries*, p. 127; Thomas and Panglaykim, *Indonesia: Effect of Past Policies*, pp. 68, 105; Panglaykim and Arndt, *Indonesian Economy: Facing a New Era?*, p. 26.

takeover of American companies in early 1965) or domestic political instability (the takeover of British firms in 1963 and 1964). Now, all foreign investment, not just British, Malaysian and American, was taken over pursuant to a readily identifiable, universally applicable, economic policy.

While President Sukarno spearheaded the drive to eliminate foreign investment under the BERDIKARI doctrine, its actual implementation was generally left to the ministers under whose competence the companies fell. As noted in Part I, in his April 11 BERDIKARI speech to the MPRS, President Sukarno had challenged the MPRS to find a solution to the problem of foreign capital in Indonesia so that the country could achieve complete freedom in the economic field. The MPRS, obviously reflecting Sukarno's wishes, responded by agreeing to proceed with nationalization and if necessary the seizure of all enemy foreign companies, and President Sukarno was given the full authority to implement this provision. About one week later, President Sukarno, citing the principle of BERDIKARI, issued Presidential Decree 6/1965 under which all foreign companies in Indonesia, regardless of nationality, were placed under GOI control.⁴⁹ About one month later, President Sukarno issued another decree revoking the 1958 foreign investment law in the name of BERDIKARI, thus officially slamming the door on the possibility of any new foreign investment.⁵⁰ Nevertheless, as implementation of Presidential Decree 6/1965 was left to the various ministries, the takeovers varied from company to company, somewhat similar to the situation of British firms in 1964, and in the case of the foreign estates the final assumption of managerial control came only in December. However, one major difference between this wave of takeovers and the previous waves is the sharp diminution of labor union involvement; of the takeovers after Presidential Decree 6/1965 was issued (24 April 1965), only the case of American-owned Singer Sewing involved a physical takeover by a labor union before GOI intervention.

Although BERDIKARI was the justifying rationale for the takeovers, there were some hints that a change of policy with respect to foreign investment was in the works for

⁴⁹ Penetapan Presiden (Sukarno) No. 6 Tahun 1965 Tentang Penempatan Semua Perusahaan Asing Di Indonesia Jang Tidak Bersifat Domestik Dibawah Penguasaan Pemerintah Republik Indonesia, dated 24 April 1965.

⁵⁰ Peraturan Pemerintah Pengganti Undang2 No. 1 (Sukarno) Tahun 1965 Tentang Pentjabutan Undang2 Penamaman Modal Asing, dated 27 May 1965.

other reasons. Shortly before Sukarno's 11 April BERDIKARI speech, Third Deputy Prime Minister Chaerul Saleh on 5 April told US special envoy Ellsworth Bunker that “old style investments” have no future in Indonesia and [the] GOI [is] now considering broad ‘new economic policy’ to govern foreign firms, including US oil interests.” Minister Saleh provided three rationales for this new policy. First,

agitators in Indonesia are picking off foreign investors one by one – first Dutch, then Brits, now Americans. Attention will probably soon center on Belgians and French. This piecemeal approach causes both political and economic problems and makes it difficult for the GOI to have longrun consistent policies. In the second place, some foreign firms have ‘outdated’ attitudes and follow unhelpful policies, these must be ended. Finally, present system makes it difficult for GOI to control wages and fringe benefits for foreign firms, in contrast with firm control over domestic firms, with result whole wage structure tends [to] get out of kilter.⁵¹

Moreover, a CIA memo of early 1965 described how a 19 February 1965 high level meeting of KOTI officials recommended that all western business interests, including the oil companies, be taken over. The primary reason for the recommendation was the internal security situation; Brigadier General Sugandi was quoted as saying that “it is clear...that western capital aims at squeezing Indonesia economically, while at the same time serving to cloak subversive activities. The United States is the major offender. However, all western business interests, including US, British and Belgian interests, should be taken over by the government.”⁵²

This Part II is divided into two sections. Section A examines Presidential Decree 6/1965, the decree by which the remaining foreign investment in Indonesia was taken over, and its initial implementation by the Presidium Kabinet and the various ministries, in particular the Ministry of Estates. Section B then investigates the revocation of the 1958 foreign investment law, which ensured that no new foreign investment could enter the country.

⁵¹ US Embassy telegram dated 7 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). Indeed, in June Minister Saleh was quoted as saying that the BERDIKARI principle signified the end of foreign capital operating in Indonesia. See US Embassy telegram (Ellis) dated 11 June 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Box 1072-3), citing *Antara* article of 8 June.

⁵² CIA Intelligence Information cable dated 2 March 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables (2 of 2), Volume IV, 3/65- 9/65, Box 247).

A. Presidential Decree 6/1965 and Initial Implementation.

President Sukarno's Decree 6/1965 of 24 April 1965, using the rationale of BERDIKARI, established the basis for GOI control over every foreign enterprise in Indonesia, regardless of nationality. Signifying its importance, Presidential Decree 6/1965 was the only major decree of all the takeover decrees issued by the various departments and ministries of the GOI from 1963-65 that came with an accompanying explanation. This provides some useful insights into the rationale behind the decree as well as clarification of some issues. A key feature of the decree was that although it established GOI control over all foreign companies generally, it left the implementation of government control, including the power to designate specifically which companies should be placed under government control, in the hands of the Presidium Kabinet, which as we shall see passed on some of the responsibility to individual ministries. The decree also continued to maintain the GOI fiction that it was assuming control over, but not ownership of, the companies, such that the proprietary rights of the owners were not affected and thus no compensation would have to be paid. This assertion, though, was in practice challenged by Minister of Estates Frans Seda, whose implementation of the decree clearly anticipated that compensation would be paid to owners of the estates.

1. Presidential Decree 6/1965.

The opening paragraphs of President Sukarno's Decree 6/1965 and the accompanying explanation make clear that BERDIKARI was the primary rationale behind the decree.⁵³ The preamble of the decree noted that the "Indonesian Revolution had now reached a stage inspired by the people who wished to implement the principle of 'standing on one's own feet' in the economic field." In connection therewith, the position

⁵³ Penetapan Presiden (Sukarno) No. 6 Tahun 1965 Tentang Penempatan Semua Perusahaan Asing Di Indonesia Jang Tidak Bersifat Domestik Dibawah Pengusahaan Pemerintah Republik Indonesia, dated 24 April 1965. Insofar as I am aware there is no official translation of this decree, but an unofficial one can be found in US Embassy telegram (Ellis) dated 17 May 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3). For sample coverage of the decree in the English speaking press, see *Sydney Morning Herald* of 26 April, *New York Times* 25 April 1965, and *News and Views* (a compilation of press reports published by the Indonesian consulate in New York) of 27 April and 10 June. In the *New York Times* article, Minister Chaerul Saleh was quoted as saying the decree took effect immediately and it placed all foreign businesses under GOI control/supervision and effectively ended "independent foreign investment in Indonesia." The *Sydney Morning Herald* quoted Minister Saleh as saying no compensation would be paid.

of foreign companies with a non-domestic character needed to be adapted to fit the new conditions, and pending the results of such “adaptation,” it was first necessary to place the companies under the control (*penguasaan*) of the GOI in order to safeguard the Indonesian economy generally and those enterprises in particular. The preamble also referred to various GOI decrees and measures, including MANIPOL, DEKON, TAVIP, as well as both MPRS decrees of 16 April 1965 on *banting stir* and BERDIKARI. The accompanying explanation referred to the objectives of the Indonesian Revolution as set forth in MANIPOL (establishing a unitary and democratic state, establishing a just and prosperous state, and establishing friendships with other countries in establishing a new world free from imperialism and colonialism), as well as DEKON. It also highlighted Sukarno’s TAVIP speech and noted that the three stages of the Indonesian Revolution cited in the TAVIP speech had been reached: freedom in politics, standing on one’s own feet in the economy, and having one’s own identity in the cultural field. The explanation continued that in order to achieve the people’s objective of BERDIKARI it was necessary to reconsider GOI policy toward foreign capital, and in light of the two MPRS decrees of 16 April it was now time to place all foreign enterprises in Indonesia with a non-domestic character under GOI control. The explanation noted, however, that the GOI was willing to listen to the concerns of the entrepreneurs involved, and that there were still ways for foreign capital to participate in the Indonesian economy in the future, namely on the basis of production sharing.

In terms of its implementing provisions, Decree 6/1965 placed all foreign enterprises with a non-domestic character under the control (*penguasaan*) of the GOI, without diminishing the proprietary rights of the owners (Article One). Rather confusingly, the Presidium Kabinet was charged with issuing further decrees to determine which foreign companies were actually to be placed under GOI control (Article Two). The Presidium Kabinet was also charged with the general implementation of the takeovers, and it was to be assisted by the ministers and coordinating ministers in the respective areas. Priority was to be given to securing (i) the continuation of smooth operations within the companies, (ii) the safety and security of the inventory of the companies, and (iii) the proprietary rights of both the owners and the workers of the companies. If necessary, the Presidium Kabinet and the relevant ministers should also

listen to the owners of the companies. (Articles Three, Four and Five) It was not clear what “listening to the owners” meant; the explanation to the decree suggested that this last provision referred to listening to the owners in the context of the settlement by the GOI of the owner’s proprietary rights. Finally, the decree specifically provided that it applied to all foreign companies already placed under GOI supervision/control before the decree was issued (Article Six), making clear that all British and American companies already taken over fell under its ambit. Presumably this was to ensure that the distinction between takeover of management and takeover of ownership applied to all companies.

Several provisions of the decree were confusing and contradictory and deserve further comment. First, while the decree made plain that only foreign companies with a “non-domestic character” were to be taken over, it did not clearly define what was meant by a “non-domestic character.” The explanation to the decree defined foreign enterprises as those meeting one or both of the following criteria: those enterprises (i) whose capital was owned partially or wholly by foreign individuals or bodies, and/or (ii) which aim to transfer abroad some or all their profits. Yet, the explanation then went on to state that “foreign domestic companies which in their business did not intend to transfer profits outside the country” did not fall within the definition of foreign enterprises, suggesting that repatriation of profits, and not actual ownership of the company, was the determining factor. This was almost certainly in part an un-artful attempt to insulate Chinese-Indonesians (and foreign Chinese and other foreign Asian residents of Indonesia) who played such a key role in the economy from the effects of Decree 6/1965; President Sukarno may have feared that the decree could be interpreted to apply to them, despite the fact that most of them were now Indonesian citizens. Such a carve-out based on profit repatriation was also a relatively easy way to distinguish between European and American firms, which generally tried to repatriate profits when conditions allowed, and other firms, and as a practical matter kept all funds within Indonesia, something that was clearly beneficial to the Indonesia economy. In any case, as late as early June the GOI was still searching for a definition of a foreign enterprise with a “non-domestic character.” Minister Chaerul Saleh himself admitted as much in a meeting with representatives of various political parties in which he suggested that there could be a distinction between OLDEFOs and NEFOs in determining the status of a domestic

foreign company.⁵⁴ Of course, companies with ties to OLDEFOs would be taken over, while those with ties to NEFOs would not.

In addition to the definition of “non-domestic character,” there was a second ambiguous issue in the decree related to which foreign companies would be taken over and the timing thereof. The decree clearly stated that all foreign enterprises with a non-domestic character were placed under the control of the GOI; however, simultaneously and contradictorily, the Presidium Kabinet was charged with determining which foreign companies were to be placed under GOI control. The explanation to the decree was again helpful in answering this ambiguity; it stated that GOI control over the companies would not be automatic, but rather to avoid confusion the Presidium Kabinet would have the power to determine which companies would be placed under government control. Thus, it appeared that potentially not all “foreign companies with a non-domestic character” would be taken over; it would be up to the Presidium Kabinet to decide. The explanation further noted that the relations between the GOI and the country of origin of the foreign company should be taken into account when determining which companies to take over. What President Sukarno appears to have intended was to establish a general policy of taking over all foreign companies and then to institutionalize control of the takeover process within the Presidium Kabinet and provide the Presidium Kabinet with discretion over what companies were to be taken over in practice.⁵⁵ This was almost certainly intended to prevent individual ministers and other GOI authorities (at both the central and provincial/local levels) from taking matters into their own hands and to ensure that the GOI takeover policy would be better coordinated at the top level. Moreover, in exercising its discretion the Presidium Kabinet was clearly meant to take into account foreign relations, implying that companies from friendly nations (perhaps other NEFOs) may be treated differently.

In sum, Presidential Decree 6/1965 appeared to include two possible carve-outs from the general rule of a takeover of all foreign companies. The first was the ambiguous

⁵⁴ US Embassy telegram (Ellis) dated 11 June 1965, citing article in *Antara* (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁵⁵ At the time, the Presidium Kabinet was nominally the highest body of ministers under the President and was comprised of three people: First Deputy Prime Minister Subandrio, Second Deputy Prime Minister Leimena, and Third Deputy Prime Minister Chaerul Saleh.

definition of a “foreign company with non-domestic character,” and the second was vesting the Presidium Kabinet with discretion in choosing which companies were to be taken over. Both of these carve-outs, of course, diluted the purity of the BERDIKARI concept. If Indonesia was indeed to stand on its own two feet, it should theoretically not distinguish between the companies of friendly countries and non-friendly countries. In any case, as far as I have been able to determine, the vast majority of remaining foreign companies which actually produced goods (as opposed to small trading operations or retail stores) were almost all from either European or North American countries, and these were all taken over pursuant to Decree 6/1965.

2. Initial Implementation of Decree 6/1965.

(a) *Decrees of the Presidium Kabinet.*

As the Presidium Kabinet was responsible for implementing Presidential Decree 6/1965, we first examine what measures the Presidium Kabinet took. Unfortunately, the record is not completely clear. It appears that the Presidium Kabinet issued two kinds of decrees: the first involved the registration of foreign companies in general, and the second specifically designated which foreign companies were under GOI control. Third Deputy Prime Minister Chaerul Saleh appeared to be the member of the Presidium Kabinet primarily responsible for implementing Decree 6/1965.

First, the Presidium Kabinet issued a series of instructions to the various GOI ministers directing them to arrange for the registration of foreign companies under their jurisdiction. One of these instructions, issued by Third Deputy Prime Minister Chaerul Saleh on behalf of the Presidium Kabinet, refers to two previous instructions regarding registration of foreign companies of a non-domestic character and requests that the results of the registration be forwarded immediately by the ministers to the Presidium Kabinet.⁵⁶ It further requests the ministers to take an inventory of all property, debt, and wealth of each of the companies and also to prepare an initial balance sheet for each of the companies, in each case at the time the company was taken over by the GOI. The

⁵⁶ Instruksi Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. 35/D/Instr.1965, dated 21 July 1965. This instruction refers to two others: the first is Instruksi Presidium Kabinet No. 23/D/Instr/1965 dated 30 April and the second is Instruksi Presidium Kabinet No. D/VII/2083/H5/1965 dated 22 June. Hence, there were at least three instructions of this type.

ministers were also requested to do the same thing with respect to foreign companies taken over before Presidential Decree 6/1965 (i.e., the British and American companies). Thus, from this instruction we can surmise that as early as 30 April, about a week after Decree 6/1965 was issued, the Presidium Kabinet took the initial step of organizing the registration of all foreign companies remaining in Indonesia. This suggests that the purpose was more information gathering than anything else; presumably the Presidium Kabinet wanted to get an idea of how many foreign companies there were, and the best way was to have the companies register. The instruction also suggests that orders had probably already been issued instructing ministers to proceed with the takeovers – as noted above, the inventory was to be taken at the time of takeover.

The second type of implementing decree the Presidium Kabinet issued were those specifically designating which foreign companies were placed under GOI control pursuant to Presidential Decree 6/1965. As described above, this was one of the functions Decree 6/1965 charged the Presidium Kabinet with performing. I have found one example of this type of decree, which relates only to foreign estate companies; hence the assumption that there are more decrees of this nature, as it would be odd indeed if the Presidium Kabinet issued a single decree limited to estate companies. The decree, dated 4 May 1965 and issued by Third Deputy Prime Minister Chaerul Saleh in the name of the Presidium Kabinet, placed all foreign estate companies that were not already under GOI control or management pursuant to Presidential Decree 6/1964 (the one issued by President Sukarno in November 1964 regarding British companies) or the Presidium Kabinet decree of 26 February 1965 (the one issued by Minister Subandrio regarding American estate companies) under government control (*penguasaan*).⁵⁷ The reasons cited were the intensification of the Indonesian Revolution, the determination of the people to implement BERDIKARI, and the safety and security of production. The decree had provisions similar to other takeover decrees from both 1964 and 1965. The decree stated that Indonesian managers would be appointed to the estate companies; these Indonesian managers would be assisted by an advisory council (*Dewan Pertimbangan*) of unknown

⁵⁷ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chairul Saleh) No. Aa/D/58/65 Tentang Semua Perusahaan Perkebunan Asing Didalam Penguasaan Pemerintah Republik Indonesia, dated 4 May 1965.

composition. To “safeguard and assist with the continuation of work of the company and the raising of production,” the decree also appointed boards of supervisors (*Badan Pengawas*) consisting of elements from the local *Pantja Tunggal*, workers, farmers, and experts. The owners of the companies were required to provide the necessary assistance in the interests of production and the continuation of management, and the relationship between the owners and the GOI was to be set forth in a written contract. The GOI took full responsibility for the continuation of the companies’ work. However, in language slightly different from other decrees issued in 1965, the decree said attention should be paid to the proprietary rights of the owners (as opposed to saying these rights would not be diminished). Surprisingly, the decree did not appoint any GOI official or ministry to implement the takeovers, though as we shall see below Minister of Estates Frans Seda took charge.

(b) Implementation of Presidential Decree 6/1965 at the Ministerial Level.

Pursuant to the Presidium Kabinet’s instructions, various GOI ministries began the process of registering and taking over the foreign companies falling within their purview. These actions involved (i) at least 10 foreign estate companies owning at least 44 estates, including the large SOCFIN group of companies (see Chapter Three, Part II, Section B), (ii) five foreign manufacturing companies taken over by the Ministry of Peoples Industry, and (iii) the NASPRO aspirin plant in Jakarta (the largest pharmaceutical operation in Indonesia), taken over by the Ministry of Health. In this subsection I shall first focus on the takeovers by the Ministry of Peoples Industry, including Singer Sewing, and then examine the takeover of the foreign estates, a process that was much longer and more involved. It bears repeating at this point that, with the exception of Singer Sewing Company, the takeover of these companies did not involve labor union or worker activity.

(i) Implementation by the Ministry of Peoples Industry.

On 5 May, the Control Board for British Companies from the Ministry of Peoples Industry issued an announcement regarding the registration of foreign

companies.⁵⁸ The announcement went further than information gathering: citing Presidential Decree 6/1965, it stated that pending further instructions from the Presidium Kabinet all foreign companies with a non-domestic character within the ministry's purview were now under its control (*penguasaan*). Thus, by asserting its control over the companies without specific prior authorization from the Presidium Kabinet, the Ministry of Peoples Industry actually appeared to go beyond the scope of Presidential Decree 6/1965. Such legal niceties were quite immaterial, however. The announcement required that all affected companies (which were not specifically named) must register within three days with the ministry by providing the following information: the name, address and type of company, the names and functions of the leaders of the company, and the residence of the shareholders and directors of the company who were overseas. It is unclear how this announcement was transmitted to the various companies, but presumably the ministry already had a pretty good idea of which companies under its purview were foreign.

Following this, in the space of several days in mid-May the Ministry of Peoples Industry (headed, as we have seen, by Minister Azis Saleh) swiftly placed five foreign manufacturing companies under its control. The first was the Bata Shoe factory in Jakarta on 17 May. This company, Canadian-owned, was part of the world famous Bata Shoe company, originally from Czechoslovakia, and according to the US embassy was the largest industrial employer in Indonesia at the time. The ministry installed a one man supervisory team, but did not eject the foreign head manager, who was allowed to remain and manage until the end of the year.⁵⁹ Then, the next day on 18 May, the ministry placed four foreign businesses in East Java under its control. These were the Belgian-owned Interbra beer factory (ex-Heineken managed) in Surabaya, the Singer Sewing assembly plant in Surabaya (see following paragraphs for more on this), the West German-owned Prodenta toothpaste factory in Surabaya, and the Belgian-owned Faroka cigarette plant in

⁵⁸ Pengumuman No 52/65 from the Departemen Perindustrian Rakyat Badan Penguasa Perusahaan Perusahaan Inggris dated 5 May 1965 (BKS-PPS, Perusahaan Perkebunan IV-3, GPS 1964-5). This control board, as the name suggests, was the one set up in February 1964 to take control over British manufacturing enterprises.

⁵⁹ US Embassy Bi-Weekly Economic Review dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); US Embassy telegram (Green) dated 28 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3). See introduction to Part III.

Malang. A formal transfer ceremony for these four companies, made notable by the beer factory manager's refusal to sign the transfer document, was held on 21 May. It is unclear how long the foreign managers of the beer, cigarette and toothpaste factories were allowed to remain.⁶⁰ Apparently the Ministry of Peoples Industry did not issue a formal takeover decree in any of these cases.

The Ministry of Peoples Industry control over the Singer Sewing assembly plant in Surabaya did not last long, however, and was actually one of many interesting features of the takeover of American-owned Singer Sewing Company.⁶¹ On 28 April, a group of KBM members who were not employed by Singer announced in Singer's Jakarta office that Singer was now unionized and that the KBM was taking the company over.⁶² Manager Leslie Wearmouth refused to sign the takeover declaration and was prevented from leaving the office until the police, who were called in by the US embassy, intervened. The next day, Wearmouth returned to the office, where he again was told that the KBM was taking over and he again was prevented from leaving until the police rescued him a second time. The police apparently wanted to install their own supervisory team, but Wearmouth, with the assistance of the US embassy, was able to enlist the help of Proxy Minister of Foreign Trade Jusuf (whom we encountered in Chapter Six in connection with the takeover of National Cash Register in April-May) to prevent the company from falling under the control of either the union or the police. There was some hesitation on the part of the Department of Foreign Trade (the US embassy reported there was a week's worth of "intensive" negotiation), which may have been overcome by highlighting the importance of Singer sewing machines in making army uniforms, but Minister Jusuf finally agreed to help.

⁶⁰ US Surabaya Consul telegrams (McLean) dated 22 May 1965 and 9 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3); US Embassy Bi-Weekly Economic Review dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); and US Embassy telegram (Ellis) dated 2 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁶¹ Singer had a sales and service office in Jakarta and an assembly plant in Surabaya which employed about 30 people. It employed only one expatriate, its British country manager named Leslie Wearmouth. It had no labor union members among its employees prior to early March, when SOBSI set up a branch in the Surabaya plant. See US Surabaya Consul telegram (McLean) dated 7 May 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁶² The description of the takeover events in this paragraph comes from US Embassy telegram (Ellis) dated 2 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

In a decree issued on 10 May, Minister Jusuf effectively placed the company under the control of the Department of Foreign Trade by establishing a three man team, responsible to him, to regulate, supervise and manage the company so that its operations could return to normal.⁶³ The team was chaired by Lt. Col. Soentoro from the Ministry of Trade. The decree specifically appointed Wearmouth as a technical advisor to assist the team, and it also instructed the workers of the company to work as normal. The decree was similar to the one Minister Jusuf issued regarding National Cash Register; it did not actually say that the company was placed under GOI supervision/control, nor did it mention the usual phrase of “without diminishing ownership rights,” or that the relationship between the owners and the GOI would be set forth in a separate contract. Nevertheless, the decree left no doubt that the Department of Foreign Trade and not the KBM would be in control of the company, and the appointment of Wearmouth as technical advisor clearly suggested that Wearmouth would retain a great degree of influence over the company.

However, the Wearmouth/Jusuf plan hit a slight snag when the Ministry of Peoples Industry placed Singer’s Surabaya assembly plant under its control on 18 May. To this point, the Surabaya assembly plant had not been interfered with by either the GOI or labor unions, as all the action had been in the smaller Jakarta office.⁶⁴ It is unclear if the Ministry of Peoples Industry was aware of Minister Jusuf’s prior actions regarding Singer; presumably it was aware, but believed that because the facility was an assembly plant it belonged under the jurisdiction of the Ministry of Peoples Industry and not the Department of Foreign Trade. An official from the Ministry of Peoples Industry was installed as the acting manager of the assembly plant, but he was recalled after a few days because Minister Chaerul Saleh had apparently instructed the Ministry of Peoples Industry, which fell within Minister Saleh’s jurisdiction as Coordinating Minister for Development in the cabinet, to back off.⁶⁵ To reinforce this decision, on 24 May Minister

⁶³ Keputusan Kuasa Menteri Perdagangan Luar Negeri (Achmad Jusuf) No. 048/5/MPLN/SK/65 Tentang Penertiban Dan Pengawasan Atas Perusahaan Singer Sewing Machine Co., dated 10 May 1965.

⁶⁴ US Embassy telegram (Ellis) dated 2 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

⁶⁵ US Surabaya Consul telegram (McLean) dated 9 June 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, boxes 1072-3); US Embassy telegram (Ellis) dated 2 July 1965 (USNACP, RG 59 Central Files 1964-66, Inco 15-2 Indon, Boxes 1072-3).

Saleh on behalf of the Presidium Kabinet issued a decree placing Singer under the control/management (*penguasaan/pengurusaan*) of the GOI, without diminishing the proprietary rights of the owner.⁶⁶ The decree named the Department of Foreign Trade as the GOI entity in charge of the company. Moreover the decree specifically affirmed Minister Jusuf's decree of 10 May, indicating that the appointment of new Indonesian managers by the Proxy Minister of Foreign Trade and their duties should be on the basis of the 10 May decree.

Once the intra-GOI territorial dispute was resolved, the Department of Foreign Trade wasted little time in asserting its control over the company, despite the arrangement that Wearmouth had made. The US embassy reported that by early June Soentoro, the supervisory team chairman, was actively excluding Wearmouth from his management duties. By late June, all orders were signed by Soentoro, and Wearmouth's advice and assistance were not sought.⁶⁷ Wearmouth continued to go to the office through the beginning of August, but he did not participate in the business at all.⁶⁸

While it was clear by this point that its Indonesian operations were lost, Singer faced a dilemma unique with respect to the takeovers in that it was negotiating with a private Indonesian businessman to take over the business in Indonesia. These negotiations had begun in early May with the knowledge and approval of the Department of Foreign Trade. By early August, the thrust of these negotiations had changed from a possible buyout to the appointment of the businessman as Singer's sole distributor in Indonesia. However, the negotiations had stalled over various points. Meanwhile, in late July supervisory team chairman Soentoro was also ratcheting up the pressure on Wearmouth. In a letter dated 21 July, Soentoro indicated that the supervisory team would continue to market imported Singer products, but there should be direct communication between the supervisory team and Singer USA; there was no longer a need for a liaison in the person of Wearmouth, and if Singer were unwilling to pursue this kind of direct

⁶⁶ Keputusan Presidium Kabinet (Wakil Perdana Menteri III Chaerul Saleh) No. Aa/D/71/65 Tentang Penempatan Perusahaan 'Singer Sewing Machine Co.' Didalam Penguasaan/Pengurusan Pemerintah R.I, dated 24 May 1965. As usual, the owner was obliged to assist if necessary. However, there was no provision that the relationship between the GOI and the owner would be set forth in a separate agreement.

⁶⁷ US Embassy telegram (Ellis) dated 2 July 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

⁶⁸ US Embassy telegram (Ellis) dated 9 August 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

relationship, the team would obtain supplies from other sources.⁶⁹ This suggests that the only reason the supervisory team allowed Wearmouth to stay behind was the leverage Singer USA held in the form of its exported products - presumably either the Singer brand name or the quality of the products (including the component Singer parts used in the assembly plant) was very high and hard to replace or duplicate. That Singer had some leverage was also indicated by the interest of the Indonesian businessman in becoming Singer's sole distributor in Indonesia. Whether it agreed to the GOI plan or to the plan of the businessman, Singer would achieve its main objective of continuing the sale of its products in Indonesia. According to the US embassy analysis, acceding to the GOI request was the better alternative in that Singer was doing what the GOI wanted and did not voluntarily dispose of its assets (if it sold out to a private party), thereby possibly preserving claims that Singer was involuntarily taken over and thus eligible for compensation.⁷⁰ Whether this accurately reflected Singer's thinking is unclear, but Singer eventually opted for the GOI plan and continued to supply the taken-over plant with Singer products during the period of GOI control.⁷¹

(ii) Implementation by the Ministry of Estates.

There were at least 10 foreign estate companies with at least 44 estates, ranging from the large SOCFIN group (which owned 18 estates totaling just over 51,000 hectares in North Sumatra and Aceh) to several companies with only one or two estates, taken over by the Ministry of Estates under the BERDIKARI policy. However, the implementation of GOI control pursuant to Presidential Decree 6/1965 by the Ministry of Estates was in sharp contrast to implementation of Decree 6/1965 by other GOI ministries. In the first place, it appears that the Ministry of Estates did not begin to take measures to assert control over the estates until late June or early July, some seven weeks after the Presidium Kabinet's 4 May decree placing foreign estates under GOI control. The reasons for this delay are unclear; it may have been because the ministry was still

⁶⁹ The description in this paragraph come from US Embassy telegram (Ellis) dated 9 August 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

⁷⁰ US Embassy telegram (Ellis) dated 9 August 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

⁷¹ US Embassy telegram (Lydman) dated 15 October 1966 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

assembling information about the foreign estates, but it also appears that the ministry was awaiting further clarifying instructions from the Presidium Kabinet. Second, in terms of management it appears that the owner-appointed managers were allowed to remain active in the management of the estates until the end of the year (when the companies were bought out, see Part III, Section C) in a situation very similar to the ambiguous and anomalous position many owner-appointed managers of British enterprises found themselves in after early February 1964 (see Chapter Five).⁷² Most importantly, from the beginning the Ministry of Estates appeared to be genuinely interested in buying out – effectively compensating - the owners of the estates. In fact, with the exception of the oil companies, the non-British foreign estates (including Goodyear and US Rubber) were the only foreign companies taken over by the GOI with whom the GOI engaged in serious buyout negotiations. As we shall see in Part III, these negotiations culminated at the end of 1965. Thus, the treatment of the non-British foreign plantations by the Ministry of Estates is exceptional in the history of the takeovers of foreign businesses in the 1960s.

In tracing what happened to these companies, we are fortunate to have a report from Minister of Estates Frans Seda to the Presidium Kabinet in June 1966 that sets forth in broad scope the measures the Ministry of Estates took to implement Presidential Decree 6/1965 (the “Seda Report”).⁷³ The first few measures the ministry took were similar to steps taken by other ministries. First, the ministry undertook to register all foreign estate companies. This was done by issuing an instruction on 6 May to all directors of foreign estate companies to report to the Ministry of Estates within one month on matters regarding their companies, including information regarding the status of the company’s capital, the organizational scheme of the company, the company’s staff/personnel, and the company’s shareholders.⁷⁴ Interestingly, the instruction indicated that estate companies that had the status of foreign estate companies as of 1 January 1964 (16 months before Presidential Decree 6/1965 was issued) would be taken over, even if they no longer had foreign status. However, the instruction did not attempt to define what

⁷² In a related vein, the Ministry of Estates apparently did not bother to establish either the *Dewan Pertimbangan* or the *Badan Pengawas* prescribed by the Presidium Kabinet’s 4 May decree.

⁷³ Laporan Pelaksanaan PenPres No.6 Tahun 1965 Kepada Presidium Kabinet Dwikora c.q. Wakil Perdana Menteri Bidang Ekonomi, Keuangan dan Pembangunan dated 29 June 1966 dari Menteri Pertanian Frans Seda (ANRI, R17, No. 106) (hereafter, the ‘Seda Report’).

⁷⁴ Instruksi Menteri Perkebunan (Frans Seda) No. 20/Instr/MPerk/1965 dated 6 May 1965.

was meant by “non-domestic character,” the ambiguous phrase referred to in Presidential Decree 6/1965. The second step the ministry took was to form an ‘Implementing Team’ which was charged with dealing with all matters and issues that arose regarding the implementation of Presidential Decree 6/1965.⁷⁵ This team of nine people was led by Minister of Estates Frans Seda and included four assistants to him (including Danardjojo Hadisasono, whom we previously encountered in connection with the takeover of Harrisons & Crosfield’s Jakarta office in September 1963 and who was the Ministry of Estates official negotiating buyouts with Goodyear and US Rubber), the principal directors from three of the GOI management boards for various agricultural products (BPU-PPN Rubber, BPU-PPN Tobacco, and BPU-PPN Other Plants), and the head of the Dwikora structure (the body established to control British estates – see Chapter Five) Mirza Mustakim.

According to the Seda Report, the ministry then took the unusual step of calling in the foreign estate managers and explaining to them the meaning of Presidential Decree 6/1965 and how it would be implemented. Minister Seda explained that for reasons of “social justice” foreign capital would no longer be allowed to operate in the estate sector. Even more unusual, Minister Seda explained to the owners that in the future there would be discussions between the GOI and the owners regarding the compensation to be paid; compensation would be on the basis of neither the GOI nor the owners being unduly burdened. “We suggested that compensation value be seen as if the owners were giving the Government long-term credit.” Finally, the minister asked each of the owners to submit in writing their opinion about how Presidential Decree 6/1965 should be implemented. This was done in order to counter the news reports from outside Indonesia that the GOI was violating the rights of foreigners; presumably by asking for their opinion, the GOI could argue that the foreign companies had been consulted (even though in reality they had little choice). Apparently within a week most of the owners submitted their opinions, and the majority wanted the GOI to buy them out.⁷⁶ As far as I can determine, with the exception of Goodyear Plantations and US Rubber (both of which were already controlled by the Ministry of Estates under Frans Seda) this was the

⁷⁵ Surat Keputusan Menteri Perkebunan (Frans Seda) No.64/MenPerk/1965 dated 9 May 1965.

⁷⁶ Seda Report, paragraphs 2 and 3.

first time a GOI ministry had suggested that compensation might be paid for the confiscated foreign companies. There was certainly nothing in Presidential Decree 6/1965 or the Presidium Kabinet decree of 4 May which seemed to authorize directly this action, though Decree 6/1965 did provide that the Presidium Kabinet and the relevant Ministers should also listen to the owners if necessary and the Decree's explanation vaguely referred to the government's settlement of proprietary rights.

One foreign estate manager vividly remembered that May meeting with Minister Seda and the other foreign estate managers. Karl Schneider, at the time the general manager of SIPEF, recalled that Minister Seda told the foreign managers that they had two choices: either they could sell the estates to the GOI and receive compensation, or the estates would simply be taken over without compensation. If the foreign owners selected the sale/compensation alternative, they had to make an appraisal of their estates within three months and submit it to Minister Seda. The appraisal was to be based on the planted acreage of each estate. Acreage in palm oil trees was to be valued at US\$1,500 per hectare per year for the remaining lifespan of the trees, while acreage in rubber trees was to be valued at US\$2,500 per hectare per year for the remaining lifespan of the trees; palm oil trees were given a lifespan of 25 years, and rubber trees were given one of 30 years. The companies were supposed to provide the calculations for determining values. Buildings and machinery were to be appraised at acquisition value. According to Schneider, SIPEF duly provided its appraisal around the end of August, but there was no response from the Ministry until very late in the year.⁷⁷

It was not until late June or early July, some two months after the issuance of Presidential Decree 6/1965, that the Ministry of Estates commenced taking actual measures to implement control over the companies. Presumably this delay was in part due to the ministry's waiting for the foreign estate companies to register before taking action, though the ministry may also have been waiting for further instructions from higher authorities. On 28 June, Minister Seda issued a decree placing the foreign estate companies that had already registered with the ministry (these companies were specifically named) under the ministry's supervision (*pengawasan*) while the ministry awaited further instruction (thus implying that the supervision was a temporary measure

⁷⁷ Interview with Karl Schneider 16 June 2007.

until further clarification regarding the estates was received).⁷⁸ Seda's use of the term supervision (*pengawasan*) was in sharp contrast to the use of the stronger term control (*penguasaan*) in Presidential Decree 6/1965 and the Presidium Decree of 4 May, which almost certainly was indicative of Seda's more moderate approach in dealing with foreign companies. This decree stated that supervision would be undertaken by officials with the title of 'Officials Supervising Foreign Estates' (*Petugas Pengawas Perkebunan Asing*, or PPPAs). Supervision was to be aimed at (i) continuation of production and marketing of the goods, (ii) safeguarding management and instruments of production, and (iii) implementing the duties assigned by the Minister of Estates. A few days later on 30 June, Minister Seda issued another decree appointing five individuals, most of whom appeared to be industry professionals, to be the PPPAs of specified estates that were grouped into geographical units.⁷⁹ These five PPPAs, who were allowed to have staffs of up to five people, were directly responsible to the Minister of Estates.

Minister Seda also issued several instructions to the owners of the foreign estates around this time which further tightened ministry supervision over the companies. First, on 28 June Seda issued an instruction that (a) prohibited the owners from entering into new contracts, from taking unspecified steps which rendered difficult the implementation of Presidential Decree 6/1965, and from transferring ownership of their companies, and (b) required contracts that had ended be reported to the Ministry of Estates within one week of their end date. An explanation to the instruction issued a few days later indicated that the prohibited "new contracts" meant long term sales contracts or other contracts that would make it difficult to implement Presidential Decree 6/1965; it further indicated that new sales contracts could be entered into as long as both prior notification was given to the ministry and the contracts did not commit estate produce after the end of July.⁸⁰ It is

⁷⁸ Surat Keputusan Menteri Perkebunan (Frans Seda) No.88/MenPerk/1965 dated 28 June 1965.

⁷⁹ Surat Keputusan Menteri Perkebunan (Frans Seda) No.100/MenPerk/1965 dated 30 June 1965; see also Instruksi Menteri Perkebunan (Frans Seda) No. 35/Instr/MenPerk/1965 dated 14 July 1965. These individuals were (i) Roga Ginting (an expert advisor to the BPU-PPN Tobacco) in charge of eight SOCFIN estates in Aceh, (ii) A. M. Siregar (an expert advisor to the office assisting BPU-PPN Rubber in Medan) in charge of eight estates of various companies in North Sumatra, (iii) M. Mailowa (a director of PPN No 5 rubber estate) in charge of 10 SOCFIN estates in North Sumatra, (iv) R. Imam Pamudji (from the BPU-PPN Rubber) in charge of seven estates of different companies in West Java, and (v) Ismantoro (expert staff of the directors of BPU-PPN Rubber) in charge of nine estates of different companies in Central and East Java.

⁸⁰ Instruksi Menteri Perkebunan (Frans Seda) No. 31/Instr/MPerk/1965 dated 28 June 1965.

unclear if this instruction was aimed at specific actions of owners that had come to light or was simply a preemptive measure. Second, on 14 July Minister Seda issued an instruction that directed the owners to provide the PPPAs with lists of their companies' assets and wealth, reports on the companies' operations and production, and copies of all existing contracts (presumably to understand what the companies' contractual obligations were).⁸¹ In addition, the owners were instructed to provide the PPPAs and their staffs with all facilities necessary to implement their duties. As with the prior instruction, it is unclear if this was aimed at uncooperative owners resisting the PPPAs or was more of a preemptive measure designed to smooth the way once the PPPA's actually began their assignments.

The last major step Minister Seda took was the formation in late July of an 'Appraisal Team' (*Team Taksasi*) that was charged with evaluating the assets, wealth and value of the foreign estate companies.⁸² The Appraisal Team was instructed to complete its work as soon as possible and report the results directly to the Minister of Estates. This measure was certainly taken in anticipation that some type of compensation would be paid to the owners of the foreign estate companies. This team was comprised of a variety of individuals from GOI bodies and was chaired by Cosmas Hartojo, the vice-chairman of the Ministry of Estates' Bureau to Safeguard Production (*Wakil Kepala Biro Pengamanan Produksi Departamen Perkebunan*).⁸³ This team or its sub-teams apparently did visit and appraise the estates. Karl Schneider, the SIPEF manager, reported that a GOI team visited SIPEF's Perlabian estate; an Indonesian staffer at SOCFIN who later rose to the position of general manager also indicated that he accompanied the evaluation team for SOCFIN around the company's estates, and the entire process (SOCFIN had 18 estates) took as long as six months.⁸⁴

⁸¹ Instruksi Menteri Perkebunan (Frans Seda) No. 36/Instr/MPerk/1965 dated 14 July 1965.

⁸² Surat Keputusan Menteri Perkebunan (Frans Seda) No.106/MenPerk/1965 dated 26 July 1965.

⁸³ Its other members included another person from the Biro Pengamanan Produksi, two people from the BPU-PPN Rubber, two from the Ministry of Agriculture, two from the GOI Department of Levies (Departemen Iuran Negara), two from the GOI Budget Department (Departemen Anggaran Negara), the heads of the Estate Inspectorates (Kepala Inspektorat Perkebunan Daerah, part of the Ministry of Estates) in the relevant areas, the five PPPAs, and two agricultural experts (one each from an agricultural institute in Bogor and Medan).

⁸⁴ Interview with Karl Schneider on 16 June 2007; interview with Mr. Tampubolon on 29 August 2006. Mr. Tampubolon joined SOCFIN in August 1964 as a field assistant and by the early 1990s was SOCFIN's general manager in Indonesia.

In terms of management of the foreign estates, the Ministry of Estates allowed the owner-appointed managers to remain on the estates, but the extent to which the owner-appointed management retained control over the companies is unclear. These managers certainly occupied anomalous positions, as the estates were in theory at least under the supervision of the Ministry of Estates (according to Minister Seda's decree of 28 June) if not control (according to the Presidium Kabinet's decree of 4 May). Perhaps the best comparison is the position of owner-appointed managers of British companies after early February 1964; a gradual creeping takeover of management that probably varied according to individual PPPA preferences. For example, the US embassy reported that as late as mid-November the foreign estates were still under their own management.⁸⁵ Similarly, in early November Minister Seda issued an instruction to both the PPPAs and the owner-appointed directors prohibiting the owner-appointed directors from (i) making any staff changes, (ii) making any transfers of property, or (iii) using income derived from estates under their control for estates not under their control.⁸⁶ The implication seemed to be that these directors still retained a great deal of influence and authority. In contrast, the experience of SIPEF's general manager, Karl Schneider, suggests that the PPPAs were in complete control from the time they arrived. The man appointed to SIPEF's Perlavian estate, A. Siregar, had almost all authority over the estate; he had to approve almost everything, he supervised all finances, and nothing was paid without his signature. Siregar grew to rely on and trust Schneider, who was under instructions from the head office not to burn bridges in case SIPEF ever came back.⁸⁷ This suggests that while PPPA Siregar was clearly in charge with overall authority, owner-appointed Schneider was also very much involved in the operations of the estate. This arrangement perhaps was an ideal version of the formulation so common in the GOI takeover decrees that owner-appointed managers should assist the takeover teams to the extent necessary in managing the companies. In any case, as we shall see, in early December 1965 Minister Seda effectively resolved the anomalous position of the owner-appointed

⁸⁵ US Embassy Telegram dated 19 November 1965 transmitting economic summary of third quarter (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

⁸⁶ Instruksi Menteri Perkebunan (Frans Seda) No. 49/Instr/MenPerk/1965 dated 2 November 1965.

⁸⁷ Interview with Karl Schneider 16 June 2007. Curiously, Schneider recalls that the PPPA for his estate, A. Siregar, showed up in May, not after his official appointment in late June.

managers by officially replacing the owner-appointed managers and taking complete control over the estates.

B. The Revocation of the 1958 Foreign Investment Law.

A second manifestation of the BERDIKARI principle with respect to foreign investment was the revocation of the foreign investment law of 1958. As we saw in Chapter Three, in practice very little, if any, new foreign investment entered the country under the rubric of this law, but it was still on the books in 1965, though it has often been reported by foreign commentators that the law was revoked long before this.⁸⁸ Thus, the ultimate repeal of the law in 1965 was largely symbolic, but nevertheless important in the implementation of BERDIKARI because it closed the door to new foreign investment, thereby complementing the first step of seizing the remaining existing foreign investment. Without any laws or supporting regulations, new foreign investment had no legal means by which to enter the country, even if it wished to.

While President Sukarno was clearly the main impetus behind the revocation of the 1958 foreign investment law, Third Deputy Prime Minister Chaerul Saleh in early 1965 was also increasingly critical of foreign investment. For example, in late March Minister Saleh claimed that he had asked the Presidium Kabinet to revoke the foreign investment law, saying it was already dead. The US embassy interpreted this statement as in part reflecting Minister Saleh's "efforts to shore up his faltering political position."⁸⁹ Minister Saleh, as we have seen, was a fierce nationalist, but he was also generally supportive of foreign investment; he was also under severe attack by the PKI, and his close alignment with and support from President Sukarno seemed to be slipping, as evidenced by the breakup of the Ministry of Basic Industry and Mining at the end of March (see Chapter Six, Part III). Hence, the US embassy surmised he could gain favor with President Sukarno, and perhaps weaken the PKI attacks on him, by calling for an end to foreign investment. Following this incident, as we saw above on 5 April Minister Saleh also told US special envoy Bunker that "old style investments" had no future in

⁸⁸ See Chapter Three, Part I, Section A1.

⁸⁹ The statement was made in a speech delivered to Generation of 1945 Executive Board, a group Minister Saleh headed, and cited by Antara, the GOI news agency. See US Embassy telegram (Jones) dated 1 April 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

Indonesia and changes were likely forthcoming. Then, on 16 May, after Presidential Decree 6/1965 had been issued, Minister Saleh publicly announced that Indonesia would no longer permit investment of foreign capital. This announcement was made at a congress of KBM labor federation workers; at the same time, Minister Saleh noted that President Sukarno would decide whether to nationalize the companies already in Indonesia, and also that the takeovers of foreign oil companies should be handled by the GOI, not the unions. Given the setting of the remarks, this was likely both another effort by Minister Saleh to shore up his effort to appear more revolutionary by saying no more foreign investment would be allowed (which was simply reflecting reality in the sense that no foreign investors would want to come in given the prevailing conditions) and a warning to the KBM and others to let the GOI decide on the status of companies already present in Indonesia.⁹⁰

Shortly thereafter, President Sukarno issued the first of two decrees revoking the 1958 foreign investment law, each of which highlighted BERDIKARI as the rationale for the law's revocation. The first short decree, issued on 27 May 1965, cited the consideration that the development of the economy and the growth of national production had raised the standard of living of the people so that it was necessary to continue based on the principle of *berdiri diatas kaki sendiri*, and therefore that the time had now come for the revocation of the 1958 law.⁹¹ With that, the 1958 foreign investment law was formally repealed. The circle was now complete: all foreign companies already in Indonesia had technically been placed under GOI control, and no more were allowed to enter.

This decree was further codified by President Sukarno's issuance of a formal law at the end of August.⁹² In classic Sukarno discourse, the law noted that foreign capital in Indonesia had the characteristic of taking as many profits as possible away from Indonesia and continually exploiting the Indonesian people as well as obstructing the

⁹⁰ See *New York Times* 17 May 1965, *Wall Street Journal* 17 May 1965, and US Embassy Bi-Weekly Economic Review dated 28 May 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

⁹¹ Peraturan Pemerintah Pengganti Undang2 No. 1 (Sukarno) Tahun 1965 Tentang Pentjabutan Undang2 Penamaman Modal Asing, dated 27 May 1965.

⁹² Undang Undang No 16 Tahun 1965 (Sukarno) Tentang Pentjabutan Undang Uundang No 78 Tahun 1958 Tentang Penamaman Modal Asing, dated 23 August 1965.

road of the Indonesian Revolution in finishing the national democratic stage and entering into Indonesian socialism based on *Pantja Sila*. Moreover, in order to implement the principle of *berdiri diatas kaki sendiri* in the economic field as well as the principles of DEKON to build a national economy free from the remains of imperialism and feudalism, it was necessary to eliminate the establishment and operation of foreign capital in Indonesia so as to increase national production and raise the people's standard of living. It further added that with the stoppage of foreign investment in Indonesia, it was necessary both to have a regulation to implement Article 10 of MPRS Decree VI of 16 April (the provision calling for the nationalization of foreign companies) and to work together with foreign economies, especially the NEFO countries. It then revoked the 1958 law and further indicated that a new law would be forthcoming regarding the implementation of Article 10 of the MPRS decision and the working together with other countries without allowing new foreign investment.⁹³

III. The Final Push: The End of 1965.

On 21 December 1965, Minister of Light Industry Brigadier General M. Jusuf issued a decree that provided the ministry would select new Indonesian management for Bata Shoe, which operated a shoe factory in Jakarta.⁹⁴ Bata Shoe had been placed under GOI control/supervision on 17 May but in late December was still managed by E. Reimann, a Swiss expatriate who had originally been appointed by the owners of Bata. According to the US embassy, Bata Shoe was the last surviving foreign-owned industrial enterprise in Indonesia, apart from the oil companies. The status of Reimann is an excellent example of the different pace of assumption of control by the GOI of the companies placed under GOI control pursuant to Presidential Decree 6/1965. Why

⁹³ It is unclear what was meant by the call for further regulations to implement Article 10 of the MPRS decision, which called for the nationalization of foreign businesses. Perhaps this was meant to highlight that under Presidential Decree 6/1965, the GOI had not yet officially nationalized the companies but had only placed them under government control, without disturbing the rights of the owners.

⁹⁴ Jusuf became minister in the wake of the June 1965 reorganization of the Ministry of Peoples Industry, which was elevated to the level of a Kompartment, still headed by the former Minister of Peoples Industry Azis Saleh and divided into three separate ministries: the Ministry of Textile Industry, the Ministry of Light Industry, and the Ministry of Handicrafts.

Reimann had lasted so long is unknown, though it may have been due in part to the factory's operating at 70% of capacity, a remarkably efficient number given the tough economic times. However, Reimann's work permit had suddenly not been extended and he was given three days to leave the country; Minister Jusuf's decree was apparently issued to thwart Reimann's attempts to select which Indonesian would replace him as manager. The decree further provided that the GOI would decide upon the ownership status of the company, no doubt reflecting the general GOI position that the ownership of the foreign companies taken over under President Decree 6/1965 had not changed. Reimann did leave the country and a new Indonesian manager was appointed, which for Bata Shoe was a clear signal that the status of the factory was no longer in doubt and it had indeed been taken over by the GOI.⁹⁵

Bata Shoe was by no means alone, however. In the last two months of 1965 the GOI embarked upon a major push to eliminate the last vestiges of foreign investment with the apparent deadline of the end of the year. This in effect meant resolving the status of those companies that, although technically under GOI control/supervision (which every foreign company was by this point), were still managed by foreign owner-appointed personnel. As we have seen, the only companies that had this status were the big three foreign oil companies, a number of non-British foreign estates placed under GOI control pursuant to Presidential Decree 6/1965, and perhaps a few manufacturing firms like Bata Shoe. In the case of the oil companies, the GOI successfully negotiated the buyout of Shell Oil for \$110 million, but was unsuccessful, despite the application of tremendous pressure, in taking over Caltex and Stanvac. In the case of the non-British estates, the GOI under Minister Seda's direction not only finally squeezed out owner-appointed management but also agreed to buyout terms with the various owners in what was essentially compensation for formal nationalization (altogether 16 estate companies owning at least 58 estates agreed to compensation terms with the GOI totaling \$29 million plus Rp. 1.85 billion, generally payable over seven to 10 years). In contrast, none of the manufacturing firms that were seized, either pursuant to Presidential Decree

⁹⁵ US Embassy telegram (Green) dated 28 December 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3); US Embassy telegram (Cleveland) dated 9 February 1966 Transmitting Economic Summary of Fourth Quarter 1965 (USNACP, RG 59 Central Files 1964-66, E2-3 Indonesia, Box 722).

6/1965 or otherwise, were offered compensation. Thus, the oil companies and the non-British estates were treated very differently from all the other companies the GOI took over from 1963-65. While the treatment of the oil companies is another example of oil company exceptionalism, the reasons behind the different treatment of the non-British foreign estates were not as evident. I shall argue that the answer relates both to the outlook of Minister of Estates Frans Seda and to the ability of these foreign estates to generate foreign exchange revenues to pay for themselves.

This final push occurred amidst a chaotic and gruesome period in modern Indonesian history that witnessed the climax of the domestic political conflict in Indonesia and the eventual downfall of President Sukarno and his Guided Democracy. As I have suggested, this was the third great culmination of 1965-66, the first being the one in Indonesia's foreign relations and the second the one in economic affairs, especially the deterioration of the economy. In the tense atmosphere of 1965 in which the continuing PKI political offensive alarmed not just the army leaders but many civilians as well, the September 30 Movement, although it was quickly stopped by General Suharto, provided the excuse for the army to seize the initiative and oversee the destruction of the PKI, which by December was all but liquidated. The September 30 Movement also resulted in a struggle for power between President Sukarno and his opponents, led by General Suharto. This competition was already bubbling under the surface but sprang into the open in December 1965 (as the PKI was being finished off) and peaked from December to March 1966, with the balance of power tipping away from President Sukarno in favor of his opponents. In at least one case – the oil companies – in an episode that one historian has described as a critical moment in the transition of power,⁹⁶ the final GOI push to eliminate foreign investment intersected with this political power struggle, and again oil company exceptionalism proved to be the rule.

President Sukarno was certainly the main driving force behind this year-end push to eliminate foreign investment, though his motivations remain obscure. It is inconceivable that such a major push, with the possible elimination of the big three foreign oil companies and the payment of almost \$30 million in compensation to non-British foreign estate holders, could occur without both his full support and urging; in the

⁹⁶ Aden, *Oil and Politics in Indonesia*, pp. 271 and 288.

chaos of the final months of 1965, no one else had the authority and influence to make this happen. Why, then, push for the end of the year? One reason may have been that the end of the calendar year would make a nice clean date by which the President could boast that all foreign investment had been eliminated as part of the process he had already set in motion and was well underway - the nominal takeovers of the oil companies in March, the summer negotiations with the oil companies (described below in this Section B), the establishment of the BERDIKARI policy, and the issuance of Decree 6/1965 and its initial stages of implementation. That is, President Sukarno wanted to ensure that BERDIKARI was fully implemented, and having a calendar year deadline provided chronological cleanliness so that the second stage of the Indonesian Revolution (Indonesian socialism), in which all vestiges of imperialism were eliminated, could be ushered in. Yet, given the unfolding political power struggle in the last three months of 1965, one is tempted to look for a connection between the political conflict and the drive to eliminate foreign companies – why bother with foreign companies when there was a major power struggle developing? One observer has suggested that in the case of the oil companies the President may have been motivated by “repairing the political damage done [to] him by the attempted coup [the September 30 Movement] and restoring his personal political position...a public bridling of the oil companies would spotlight Soekarno as Leader of the New Emerging Forces striking a blow against the neo-colonial multinational corporations.”⁹⁷ Hence, Sukarno may have felt that beating the drum of anti-colonialism and anti-imperialism in the form of eliminating foreign capitalists was a rallying cry around which he could gain support in the political struggle. This is certainly plausible and would account for the acceleration of events in November and December, even if the groundwork for the final push was already in place before September 30. If so, however, the President badly miscalculated, at least with respect to the oil companies. In short, President Sukarno’s motivations remain unclear.

This Part III is divided into three sections. Section A traces the culmination of the domestic political struggle. Because these events have been so well documented in the existing secondary literature, this analysis is in summary form only. Section B then

⁹⁷ Aden, *Oil and Politics in Indonesia*, pp. 279-80.

examines the GOI push to take over the big three foreign oil companies, while Section C investigates the management takeover and buyout of the non-British foreign estates.

A. The Culmination of the Domestic Political Struggle.

As argued in Chapter Two, under Guided Democracy political power was shared primarily between President Sukarno and the Indonesian army in an uneasy partnership of convenience, each with their own areas of influence. The political parties, in particular the PKI and the PNI (along with NU the three largest remaining parties), were effectively “domesticated” on the political sidelines but were used by President Sukarno as a balance to check the power of the army. The PKI depended upon the protection afforded by President Sukarno to fend off the army, as both the army and the PKI increasingly viewed the other as a major threat. As we saw in Chapter Five, however, at the end of 1963 the leadership of the PKI decided to go on the political offensive, a decision shaped in large part by the opportunities presented by outbreak of Konfrontasi and allowed by the lifting of martial law in May 1963. This political offensive was launched in early 1964 with the seizure of British companies, the encouragement of *aksi sepihak*, the launch of a campaign against American films, actions against American installations, calls for retooling and nasakomization, and a host of other measures. Thus over the course of 1964 domestic politics appeared increasingly polarized, and indeed the PKI’s increasing visibility and volubility resulted in several counter push-backs by non-PKI forces, the most notable of which was the BPS. In an apparent victory for the PKI, the BPS was banned by President Sukarno in mid-December 1964, and in early January 1965 the Murba party, many of whose members led the BPS, was suspended.

The PKI continued its political offensive into 1965, setting the stage for the climax of the domestic political struggle.⁹⁸ As we have already seen, the PKI through its mass organizations played a central role in the takeover of American estates and oil companies, and it also embarked upon a campaign against Ministers Chaerul Saleh and Adam Malik, both of whom were demoted (Malik more so) in cabinet reshuffles in the first three months of 1965. Moreover, over the course of 1965 the PKI increasingly

⁹⁸ As noted, there is no shortage of literature on Indonesian politics in 1965-66. One of the best, particularly with respect to the Sukarno-army-PKI relationship, is Crouch’s *Army and Politics in Indonesia*, chapters 2-8.

attacked the army publicly. Perhaps the best known of these challenges was PKI leader Aidit's call in mid-January to arm workers and peasants, a suggestion that was then taken up in late May by President Sukarno under the moniker of a 'Fifth Force' (the first four forces being the existing army, navy, air force and police).⁹⁹ President Sukarno actually claimed the idea was PRC Premier Zhou Enlai's, and indeed the PRC offered to supply 100,000 light weapons to arm the people. The army, however, while in principle endorsing the concept, in practice blocked its implementation, and finally in late September army commander General Yani publicly announced the army's opposition to it.¹⁰⁰ A second PKI challenge to the army was its continuing push for the nasakomization of the armed forces, the main goal of which was the formation of advisory teams (whose members came from NASAKOM elements) to work with the commanders of the army, navy, air force and police.¹⁰¹ The army, of course, vigorously opposed such a measure and successfully blocked it. The PKI also intensified its campaign against *kabir* (the acronym for *kapitalis birokrat* or 'capitalist bureaucrats'), a term mainly used to identify army officers, especially those who worked in SOEs.¹⁰² The PKI further encouraged divisions within the separate branches of the armed forces and tried to recruit members from each branch.¹⁰³

The PKI's political offensive in 1964-65 led many observers to conclude, incorrectly as events turned out, that the PKI was coming close to seizing power. This misperception was most likely rooted in the PKI's ability to generate mass support, which in fact was the party's primary strength and was evidenced primarily by mass demonstrations and actions, including the takeovers of foreign companies. The PKI's ability to mobilize the masses was perhaps best displayed in May 1965, when the party held two mass rallies in Jakarta, one on 1 May (May Day) and the other on 23 May, the 45th anniversary of the founding of the party. In both, huge crowds – on 23 May, the size

⁹⁹ On the fifth force, see, e.g., Crouch, *Army and Politics in Indonesia*, pp. 89-94; Mortimer, *Indonesian Communism under Sukarno*, pp. 381-85; Sundhausen, *Road to Power*, pp. 190-4, Legge, *Sukarno*, pp. 424-5.

¹⁰⁰ Crouch, *Army and Politics in Indonesia*, p. 90; Mortimer, *Indonesian Communism under Sukarno*, pp. 384-5.

¹⁰¹ On nasakomization of the armed forces, see Crouch, *Army and Politics in Indonesia*, pp. 86-9; Sundhausen, *Road to Power*, pp. 190-4.

¹⁰² On *kabir*, see especially Mortimer, *Indonesian Communism under Sukarno*, pp. 379-80.

¹⁰³ See Crouch, *Army and Politics in Indonesia*, pp. 82-6.

was estimated to be over 100,000 – turned out to support the PKI, with President Sukarno also speaking at the second rally, leaving little doubt in the minds of many – Indonesian and foreign alike - that the PKI was the “largest and best organized political party in the country,” enjoying “a rare combination of money, mass membership and presidential favor.”¹⁰⁴ Indeed, by August 1965, the party estimated that it had 3.5 million members and that membership in its mass organizations totaled some 23.5 million.¹⁰⁵ How deep this mass support actually ran, however, is unclear; there are, for example, no opinion polls from the period, and as events would later suggest support for the PKI at rallies did not translate into support for armed conflict.¹⁰⁶ Moreover, the PKI had only very limited representation in the government, with only three cabinet positions (none with significant resources or authority) and no provincial governorships.¹⁰⁷ In addition, the PKI did not have the support of any significant portion of the elite.¹⁰⁸ Perhaps most importantly, the PKI had no arms with which to defend itself, should a major conflict break out.

In addition to its perceived mass support, the second great asset of the PKI was the protection afforded by President Sukarno, whose stature was thought to be unchallengeable. From the end of 1964 with the banning of the BPS President Sukarno increasingly seemed to favor the PKI, and as I have noted before there was also appeared to be an increasing convergence of ideas between the President and the party. This was especially notable in foreign affairs, with the emphasis on anti-imperialism, Konfrontasi, the alliance with the PRC, the negative relationship with the United States, etc. On the domestic side, the President also appeared to borrow more and more from the PKI’s political discourse (e.g., BERDIKARI, and the notion of entering into a second socialist stage in the Indonesian Revolution after the first national democratic phase). Sukarno also continued to jostle with the army for position, encouraging divisions within and among the branches of the armed forces, sometimes supporting the PKI’s positions (in

¹⁰⁴ John Roosa, *Pretext for Mass Murder: the September 30th Movement and Suharto's Coup d'Etat in Indonesia*, New Perspectives in Southeast Asian Studies (Madison, WI.: University of Wisconsin Press, 2006), p. 205.

¹⁰⁵ Mortimer, *Indonesian Communism under Sukarno*, p. 366.

¹⁰⁶ On this question of the PKI’s political strengths, see Donald Hindley, “Political Power and the October 1965 Coup,” *Journal of Asian Studies* 26, no. 2 (1967), Daniel Lev, “Indonesia 1965: the Year of the Coup,” *Asian Survey* 6, no. 2 (1966).

¹⁰⁷ Crouch, *Army and Politics in Indonesia*, p. 90.

¹⁰⁸ Mortimer, *Indonesian Communism under Sukarno*, pp. 372-4.

the case of the ‘fifth force’) and sometimes opposing them (not pushing the armed forces to nasakomize). Even outside the PKI-army–Sukarno relationship, the President over the summer of 1965 seemed to be favoring a more radical course when he pushed the PNI to purge its right wing elements, which in fact the PNI did in August and September in the first major purge in PNI history.¹⁰⁹ (On the other hand, with respect to the taken-over foreign companies Sukarno was clearly unwilling to turn them over to PKI, a feeling shared by all the ministers under whose jurisdiction the companies fell.) What the President’s ultimate intentions for the PKI were is the subject of debate; some argue that Sukarno was simply using the PKI to counter the army, and that he had no intention of putting the PKI in power or following the PKI’s program of restructuring the social order, while others argue just the opposite.¹¹⁰ Nevertheless, it was clear that the PKI was highly dependent on the President’s protection and support, and the party of course tried to maximize fully this support.

By August and September 1965, the political tension was thick. The precariousness of the PKI’s position of dependency on President Sukarno was undoubtedly placed in sharp relief when President Sukarno collapsed on 4 August and had to rest for a number of days because of kidney problems. While these health issues were already known and the President seemed to bounce back, the seriousness of the problem was far from clear. Hence, the episode raised the immediate question of who would lead the country should Sukarno be unable to. The army was almost certainly also rethinking its position as well, and indeed rumors had already been circulating for months about the possibility of an army coup. Contributing to the tension was another surge in inflation in September, yet another reminder of the precariousness of the Indonesian economy. In the words of one observer,

With the president’s health in doubt and various rumors of coups in the air, the armed forces were preparing for a massive celebration of Armed

¹⁰⁹ Rocamora, *Nationalism in Search of Ideology*, pp. 341-7. There were various splits within the PNI leadership. One split was between the more radical national leadership and more conservative provincial leaders; in May, conservative elements of the central Java party leadership were purged, primarily over the issue of the PNI-PKI relationship and especially *aksi sepihak*. In August, longstanding divisions within the national leadership bubbled to the surface, also primarily over the nature of the PKI-PNI relationship, and the most important members of the right wing of the national leadership were purged.

¹¹⁰ On the former, see Legge, *Sukarno*, pp. 422-29; on the latter, see Hauswedell, “Sukarno: Radical or Conservative.”

Forces Day on 5 October to match the PKI's huge anniversary celebrations of the previous May. As some twenty thousand troops concentrated in Jakarta there was a feeling that 'something might happen.'¹¹¹

While some sort of showdown was certainly not unanticipated, the way events developed was probably not foreseen by many people.

The immediate catalyst for the showdown was the September 30 Movement (*Gerakan Tigapuluh September*, or G30S for short), which to this day remains the most mysterious and controversial event in modern Indonesian history.¹¹² On the night of 30 September in Jakarta, a group calling itself the September 30 Movement kidnapped and killed six senior generals (three of whom were actually killed in their homes) of the army high command, including army chief General Yani. A failed attempt was made on General Nasution. The apparent goal of the movement was to prevent a so-called 'Council of Generals' from seizing power from President Sukarno. Oddly, the movement also announced the formation of a 45 member central revolutionary council that did not include President Sukarno as the chief decision-making body of the government. The operation was ill-conceived and poorly executed; one of its early objectives was probably to gain the support of President Sukarno by simply arresting the generals and then turning them over to him to deal with (it is not clear exactly what Sukarno would have done with them in the face of certain army resistance), but securing the President's endorsement was severely jeopardized by the killing of the senior generals. The only military actions of the movement were in Jakarta and in Central Java, but these modest measures were squashed in Jakarta in less than two days by the relatively unknown General Suharto and in Central Java in a few weeks, in each case fairly effortlessly and with surprisingly little bloodshed. While the movement's broader actions and participants are generally known, the great mystery remains who, if anyone, was acting as the *dalang* or grand puppeteer behind the movement. On the surface, the movement appeared to be led by a handful of

¹¹¹ Crouch, *Army and Politics in Indonesia*, p. 96; see also Mortimer, *Indonesian Communism under Sukarno*, pp. 385-7.

¹¹² Also known in New Order Indonesia as GESTAPU (in a deliberate reference to the Nazi Gestapo), the 30 September Movement has spawned an enormous amount of literature, far too much to be discussed here. For an excellent summary of the literature, a detailed analysis of the movement, as well as a plausible interpretation, see Roosa's *Pretext for Mass Murder*; see also Crouch, *Army and Politics in Indonesia*, chapter four.

officers from the army and air force, but PKI chairman Aidit (and the party's Special Bureau headed by Sjam) was also clearly involved, and there were questions about the complicity of President Sukarno himself and even General Suharto (who was one of the highest ranking generals not targeted for kidnapping).¹¹³

What is clear, however, is that the September 30 Movement provided the trigger for the culmination of the domestic political struggle in Indonesia, first by the destruction of the PKI and second by the eventual displacement of President Sukarno. In the first place, as one observer has rightly noted, the army, insisting that the PKI was the mastermind behind the September 30 Movement, used the movement as a pretext to eliminate the PKI.¹¹⁴ In one of the worst massacres in the 20th century, some 250,000 to 1,000,000 people – the precise number will probably never be known – were killed.¹¹⁵ Thousands more were arrested and detained a decade or more. The killings began within days after the September 30 Movement and continued well into the first few months of 1966, though most occurred in 1965. The main areas of the killings were East Java, Central Java and Bali, but other areas of the archipelago, such as Aceh and North Sumatra, also witnessed a significant number of deaths. In some cases, the army directly participated in the killings, while in others it supplied weapons, training and strong encouragement to various groups,¹¹⁶ and in any case the army did little to prevent them. Many people killed or arrested were not even PKI members, and local factors, including resentment from the *aksi sepihak* actions, religious hostility and even local grudges which had nothing to do with national politics, played a significant role in determining the scale of the killings.¹¹⁷ Hence, while the army certainly created the conditions for the massacres, a variety of civilian groups, perhaps most notably the youth wing of the NU political party (*Pemuda Ansor*), supported and participated in them. The scope of the slaughter was vastly broader than the triggering incident of killing six high-ranking

¹¹³ Chapter two of Roosa's *Pretext for Mass Murder* provides a nice summary of the various theories.

¹¹⁴ Roosa, *Pretext for Mass Murder*.

¹¹⁵ The killings have also generated much literature. For an overview, see Robert Cribb, ed., *The Indonesian Killings of 1965-66: Studies from Java and Bali* (Clayton, Victoria: Centre of Southeast Asian Studies, Monash University, 1990), Robert Cribb, "Unresolved Problems in the Indonesian Killings of 1965-1966," *Asian Survey* 42, no. 4 (2002).

¹¹⁶ Cribb, *Indonesian Killings*, p.3.

¹¹⁷ Cribb, *Indonesian Killings*, pp. 21-3.

generals, and by mid-December 1965 the PKI, which put up no resistance, had effectively been eliminated as a political force.¹¹⁸

The September 30 Movement was also the catalyst for the ending of the Sukarno-army political partnership and the eventual downfall of President Sukarno and the end of Guided Democracy.¹¹⁹ Some observers have suggested that the displacement of President Sukarno was the goal of upper-ranking army officers all along, and that the September 30 Movement was immediately seized as the pretext for the army to take power.¹²⁰ However, it is more likely that this objective was only really considered some months later.¹²¹ The main reason is that while the army was united in its loathing of the PKI, it was very factionalized in other matters and was especially divided in its attitude toward President Sukarno, who as the founding father of the country still commanded great loyalty and respect from many officers.¹²² While there were clearly army officers who wished to be rid of Sukarno, there were also many who admired him. Hence, while the army almost certainly had plans for a post-Sukarno world – what army does not have plans for every imaginable contingency? – it is difficult to believe that there was unity of opinion regarding seizing power from Sukarno. Army leaders were doubtless aware of the great stature Sukarno continued to maintain in the public eye, and if there were any sort of intra-army consensus it was more likely along the less drastic lines of a shifting of, or adjustment in, the power sharing arrangement between the President and the army. Moreover, after the deaths of the high-ranking generals there was a clear void in army

¹¹⁸ The PKI's lack of resistance has been the subject of frequent speculation and has often been cited to support the notion that the party was not involved in the September 30 Movement. Hindley has suggested that the party had three main alternatives: (i) fight, which as the PKI had little training or arms would certainly have been unsuccessful (and there was also the question of the commitment of PKI members to take up arms), (ii) hide, or (iii) continue to rely on President Sukarno's protection. The third course was the one taken, but President Sukarno was unable to withstand the army push to destroy the party. See Hindley, "Political Power and the October 1965 Coup," pp. 246-8.

¹¹⁹ On the conflict and struggle between President Sukarno and the army from October 1965 until early 1967, Crouch's *Army and Politics in Indonesia* is the most comprehensive account.

¹²⁰ See, e.g., Russo, *Pretext for Mass Murder*, chapter six and p. 203.

¹²¹ Elson, for example, suggests that it was not until mid-February 1966 that General Suharto "decided that Sukarno would have to be replaced or somehow neutralized." See p. 131 of Elson, *Suharto: a Political Biography*.

¹²² Divisions within the army over Sukarno and other matters are well documented in both Crouch's *Army and Politics in Indonesia* and Sundhausen's *Road to Power*. For the changing alliances in 1965-66, see these works and also Donald Hindley, "Alirans and the Fall of the Old Order," *Indonesia* 9 (1970), Roger Paget, "The Military in Indonesian Politics: the Burden of Power," *Pacific Affairs* 40, no. 3/4 (1967-68).

leadership, with numerous parties jostling for power; General Suharto in the initial months after 1 October was at best first among equals within the army.

From October through mid to late December 1965 the army was, at least on the surface, more focused on eliminating the PKI than on the Sukarno-army political struggle. In fact, in retrospect it appears that the PKI, even as it was being destroyed by the army-organized campaign, was the primary wedge driving the split between the army and President Sukarno, for in the months after 1 October the President continued to support the PKI and steadfastly refused to denounce or ban it, a stance that encouraged army leaders to take a harder line against him.¹²³ In the first few months after G30S there were clear signs of conflict between Sukarno and General Suharto and other officers; these conflicts probably reflected a mixture of both (i) the army's insistence that the PKI be destroyed (and reluctance to trust President Sukarno with the task) and (ii) Suharto and others' desire both to limit Sukarno's influence and meddling in army affairs and to gain a greater share of the power pie. For example, on 1-2 October, in the midst of the September 30 Movement, General Suharto flatly rejected President Sukarno's proposal of General Pranoto as army commander and insisted that he (Suharto) be put in charge restoring security and order. On 10 October, General Suharto established the KOPKAMTIB, or Operations Command to Restore Order and Security. Then, on 16 October Suharto essentially forced Sukarno to appoint him army commander and chief of staff of KOTI, which Suharto re-staffed and reorganized in late November.¹²⁴ In addition, in mid-November the army initiated a general purge within the GOI of all PKI elements. Meanwhile, President Sukarno, who clearly realized the possible ramifications of the September 30 Movement, did his best to downplay its significance and protect its participants from army wrath. The President also refused to yield to army pressure to ban and denounce the PKI, a refusal that as noted was unacceptable to army leaders determined to destroy the party.

In late December, after the PKI was all but eliminated as a political force, the underlying conflict between President Sukarno and his political opponents, led by General Suharto, appeared to sharpen and bubble to the surface. General Suharto and his

¹²³ Crouch, *Army and Politics in Indonesia*, pp. 162-4; Elson, *Suharto*, pp. 128-9.

¹²⁴ See "Survey of Recent Developments," BIES 3, pp. 22-3.

allied army officers were not alone; there was a fluid, ever changing alliance of forces unhappy with President Sukarno, in particular over his continued refusal to condemn the PKI. These allies included, among others, leaders of the other political parties, other civilian elites, and an organization of university students known as KAMI (*Kesatuan Aksi Mahasiswa Indonesia*, formed in late October and heavily supported by the military), altogether an amorphous group later named the ‘Generation of 1966.’ At this point the state of the economy interjected itself into the political struggle. With inflation soaring at the end of 1965 and the GOI budget deficit out of control, the GOI in late November and mid-December introduced a number of measures to stabilize the economy.¹²⁵ On 22 November, the GOI officially raised the domestic price of petrol and other oil products, in the case of petrol from Rp. 4 per liter to Rp. 250 per liter. In mid-December, the GOI announced that beginning in January the price of petrol would rise further to Rp. 1000 per liter and that prices for bus and rail tickets, postage, and other utilities would be substantially increased in an effort to make these public enterprises pay their own way. At the same time, the GOI announced that it was reforming the currency by exchanging new Rupiah notes at the rate of new Rp. 1 for old Rp. 1000 (a 1000 time devaluation), the abolishing of old Rp. 5,000 and 10,000 notes after 30 days, plus a 10% tax on exchanges of these notes and bank deposits. Another measure was substantial year-end bonuses and wage increases to keep up with inflation. The effect was an immediate and painful general price increase; despite a government freeze on price hikes, the price of a liter of rice (Indonesia’s staple food) in Jakarta shot up temporarily to Rp. 5000 (in May it was Rp. 250, in mid-September Rp. 640, early October Rp. 1,250) in a round of panic buying before settling around Rp. 3000.

The resulting inflation, as well as the overall economic situation, expanded public attention from the narrower issue of the PKI to the broader issue of the effectiveness of the Sukarno government and had a galvanizing effect as widespread protests, led by the student group KAMI (which was supported by the army), erupted. Indeed, for the next few months KAMI occupied a central place in the political struggle. On 10 January 1966, several thousand students at a rally in Jakarta issued the ‘Three People’s Demands’

¹²⁵ The following description comes from pp. 1-7 of “Survey of Recent Developments,” BIES 3; see also “Survey of Recent Developments,” BIES 4.

(TRITURA, or *Tri Tuntutan Rakyat*), which were to bring down prices, dissolve the PKI, and purge the cabinet of the PKI. Related demonstrations continued over the next few days.¹²⁶ Around the same time, KAMI sponsored a seminar on the economy at the University of Indonesia (the most prestigious university in the country) that featured several respected economics professors from the university's Faculty of Economics and a few other well-known public figures who were highly critical of the state of the economy.¹²⁷ A few days later on 15 January, thousands of students tried to disrupt a cabinet meeting in the Bogor Presidential Palace by entering the grounds, forcing the presidential guard to fire warning shots and prompting President Sukarno to criticize them sharply.¹²⁸ KAMI, temporarily cowed, would again assert itself at the end of February.

Meanwhile, beginning in late December, President Sukarno went on the political offensive, a push that culminated in late February with a major cabinet reshuffle. One example of this offensive was the call to form a front to defend the President, known as *Barisan Sukarno*, issued by First Deputy Prime Minister Subandrio on 16 January, one day after the cabinet meeting in Bogor. Numerous groups then issued statements of support for the President, and even 92 cabinet members presented Sukarno with a statement professing their loyalty. The whole affair was obviously politically charged as there was a struggle behind the scenes to gain control of the movement, and eventually General Suharto was able to neutralize it somewhat by requiring all organizations supporting the President to register with KOTI, which Suharto now headed.¹²⁹ Throughout January and February 1966 the President continued to rebuff increasingly strident demands that he denounce the PKI and reorganize the cabinet. Sukarno's most forceful assertion of his authority and challenge to his opponents came on 21 February

¹²⁶ Crouch, *Army and Politics in Indonesia*, p. 166.

¹²⁷ The speeches from this seminar have been published in *Jalur Baru Sesudah Runtuhan Ekonomi Terpimpin (the Leader, the Man and the Gun) Seminar Kami*, (Jakarta: Penerbit Sinar Harapan, 1984). In fact, the KAMI seminar followed on the heels of another seminar in December put on by the economic faculty of the University of Indonesia which was also highly critical of the state of the economy. These talks/papers were published in *Masalah2 Ekonomi dan Pakta2 Ipsolos*, (Jakarta: Lembaga Ekonomi dan Kemasjarakatan Nasional, 1965). Some of these economics professors were later appointed by General Suharto as members of the economic team in charge of the stabilization and rehabilitation of the Indonesian economy. See Chapter Eight, Part II.

¹²⁸ Crouch, *Army and Politics in Indonesia*, p. 167.

¹²⁹ See Crouch, *Army and Politics in Indonesia*, pp. 167-71.

when he reshuffled the cabinet in a way that left little doubt that he would continue to resist any encroachments on his power. In this reshuffle, some 10 strongly anti-communist ministers, including Coordinating Minister for Defense and Security General Nasution and other defense-related ministers, were dismissed and replaced by ministers strongly loyal to Sukarno. In addition, most of the ministers who were targeted by KAMI and supposedly linked to the PKI were kept.¹³⁰ At the same time, KOTI was renamed KOGAM and limited to matters dealing with Konfrontasi only.

The cabinet reshuffle again galvanized the anti-Sukarno forces, and after a chaotic period of a little under three weeks the advantage swung to the side of General Suharto and his allies. Here again KAMI, and the group of anti-Sukarno army officers who supported and encouraged it, played a central role; the main tactic of the Suharto group appears to have been to foment an atmosphere of crisis so that the army would be forced to step in and restore order. On 24 February large KAMI-led demonstrations blocked roads in Jakarta in an attempt to prevent the installation of the new cabinet, and two students were killed by the palace guard. President Sukarno banned KAMI the next day, but its members were reconstituted under a different name a few days later and organized new demonstrations. Meanwhile General Suharto and his allies continued to press President Sukarno to reshuffle the new cabinet. On 8 March there were attacks on the US embassy as well as Indonesia's own foreign ministry, and then on 9-10 March there were attacks on the PRC's news agency, consulate and cultural affairs building. On 11 March, as the cabinet was about to convene in the Presidential Palace in Jakarta, unidentified troops appeared outside, apparently preparing to take action, which caused President Sukarno, accompanied by Ministers Subandrio and Chaerul Saleh, to flee by helicopter to the Presidential Palace in Bogor. Later in the day General Suharto sent three other generals to Bogor to meet with President Sukarno, and the result was a letter (known as *Supersemar*, an acronym for *Surat Perintah Sebelas Maret*, or 'Instruction Letter of 11 March'), almost certainly coerced, in which President Sukarno ordered General Suharto to take all necessary measures to guarantee the security and stability of the government and the Revolution and to guarantee the safety and authority of the President. General Suharto exploited this opening to the fullest, the next day (12 March) officially banning

¹³⁰ Crouch, *Army and Politics in Indonesia*, pp. 174-8.

the PKI and then ordering the arrest of some 15 ministers, including Ministers Subandrio and Chaerul Saleh, on 18 March. President Sukarno tried to resist these and other measures, but with *Supersemar* the political balance had tilted away from him in favor of Suharto and his allies.

While the issuance of *Supersemar* was a major milestone in the struggle between President Sukarno and his opponents, it by no means eliminated Sukarno as a political threat, as Sukarno continually challenged the new government until he was finally forced out of office in early March 1967, almost a year later.¹³¹ The Suharto-led forces, aware of the great respect and loyalty President Sukarno still commanded both publicly and within the armed forces and not wishing to see the country erupt in civil war, repeatedly tried to get the President to agree to a new power sharing arrangement in which the President's sphere and influence were greatly diminished, but Sukarno, unhappy with the different direction the new government was going in, refused to compromise. In the first few months, this new administration, later termed the 'New Order,' appeared to be led by a triumvirate of General Suharto, Sultan Hamengkubuwono of Yogyakarta in economic affairs and Adam Malik in foreign affairs, though eventually of course General Suharto and the army emerged as the dominant figure and institution. An MPRS session was held in late June 1966 to solidify the new group's position, and following this a totally revamped cabinet consisting of only 29 ministers (the 21 February cabinet had over 110) was installed in late July over President Sukarno's objections. Other high government officials who were considered loyal to Sukarno, especially military officers, were reassigned, and a number of ministers were put on trial. Eternally defiant, President Sukarno continued to lash out over the next few months, and there were a number of tense moments that could have resulted in open military conflict. Finally, after allegations of Sukarno's involvement in the September 30 Movement at the trial of Air Force commander Omar Dhani led to increased public pressure against the President, General Suharto in February 1967 made what amounted to a final offer to Sukarno. Negotiations stalled, however, and in a very tense atmosphere on 8 March 1967 the MPRS in beautifully obscure language dismissed Sukarno from the presidency and replaced him

¹³¹ Chapter eight of Crouch, *Army and Politics in Indonesia*, contains an excellent discussion of these developments.

with General Suharto. In a sad ending to a remarkable life, the man who led Indonesia to independence spent the next three years, until his death in 1970, under effective house arrest, completely sidelined from Indonesian politics.

B. The Oil Companies.

Chapter Six argued that GOI control/supervision imposed over the big three oil companies March 1965 was in the first few months thereafter only nominal, and that neither the companies' management nor operations were interfered with to any significant degree. The biggest irritant the companies experienced was increasing pressure for further Indonesianization of staff. However, in the last five months of 1965, the big three came under intense GOI pressure to be taken over. The pressure started to build in August, really began to boil in late November, and finally culminated in December when the oil companies' situation became intertwined with the political struggle between President Sukarno and General Suharto. The chain of events is extremely confusing and hard to unwind, and certainly not all the facts are out on the table.

Confusingly, pressure came in two basic forms from two different sources. The first source was Minister of State for Oil Affairs Ibnu Sutowo, who pushed for a buyout of the companies, especially Shell and Stanvac, in negotiated transactions. These discussions initially were for the buyout of the two companies' refineries, something that had already been agreed to under the CoWs but within a 10-15 year window. Both these companies actually were not unhappy with the prospect, and in fact Stanvac initiated the early discussions. The option of a negotiated buyout was very clean – it was nationalization in the classic sense - but the problem for the funds-strapped GOI was that it would involve a payment of some sort. The second type of pressure came from Minister Chaerul Saleh and was in the form of management takeover, something threatened by the March imposition of GOI control/supervision but never implemented. This option, of course, was quite different from a buyout and had been the favored approach of the GOI over the previous two years, as it did not involve a payout but rather the effective substitution of owner-appointed management by GOI-appointed managers. (Related to this, but theoretically separate, was Indonesianisasi of management, a

possible third alternative that was also pushed to a lesser extent.¹³²⁾ Unlike Minister Sutowo's buyout approach, the management takeover approach did not involve written communications to the companies suggesting that the parties work something out; the pressure came via oral threats.

Why did the GOI take these two different approaches, and were they somehow coordinated? President Sukarno was clearly the impetus behind the management takeover approach, although it was Chaerul Saleh who executed it, at least on the surface. A management takeover was certainly the preferred style of both Sukarno and Chaerul Saleh, as previous Chapters have demonstrated. However, President Sukarno must have also supported the buyout approach; it is unconceivable that so much pressure could have been exerted without his approval. Nevertheless, the two approaches did not appear to be greatly coordinated, as Ibnu Sutowo pursued the buyout approach and Chaerul Saleh pursued the management takeover approach, and they were rarely presented together as an either/or choice. I think there are two explanations for these two approaches. First was the very nature of oil company exceptionalism; because of the position of the big three oil companies, the GOI could not act unilaterally as it did with other foreign companies, but had to come to some agreed settlement. Having two different options provided some flexibility. A second related reason is that the two separate approaches reflected the general attitudes, interests and positions of their two proponents, Ministers Chaerul Saleh and Ibnu Sutowo, and they also reflected the divisions within the GOI about how to handle the companies. Politics certainly played a role; Minister Chaerul Saleh, though he had apparently lost some influence with President Sukarno earlier in the year, clearly sided with Sukarno in the political power struggle from late 1965 through early 1966 and as we have seen was politically without a base of support and totally reliant on the President. Minister Sutowo, on the other hand, was not such a highly visible political figure, nor was he as reliant on President Sukarno, and seemed more interested in the business of the oil industry than in politics. In the midst of all this, of course, was the issue of Sutowo's rivalry with Chaerul Saleh for dominance of the oil sector; in the

¹³² In theory, it was different from a management takeover because the owner remained in control of management but simply had to appoint Indonesians as top managers. As we have seen, it had been pushed on the companies for some time and had intensified with the introduction of the supervisory teams in March 1965. The main drawback was finding qualified Indonesians to fill the posts.

cabinet reshuffle of late March 1965, Chaerul Saleh was appointed Minister of Oil and Gas (he was already Third Deputy Prime Minister and Coordinating Minister for the Development Compartment), while Sutowo was appointed to the new and rather nebulous position of Minister of State for Oil Affairs, seconded to the Presidium Kabinet.¹³³

Complicating this GOI push as well as the oil companies' reactions were the different interests and stakes of each of the three companies in Indonesia. As early as the beginning of July 1965, both Shell and Stanvac began to reconsider their respective positions in Indonesia, and Shell was even considering withdrawing entirely from Indonesia. The main reason was financial, as Shell was losing so much money that it would be forced to pump dollars into Indonesia by the end of the year, a prospect that was very worrisome, especially when the GOI was already delinquent in its payments to Shell.¹³⁴ As discussed in Chapter Three (Part II, Section A), the main cause of Shell's financial woes was that it was almost completely tied to the Indonesian domestic market. It exported little, if any, crude oil, and most of its refined products were sold in Indonesia, which imposed severe price controls and thus limited revenues. Stanvac, on the other hand, did not want to withdraw completely, but rather wished to accelerate the sale of its refinery to the GOI and in early July put out several feelers to the GOI concerning advancing the refinery sale.¹³⁵ Like Shell, Stanvac's domestic Indonesian sales, which were the bulk of its operations, were not very profitable, and by selling its refinery (most of the output of which remained in Indonesia), it could concentrate on expanding its small crude oil exports (an option Shell did not have), which was where the most profits were to be made. Under the CoW's signed in 1963, both Stanvac and Shell already agreed to sell their refineries to the GOI within 10-15 years (1973 to 1978), and thus Stanvac was simply seeking to accelerate that transaction. In fact, there was precedent for this acceleration; the CoWs had also specified that Shell and Stanvac would sell their Indonesian distribution and marketing facilities to the GOI within five years, but these

¹³³ See discussion in Chapter Six, Part III, Section C.

¹³⁴ British Foreign Office Confidential Note (Peck to Gilchrist) dated 7 July 1965 (UKNA, FO 371/180362).

¹³⁵ US Embassy telegram (Ellis) dated 6 July 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); see also Memorandum from US Embassy to US Department of State (Ellis) dated 2 September 1964 titled "Petroleum: Current Developments on Implementation of Tokyo Heads of Agreement" (HI, Howard Jones Papers, Box 71, "Natural Resources – Oil").

sales were completed in July 1965 (with the companies' full consent and cooperation), just as the companies began thinking about these new options.¹³⁶ Another reason to sell the refineries was the possibility of takeover without compensation, as, after all, unlike the relatively isolated and undeveloped oil fields, the refineries were a very visible and symbolic target.¹³⁷ There was also, of course, the possibility that the GOI would increase its interference to the point where the companies would be forced to leave Indonesia anyway, something that all three companies felt would set bad precedents for their operations in other areas.¹³⁸ In marked contrast to the positions of Shell and Stanvac, Caltex was only minimally tied to the Indonesian domestic market. It had no refinery and exported the vast majority of its crude oil, and its crude exports were enormous, dwarfing the exports of the other two (see Chapter Three, Part II, Section A). Thus, Caltex had every incentive to remain in Indonesia and keep its exports of crude oil flowing.

1. The GOI Push.

On 9 August 1965, Minister Ibnu Sutowo announced publicly that Indonesia would take over both Stanvac's Sungai Gerong refinery and Shell's Pladju and Balikpapan refineries by the end of the year, and that negotiations with the two companies would commence by 20 August.¹³⁹ Although Shell and the GOI had clearly been in contact by the time of Minister Sutowo's announcement, Shell apparently was still considering the sale and had not agreed to begin negotiations. Shell was evidently hoping that it and Stanvac could present a united front to the GOI regarding the sale, but was beginning to realize that Stanvac had different interests and was not so amenable. Shell officials were under "no illusions that their assets would eventually go to Indonesia," but were hoping to get a fair price while they could.¹⁴⁰ In any case, Shell and Stanvac representatives both met with Minister Sutowo on 19 August to begin

¹³⁶ Hunter, "The Indonesian Oil Industry," pp. 73-77. The sale price for the marketing and distribution facilities was \$8.0 million for Shell, \$4.5 million for Stanvac, and \$300,000 for Caltex (Aden, *Oil and Politics in Indonesia*, p. 248).

¹³⁷ US Embassy Bi-Weekly Economic Review dated 21 August 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

¹³⁸ US Embassy telegram (Green) dated 28 August 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹³⁹ *New York Times* 11 August 1965, *Wall Street Journal* 10 August 1965.

¹⁴⁰ British Foreign Office Confidential Note (Tonkin) dated 13 August 1965 (UKNA, FO 371/180362).

negotiations.¹⁴¹ What was discussed at the meeting is unknown, but within a few weeks both Shell and Stanvac submitted to Sutowo valuations of their respective refineries based on the formula specified in the CoWs. Stanvac estimated the value of its refinery at \$30 million, while Shell estimated the value of its two refineries between \$50-60 million.¹⁴²

Except for a few developments, very little information is available regarding the course of the negotiations over the next ten weeks. How many times the parties met, what the primary issues were, are all unknown. The first development was a major one; sometime at the end of August or the very beginning of September, Shell decided that it wanted to withdraw from Indonesia entirely. It authorized its representatives to approach the GOI about a sale of all its assets, which it hoped the GOI could finance by payment in kind (i.e., oil), and it expected to be out of Indonesia by the end of the year. The basic reasons were the ones we have seen: (i) first, GOI pressure on the oil industry since 1963, which culminated in its ‘request’ to buy the refineries, and (ii) perhaps more importantly, as Shell did not export crude oil, continued exploration and production without refinery capacity was simply unprofitable and would result in Shell injecting money into Indonesia.¹⁴³ Along similar lines, Stanvac was now thinking about selling to the GOI its oil fields in South Sumatra which fed its refinery, which would leave Stanvac with only its fields in Riau (central Sumatra) that were used to export crude oil. The difference illustrates the different positions of Shell and Stanvac; Shell had no significant crude oil export sales to fall back on, so it wanted to get out entirely, whereas Stanvac, like Shell, would be happy to sell off its domestic Indonesia business, but unlike Shell would continue on in a purely export business (similar to Caltex).¹⁴⁴ The second development in

¹⁴¹ US Embassy Bi-Weekly Economic Review dated 21 August 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

¹⁴² US Embassy telegram (Green) dated 9 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). Apparently the formula was for a re-evaluation based on a percentage of the original cost of the assets. See US Embassy Bi-Weekly Economic Review dated 15 October 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

¹⁴³ US Embassy telegram (Green) dated 9 September 1965 and US State Department telegram dated 10 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); British Foreign Office Note (Peck) dated 2 September 1965 and British Foreign Office telegram dated 9 September 1965 (UKNA, FO 371/180362).

¹⁴⁴ US Embassy telegram (Green) dated 9 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). When, exactly, Stanvac approached the GOI with this offer to include the South Sumatra fields in its refinery sale is unclear, however.

the negotiations was Stanvac's receipt of a letter from Minister Ibnu Sutowo dated 4 October. The letter proposed that compensation for the refinery be based on the book value of the refinery, a number which was way below Stanvac's offer of \$30 million and was contrary to the formula specified in the CoWs.¹⁴⁵ This may have been Sutowo's first counteroffer, and the low figure and Sutowo's willingness to deviate from the terms agreed to in the CoW portended that difficult negotiations lay ahead. Presumably Shell received a similar letter.

Meanwhile, in mid-September Caltex was told by reliable sources that President Sukarno had instructed Minister Chaerul Saleh to proceed with the management takeover of the oil companies by the end of the year.¹⁴⁶ Sukarno's instruction to Minister Saleh was probably 'Directive 6,' an elusive decree which has been referred to a number of times by commentators, but a copy of which, insofar as I am aware, has yet to surface.¹⁴⁷ According to one observer, Directive 6 required the "transfer of management of the oil companies to Indonesian control no later than 31 December 1965."¹⁴⁸ In any case, the rumor certainly would have alarmed Caltex more than Shell and Stanvac. Caltex's operations, thanks to its crude oil exports, were far more profitable than those of the other two, and Shell and Stanvac were already engaged in negotiations to divest all (Shell) and part (Stanvac) of their assets.

The September 30 Movement and its immediate aftermath probably initially slowed down both the buyout negotiations and the pressure for management takeover, but it did not halt them.¹⁴⁹ If anything, after an apparent quiet period of six weeks or so after 1 October the pressure swiftly built up, culminating in the last week of November and the

¹⁴⁵ US Embassy Bi-Weekly Economic Review dated 15 October 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

¹⁴⁶ US Embassy telegram (van Benschoten of Caltex to Hopper) dated 15 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US Embassy telegram (Green) dated 20 September 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). The US embassy reported this was the first indication that President Sukarno had decided to proceed with the takeover of the oil companies, but then, perhaps confusing the two different approaches of buy-out and management takeover, also reported that President Sukarno was "anxious to avoid a boycott of [Indonesian] oil in world markets and is not contemplating outright confiscation," but rather was hoping to buy out the companies in return for payment in kind.

¹⁴⁷ See, e.g., Aden, *Oil and Politics in Indonesia*, pp. 279-290 and Green, *Indonesia: Crises and Transformation*, pp. 77-8.

¹⁴⁸ Aden, *Oil and Politics in Indonesia*, p. 279.

¹⁴⁹ See, e.g., US Embassy Bi-Weekly Economic Review dated 30 October 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

first three weeks of December. On the management takeover front, on 3 November Minister Chaerul Saleh informally transmitted a statement to Caltex that the events of 1 October (the September 30 Movement) had not altered the GOI's position toward the oil industry and that the GOI would take over the management of Caltex by the end of the year. The GOI would act unilaterally if necessary, as the general unpopularity of the USA in the world meant that unilateral action would not have "serious consequences" for the GOI. Caltex was welcome to maintain a representative office if it wanted.¹⁵⁰ Caltex was very concerned by this development, as this and other indications suggested that the GOI was increasingly interested in Caltex. Caltex did not know what precisely was meant by management takeover; the possibilities, none of which were palatable, were many, and there was even a rumor of a possible buyout, though there had been no discussions with Minister Sutowo about it.¹⁵¹ It is unknown if Stanvac and Shell received a similar message. Given that neither was nearly as profitable as Caltex, and that Shell was negotiating to withdraw from Indonesia entirely and Stanvac was hoping to sell all of its assets related to domestic production, it is unlikely they would have felt the threat as keenly anyway. Characteristic of future pressure regarding management takeover, there was not any formal, written message to Caltex on the matter, as communication was all done orally.

As it turns out, Minister Chaerul Saleh was not targeting Caltex only. On 23 November Minister Saleh, in his capacity as Minister of Oil and Natural Gas, issued Decree 179, which was given only to GOI officials and was not to be released to the general public.¹⁵² As we shall see, Stanvac only found out about this decree two weeks later when the companies were under intense pressure. Intended for the guidance of GOI officials in state enterprises and on the oil company supervisory teams, and probably for officials within the Ministry of Oil and Natural Gas, the decree stated that the ministry would coordinate all oil operations within Indonesia, ranging from planning to production

¹⁵⁰ US Embassy telegram (Brown to American Overseas Petroleum Corp) dated 3 November 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁵¹ US State Department telegram (Ball) dated 15 November 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁵² US Embassy telegram (Stanvac Jakarta to Esso) dated 7 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). This telegram contains a detailed description of the decree; I have not found either an Indonesian version or official English translation of the decree. The following description of the decree comes directly from the telegram.

to refining to distribution and to marketing. (One wonders if this language was also directed at Minister Sutowo in an attempt to assert Saleh's authority over Sutowo.) The decree continued to say that all oil operations in Indonesia would ultimately be owned and operated by state-owned enterprises, and such change would be implemented by the transfer of ownership of all private/foreign refineries to the GOI. In addition, the management of all private or foreign oil companies would be in the hands of the GOI by the end of the year, without changing the ownership status of the companies, and the CoWs would be adjusted accordingly to reflect the new form of cooperation. In addition, the decree indicated that foreign sales (without prejudicing the needs of the domestic market) would seek to maximize foreign exchange revenues; priorities for overseas marketing would be given to Pakistan, Burma, Cambodia, and the Peoples Republic of China, and efforts to develop markets in African countries and NEFO countries would be made. It thus appeared as though the GOI, in one form or another, was finally going to take over the oil companies. However, the GOI still did not communicate formally to the companies its desire to take over management.

On the buyout front, in late November and early December there was a sudden shift in the buyout negotiations to include all the assets of each of the three companies. Buyout negotiations for Shell and Stanvac, though they certainly were continuing from mid-September to early November, appeared to pick up steam in the second half of November. On 18 November, Stanvac presented to Minister Sutowo a buyout offer for its refinery and the oil fields in South Sumatra that supplied the refinery; apparently Stanvac was seeking \$32.5 million for these assets.¹⁵³ A few days later on 20 November, Shell also submitted a comprehensive proposal to Sutowo for all Shell's assets.¹⁵⁴ Then, in the last few days of November, Sutowo met separately with both Caltex and Stanvac representatives and asked if they would be willing to sell all their assets to the GOI. For Stanvac, this meant that it would also sell its oil fields in Riau, which were used to export crude oil directly and thus a source of profits (these fields were not included in Stanvac's 18 November offer). In the Stanvac meeting, Minister Sutowo confirmed that the refinery

¹⁵³ US State Department telegram (Rusk) dated 11 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); undated British Embassy Confidential Note (UKNA, FO 371/180362).

¹⁵⁴ British Embassy telegram (Gilchrist) dated 23 November 1965 (UKNA, FO 371/180362).

negotiations had to be completed by 1 January, and that it was still the policy of the GOI to take over 100% of the management of the companies even if this meant nationalization. The Stanvac representative told Sutowo that Stanvac was not interested in selling the Riau fields, to which Sutowo appeared agreeable and indicated the sale would proceed on the basis of the refinery and South Sumatra fields only. In the case of Caltex, this was the first time Caltex had received any formal inquiry from the GOI into the sale of its assets. Minister Sutowo explained that payment for the assets would be made on a production sharing basis, with Caltex taking its existing share of the profits over an undetermined period of years. The Caltex representative merely told Sutowo that he would communicate the offer to Caltex's shareholders (which were of course not interested, though it is unclear if this was communicated to Sutowo). Despite the negative response of Stanvac and the indifferent response of Caltex, on 2 December Minister Sutowo sent letters to both companies asking if they would be willing to transfer all their assets to the GOI.¹⁵⁵

Over the next 10 days, pressure on Caltex and Stanvac – on all three fronts of management takeover, buyout, and Indonesianization of management - continued to mount. First, on 3 December, Stanvac discovered that its GOI supervisory team had written to the Ministry of Labor recommending that the work permits of 14 expatriates not be renewed. The supervisory team had informed Stanvac on 30 November that *all* Stanvac's expatriate work permits might not be renewed after 31 December, and it appeared that the team was now taking steps to ensure the forced 100% Indonesianisasi of Stanvac.¹⁵⁶ Second, on 2 December, one of the negotiators on the GOI buyout team told the Stanvac representative that because Shell was selling everything, Stanvac also had to sell everything. This point was reinforced by Minister Sutowo himself on 4 December when he told the Stanvac representative that the GOI would not proceed with

¹⁵⁵ US Embassy telegram (Green) dated 3 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁵⁶ US Embassy telegram (Stanvac Jakarta to Esso) dated 3 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US Embassy telegram (Green) dated 3 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

the buyout negotiations unless all Stanvac's oil fields were included in the package.¹⁵⁷ This appeared to be quite a reversal from Sutowo's position just a week earlier. Third, pressure was ratcheted up again on 7 December, when Stanvac received a copy - unofficially - of Minister Chaerul Saleh's Decree 179 calling for the management takeover of the oil companies by year end. Presumably Caltex quickly found out about this as well. Fourth, as early as 7 December rumors began to circulate that Shell had agreed to a GOI buyout for \$110 million, and both Stanvac and Caltex were certainly aware of this by 10 December.¹⁵⁸ As it turned out, the buyout agreement was not signed until the end of the month, but hearing that Shell had agreed to basic terms certainly increased the pressure on Caltex and Stanvac to come to some resolution. Fifth, on 9 December Minister Sutowo sent a formal written buyout proposal to Caltex that apparently had the blessing of the high army command.¹⁵⁹

In the face of all this pressure, both Caltex and Stanvac's response was to play for time in hopes that the situation might change, as neither wanted a showdown with the GOI. As far as a buyout was concerned, neither was prepared to give up its crude oil export facilities. Profits from exports were excellent, and neither company believed that the GOI was in a position to make prompt and adequate compensation for the assets. Similarly, a management takeover was out of the question, as it would set an awful precedent in other parts of the world where the companies, especially Caltex, had operations. There was also great uncertainty regarding the form of a management

¹⁵⁷ US Embassy telegram (Green) dated 3 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US State Department telegram (Rusk) dated 11 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁵⁸ See US Embassy telegram (Emmerson) dated 7 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389); US Embassy telegram (Green) dated on/about 8 December 1965 (UKNA, FO 371/180362); US Embassy telegram (Green) dated 11 December 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables Volume VI (11/65 – 5/66), Box 247); and US State Department telegram (Rusk) dated 11 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁵⁹ US Embassy telegram (Green) dated 10 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). The proposal provided that the buyout price would be the net after-tax profit Caltex would have received under the remaining 18 years of the CoW, with the baseline production set at the 1964 or 1965 level. There would be a minimum annual installment payment based on the 60/40% profit split. On the sale date, management control would immediately shift to the GOI, but title would be transferred only upon full payment. Caltex would appoint one official as owner's representative to assist, and at the request of the GOI would also supply expatriate technicians. Finally, for the first year, Caltex would cover foreign currency expenditures, while the GOI would cover rupiah expenses. Other details would be worked out later.

takeover, as the GOI had not even discussed the matter with the companies yet. Caltex even thought the GOI may have been trying to provoke it to make a move that the GOI could then use as an excuse to move in. According to company sources, by early December Minister Chaerul Saleh was holding daily internal meetings to figure out how to implement a takeover. Saleh apparently wanted to avoid a situation similar to Iran in which the GOI would be unable to market crude oil overseas, and one way to do this would be to invoke the defense clause in the CoWs (basically allowing the GOI to take over the companies for reasons of national defense) on the grounds that the companies were agents of the US government that was opposed to the GOI in Konfrontasi. In any case, if a management takeover did occur, both companies were prepared to go to arbitration, and Caltex would also consider halting the oil shipments, which of course would directly and immediately impact the GOI's foreign exchange reserves. Stalling for time seemed the best way to avoid certain conflict with the GOI, and given the great political turmoil at the time there was a chance that the GOI position might change. Moreover, delaying would allow the companies to educate GOI officials, particularly in the army, of the potential consequences if the companies were forced out.¹⁶⁰

The US embassy in Jakarta was also a forceful advocate of the 'delay and warn' approach. The US embassy had, of course, been monitoring the oil companies' situation (especially Caltex and Stanvac, as they were US companies) for some time, but for about a six week period from early November to mid-December the US embassy actively inserted itself into the situation, principally by warning various GOI officials about the possible consequences of a forced sale or management takeover. As US Ambassador Green noted in his memoir, "the most immediate problem we faced was trying to help save the two large US oil companies in Sumatra, Caltex and Stanvac, from imminent

¹⁶⁰ See US State Department telegrams dated 15 November 1965 (Ball) and 11 December 1965 (Rusk), US Embassy telegrams dated 26 November 1965 (Green), 10 December 1965 (Green), and 11 December 1965 (Green), US Embassy telegram (Stanvac Jakarta to Esso) dated 7 December 1965 (all in USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389), and US Embassy telegram (Green) dated 5 December 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables Volume VI (11/65 – 5/66), Box 248). Insofar as I have determined, neither Caltex nor Stanvac replied in writing to Minister Sutowo's letters; however, both sent letters protesting GOI demands for increased Indonesianization and the work permit delays for expatriates.

expropriation...”¹⁶¹ On 29 October, Dean Rusk, the US Secretary of State, upon hearing of Stanvac’s problems, cabled Green to do “anything which can be done to get into heads of new Indo leadership” the consequences of forcing the oil companies out. Rusk was concerned that an expropriation would bring into effect a US law known as the Hickenlooper Amendment, which prohibited the US government from providing aid to countries that expropriated US assets without compensation, and if invoked meant the US government could not provide aid to the Indonesian army.¹⁶² On 6 November, Ambassador Green wrote back to say that the embassy was “not sanguine about [the] chances [of] oil companies remaining here,” but in general concurred “with the desirability of obtaining deferral of any unilateral takeovers.” He agreed that “now is the time to question [the] army as to its intentions and depending on [the] answers to point out ...advantages of deferring [the] solution...” Finally Green noted that the topic had been briefly broached with a “nascent channel,” but it “may take us some time to develop useful dialogue with army on oil and other matters...because the army has its hands full with domestic security and political problems, and those in the army who could talk meaningfully on oil and related political matters are relatively few.”¹⁶³

Ambassador Green indeed believed that there were several reasons why the army may not have been willing to step in. First, there was the matter of the political struggle between President Sukarno and those who opposed the path down which he was leading Indonesia; in the uncertain political climate of the time, even with the ongoing neutralization of the PKI, the army could not be seen as catering to US interests, something that Sukarno would certainly pounce upon. A second reason was that even “most of [the] anti-communist army leadership are strongly imbued with [the] conviction that Indonesians must control their own national resources and that there [was] no room for foreign ownership or management control.” While the army was interested in

¹⁶¹ Green, *Indonesia: Crisis and Transformation*, p. 79. The US embassy’s involvement in late 1965 contrasts sharply with its more limited involvement earlier in the year during the American phase of takeovers. This was certainly due in part to new US Ambassador Green, who seemed much more aggressive than previous Ambassador Jones. It was also perhaps due to the drawn out nature of the takeovers of the oil companies. Of course, probably the most important factor encouraging US embassy involvement was the influence and power of the oil companies.

¹⁶² Telegram cited in Simpson, *Economists with Guns*, p. 198.

¹⁶³ US Embassy telegram (Green) dated 6 November 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

maintaining oil production and in good relations with the USA, it was not “sympathetic to long-term retention of foreign oil interests.” A third reason Green cited was the army’s role as a primary defender of Indonesia’s continuing revolution. Given the bankruptcy and failure of the “continuing revolution” in so many aspects (internationally, economically), many were searching for a rationale for revolution. One achievable aim seemed to be the control by Indonesia over its own resources, in tune with the BERDIKARI concept.¹⁶⁴

Nevertheless, the US embassy followed up with various measures. Its message was reportedly communicated through a variety of channels: between Ambassador Green and General Suharto via military attaches, between Green and Frank Galbraith (the second ranking US embassy official) and Minister Adam Malik, and between Galbraith and an aide to General Nasution.¹⁶⁵ On 22 November, Ambassador Green met with Minister Sutowo himself. Green “expressed the hope that no radical step would be taken by Indonesia which would endanger either continued production (especially in view of the obvious army need for petroleum products), foreign exchange earnings, or relations with the US.” Green also pointed out that the US government did not want to be involved in the negotiations between the GOI and the companies, but that it was “especially interested in avoiding any incident which might stand in [the] way of improvement of relations.” Minister Sutowo apparently expressed general agreement, saying that especially with respect to Caltex he hoped some sort of agreement on Indonesianization could be reached. Sutowo also said that Minister Chaerul Saleh was very busy and had left the oil industry to Sutowo to take care of. Sutowo as well clearly identified himself as an opponent of the PKI, implicitly criticizing President Sukarno for his favoritism of the left.¹⁶⁶

¹⁶⁴ These three reasons are set forth in US Embassy telegram (Green) dated 8 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). See also US Embassy telegram (Green) dated 30 October 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables Volume V (10/65 - 11/65), Box 247) and US Embassy telegram (Green) dated 26 November 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). The British embassy concurred with the first reason; see British Embassy telegram (Gilchrist) dated 23 November 1965 (UKNA, FO 371/180362).

¹⁶⁵ Aden, *Oil and Politics*, p. 282; and Simpson, *Economists with Guns*, p. 198.

¹⁶⁶ US Embassy telegram (Green) dated 24 November 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389). That Sutowo was anti-PKI was evident in his actions immediately after the September 30 Movement, when he moved to eliminate PKI influence in the oil industry by banning PERBUM, the PKI-dominated oil workers union, appointing a new managing board for Permigan (which

In the first two weeks of December, the US government became increasingly involved as the pressure on the companies mounted. In Jakarta, Ambassador Green and other officials were meeting with oil company officials regularly, advising them to stall for time. Green was convinced that the embassy should

not get involved in any specifics, but try to get the message across, especially to top level military, that it would be decidedly against their own best interests to take any peremptory move which would hazard foreign exchange earnings, interrupt production [of] oil and oil products (so essential to military) and make it very difficult to achieve mutually beneficial US-Indo relations. What we are looking for is some mutually acceptable arrangement, but that is something to be worked out between [the] companies and [the] GOI.¹⁶⁷

On 8 December, Green reported that Minister Adam Malik had passed on US concerns to General Nasution, who “had the situation very much in mind,” though it was uncertain how far Nasution would push the issue against Saleh and Sukarno.¹⁶⁸ Meanwhile, back in the United States representatives of Caltex and Stanvac met with US State Department officials to inform them of the situation. As a result of these meetings, US Secretary of State Rusk fired off a telegram to Green in Jakarta, instructing him to make the following points to the appropriate Indonesian officials: (i) first, the companies “do not desire to sell [the] export crude facilities, and do not see [a] reasonable possibility for prompt, adequate and effective compensations,” (ii) second, that “effective interference in company management of properties is totally unacceptable to [the] companies,” who would proceed to arbitrate, and (iii) the GOI should consider whether its own interests would be served by a showdown, which “would almost certainly deepen GOI economic difficulties by reducing foreign exchange earnings from oil exports” and might “bring into effect Hickenlooper-Adair Amendment and other relevant US laws, thereby making it legally impossible for USG to engage in future aid programs...” Moreover, would not the GOI be better off delaying until a “more tranquil climate” existed, or at least proceeding only with the sale of Stanvac’s refinery operations and the related oil fields,

was very leftist), and then transferring control of Permigan’s assets to his office. See Aden, *Oil and Politics*, pp. 274-5.

¹⁶⁷ US Embassy telegram (Green) dated 5 December 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables Volume VI (11/65 – 5/66), Box 248).

¹⁶⁸ US Embassy telegram (Green) dated 8 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

as that (along with the Shell purchase) would result in “total ownership and control of all properties which supply Indonesian market and defense needs.”¹⁶⁹ It is unclear if Green followed through with this message, as by the time he received it the situation seemed to be changing.

From 10 to 15 December there were some indications that the GOI position was perhaps changing, but there were also signs that it was holding fast. On the night of 10 December, Julius Tahija, the highest ranking Caltex executive of Indonesian nationality, met with Minister Sutowo. Sutowo was about to leave for Tokyo and asked that Caltex’s manager meet him there to discuss Sutowo’s buyout proposal of 9 December. Minister Sutowo told Tahija that he had just spoken with Minister Chaerul Saleh and explained to him “the many complications he saw in the situation.” Minister Saleh indicated to Sutowo that since the Shell buyout agreement was being signed and the takeover would impose “heavy administrative burdens” on the GOI, action with respect to Caltex and Stanvac may be postponed. The next day Tahija, continuing his ‘diplomacy,’ met with Minister Chaerul Saleh for discussions. From these discussions, Tahija reported that Minister Saleh was “now convinced that Caltex [was] firmly opposed [to] any unilateral takeover of management” and would go for arbitration, and that Caltex could not “be pressured into a forced takeover.” Minister Saleh, would, however, send Sutowo to New York to explain GOI intentions to the Caltex shareholders. Finally, Minister Saleh contradictorily added that once changes were made to the CoWs, he would step away from the oil industry, which was interpreted by Tahija as meaning that Saleh would proceed with nationalization!¹⁷⁰ It appeared that Minister Saleh had not changed his mind after all; on 15 December a Stanvac representative was informed by a senior GOI official who had just spoken to Minister Saleh that Saleh was waiting until Minister Sutowo returned a few days later before making what appeared to be a final decision about the oil companies. The decision, though, was whether to proceed with the buyout or to implement a plan of 100% Indonesianization, with ownership remaining

¹⁶⁹ See two US State Department telegrams (Rusk) dated 11 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁰ US Embassy telegram (Green) dated 11 December 1965 (LBJL, National Security Files, Country File Indonesia, Indonesia Cables Volume VI (11/65 – 5/66), Box 248).

unchanged.¹⁷¹ Meanwhile, in Tokyo on 15 December, the Caltex general manager told Minister Sutowo that Caltex would not accept a management takeover, to which Sutowo replied that the same was required under the GOI constitution, that he would advise President Sukarno of this, and that the GOI would take over unilaterally.¹⁷²

The apparent steadfastness Minister Chaerul Saleh exhibited, as well as the uncertainty over the position of the foreign oil companies in Indonesia, changed abruptly on that same day of 15 December in an episode that one historian has described as a crucial moment in the transition of power from President Sukarno to General Suharto.¹⁷³ The US embassy reported that at a “high level meeting” in Tjipanas (south of Jakarta), Minister Saleh

tabled a proposal to proceed with takeover of all foreign oil companies’ management. KOTI economic section chief Gen. Achmad immediately called up Gen. Suharto who arrived at meeting by helicopter and there Gen. Suharto made it crystal clear to all assembled that military would not stand for precipitous moves against oil companies. He stressed that this would result in loss of production which would jeopardize interests of armed forces (not clear what other arguments, if any, he used).¹⁷⁴

General Suharto had intervened forcefully and dramatically. Perhaps unaware of this event (or, if he was aware, possibly trying to ensure that Minister Saleh received the message), Adam Malik spoke with Minister Saleh the next day, 16 December. As Malik relayed the contents of the conversation to Ambassador Green, Malik

told Saleh that, speaking on behalf of [the] army, this is not [the] time to push [the] US on oil properties question; [at] minimum, Saleh should postpone discussions until more urgent basic questions [were] resolved. Saleh responded that all he was doing was trying to take over management of ‘companies in our own country.’ Malik warned Saleh that we would be killing the goose that lays the golden egg.¹⁷⁵

¹⁷¹ US Embassy telegram (Green) dated 15 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷² US Embassy Tokyo telegram (Reischauer) dated 15 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷³ Aden, *Oil and Politics in Indonesia*, pp. 271 and 288. Aden, citing an interview as the source for her information, dates this episode to early January. Marshall Green, the US ambassador, also places it around that time (Green, *Crisis and Transformation*, pp. 77-8). US embassy telegrams, however, indicate that this occurred on 15 December, if not a day earlier.

¹⁷⁴ US Embassy telegram (Green) dated 16 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁵ US Embassy telegram (Green) dated 18 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

Ministers Chaerul Saleh and Sutowo both backed down with respect to Caltex and Stanvac. Tahija of Caltex reported on 18 December that Minister Saleh was looking for a face saving formula and would ask Sutowo (who was arriving later that day from Tokyo) to come up with a plan “which recognizes that any 100% takeover of management impossible but which envisages accelerated Indonesianization looking to negotiations sometime hence when things have settled down.”¹⁷⁶ On 23 December Caltex was told unofficially by the head of its GOI supervisory team that the decision to take over the company was off, that there would be no takeover. At the same meeting, the head of the supervisory team asked the Caltex manager if Caltex would make an advance to Indonesia based on projected 1966 profits; in essence, Caltex was being asked for a loan. Though the request was unofficial, Caltex believed it had come on instructions from a higher authority. Later that day, Tahija reported that KOTI, along with several ministers, was attempting to formulate a “no nonsense” economic policy and that KOTI was trying to elevate economic problems to the same level of importance as political problems. In this connection, Minister for Private Banking Jan Massie had asked Tahija to help secure loans from the oil companies to the GOI.¹⁷⁷ The sudden switch from the threat of forced management takeover or buyout to the polite request for a loan was indeed remarkable. On the same day, Minister Sutowo again asked the Stanvac manager if Stanvac was willing to sell its Riau oil fields; when told no, Sutowo answered that in such case negotiations over the refinery and its related fields in South Sumatra should recommence, thereby dropping the matter of the Riau fields and signaling that Stanvac would be allowed to stay for the time being.¹⁷⁸ Thus, by late December the GOI had dropped its push to take over Stanvac and Caltex.

In stark contrast to Caltex and Stanvac, the Shell buyout proceeded and a ‘Heads of Agreement’ was signed on 30 December by Minister Sutowo and Shell

¹⁷⁶ US Embassy telegram (Green) dated 18 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁷ US Embassy telegram (Green) dated 23 December 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁷⁸ US Embassy Bi-Weekly Economic Review dated 28 December 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

representatives.¹⁷⁹ The heart of the arrangement was payment in kind (oil) over an extended period of time, which made the deal affordable and acceptable to the GOI and in reality was the only way payment could be made. The entirety of Shell's business in Indonesia was sold to the GOI for a price of \$110 million. Ten percent of the price (\$11 million) was payable in cash up front, while the remaining \$99 million was to be paid in annual installments of about \$19.5 million over a five year period and guaranteed by a letter of credit issued by Bank Negara Indonesia. However, it was agreed that the parties would immediately negotiate an oil purchase agreement whereby the GOI would sell refined oil from the Pladju and Balikpapan refineries, in amounts and at prices to be agreed upon, to a company within the Royal Dutch Shell group; once this agreement was reached, the annual installment payments would become monthly payments, and the monthly purchases of refined oil under the new oil purchase agreement would count toward the GOI's monthly payment obligations to Shell under the asset sale. In effect, the GOI would be paying for Shell's assets in kind – in refined oil. In addition, the Bank Negara Indonesia letter of credit would be replaced by letters of credit from other institutions. The parties also agreed to negotiate a services agreement whereby Royal Dutch Shell would provide technical assistance and guidance, including foreign advisors if agreed to. The GOI also freed Shell from any obligations/responsibilities towards its Indonesian employees, and the parties mutually released each other from all claims each had on the other, with the GOI assuming all Shell's Rupiah debts. The sale date was to be 1 January 1966, whereupon the GOI would assume control and management over the business. A side letter signed the same date changed the terms of the first payment of \$11 million to \$2 million in cash, with the remaining \$9 million to be paid in nine monthly installments by again offsetting the purchase price under the oil purchase agreement – in effect payment in kind in refined oil. Thus, under the final arrangement, the GOI only paid \$2 million in hard cash to Shell, with the remaining \$109 million coming in kind. A Presidium Kabinet decree issued on 31 December by Third Deputy Prime Minister

¹⁷⁹ An Indonesian language copy of the agreement can be found in Indonesia's national archives (ANRI, EKUIN files).

Chairul Saleh approved the Heads of Agreement and the side letter, and the sale went forward on 1 January as scheduled.¹⁸⁰

2. Assessment and Aftermath.

How do we explain this outcome whereby both Caltex and Stanvac were able to resist a GOI takeover but Shell sold out? The answer is found in oil company exceptionalism and the unique position of the big three oil companies in Indonesia. The position of the oil companies was such that they could not be forced into a buy-out or management takeover; the implications for the Indonesian economy in the form of lost foreign exchange revenues for the GOI and economic dislocation from a highly likely slowdown of oil production were simply too great.¹⁸¹ Why, then, did Shell agree to continue with the sale in late December even as pressure on Caltex and Stanvac waned? Put simply, it appears to have been because Shell did not think it could make any money in Indonesia as long as its operations were tied so closely to the Indonesian domestic

¹⁸⁰ Keputusan Presidium Kabinet (Wakil Perdama Menteri III Chairul Saleh) No. Aa/D/161/65 dated 31 December 1965. According to Aden, Bank Negara Indonesia withdrew its letter of credit at the last minute, but Shell continued with the deal on the basis of Sutomo's signature. If so, the Heads of Agreement was not modified to account for this, and even the side letter required that BNI post letters of credit for the \$9 million. (Aden, *Oil and Politics*, pp. 276-7) Bartlett also reported that several cabinet members were opposed to the deal on the grounds that it was too big of a commitment for the country to bear (Bartlett et al., *Pertamina*, p. 272).

¹⁸¹ Several commentators have in fact suggested that the critical factor in General Suharto's decision to intervene on 15 December was the US government's threat of no financial assistance if the oil companies were taken over. See Simpson, *Economists with Guns*, pp. 197-9; Aden, *Oil and Politics*, pp. 281-290, especially 287-8. Simpson argues that the "Johnson administration's blunt threats had their intended effect," and that the episode "demonstrat[ed] the extraordinary leverage that the United States held over Indonesia when the Johnson administration chose to exercise it..."(Simpson, *Economists with Guns*, p. 199) The argument seems to be that because US officials frequently made threats, and because Suharto intervened, then he must have been influenced by these threats. I believe this interpretation fails to recognize that there were many in the GOI (and within the army) who recognized the potential economic consequences of a takeover of the oil companies; indeed, as we have seen oil company exceptionalism had been a feature of the Indonesian economy since independence. Moreover, there is no evidence from General Suharto, the one who intervened on 15 December, to support this contention; one of the reasons Suharto supposedly cited when he flew in by helicopter was the possible loss of production which would jeopardize the army interests, and not the threat of no future US aid. In addition, as Simpson himself pointed out numerous times, during this period it was very doubtful that the US government was going to provide aid to those opposing Sukarno (Simpson, *Economists with Guns*, chapters seven and eight). Thus, absent specific evidence from the actors themselves, it seems to me more likely that Suharto and his allies realized the likely economic implications of such a takeover (loss of foreign exchange and economic dislocation, including a negative impact on the army from decrease in production) and acted to stop it. As we have seen, the US embassy constantly stressed the potential economic problems of a takeover and in this respect may have confirmed existing suspicions of such a move. This is not to discount the possibility, however, that the threat of no US financial assistance may have been a contributing factor.

market. This was the very same rationale that had motivated Shell to offer all its assets to the GOI in late August; neither the potential ramifications of the September 30 Movement, nor the easing of pressure on Stanvac and Caltex in late December, changed this calculus. Unlike Caltex (whose operations were mostly exports of crude oil) and Stanvac (whose profits came primarily from its limited exports), Shell had little in the way of crude oil exports to fall back on, and the strict domestic pricing environment, combined with the artificially low exchange rate, made it very difficult to be profitable. In addition, it was already owed some \$10 million by the GOI, a number that was likely to grow and unlikely to be repaid.¹⁸² As an indication of how badly off Shell was, it reported in mid-November that it only had several weeks' worth of Rupiah left before it would have to remit foreign currency to Indonesia at unrealistically low rates.¹⁸³ Thus, Shell's profit outlook was the key reason for the sale, not GOI pressure.

Indeed, Shell's sell-out did not appear to be a forced sell-off by any means, but rather a negotiated, arms-length transaction. The purchase agreement itself was reasonably balanced; certainly by far the most important issue contested was the sale price. On this question, the British Foreign Office reported that "Shell were reasonably satisfied with the negotiated price, considering the declining influence of their Indonesian investment. On the other hand, Shell probably regret that they have now surrendered their rights to benefit in the future from substantial deposits of crude awaiting exploitation in Indonesia."¹⁸⁴ Similarly, the *Wall Street Journal* reported that Shell officials were satisfied with the negotiations and that a Shell spokesman had described the negotiations as "based on what is regarded as an adequate present day evaluation of the business concerned."¹⁸⁵ Moreover, despite the GOI's shortage of cash, Shell could be

¹⁸² US Embassy telegram (Donald) dated 7 January 1966 (USNACP, RG 59 Central Files 1964-66, Petroleum PET 3 India – PET 6 Iran, Box 1388).

¹⁸³ In mid-November, Shell asked the British Foreign Office whether in light of the political changes Shell should reconsider its withdrawal strategy. The Foreign Office advised that the outcome was still uncertain, that there was no guarantee that the anti-communist forces would not follow the same strategy in any case, and thus Shell should try to wait for the dust to settle. Shell replied that it only had a few weeks worth of Rupiah left, after which it would have to remit foreign currency into Indonesia at the unrealistically low exchange rates. (British Foreign Office Confidential telegram dated 16 November 1965 (UKNA, FO 371/180362)) It seems doubtful that any quick resolution to the political crises and new GOI policy would have enabled Shell to overcome the basic obstacle of unprofitable operations.

¹⁸⁴ British Foreign Office Confidential Note dated 6 January 1966 (UKNA, FO 371/186024).

¹⁸⁵ *Wall Street Journal* 31 December 1965.

reasonably assured of future payment because it was made in refined oil. In fact, this new arrangement put Shell in a position somewhat similar to Caltex's in the sense that it no longer had to be involved in the Indonesian domestic market, but would now be 'purchasing' refined oil for the international markets, without the costs of exploration and production, and without the restrictions of the Indonesian domestic market. The new arrangement would obviously not be as profitable as Caltex's, but it was probably much better than Shell's existing position. Shell's calculation regarding payment proved correct, as the purchase price was fully paid by December 1971.¹⁸⁶

Let us also return briefly to the question of motivations of Ministers Chaerul Saleh and Ibnu Sutowo in attempting to force a resolution of the position of the oil companies. Assessing Minister Saleh's motivations appears to be simpler. Without his own power base and reliant on President Sukarno, he was allied with the President in the emerging political power struggle; trapped by his dependence on Sukarno, there was little room for him to maneuver and thus he had little choice but to go along with Sukarno's push for a GOI takeover in the form of the familiar management takeover. Minister Saleh may have believed that ultimately the oil industry should be under the control of the GOI, but his actions in March and April with respect to the oil companies (and in the years before with respect to Shell) clearly suggest that he was very aware of the dangers of forcing out the oil companies. Something had changed since then, resulting in a hardening of his position towards the oil companies, and the explanation appears to be his dependence on Sukarno that in a time of an all-out power struggle made him even more vulnerable to and reliant on the President.

Minister Sutowo's position was quite different. As Aden has noted, while Sutowo owed much to President Sukarno, one of Sutowo's major personal strengths was the key position he occupied as a bridge or mediator between the GOI and foreign oil companies. Elimination of the foreign companies would threaten this base of power, erasing his political independence and the access to economic advantages his position provided. In addition, Sutowo apparently felt that the departure of Caltex would create a dangerously large gap in the domestic oil industry that neither the GOI oil companies nor other

¹⁸⁶ Fabricant, *Oil Discovery and Technical Change in Southeast Asia*, p. 17.

foreign companies could immediately fill.¹⁸⁷ Sutowo, ever the pragmatist and more concerned with stability in the oil industry, was thus hesitant to move against Caltex. In contrast, as Aden has suggested a buyout of Shell could be used to build up the assets of Permina, the GOI oil company run by Sutowo (see Chapter Three, Part II, Section A for a discussion of the GOI oil companies). Indeed, on 28 February 1966 Minister Sutowo transferred the assets of Shell to Permina, which was “instantly transformed from a company with assets in northern Sumatra only to an archipelago-wide entity” with two major refineries in South Sumatra and East Kalimantan. In addition, by purchasing the assets of a company that wanted to leave anyway and not forcing the issue with the two American companies, Sutowo preserved the possibility of good relations with the United States government.¹⁸⁸

How critical was General Suharto’s intervention on 15 December in the context of the overall political power struggle between President Sukarno and his opponents? As noted above, at least one observer saw the incident as a crucial turning point in the conflict. Because the full story of the struggle between President Sukarno and his opponents in this six month period from October 1965 through March 1966 is not known, it is hard to assess this contention. I am more inclined to think that it was rather one of many issues, most notably the role of the PKI and the state of the economy, on which Sukarno and his opponents diverged. On the surface at least the power struggle was just beginning to boil; the previous two months the focus was more on eliminating the PKI, and only from mid-December onward (after President Sukarno via Minister Chaerul Saleh backed down from the management takeover of Caltex and Stanvac) did the political conflict between Sukarno and his opponents led by General Suharto reach its apogee. That is not to suggest that the incident served as the galvanizing trigger for either side over the next three months, though it certainly would have confirmed - to those aware of it - that Sukarno’s economic strategy was misguided.

In the aftermath of the GOI push in late 1965, several points are worthy of mention. Although there was no significant GOI pressure for a management takeover or full buyout of Caltex or Stanvac after December 1965, both companies were still

¹⁸⁷ Aden, *Oil and Politics*, pp. 285-6.

¹⁸⁸ Aden, *Oil and Politics*, p. 277.

pressured to Indonesianize their respective managements. Caltex responded in April 1966 by appointing Julius Tahija as its top ranking executive, making him one of the first Indonesians to head a major foreign company in Indonesia.¹⁸⁹ Tahija was to be advised by a representative (an expatriate) appointed by the shareholders of Caltex, but it was clear that Tahija was in charge.¹⁹⁰ After this change, there was little pressure on Caltex to Indonesianize. Tahija himself would become one of the most respected businessmen in Indonesia. In contrast, Stanvac did not make a similar change at the top but continued with its Indonesianasi program established under its CoW and hence was subjected to occasional pressure over the next couple of years to promote its Indonesian staff. For both Stanvac and Caltex, the GOI supervisory teams remained in place until the end of 1966.¹⁹¹

With respect to the sale of Stanvac's refinery and South Sumatran oil fields, before the transaction could be finalized it was caught squarely in the middle of the transition from the Sukarno administration to the emerging New Order administration. In early 1966 Minister Sutowo continued to push to close the transaction, and by 20 April the parties had actually agreed to a price of \$27.75 million, though the other terms of the sale had yet to be worked out.¹⁹² However, as we saw earlier, by this point General Suharto had gained the upper hand in the struggle with Sukarno, and the emerging government had begun to hint at a great reversal in economic policy, particularly with respect to foreign investment. In late April, Adam Malik, the newly appointed Minister of Foreign Affairs (Malik would be appointed to the new Presidium Kabinet in July and be

¹⁸⁹ Before its battery factory was taken over in late March 1965, Union Carbide had also appointed an Indonesian, Agus Sahab, as its top executive, but UCC's operations were significantly smaller than Caltex and by the time of Sahab's appointment its battery plant was barely operating.

¹⁹⁰ US Embassy telegram (Green) dated 10 March 1965 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389), US Embassy telegram (McCusker) dated 19 March 1966 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389), and US Embassy telegram (Green) dated 21 May 1966 (USNACP, RG 59 Central Files 1964-66, PET 6 Indon, Box 3620).

¹⁹¹ See US Embassy telegram (Lydman) dated 6 January 1967 (USNACP, RG 59 Central Files 1967-69, PET 6 Indon, Box 1356), and US Embassy telegram (Lydman) dated 12 January 1967 (USNACP, RG 59 Central Files 1967-69, PET 6 Indon, Box 1356). The two GOI decrees of 19 March 1965 placing the big three oil companies plus Pan American Oil under GOI control/supervision, and the supervisory teams, were rescinded/dissolved by Keputusan Presidium Kabinet (Soeharto) No. 129/U/KEP/12/1966 Tentang Peningkatan Ketahanan Nasional Dibidang Minyak, dated 30 December 1966.

¹⁹² US Embassy Bi-Weekly Economic Review dated 20 April 1966 (USNACP, RG 59 Central Files 1964-66, E2-2 -E8, Indonesia, Boxes 722-3).

one of the top three officials of the New Order in its first few years), publicly came out against the sale. Other GOI officials were also against the sale, and after Minister Sutowo was demoted in the July 1966 cabinet shuffle the sale negotiations ground to a halt, as the new Minister of Mining Slamet Bratanata (now Sutowo's nominal superior) also opposed the sale. There were numerous reasons for this opposition. First was the apparent cost of the sale; Indonesia had little foreign exchange to spare and could ill afford to be trapped into another costly arrangement like the Shell sale. Such an argument was only partially true, for as we have seen the Shell sale involved primarily payment in kind, not in cash. A second argument was that the new government wanted to promote foreign investment and encourage a stable foreign investment climate, neither of which would be helped by the sale of assets of one of the two remaining foreign investors in Indonesia. A third reason was that the GOI was having a hard time digesting the Shell sale and was simply not ready to absorb the Stanvac assets. Lastly, opposition may have stemmed from dislike or wariness of Sutowo, who was the primary GOI proponent of the purchase, especially from Adam Malik and General Suharto.¹⁹³ Consequently, the Stanvac refinery and South Sumatran fields were not sold to the GOI during this time.¹⁹⁴

Finally, as a result of the transition from the Sukarno government to the New Order government, there were several measures on the domestic political front and within the GOI that directly impacted Caltex and Stanvac. First was the exit of Minister Chaerul Saleh from the oil industry and the political stage. Caught in the middle of the political power struggle, Minister Saleh refused to abandon President Sukarno, declining several offers to join the opposition, and from the end of December 1965 appeared to have little to do with the oil industry as he came under increasing fire politically. In the short term, this allowed Minister Sutowo to become the most powerful GOI official in the oil industry, and Sutowo took full advantage.¹⁹⁵ For example, as we saw above in late February 1966 Sutowo transferred all the assets of the recently purchased Shell Oil to Permina, the state-owned oil company that Sutowo controlled. In President Sukarno's

¹⁹³ US Embassy telegrams (Green) dated 27 April 1966, 28 April 1966, 12 May 1966, 25 May 1966, 8 August 1966, 23 August 1966, and 21 October 1966 (USNACP, RG 59 Central Files 1964-66, PET 15-2 Indon, Box 1389).

¹⁹⁴ The refinery and a few other fixed assets were finally sold to the GOI in January 1970 for the sum of US\$4.75 million. (*Wall Street Journal* 6 January 1970)

¹⁹⁵ See Aden, *Oil and Politics*, pp. 290-300, for details on Minister Saleh's exit and Minister Sutowo's rise.

cabinet reshuffle of 21 February, Sutowo replaced Chaerul Saleh as the Minister of Oil and Natural Gas. On 18 March 1966, after *Supersemar*, Minister Saleh was one of the ministers arrested, and he died in jail in February 1967. Minister Sutowo eventually emerged as the king of Indonesian oil, but the initial road was very bumpy as the alliance with General Suharto, who was wary of Sutowo and tried to contain his influence, was uneasy. In the cabinet reshuffle of 25 July 1966, the first major one under the new government in which the cabinet was completely revamped and stocked almost wholly with new appointees, Slamet Bratanata, a director general in the Ministry of Basic Industry and Mining in the early 1960s (and a trained engineer) was appointed to the renamed position of Minister of Mining. Minister Sutowo was made Director General of Oil and Gas, a post within the Ministry of Mining and thus subordinate to Minister Bratanata, in what appeared to be a compromise between the army and the economic technocrats. Nonplussed, Sutowo continued to contest Bratanata for power and influence, until finally General Suharto granted Sutowo effective control over the oil industry late in 1966.¹⁹⁶ A few years later in 1968, the two remaining GOI oil companies, Pertamin and Permina, were merged to create Pertamina, the GOI oil behemoth headed by Sutowo that played a dominant role in the Indonesian oil industry for years when oil revenues were the lynchpin of Indonesian economic growth and development.¹⁹⁷

C. The Final Takeover and Buyout of Non-British Foreign Estates.

Complementing the year-end pressure on the oil companies was a concerted effort in the last few months of 1965 by the Ministry of Estates both to take control of and to buy out all non-British foreign estates. The foreign estates whose owner-appointed managers were finally displaced in December 1965 were those taken over under Presidential Decree 6/1965 (see Part II). Officially the buyouts were also undertaken within the framework of Presidential Decree 6/1965, and the terms of most of the buyouts were ‘agreed to’ by the end of December (except in the case of Goodyear and US

¹⁹⁶ See Aden, *Oil and Politics*, pp. 310-22, for details on the Bratanata/Sutowo rivalry.

¹⁹⁷ Sutowo was Pertamina’s chief executive officer and the undisputed king of Indonesian oil until Pertamina overextended itself in the mid-1970s and had to be bailed out by the GOI in what was one of the biggest scandals in Indonesian corporate history. See chapter seven of Bresnan, *Managing Indonesia*, for the Pertamina crisis of the mid-1970s.

Rubber, whose negotiations extended well into 1966). However, the buy-outs included six companies whose estates were seized before the implementation of Presidential Decree 6/1965: American-owned Goodyear and US Rubber (seized in March 1965), Belgian-owned Holding Jabelmat, Samuba and Tjikadu Holding (British-managed, seized in 1964), and Indian Bombay Burma (British-managed, seized in 1964). Altogether, the Ministry of Estates agreed to buy out 16 foreign estate companies owning at least 58 estates.

1. The Buyouts and Final Management Takeover.

On 10 November 1965, Minister of Estates Frans Seda met with representatives of most of the non-British foreign estates whom he had summoned to a meeting in Bogor, a small town just outside Jakarta. Minister Seda informed the representatives that the GOI intended to complete in short order the nationalization of the companies under Presidential Decree 6/1965, and that compensation would be paid on a production sharing basis. Valuations and compensations would be negotiated with individual companies and all agreements were to be finalized by 1 December, just three weeks away.¹⁹⁸

Prior to this point, momentum for final disposition of the non-British foreign estates had slowed somewhat since the summer. As we saw previously in Part II, Section A2, in late June the Ministry of Estates appointed officials known as PPPAs to supervise the estates. The owner-appointed managers of the estates were not displaced, however, and in this state of limbo worked with the PPPAs in relationships that were very hard to define. The Ministry of Estates had also laid the groundwork for the buyouts as early as May, even forming in late July an ‘Appraisal Team’ to evaluate the assets/estates of the various foreign estate companies, and the Appraisal Team did send representatives to at least some of the estates. However, it appears that there was little communication between the ministry and the companies regarding the buyouts for several months prior to the 10 November meeting, which was not surprising considering the political turmoil following the September 30 Movement. Certainly the foreign estate holders were aware that a buyout was still very much a possibility prior to October 1; for example, in late

¹⁹⁸ US Embassy telegram (Green) dated 11 November 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215). Apparently the meeting was publicized by the ministry as eliminating foreign ownership of estates in Indonesia.

September the SOCFIN manager told the US consul in Medan that SOCFIN was determined to get a big sum for its estates, and if fair compensation was not offered SOCFIN would then involve the French and Belgian governments (where most of SOCFIN's shareholders were from).¹⁹⁹

Nevertheless, while there may not have been much outward movement, it seems that by early to mid-November the Ministry of Estates finalized internally the basis for its calculations of compensation. According to the Seda Report, the initial conclusion the 'Implementing Team' reached after discussions with officials from the Ministry of Foreign Affairs and the central bank was that appraisals would be determined by looking at the profit producing potential for the company over the remaining concession period of its estates. However, after receiving the results of the Ministry's 'Appraisal Team' and running some calculations, final "guidelines" for calculating the appraisals were established under which the basic value would be the sum of (i) the sales price of one year's worth of production (an average of the past three to five years' annual production), (ii) the appraised value of the buildings, and (iii) interest of 5%. In essence, the companies would be paid the estimated value of one year's worth of production. Presumably the value would be based on world market prices, though this was not clear (the guideline mentioned that "attention should be paid to the total annual export production"). This payment would not be paid all at once, but rather over the life of the remaining concession periods of the estates.²⁰⁰

After a period of several weeks during which the Ministry of Estates seemed to be in no rush and the 1 December deadline passed, there was a flurry of activity in early December, and by the end of the month most of the non-British foreign estate companies had 'agreed to' a buyout figure. In the first week of December, the foreign estate representatives were called in individually and given letters stating the Ministry of Estates offer; in the case of Goodyear and US Rubber (and presumably the other companies), the letters did not provide the ministry's calculations.²⁰¹ What happened over

¹⁹⁹ US Embassy telegram (McCusker) dated 6 October 1965 (USNACP, RG 59 Central Files 1964-66, Inc 15-2 Indon, Boxes 1072-3).

²⁰⁰ The Seda Report, paragraphs seven and eight.

²⁰¹ US Embassy Bi-Weekly Economic Review dated 14 December 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

the next several weeks is unclear, as except in the case of Goodyear and US Rubber (see next section) there are few details available regarding the companies' reactions to the ministry offers and the general course of negotiations.²⁰² SIPEF, for one, was quite happy with the price the ministry offered and quickly accepted.²⁰³ The US embassy, though, reported that most of the GOI offers were low, but nevertheless were accepted by many of the companies by the end of the month.²⁰⁴ In any case, after reporting to the Presidium Kabinet and President Sukarno on 30 December, Minister Seda announced to the press on 31 December that the GOI had taken over more than 50 estates of over 150,000 hectares from 30 companies, for which the owners would be compensated in kind from the estates.²⁰⁵

Table 7.1 below sets forth the buyout terms for the foreign estate companies as stated in the Seda Report. These terms do not represent the actual monies paid; in most cases the companies only received the first installment or a portion thereof, and this payment was only made in early to mid-1967 when the GOI was trying to lure the

²⁰² The actual form and timing of the agreements reached between the GOI and the foreign estate companies is somewhat unclear. Apparently many of the companies received written offers from the Ministry of Estates and then responded with letters agreeing to the terms. In the cases of SOCFIN, SIPEF, Holding Jabelmat, Samuba, PT Franesia, PT Sumatap and PT Montjolimo, these letter exchanges took place from 20-26 December. These letter exchanges may have been in the form of 'agreements in principle'; the Seda report indicates that it was not until after Minister Seda's 30 December report to the Presidium Kabinet and President Sukarno that the ministry received final Presidium Kabinet approval for the buyouts (due to the wonderfully obfuscatory language of the Seda Report, it is not really clear what the Presidium Kabinet approved). In any case, most of the sales were consummated by the signing of a *Naskah Serah Terima* ('Document of Transfer'), which formally transferred the estates and other assets from the companies to the GOI. At least five of these *Naskah Serah Terima* (for seven companies) were signed on 11 January 1966.

²⁰³ Interview with Karl Schneider 16 June 2007.

²⁰⁴ US Embassy Bi-Weekly Economic Review dated 28 December 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); US Embassy telegram (Green) dated 31 December 1965 (USNACP, RG 59 Central Files 1964-66, Incor Rubber Indon, Box 1215). This contrasted sharply with the negotiations of Goodyear and US Rubber, which essentially had the price imposed on them but did not agree to final terms until late April and early May 1966. The US embassy speculated that one reason for this difference may have been that because the two American companies were taken over in March, they had lots of time to prepare a plan "for maximum salvage." However, as we have seen, the other foreign estate companies also had ample time to prepare; perhaps the real reason the non-US companies agreed so quickly was that they were much smaller than Goodyear or US Rubber and had little choice in the matter. The lone exception was SOCFIN, which was by far the largest of the foreign estate companies by acreage and received by far the largest buyout figure.

²⁰⁵ US Embassy Bi-Weekly Economic Review dated 11 January 1966 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3). As noted above, the Seda Report indicates that it was not until after Minister Seda's 30 December report to the Presidium Kabinet and President Sukarno that the ministry received final Presidium Kabinet approval for the buyouts.

companies back to Indonesia.²⁰⁶ As the table indicates, most of the payments were to be spread out over a period of years in installments, and presumably these payments would be sourced from the individual company's own ex-estates. Interestingly, many of the larger companies agreed to receive payment in kind in the form of produce (usually rubber or palm oil). As this concept will be discussed in detail in the next subsection regarding Goodyear and US Rubber, it will not be discussed here. As we shall see, Goodyear and US Rubber negotiated the right to keep a small number of advisors on the estates to supervise quality control, but as far as I have been able to determine, none of the other companies had this right.²⁰⁷

Table 7.1: Buyout Terms for Non-British Foreign Estates

| Name of Company | Amount of Compensation | Payment Terms |
|-------------------------------|------------------------|--|
| SOCFIN | US\$13.5 million | To be paid over 10 years in 3 annual installments of \$450,000; payment in kind/production |
| Goodyear Plantations | US\$4.5 million | To be paid over 7 years in 3 annual installments of \$214,000; payment in kind/production |
| US Rubber | US\$4.1 million | To be paid over 7 years in 3 annual installments of \$195,238; payment in kind/production |
| SIPEF | US\$1.9 million | To be paid over 10 years in 3 annual installments of \$63,333; payment in kind/production |
| Tjikadu Holding (SIPEF-owned) | US\$137,000 | To be paid over 10 years in 3 annual installments of \$4,566; payment in kind/production |
| Plantagen AG | US\$1.787 million | To be paid over 8 years in 1 annual installment of \$223,000; payment in cash |
| Holding Jabelmat | US\$765,000 | To be paid over 10 years in 3 annual installments of \$25,500; payment in kind/production |
| Samuba | US\$625,000 | To be paid over 10 years in 3 annual installments of \$20,833; payment in kind/production |
| PT Kina Monind | US\$500,000 | To be paid over 10 years in 1 annual installment of \$50,000; payment in cash |
| Bombay Burma | US\$450,000 | To be paid over 10 years in 1 annual installment |

²⁰⁶ See p. 6 of Laporan Ke-Enam Panitia Adhoc Interdepartmental Urusan Penyelesaian Pengusahaan Perusahaan2 Asing dated 30 September 1967 (ANRI, EKUIN files), and p. 3 of Laporan Ke-Lima Panitia Adhoc Interdepartmental Urusan Penyelesaian Pengusahaan Perusahaan2 Asing dated 22 June 1967 (ANRI, EKUIN files).

²⁰⁷ According to a US Medan Consul report, the arrangements for non US estate companies had “less provision for supervision by expatriates.” See p. 6 of US Medan Consul telegram dated 28 March 1966 “Annual Rubber Outlook Report” (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

| | | |
|---|-----------------|---|
| Trading Corporation | | of \$45,000; payment in cash |
| Societe de Gestion et de Participation pour L'Asie et L'Afrique (PT Franesia) | US\$521,400 | To be paid over 10 years in 1 annual installment of \$52,140; payment in cash |
| Societe Anonyme Plantations Indonesiennes & Participations (PT Sumatap) | US\$181,700 | To be paid over 10 years in 1 annual installment of \$18,170; payment in cash |
| Societe Anonyme de Gestion pour L'Indonesia (PT Montjolimo) | US\$86,900 | To be paid over 10 years in 1 annual installment of \$8,690; payment in cash |
| Glen Falloch | Rp. 1 billion | One-half in cash; one half in 1966 production of coffee |
| PPD Kadjaran | Rp. 550 million | One time payment in cash |
| NVCO Kalilanang | Rp. 300 million | One time payment in cash |

Source: Report of Minister of Estates Frans Seda to Presidium Kabinet dated 29 June 1966 (ANRI R-17, No. 106)

Concurrently with the buyouts the Ministry of Estates moved to assume complete control over the estates (which had theoretically already been placed under GOI control pursuant to Presidential Decree 6/1965) by finally displacing owner-appointed management. On 6 December, Minister Seda issued a decree, apparently retroactive to 1 December, that made the PPPAs the highest authority on the estates and directed that all company employees were responsible to them and not to the owner-appointed directors.²⁰⁸ Over the next few weeks the owner-appointed managers were replaced, and by February 1966 most of the owner-appointed managers or representatives of the foreign estate companies had departed Indonesia. The only exceptions were the small number of

²⁰⁸ Instruksi Menteri Perkebunan (Frans Seda) No. I/75PCI dated 6 December 1965. I have yet to locate a copy of this instruction, but it is referred to in a number of documents issued by the PPPA of some estates in North Sumatra, A.M. Siregar. See, e.g., (i) Pengumuman No. P3A/PK2/Peng2/1965 dari Petugas Pengawas Perkubanan Asing Daerah Sumut I (Siregar) (BKS-PPS, Perusahaan Perkebunan IV-3, 1966-8) (announcing the replacement of the owner-appointed directors), and (ii) Surat Keputusan Petugas Pengawas Ex Perkebunan Asing Daerah Sumut I No P3A/KPTS 10/1965 dated 17 December 1965 (BKS-PPS, Perusahaan Perkebunan IV-3, GPS 1964-5) (appointing certain senior level employees of the estates as official government employees).

personnel retained by Goodyear and US Rubber (see next section), and Mr. Vladimir Dell of SOCFIN, who remained in Medan as representative of the various European estate companies.²⁰⁹

After the buyouts, most of the estates (except for Goodyear's and US Rubber's, and about 10 that were seized in 1964 and already placed in Dwikora) were grouped into separate units called PPN Expera, which was short for *Ex Perkebunan Asing* ('ex foreign estates'). There were four Expera units (see Appendix B; two in Sumatra, and two in Java) that appeared to follow roughly the regional grouping of estates established when the PPPAs were appointed back in late June 1965, with Expera II, which was comprised of the SOCFIN estates, the largest by far. The prefix PPN – *Perusahaan Perkebunan Negara* ('State Owned Estate Companies') – suggests that the Expera units may have been technically incorporated into the GOI estate structure, but the Expera units appear to have been administered separately from the other GOI estates. Like many of the taken-over companies, the very top layer of management was appointed by the GOI, while the other management ranks were filled mostly by existing Indonesian employees of the estates and perhaps some managers from state-owned estates. However, in sharp contrast to the Dwikora structure for the British estates, no great bureaucratic superstructure was formed to oversee the Expera units.²¹⁰

2. Case Study: Buyout of Goodyear Plantations and US Rubber.

As we saw in Chapter Six, after the takeover of their estates in February 1965 both Goodyear and US Rubber were negotiating with the Ministry of Estates regarding payment for the estates and future marketing arrangements. There was general agreement that US Rubber (USR) and Goodyear would be compensated for their estates over a several year period, that both would be allowed to market produce from their own estates as well as GOI estates, and that both could keep a small contingent of advisors in country (especially for quality control and marketing). However, there was no agreement as to the all important details of how much compensation the companies would be paid, and by

²⁰⁹ Interview with Karl Schneider on 16 June 2007; interview with Mrs. Vladimir (Beatrice) Dell on 4 September 2006.

²¹⁰ Similar to the Dwikora units, though, the Expera units had to file annual and semi-annual reports with the Ministry of Estates regarding basic production data such as area planted, area planted but not yet producing, output, and number of workers.

what means the companies would be paid (a discount in price of produce or production sharing). The negotiations seemed to have died down by June or so, but in spite of the lack of agreement both companies continued with their marketing of GOI PPN estate latex and latex from their ex estates, and a small number of personnel from the companies remained on the estates.

Goodyear and USR representatives were both present at the 10 November meeting with Minister Seda at which he announced the buyouts of the non-British foreign estates.²¹¹ Interestingly, although both USR and Goodyear were taken over in February and not under Presidential Decree 6/1965, the Ministry of Estates considered their buyout to fall under the ambit of Presidential Decree 6/1965. Both representatives duly reported the meeting to their respective head offices in the US, who presumably began to prepare their own asset evaluations. At some point over the next few weeks, both companies submitted to the ministry separate offer letters that apparently contained the companies' valuation of their assets, including in the case of USR the method of calculation. Despite the 1 December deadline, however, the ministry did not initially seem to be in a hurry. In the last week of November both companies met with ministry representatives for the first time, but apparently little was discussed, and the ministry even lost the Goodyear letter.²¹² The 1 December deadline passed without apparent impact.

The pace quickened in early December. The lead negotiator for the Ministry of Estates was Danardojo Hadisasono, the same ministry official who had been negotiating with the companies back in the spring. In the first few days of December, representatives from both companies were called in separately by Danardojo and handed letters containing the ministry's offers. The ministry's offer to Goodyear was \$2.5 million and to USR \$4.0 million. Neither the method of valuation/calculation nor the terms of payment was provided (though Danardojo did say that more details would be forthcoming). Danardojo indicated that agreement in principle must be reached by 15

²¹¹ The following information concerning the buyouts of Goodyear and USR is available because much of the correspondence on the buyouts from company representatives in Indonesia to company headquarters in the United States (and vice-versa) was channeled through the US embassy in Jakarta and can now be found in the US National Archives.

²¹² US Embassy Bi-Weekly Economic Review dated 30 November 1965 (USNACP RG, 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

December, and the details could be worked out over the next year.²¹³ On 7 December, Lavinder of Goodyear reported the ministry had set the price based on production estimates over the next few years, with specific estimates based on acreage and the age of the trees, with a ministry explanation to follow the next day.²¹⁴ As we saw above, the ministry's valuations were generally based on one year's production (calculated by the projected market price), with the repayment period equal to the remaining period of the estate's concession.

Over the next few weeks, the negotiations with both companies centered around the valuation of their estates and the timetable and method of repayment. The Ministry of Estates did show some flexibility, but its offers were in all cases significantly below the offers presented by the companies to the ministry back in April - \$15 million for Goodyear, \$14 million for USR. Both companies believed that the ministry production estimates were far too low, and objected to the ministry's insistence on roughly one year's worth of production as the basis for the valuation (instead of replacement value, or at least production value over the remaining term of the concession instead of only one year). The companies also wanted payment up front as, given the state of the Indonesian economy and the GOI's foreign currency reserves, future payments in dollars were uncertain. In addition, the companies were perhaps more concerned with what the future marketing arrangements would be, as after all this was where the money was to be made, but the ministry initially appeared to want to treat these two questions separately, as though there were no linkage.²¹⁵

²¹³ US Embassy telegram (Lavinder of Goodyear to Klippert) dated 4 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Green) dated 4 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹⁴ US Embassy telegram (Lavinder of Goodyear to Klippert) dated 7 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹⁵ For Goodyear see US Embassy telegrams (Lavinder of Goodyear to Lundberg) dated 15 December 1965 and 30 December 1965, US State Department telegrams (Klippert of Goodyear to Lavinder) dated 14 December 1965, 16 December 1965, 22 December 1965, and 27 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); for USR see US State Department telegram (Gouldin to USR) dated 16 December 1965, US Embassy telegrams (Aleksa of USR) dated 24 December 1965 and 29 December 1965, and US State Department telegrams (USR to Aleksa or Gouldin) dated 17 December 1965, 28 December 1965, 29 December 1965, and 30 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); and see generally US Embassy Bi-Weekly Economic Reviews dated 14 December 1965 and 28 December 1965 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

In fact, neither USR nor Goodyear had much leverage over the Ministry of Estates. Their only leverage seemed to be the ministry's odd desire to make sure the companies agreed to a deal and that the deal appeared to be an arms-length transaction; the ministry clearly did not want to be seen as forcing a deal down the companies' throats, though of course it was. Hampering the companies' position was the development that several of the other foreign estate companies by 20 December or so had agreed to the ministry's basic terms – one year's worth of production payable over the remaining term of the concession - with little resistance. Nor did the companies request the assistance of the US government, and it is doubtful the US embassy could have helped anyway. Finally, the companies did not present a united front to the ministry; although the negotiations paralleled each other and the companies' respective interests were roughly similar, the negotiations were conducted separately. Each company was quite aware that the other was simultaneously negotiating with the ministry, but clearly did not know the exact details or status of the other's position. Both wanted to get the best deal possible, regardless of the other.

By late December, the negotiations seemed to have reached an impasse. Around 21-22 December, Danardjo presented the companies with yet another deadline of 31 December (this was the third one; the first was 1 December (given initially by Minister Seda), and the second was 15 December (made around the beginning of December)). The threat here was that if no agreement were reached, then the ministry would make a very one-sided final agreement unfavorable to the companies.²¹⁶ This type of threat was used a number of times, not just in the context of a deadline, and was sometimes complemented by the warning that if the parties could not finalize the deal, the entire transaction would be forcibly taken out of the settlement framework of Presidential Decision 6/1965, which meant that the Ministry of Estates would be replaced by a GOI

²¹⁶ See, e.g., US Embassy telegram (Lavinder of Goodyear to Klippert) dated 30 December 1965, and US Embassy telegram (Aleksa of USR to Gouldin) dated 29 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

body far less sympathetic and agreeable than it.²¹⁷ Despite a flurry of activity and last minute offers, however, the 31 December deadline passed without agreement.

True to Danardojo's word, on 4 January 1966 the ministry gave almost identical letters to Goodyear and USR representatives containing the 'final' terms of the deal, unilaterally breaking the impasse. The purchase price for the Goodyear estates was \$4.75 million, payable over 10 years, and the price for USR's Kisaran estate was \$4.1 million, payable over seven years. Payments would be made in three annual installments in kind (latex), with the price of the latex determined on a commercial basis between the ministry and the company at the time of each delivery; if no price could be agreed, payment would be made in US dollars by deposit to the company's designated bank account. Apparently the companies were also told that company personnel presently on the estates could remain there for the rest of 1966, and the ministry would pay their Rupiah salaries.²¹⁸ Goodyear, in a last ditch effort to get better terms, immediately made a counteroffer of \$4.5 million over seven years, which was agreed to by Danardojo on 7 January.²¹⁹ The basic payment terms of \$4.1 million over seven years for USR and \$4.5 million over seven years for Goodyear were in fact the basic terms when the agreements were finally signed. The ministry also severely pressured the companies to sign an agreement by 11 January; the US embassy suggested that the reason for the intense ministry pressure was Minister Seda's public statement of 31 December claiming that 30 companies had turned over to the GOI more than 50 estates of over 150,000 hectares, while USR also thought it may have been Minister Seda's premature report to President Sukarno on 30 December that all agreements were finalized.²²⁰

²¹⁷ See, e.g., US Embassy telegrams (Lavinder of Goodyear to Klippert) dated 21 December 1965 and 27 December 1965, and US Embassy telegram (Aleksa of USR to Gouldin) dated 22 February 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹⁸ US Embassy telegram (Lavinder of Goodyear to Klippert) dated 4 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Aleksa of USR to Gouldin) dated 4 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Green) dated 5 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²¹⁹ US State Department telegram (Klippert of Goodyear to Lavinder) dated 5 January 1966, and US Embassy telegram (Lavinder of Goodyear to Klippert) dated 7 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁰ US Embassy Bi-Weekly Economic Review dated 11 January 1966 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3); and US Embassy telegram (Aleksa of USR to Gouldin) dated 6 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

However, despite the ministry's 'final offer' and renewed pressure, no agreements were signed until late April and early May. While the basic terms were finalized, the details remained to be worked out. Over the next four months there would be fits and spurts to the negotiations, but overall the Ministry of Estates did not seem to be in a big hurry now that the basic terms were 'agreed to,' and another ministry deadline of 3 March passed without agreement or incident. To summarize briefly, there were five main open issues. The issues were similar for each company, and the companies' positions were certainly much more closely aligned than previously, which suggests that once the basic terms were finalized in early January the companies worked more closely together. The first issue was the form of documentation. The ministry wanted the companies to sign immediately a very simple transfer document that stated the company had surrendered all rights of ownership to the GOI, but that the details of the transaction would be based on an unspecified exchange of letters in the future. This was the document that the ministry was really pressuring the companies to sign by 11 January. Such an arrangement was in essence an agreement by which one side's main leverage – the property – was given up before the terms most important to it were agreed upon; it was an agreement to agree in which the companies could exert no leverage over the GOI once it was signed. The ministry was undoubtedly aware of the absurdity behind such an arrangement, and it can only be assumed that the reason the ministry insisted on this was because it needed to demonstrate to higher authorities that an agreement had been reached. The second issue was the determination of the price of the rubber/latex. The ministry insisted that this should be determined by negotiations between the parties at the time of delivery; the companies, seeing great room for ministry heavy-handedness under this arrangement, insisted that the price be determined by averaging the weekly producer export prices for the previous month or two prior to delivery. These prices were announced publicly, and thus there was no need for negotiation. The third issue was the companies' insistence on a stock escrow arrangement whereby the shares of their Indonesian subsidiary companies would be placed in escrow until the GOI made all payments in full. That arrangement was common in commercial transactions, but to the ministry it suggested that the transfer was contingent and therefore was unacceptable. The fourth issue was the companies' insistence that the central bank (Bank of Indonesia)

guarantee the deal. Here the companies were obviously looking for the additional comfort of a third party guarantee that could pressure the ministry to live up to the deal; however, getting the Bank of Indonesia involved was a clear headache for the Ministry of Estates, and in any case having the Bank of Indonesia guarantee the deal made the transaction part of Indonesia's national debt. The fifth issue was related to the fourth; in the absence of a Bank of Indonesia guarantee, the companies wanted a default clause in the agreement by which all payments would be due and payable immediately if any one payment were not made in full. Naturally the ministry was reluctant to agree to an acceleration of payment.

When the agreements were finally signed with USR on 30 April and Goodyear on 12 May, respectively, the Ministry of Estates prevailed on most of the points. The final purchase terms, as fixed in early January, were for USR \$4.1 million over seven years (in three annual installments), and for Goodyear were \$4.5 million over seven years (in three annual installments). Regarding the open issues, on the form of documentation question, as the parties had worked out the details by then, both a document of transfer as well as one or two letters of intent containing the terms of the deal were signed.²²¹ On pricing, the GOI position of a price negotiated at the time of delivery prevailed, though the companies could still elect to receive dollars (though this of course was much riskier given the GOI's foreign exchange problems). Regarding the third, fourth and fifth issues, there were no stock escrow arrangement, Bank of Indonesia guarantees, or accelerated default clauses. However, the ministry did agree to a provision that the agreements would be ratified by the Presidium Kabinet after signing (a compromise under which the Presidium Kabinet would in effect authorize the entering into of the agreements and perhaps at least provide a moral guarantee). Another important provision was the ministry agreement not to use the trade name or trademark of either company, and the name of the Indonesian subsidiaries would be changed (getting rid of the 'Goodyear' and 'United States Rubber' names) before the stock was transferred. Each company was allowed to keep a small number of personnel on the estates, and their salaries would be

²²¹ Final copies of the agreements are not available, but from the correspondence the details can be pieced together. Goodyear and USR both drafted their own letters of intent to go along with the GOI's transfer document and other letters.

paid by the GOI in Rupiah. Each company also received the opportunity to continue to receive and sell produce in addition to the produce sold under the agreement, meaning the companies could continue to market latex from the GOI estates or additional latex from their own ex estates.²²²

By the time the agreements were signed, the political atmosphere had already changed. The confusion and uncertainty of the dramatic political power struggle was certainly the main reason the final agreements took so long to arrange; the situation paralyzed much of the GOI and probably hindered the ministry from getting whatever internal approvals it needed. Indeed, at one point in early April Danardojo told USR that the legal department of the ministry was too preoccupied with the cabinet reorganization to deal with the agreement.²²³ The details of the Goodyear arrangement were finally agreed to by 23 March, but even then the agreement was not signed until 12 May. In contrast, the terms of the USR agreement were set on 21 April, and the agreement was signed shortly thereafter on 30 April.²²⁴ In fact, both the Goodyear representative and the USR representative cabled their home offices on 11-12 April indicating there were rumors that the estates might actually be returned under the new Indonesian government. However, it was way too early for such a development, and clearly none of the parties at the time had the appetite or strength to continue.²²⁵

In mid-May, just after the signing of the purchase agreements, both the Goodyear estates and USR's Kisaran estate were quietly integrated by Minister Seda into the state-

²²² For Goodyear, see US State Department telegram (Klippert of Goodyear to Lavinder) dated 7 March 1966, and US Embassy telegram (Lavinder of Goodyear to Klippert) dated 23 March 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); for USR, see US Embassy telegrams (Aleksa of USR to Gouldin) dated 11 February 1966, 28 February 1966 and 20 April 1966, and US State Department telegrams (Gouldin of USR to Aleksa) dated 2 March 1966 and 21 April 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); and see generally US Embassy Bi-Weekly Economic Review dated 17 May 1966 (USNACP, RG 59 Central Files 1964-66, E2-2 – E8, Indonesia, Boxes 722-3).

²²³ US Embassy telegram (Aleksa of USR to Gouldin) dated 7 January 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁴ US Embassy telegram (Lavinder of Goodyear to Klippert) dated 23 March 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US State Department telegram (Gouldin of USR to Aleksa) dated 21 April 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

²²⁵ US Embassy telegram (Lavinder of Goodyear to Klippert) dated 12 April 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215); US Embassy telegram (Aleksa of USR to Gouldin) dated 13 April and US State Department telegram (Gouldin of USR to Aleksa) dated 13 April 1966 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

owned estate structure (BPU PPN Karet).²²⁶ This same decree also very diplomatically ended PT Hapinis' control over Goodyear's Wingfoot estate.

3. Why the Buyouts?

Aside from negotiations with the oil companies and the non-British foreign estate owners, the GOI made no buyout or compensation offers to any other company. While oil company exceptionalism explains the different treatment of the oil companies, it is less clear why the non-British foreign estates were singled out from all other companies with respect to compensation offers. Moreover, why did the Ministry of Estates make such a determined push to eliminate owner-appointed managers and consummate the buyout agreements by the end of 1965? The explanation I offer below has three components: (i) the Ministry of Estates was being pushed by a higher authority, most likely President Sukarno, to resolve the status of foreign estates by the end of the year, and the buyout course the ministry followed was conditioned by both (ii) the attitude of Minister of Estates Frans Seda and (iii) the method of payment, which imposed comparatively little hardship on the GOI as the estates were in effect able to generate themselves the foreign exchange necessary for payment.

First, the entire timing of the buyouts along with the actions of the Ministry of Estates suggests that there was great pressure from above to have the status of the companies resolved by the end of the year. For example, at the initial meeting of 10 November Minister Seda ludicrously suggested that the deadline was 1 December, yet despite this the ministry itself was unable to move on the matter until early December. Thereafter, there was great pressure to have the transactions completed by the end of December, with no explanation for such a short deadline with respect to such a complicated series of transactions. The forcing of an agreement in principle upon Goodyear and USR in very early January, with so many key issues outstanding, and then the slowness in consummating the deal once the general terms were announced (though this was also certainly due in part to the political power struggle) also suggest that there was great outside pressure to have basic agreement reached by the end of 1965; once the deadline came, and Minister Seda announced that the deals had been struck, there was no

²²⁶ Surat Keputusan Menteri Perkebunan (Frans Seda) No. SK.50/MenPerk/1966 dated 17 May 1966.

more pressure on him, and hence the Goodyear/USR negotiations could proceed at a more relaxed pace. This pressure most likely came from President Sukarno, though I have no direct evidence of this; but only Sukarno, and perhaps Minister Chaerul Saleh (who would have been acting on Sukarno's behalf), could have exerted it. The status report Minister Seda delivered to President Sukarno and the Presidium Kabinet at the end of December also suggests that a year-end deadline had been imposed from outside the ministry.²²⁷

If there were outside pressure to resolve the status of the foreign estate companies by the end of 1965, though, the direction the Ministry of Estates took – the buyout of the estates – was certainly conditioned by the attitude of Minister Seda. As we saw with respect to the takeovers of Goodyear and US Rubber in early 1965, while Minister Seda was initially very careful to articulate the GOI position of distinguishing between takeover of management and takeover of ownership (nationalization), he also, after a period of early hesitation (perhaps trying to articulate the GOI position, or waiting for permission before proceeding), was willing to try to work out an arrangement with the two companies, an arrangement that involved payment of compensation. Moreover, in the case of other non-British foreign estates, from early on he laid the groundwork for the payment of some kind of compensation, and even went so far as establishing an appraisal team to set the values of the companies. In fact, of all the ministers involved in the takeovers of foreign companies, he was by far the most pro-active in attempting to resolve the ambiguous status of the companies by effectively formalizing their nationalization via agreeing to compensation. Minister Seda was clearly a believer in a policy of no nationalization without compensation, as he had explained to PKI chairman Aidit and President Sukarno in February (see Chapter Six, Part II, Section C). Years later, Seda explained that his rationale for the buyouts was to show the world that Indonesia was an honorable country, that it did not just go around seizing assets, that it was not a country of thieves, and that if it did seize assets then it would compensate owners, that it would show goodwill and encourage foreigners to come back and provide

²²⁷ This was also the conclusion of US Ambassador Green, who reported in early December that it appeared as though the ministry had come under pressure to reach a basic settlement that could be publicly announced by the end of 1965. See US Embassy telegram (Green) dated 4 December 1965 (USNACP, RG 59 Central Files 1964-66, Inco Rubber Indon, Box 1215).

Indonesia with desperately needed foreign capital.²²⁸ While the last proposition regarding showing goodwill to bring back foreign investment was obviously a stretch in 1965, Seda's actions in 1965 certainly support his other assertions. Interestingly, somewhere along the line Seda himself clearly dropped the pretense that the GOI's takeover of the estates was one of management only and not ownership.

This leads to the third and perhaps most important component of the explanation for the buyouts and one that Minister Seda could easily sell to his superiors. This was the very practical reason that the arrangements by which the companies were bought out involved no great hardship on the GOI and indeed allowed the GOI to continue to reap the desperately needed foreign exchange. As described above, most of the payments were to be made in produce, in kind, presumably from the companies' ex estates, and thus the payment would not involve the actual transfer of funds. Hence there was no problem of trying to find money to pay the companies, and also no problem of adding to the national debt, as the estates in effect would pay for themselves. Moreover, continuing the marketing arrangements with the companies would allow the GOI to continue to raise much needed foreign exchange; by one estimate, the foreign exchange earnings for the GOI in 1965 for Goodyear and US Rubber alone were \$11.5 million.²²⁹ The GOI did not have to seek out new ways to market the produce, as it could simply use the existing channel of the companies and thus ensure that there was no interruption of marketing and the resulting inflow of foreign exchange. Using this scheme also had the additional effect of allowing the GOI not to worry about the possibility of one of the companies seizing the produce (as AIP tried to do, see Chapter Five, Part III, Section A), since the companies were officially paid off. In short, the scheme allowed for the possibility of using the estates as earners of profits and foreign exchange with minimal downside to the GOI. It was a classic case of the benefits accruing from a production sharing arrangement that was based on the foundation of a product that generated foreign exchange revenue and in fact was very similar to the Shell Oil buyout arrangement. This ability was a great contrast to the foreign manufacturing firms, which for the most part produced and sold

²²⁸ Interviews with Frans Seda 10 February and 10 October 2006.

²²⁹ This claim was made by Minister of Central Bank Affairs Jusuf Muda Dalam (see *Far Eastern Economic Review* 3 March 1966, pp. 419-20) and was based upon returns for the first six months of 1965.

for the Indonesian domestic market and were unable to generate foreign exchange earnings. We may also consider why Minister Seda did not employ the same arrangement with respect to the British estates seized over the course of 1964; the main reason this was not offered was because Indonesia and the British were at war in Konfrontasi.

IV. Conclusion.

The official introduction in April 1965 of a policy of economic self-reliance known as BERDIKARI triggered a final wave of takeovers of foreign companies over the remainder of the year. Like the previous waves, GOI control was implemented by the displacement of owner-appointed management by GOI-appointed management, and also similar to other waves the pace of assumption of control varied widely. However, unlike the previous waves during 1963-65 this final wave was not directed against any one country but instead to all foreign companies, regardless of nationality, nor was it the product of foreign relations or domestic political instability. In total, at least six foreign manufacturing facilities and 10 foreign estate companies (owning at least 44 estates) were taken over in this wave, and along parallel lines the 1958 foreign investment law was repealed, closing the country off to any new foreign investment. At the end of the year, there was a major GOI push to eliminate the remaining vestiges of foreign investment, a push that featured an attempt to take over the big three foreign oil companies as well as to buyout all non-British foreign estates. These were the only two types of foreign companies for which the GOI entertained the possibility of a buyout, and this Chapter argues the reasons for such distinction were, in the case of the oil companies, oil company exceptionalism, and in the case of the non-British foreign estates, the attitude of Minister of Estates Frans Seda as well the ability of those very estates to generate foreign exchange to pay for their buyout. In making these arrangements, the GOI clearly dispelled its own theory that management could be separated from ownership and hence no compensation was owed to the various owners. By the end of 1965, foreign investment in Indonesia, with the two important exceptions of Caltex and Stanvac, had been eliminated.

This final GOI push at the end of 1965 coincided with the culmination of the domestic political power struggle under Guided Democracy in what ultimately led to the downfall of President Sukarno and his Guided Democracy. This climax of the political conflict complemented the other culminations of 1965 in economic affairs and foreign relations. In at least one case – the oil companies – the year end drive to eliminate foreign capital intersected with the domestic political conflict, and oil company exceptionalism won out. President Sukarno was certainly the main driving force behind this final push, but his motivations remain obscure. It is possible that he simply wanted to implement BERDIKARI in the fullest manner possible by the end of the calendar year so that he could proclaim Indonesia self-reliant by 1966. On the other hand, doing so at a time of such major political conflict suggests that there may have been some relationship to the political struggle, perhaps along the lines of reasserting his authority and garnering support after the September 30 Movement. Neither of these explanations, however, is fully satisfactory.

President Sukarno's ushering in of the BERDIKARI policy, the last major economic policy initiative of Guided Democracy, was in many ways the finest expression of Indonesia's post-1949 attempts to construct a national economy under the control of Indonesians. Self-reliance was a means of achieving economic independence, which in effect was the goal of constructing a national economy and an underlying theme of the various economic plans put forward. However, the theoretical sweetness of the BERDIKARI fruit was not wholly tasted in practice, for the program lacked specific measures and was only implemented with respect to foreign investment. Nevertheless, in this respect BERDIKARI represented the nadir of foreign investment in Indonesia, for it was the culmination of the 15 year trend in which, with the exception of the two oil companies, all of the foreign investment in Indonesia - from the early scattered takeovers of different Dutch firms in the early 1950s, to the seizure and nationalization of all Dutch enterprises in one fell swoop in 1957-58, to the takeover of Chinese businesses associated with Taiwan in 1959, to the seizure of British, Malaysian and American companies from 1963-65 – was appropriated by the Indonesian government. As I shall discuss in the following concluding Chapter, put another way BERDIKARI and its implementation thus represented the pinnacle of Indonesian economic nationalism.

Chapter Eight: Conclusion and Epilogue: 1965, the Pinnacle of Economic Nationalism in Indonesia

I. The Pinnacle of Economic Nationalism.

If we follow the definition of economic nationalism in Chapter Two as “the national aspiration to have nationals own and control the productive assets owned by foreigners, or residents considered to be aliens, and perform the important economic functions hitherto performed by foreigners or resident aliens,” then 1965 was the zenith of economic nationalism in modern Indonesian history. The promulgation and implementation of the BERDIKARI policy over the course of 1965 resulted in the extinction of foreign investment in Indonesia, with the very important exceptions of Caltex and Stanvac Oil, resulting in Indonesia owning the productive assets previously controlled by foreigners and performing important economic functions hitherto performed by foreigners. It also revoking the 1958 foreign investment law, Indonesia furthermore foreclosed the possibility of new foreign investment, thus ensuring that the summit of economic nationalism would be reached.

As we have seen, Indonesia had been slowly moving in this direction since independence in late 1949, though its full expression was by no means preordained. One of the principal problems Indonesia faced after independence in the construction of a national economy was the degree to which the economy should be ‘Indonesianized,’ an issue that directly questioned the role of foreign investment in the Indonesian economy. Ambivalence towards foreign capital resulted in the late promulgation of the foreign investment law in 1958, at the same time as Indonesia stunningly seized and nationalized all Dutch enterprises and then seized Taiwan-linked enterprises. Under Sukarno’s Guided Democracy, the official government attitude became increasingly hostile towards foreign

investment. In 1960, two new laws were passed that directly challenged the position of the big three foreign oil companies as well as the position of the foreign estates. President Sukarno also began pushing for new foreign capital to enter the country in the form of production sharing arrangements, a push that was not successful. Then, in a series of five separate waves from September 1963 to December 1965 concluding with that of BERDIKARI, at least 90 foreign companies of varied nationalities, ranging from oil companies to plantations to manufacturing plants to a few other companies and accounting for virtually all existing foreign direct investment in Indonesia, were taken over. In 1965, the answer to the question, burning since independence, of what role foreign investment should play in the new national economy was a resounding ‘none.’

However, these five waves from 1963-65 were not, except in the case of the BERDIKARI wave, part of an organized plan to eliminate foreign investment from Indonesia, though they certainly did not conflict with the general movement in that direction. Instead, I have argued that the elimination of foreign investment in Indonesia during this period was the result of a complex confluence of the three trajectories of Indonesian domestic political instability and conflict, foreign relations, and domestic economic matters, trajectories in which existing trends were accelerated by the outbreak of Konfrontasi. Each of the five waves of takeovers was linked directly to at least one of these trajectories, and in several waves the impact of more than one trajectory was evident. Chapters Four and Five argue that it was domestic political conflict and instability, first in the form of takeover actions by the DPS-KBKI in September 1963 and then in the form of takeover actions by the PKI-controlled SOBSI labor federation, that triggered GOI intervention and the placement of the British companies under government control. In both cases, the initial seizures by non-government entities were also linked to Konfrontasi and clearly contravened GOI policy, and in the case of the PKI it was part of a larger political offensive that culminated in 1965. Chapters Four and Six argue that the takeover of Malaysian and American companies, respectively, were directly linked to President Sukarno’s increasingly strident anti-imperialist foreign policy. The seizures of Malaysian companies in 1963 were obvious measures of retaliation against the formation of Malaysia, while the seizures of American companies in 1965, which the President supported and encouraged, reflected the deteriorating bilateral US-Indonesian

relationship and also domestic political instability. In both cases foreign enterprises were thus hostages of Indonesia's foreign relations, a means through which the GOI tried to exert pressure on foreign governments. In contrast, Chapter Seven argues that the final wave of takeovers in 1965 was initiated pursuant to BERDIKARI in a determined change of economic policy resulting primarily from the decrepit state of the Indonesian economy. Given that foreign aid had dried up and the economy was in shambles, Indonesia had little choice but to go it alone under a policy of self-reliance, one in which all foreign investment would be deliberately eliminated.

The takeovers were effected through the displacement of top level owner-appointed managers and their substitution by GOI-appointed managers in actions that were clearly confiscations of foreign businesses. The companies were usually placed under the authority of the relevant GOI minister, who had great discretion over the implementation of the takeover. Generally Indonesian employees at all levels were left in place, but the GOI-appointed managers were clearly in control, though in the case of the British enterprises in 1964 and non-British foreign estates in 1965 the foreign owner-appointed managers were only gradually squeezed out. The final stroke was the severing of communication with the foreign company's head office and ownership. However, the GOI refused to acknowledge that its actions constituted confiscations of foreign businesses. To do so would have obliged the GOI to pay compensation for the companies, the common practice of the time and one that GOI officials were well aware of after the nationalization of the Dutch companies in 1957-59. Instead, the GOI claimed that the companies were under government 'supervision' or 'control' or 'management,' all rather vague terms that skirted the question of confiscation or expropriation. By 1965 the GOI was farcically attempting to separate ownership from management control. However, the GOI did agree in late 1965 to pay compensation to the non-British foreign estate owners in what was a clear, if unstated, acknowledgement that such arguments were untenable. I argue that the primary reason the Minister of Estates was able to agree to these buyouts was the foreign exchange generating potential of the estates so that in effect they could actually pay for themselves from future earnings. Indeed, I argue that the generation of foreign exchange generally was a critical factor in how the GOI treated the companies both during the process of takeover and after.

In what was the greatest irony of Indonesia's pinnacle of economic nationalism, nowhere was the importance of the foreign exchange generation more evident than in the treatment of the foreign oil companies. Oil company exceptionalism, derived from the combination of generation of large foreign exchange revenues for the GOI and the big three's near monopoly on the production of such a strategic commodity, resulted in Shell Oil being compensated for \$110 million and both Caltex and Stanvac Oil successfully resisting a GOI takeover in late 1965 despite extreme pressure. If there was ever a commodity to which Indonesia could lay nationalist and ownership claims over, oil was it. Oil flows from the very soil of a country; it does not have to be planted (like rubber or palm oil) or manufactured (like car tires) and furthermore can be sold in crude, unrefined form. Hence, the successful resistance of two foreign oil companies, especially Caltex, by far the largest producer of crude oil in Indonesia, was a complete perversion of the BERDIKARI concept and the desire to eliminate all vestiges of imperialism and colonialism.

While oil company exceptionalism dictated that the oil companies would be treated differently, and the ability of the non-British foreign estates to generate foreign exchange was a critical factor in reaching a buyout agreement, other foreign companies had little leverage to counter the takeovers. The British estates, which presumably could have paid for themselves like the non-British estates, were not compensated because the British and Malaysians were in an undeclared war with Indonesia, though as we saw in Chapter Five AIP (the owner of P&T Lands) was able to exert some leverage in his respect. Even in that case, however, it is unclear how successful these efforts were. For all other foreign companies taken over by the GOI, which were primarily manufacturing companies producing for the domestic Indonesian market, their lack, or limited amount, of foreign exchange production (indeed, many manufacturing companies used foreign exchange to import goods and did not produce any in return) meant few levers were available to them. Nor did these companies produce goods essential to the Indonesian economy such as oil, or at least none of them produced something the GOI felt it could not live without. Recognizing their lack of leverage, most of these companies were pragmatically resigned to their fate and adopted a wait and see attitude, hoping for the

best but invariably planning for and expecting the worst, and enduring as long as possible.¹

The takeovers from 1963-65 exposed the fractious nature of ministerial bureaucracy and divisions within the government generally under Indonesia's Guided Democracy. This ministerial competition and division was by no means limited to the area of foreign investment, and reflected in part the limits and weaknesses of the central government at large. Divisions and competition at the ministerial level were most evident in the various contests for control over the seized foreign companies, especially the foreign exchange generating estates, over which a fierce struggle was fought between Ministers Sadjarwo and Seda. There were also clearly divisions at the policy level as well, including Minister Ahem's DPS-KBKI pushing the GOI into the takeovers in September 1963 and Minister Seda's determined effort to pay compensation for the seized non-British estates. That there was great difference of opinion over foreign investment was also evident in the incredible reversals of policy implemented by the New Order government in 1966-67 discussed in Part II.

Insofar as a case study of takeovers of foreign companies, these events highlight a number of problems a country faces in confiscating foreign enterprises. First, as suggested above there is the issue of how the country's actions conform to international practices. Specifically, in the case of confiscations of foreign companies there is generally an obligation to compensate the companies for their losses. The GOI tried wholeheartedly to avoid this obligation by declaring that its actions did not affect the

¹ As we have seen, a variety of measures were tried: appealing to higher authorities such as President Sukarno (Unilever), transferring shareholdings to non-British countries (Unilever), replacing British expatriates with non-British expatriates (Unilever), complete Indonesianisasi of management (Union Carbide), offering some kind of joint venture arrangements (Unilever and P&T Lands), offering the GOI a shareholding interest (Goodyear Tire factory and Unilever), focusing on other businesses (Harrisons & Crosfield's insistence on continuing to operate its trade and shipping interests), jockeying among different GOI institutions (Singer), negotiating with private Indonesian businessmen (Singer), and exploring legal redress (Goodyear Tire Bogor). None of these courses of action was effective. Thus, many companies, especially the large number of British enterprises, were only left with the last-resort measure of claiming compensation. However, most were reluctant to do this initially because of the ambiguity of the GOI position on the companies' status, and to back out of Indonesia without a clear GOI statement might open a company up to charges that it abandoned its assets and the GOI only seized the assets thereafter, nullifying any claim. Moreover, compensation claims depended upon GOI acknowledgement of an outside, superior court of law both to adjudicate the claim and to enforce it, something that Indonesia's withdrawal from the UN and other international bodies in 1965 made unlikely.

ownership of the companies and that it was merely placing the companies under its supervision or management or control. Notwithstanding this argument, the GOI eventually did agree to compensate the non-British estate-owners, though most of this was never actually paid, and of course oil company exceptionalism ensured that compensation would be paid to Shell Oil. In the case of the non-British estates - and also for Shell Oil - a necessary but not sufficient condition for compensation was the ability of the estates to pay for themselves over time in the installment payment scheme the GOI worked out. In other cases, Indonesia was unable to resolve this compensation issue.

Second, Indonesia's standing the world in the mid-1960s also allowed it to avoid the common problem of retaliation for confiscations of foreign companies. Indonesia was ardently engaged in an anti-imperialist crusade that left it isolated in the world with few friends. In 1965 it withdrew from the UN and other international organizations that perhaps could have exercised some leverage over it. Moreover, after the outbreak of Konfrontasi in 1963 it received significantly less amounts of foreign aid so that by 1965 foreign aid was effectively no longer a leverage point. In addition, Indonesia had few assets abroad that other countries could seize; Indonesian businesses, whether private or public, were rarely a permanent presence in foreign countries. By essentially withdrawing from the world, Indonesia could afford to confiscate foreign companies without compensation. However, the price for this disengagement and general neglect of economic affairs was very high, as the Indonesian economy was essentially dysfunctional by 1965-66. As we shall see in Part II, the new GOI administration in 1966 recognized these dire straits and reversed many of the Sukarno administration policies in foreign affairs and economic matters, in part in order to be eligible to receive the foreign assistance desperately needed to reboot the economy.

Third, the Indonesia case also demonstrates that there are sometimes limits on what companies can be taken over. In this case, of course, the limits were the big three oil companies. Such was the power of oil company exceptionalism – primarily manifested through the great revenues the big three generated for the GOI and the dominant position of the big three in the strategic oil sector - that the GOI was forced to compensate Shell Oil, which in fact was quite willing to leave Indonesia. The other two, Caltex and Stanvac, were not willing to leave and successfully resisted GOI efforts to take them

over. The economic and financial consequences of a forced seizure were simply too great, even when the economy was already in an extremely perilous state.

Finally, this study has also highlighted the general problem of what a government should do with a company once it has been confiscated. To what use should the company be put? More practically, how will the company be managed, and who will manage it? In the case of Indonesia, it appeared as though many of the companies were not used for the greater benefit of society but rather as entities to be exploited for personal enrichment and patronage opportunities. That is, many of the benefits went to individuals and not for the greater good. There was often great ministerial competition and infighting to control the seized companies, which reflected not only a fairly weak central government that gave great latitude and power to its ministers but also extremely difficult economic conditions. Management positions in many of the companies were highly sought after and fought over. The opportunities and economic resources the seized companies ostensibly offered resulted in great differences in how government control was implemented and the companies were subsequently managed, and hence many of the takeovers seemed inconsistent and ill-coordinated. On the other hand, given the bloated staffing evident when many of the companies were returned in 1967-68, it also appeared as though the companies were used in part to provide employment, thus fulfilling a social welfare function (though this full employment function was certainly limited by opportunities for patronage dispensing).

Indonesia's case also highlights the importance of having competent management to lead the companies. While not discussed in this study, it was clear when many of the companies were returned to their owners that most of them had been poorly managed and essentially run into the ground, forcing the returning owners to inject large sums for rehabilitation. The extent to which the poor condition of the companies was the result of bad management or terrible economic conditions or lack of funding or some combination thereof is hard to say, but certainly bad management was a significant factor. Most of the top level management were political appointees, not professional managers, reflecting that "politics was in command." Moreover, at the time Indonesia simply did not have a large class of well-trained and experienced managers, in large part a legacy of the colonial period.

II. Epilogue: Reversal of Policy and Return of the Companies.

The year 1965 was the zenith of Indonesian economic nationalism not only because most of the foreign investment in the country was taken over but also because beginning in late 1966 the emerging New Order government began to reverse a number of the previous administration's policies, most notably in foreign relations and economic affairs and including foreign investment. Indeed, the new administration based its legitimacy largely on economic stabilization and development, almost completely opposite Guided Democracy's emphasis on mobilization and revolution in what was obviously a strong reaction to the hardships and uncertainties posed by these previous emphases. Slogans such as MANIPOL, NASAKOM, NEKOLIM, and 'completing the Indonesian Revolution' were replaced by the comparatively drab slogans of economic development. The startling and dramatic contrast in these areas, of course, came only after the political landscape had shifted in early 1966 and began even when President Sukarno was still in office.

In foreign relations, Indonesia's strident anti-imperialist policy was almost immediately dropped. There was a return to the 'independent and active' approach, with a low-key, pragmatic emphasis on foreign policy serving the needs of economic development. Despite President Sukarno's objections, Konfrontasi with Malaysia was effectively ended in August 1966 with the signing of an agreement with Malaysia. In a development almost unthinkable two years earlier, in August 1967 Indonesia was also a key founding member (along with Malaysia, Singapore, Thailand and the Philippines) of the Association of Southeast Asian Nations, an organization for regional cooperation and stability that would eventually grow into one of the strongest regional economic bodies in the world. The anti-imperialist alliance with the PRC was quickly ended in mid-1966, and in October 1967 PRC-Indonesian relations were formally suspended and would only be normalized 23 years later in 1990. Indonesia rejoined the United Nations in September 1966 and other international bodies such as the World Bank and IMF in early 1967.

Finally, the relationship with the United States was also repaired, and Indonesia became a staunch ally of the Americans, though there were certainly numerous bumps along the road.

In another dramatic break with Sukarno's Guided Democracy, there was a new strong pragmatic focus on economic growth and development.² Under the guidance of a group of economists from the University of Indonesia (many of whom were trained in the United States), the new administration made a decisive and successful push toward stabilizing and rehabilitating the Indonesian economy. Elements of this new economic plan (many of which were similar to the 1963 stabilization attempt) were first put into place in October 1966 with the introduction of new regulations. A top priority was tight fiscal and monetary policies designed to reign in Indonesia's crippling hyperinflation and achieve some price stability, a key component of which was the imposition of a balanced GOI budget. This entire effort was made possible only by the rescheduling of Indonesia's \$2.4 billion in foreign debt and the influx of large amounts of new aid in a multilateral framework provided primarily by Western European nations, the United States and Japan. Indonesia's new leadership clearly recognized that without this foreign support there was little chance for a turnaround. Measures were also instituted to decontrol the economy; multiple exchange rates were gradually phased out in favor of one unified exchange rate, foreign trade controls were relaxed and eliminated, and an open capital account was also instituted. These stabilization and rehabilitation measures reflected in general a re-opening or reconnecting of the Indonesian economy to the world economy in what was a clear but unstated rejection of the BERDIKARI principle. There was also a new emphasis on the growth of the private sector, although state-owned enterprises remained a dominant feature of the Indonesian economy for years. These measures were largely successful, and by 1968-69 the Indonesian economy had stabilized (with inflation at 10% in 1969³) and rehabilitation was in full swing.

² These changes have been extensively documented. For an overview, see chapter seven of Dick et al., *Emergence of a National Economy*; for more detailed descriptions, see chapter three of Bresnan's *Managing Indonesia*, and chapters five through seven of Thomas and Panglaykim's *Indonesia: Effect of Past Policies*; for a broader look at the economy in the New Order period, see e.g., Hill, *Indonesian Economy*.

³ Grenville, "Monetary Policy," p. 108.

Reflecting that the wave of economic nationalism had crested and was receding, in a decided reversal of policy foreign investment was now welcomed into Indonesia as part of the economic recovery program. Indeed, the new administration, recognizing that Indonesia simply did not have the resources to develop fully its economy, particularly in the industrial and manufacturing sector, went to great lengths to encourage new foreign investment. The cornerstone of this effort was the new foreign investment law of 1967, the first law passed by the parliament that year. Designed to attract new foreign investment, the law provided numerous incentives such as varying exemptions from corporate taxes and dividend taxes, full authority of foreign owners to appoint management, including foreign managers and technical personnel, exemption from stamp taxes and import duties, as well as favorable terms on grants of land. Significantly, foreign companies were also granted the right to repatriate profits and various expenses at prevailing exchange rates, rights that were denied prior to then. There were some restrictions as well. While most sectors of investment were open, a few such as utilities, shipping, aviation, mass media and defense-related areas, were closed. In addition, foreign companies were obliged to use and train Indonesian manpower, and perhaps most importantly there was a requirement that at some point in the future foreign investors divest a portion of ownership to domestic shareholders (the GOI would set general guidelines on the timing and amount of the divestment, but investors were encouraged to propose their own plan). Finally, recognizing that foreign investors might be skittish about investing in a country that had recently seized virtually all foreign investment, the law also contained explicit protections against nationalization. Specifically, Article 21 provided that the GOI would not nationalize or revoke ownership rights in or take steps to restrict the rights of control or management except via an act of parliament, and only in the interests of the state. In such a case, Article 22 provided, compensation would be paid in accordance with the principles of international law, and the government committed itself to binding arbitration in the event no agreement could be reached on compensation. The 1967 foreign investment law was complemented by a number of bilateral investment guaranty agreements signed between the GOI and foreign countries such as the United States that enabled such foreign countries to guarantee certain investments against losses from nationalization, revolution, etc.

In part to encourage new foreign investment, the GOI undertook a program to return the foreign companies seized from 1963-65 in what is another untold story in Indonesian economic history. Indonesian officials were well aware that new foreign investors would look closely at the treatment of old investors before making a decision and thus wanted to give the clearest signal possible regarding their intentions. Indonesian officials were also aware that countries providing the much-needed foreign aid would be more sympathetic if confiscated companies from their countries were returned to their owners. The basic decree providing for the returns was issued by General Suharto in mid-December 1966, not coincidentally a few days before Indonesia's creditor nations met in Paris and agreed to reschedule Indonesia's foreign debt.⁴ The decree cited the ending of Konfrontasi and the desire to increase the production of the companies as the reasons for returning control of the companies to their original owners and instructed the various ministers to arrange for the return of the companies. There was thus a recognition both that GOI supervision/control was no longer necessary because the international situation had changed and that private interests were better suited than the government to expand production of the companies. Three conditions were established: (i) the returns should guarantee the increased production of the company (meaning the owners would have to make new investments to rehabilitate and expand the facilities), (ii) the returns should not create social tensions (presumably in the form of large lay-offs), and (iii) the returns should not be a burden to the GOI (meaning no compensation was to be paid). The GOI also formed a committee to oversee the returns and issued various regulations to supplement the December 1966 decree.

Over the course of 1967-68, many of the companies seized in 1963-65 were returned to their original owners. Negotiations with owners were often slow and gradual, as these investors had to decide whether to invest in Indonesia once again. All 12 manufacturing enterprises taken over were returned, most in the first eight months of 1967, though a few owners decided to end operations just after the company was returned. The estates were a different matter altogether, in part because vested interests eager to maintain the revenues generated by the estates were less willing to forego their

⁴ Instruksi Presidium Kabinet (Suharto) No. 28/U/IN/12/66 Tentang Pengembalian Perusahaan-Perusahaan Asing ke Dalam Tangan Pemilik Semula, dated 12 December 1966.

revenues. Goodyear and US Rubber were the first estate companies to return in late 1967, followed by others in the first half of 1968 as the GOI set various deadlines. In total, approximately 50% of the estate companies (and about 60% of the number of estates taken over) were returned to their owners, though not all their estates were returned. One estate company, the large SOCFIN, returned as a joint venture company with the GOI. Most of the returnees were the large estate companies; the smaller ones simply did not have the resources or enough risk tolerance to come back. The GOI also agreed to pay compensation to many of the non-returnees, though these payments were for the most part minimal, but did not pay compensation to those who did return (AIP, the owner of P&T Lands, received compensation because most of its estates were not returned, but the final settlement did not occur until late 1971). Most of the companies returned, whether manufacturing facilities or estates, were in very poor physical condition, and virtually all the returnees agreed to make significant new investments in their businesses. Even amidst the returns, the GOI continued to cling to the notion that it had not confiscated the companies but instead had simply taken over their management, and was now only returning management (not ownership) back to the owners. In addition, at least 10 of the Malaysian enterprises seized in 1963 were returned in 1968. In another effort to close the chapter on the takeover of foreign companies, in the summer of 1966 the GOI agreed to pay compensation for the seizure and nationalization of Dutch firms in 1957-59 in the amount of Fl 600 million (about \$165 million), payable in 30 year installments beginning in 1971.

From the late 1960's until the present, foreign investment would maintain a constant presence in Indonesia, though its role in the economy was fairly minor and frequently fluctuated.⁵ The measures taken in 1967-68, including the 1967 foreign investment law, ushered in a very liberal five to six year period in which the investment door was very open and foreign investment began to trickle into the country, though investors were naturally cautious. In 1974, this open door would be closed somewhat as economic nationalist sentiment, ever present but not always acted upon, reared its head

⁵ Hill estimates that from 1969 until the early 1990s, foreign investment accounted for 1-2% of Indonesia's GDP and a slightly higher percentage of gross capital formation. Hill, *Indonesian Economy*, pp. 76-7. On foreign investment generally from the late 1960s until the late 1980s, see Hill, *Foreign Investment and Industrialization*.

again and led to significant restrictions. Over the next decade and a half there was a repeating cycle in which more restrictive measures were followed by more open measures, but in no case did the foreign investment regime come anywhere close to the first half decade of the 1960s. By the late 1980s and early 1990s, the cycle seemed to have ended permanently at the open end, as the foreign investment door was as wide open as it had been in the late 1960s. Undercurrents of economic nationalism in various forms still persist, of course, but the pinnacle of economic nationalism in Indonesia unquestionably remains 1965.

Appendices

APPENDIX A: LIST OF COMPANIES TAKEN OVER, 1963-65

EXPLANATION TO APPENDIX A

- (i) Column A lists the name of the parent company and the country in which it was incorporated/based.
- (ii) Column B lists the Indonesian subsidiaries of the parent company and the approximate year either the parent (via the listed subsidiary or otherwise) began operations in Indonesia.
- (iii) Column C describes the business of the subsidiary in Indonesia; where available, I have included a description of the assets, location, number of employees, etc.
- (iv) Column D lists the date the subsidiary was taken over by the central GOI and which ministry took over the subsidiary. The date reflects either (a) the date a specific decree was issued for that company or (b) the de facto date on which the GOI ministry assumed control; in many cases, this date is unclear.

APPENDIX A

| Name and Nationality of Parent Company | Name of Indonesian Subsidiary; Date Parent Began Operations in Indonesia | Description of Business | Date Taken Over by Central GOI and Ministry Involved |
|---|--|--|--|
| Amalgamated Rubber and Industrial Products, Limited; British | (i) NV Cultuur Maatschappij Gloensing, (ii) NV Cultuur Maatschappij Soember Tengah, (iii) NV Cultuur Maatschappij Soember Ajoe | owned three estates in East Java; (i) Gloensing/Poerwodjojo estate (rubber, 676 ha), (ii) Sumber Tengah estate (rubber/coffee, 961 ha), (iii) Soember Ajoe estate (rubber, 545 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (all in Dwikora VII) |
| American and Foreign Insurance Association; American | branch office | insurance company | early April 1965 by the Ministry of Finance |
| Ampat (Sumatra) Rubber Estate Limited; British | PT Perusahaan Perkebunan Simpang Ampat | owned Rambung estate in North Sumatra (rubber, 1244 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Anglo Indonesian Plantations, Limited; British | P&T Lands; purchased by AIP in 1910 | owned 21 estates in West Java totaling 29,400 ha with approximately 30,500 employees | mid-February 1964 by the Ministry of Agriculture and Agrarian Affairs (all in Dwikora IV) |
| Anglo Sumatra Estate Agency Limited; 50% Belgian (Sipef), 50% British (REA) | same name | estate management company based in Medan, North Sumatra; | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs |
| Anglo Sumatra Rubber Company, Limited; British | PT Perusahaan Perkebunan Greahan | owned Greahan estate in North Sumatra (544 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |

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| Bandar Property Holdings, Limited; British | two: (i) PT Bandar Sumatra Rubber Company, and (ii) PT Tambira Rubber Estates | owned Bandar Pinang estate in North Sumatra (rubber, 1510 ha, approximately 380 employees) and Sungai Burung estate in North Sumatra (rubber, 1461 ha, approximately 190 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (both in Dwikora III) |
| Biting Rubber Estates, Limited; British | NV Cultuur Maatschappij Biting | owned two estates in Central Java: (i) Biting estate (rubber, 434 ha), and (ii) Kebonroto estate (rubber, 71 ha); combined total employees approximately 285 | June 1964 by the Ministry of Agriculture and Agrarian Affairs (both in Dwikora V) |
| Bombay Burma Trading Corporation, Limited; India | PT Indo Java Rubber Planting and Trading Company; 1907 | owned Tjisera/Tjipari estate in Central Java (rubber, 2557 ha, approximately 2400 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V); in December 1965 sold to GOI for \$450,000 |
| The Borneo Company, Limited; British | PT Haboko Tea Company | owned two estates in Sumatra: (i) Aek Tarum estate, and (ii) Haboko estate | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (both in Dwikora II) |
| British American Tobacco Company Limited; British | British American Tobacco Manufacturers (Indonesia) Limited; 1925 | 3 cigarette manufacturing factories (in each of Surabaya, Cirebon, Semarang); approximately 4,500 employees in Indonesia; | 8 February 1964 by the Ministry of Peoples Industry |
| British Rubber Estates of Java; British | Kali Doeren Estates NV Djakarta | owned 3 estates: (i) Tugusari estate (rubber/coffee, 1092 ha, East Java), (ii) Tjimenteng estate (tea/rubber, West Java), (iii) Tugu estate (tea/rubber, West Java); approximately total 2,000 employees; | June 1964 by the Ministry of Agriculture and Agrarian Affairs (Tugusari in Dwikora VI, Tjimenteng and Tugu in Dwikora V) |
| Calico Printers Association Limited; British | Nebritex, NV; 50% owned by Calico, 50% owned by a Dutch concern; 1941 | textile factory near Surabaya, East Java; estimated value (by company) was £1.0 million | 8 February 1964 by the Ministry of Peoples Industry |
| Caltex Oil; American (joint venture between Standard Oil of California and Texaco) | PT Caltex Indonesia; 1936 | oil company; primary fields located in central Sumatra | 19 March 1965 by the Ministry of Basic Industry and Mining (later Ministry of Oil and Natural Gas) |

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| Chartered Bank; British | same name (branch offices); 1860s | bank; branches in Jakarta, Surabaya, Medan | 26 November 1964 by the central bank |
| Commercial Union Assurance Company, Limited; British | this company, plus affiliate company Ocean Accident & Guarantee Corporation, had branches in Indonesia | insurance business; Commercial Union and Ocean Accident both had offices in Jakarta and Surabaya; | late September 1963 by the Ministry of Finance (Department of Insurance and Revenue) |
| Djember Rubber Estates, Limited; British | NV Djember Rubber Cultuur en Handel Maatschappij | owned two estates: (i) Doerdjo estate, and (ii) Sentoel estate | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Sentoel in Dwikora VI) |
| Dunlop Rubber Company Limited; British | Dunlop Rubber Company (Indonesia) Limited | sales office in Jakarta which also oversaw production contract with Goodyear (under which Goodyear made car tires for Dunlop) | late September 1963 by the Ministry for Basic Industry and Mining |
| Eastern Sumatra Rubber Estates; British | PT Eastern Sumatra Rubber Estates | owned Bukit Maradja estate in North Sumatra (rubber, 3247 ha, approximately 1300 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Fraser & Neave; Singaporean | NV Handel Maatschappij Fraser & Neave | two soft drink/bottling factories, one in each of Jakarta and Surabaya | 8 February 1964 by the Ministry of Peoples Industry |
| Fuchs GMBH; West German | PT Prodenta Indonesia; 1952 | toothpaste factory in Surabaya | 18 May 1965 by the Ministry of Peoples Industry |
| Goodyear Plantations; American | NV Goodyear Sumatra Plantations Company; 1917 | owned two rubber estates in North Sumatra (Wingfoot (16,000 ha) and Dolok Merangir (6,000 ha)); approximately 10,000 employees | 26 February 1965 by the Ministry of Estates (Ampera I); in May 1966 sold to GOI for \$4.5 million |
| Goodyear Tire Factory; American | Goodyear Tire & Rubber Company, Limited; 1935 | tire factory in Bogor, West Java; approximately 1,200 employees | 22 March 1965 by Ministry of Basic Industry and Mining |
| Guthrie & Co, Limited; Singaporean/British | same name; 1913 | estate management firm; main office in Medan | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs |

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| Hawaiian-Sumatra Plantations, Limited; American | unknown; 1910s | owned Kwala Gunung estate in North Sumatra | 26 February 1965 by the Ministry of Estates; (business may have been sold to private Indonesian investor) |
| Holding Jabelmat, SA; Belgian | four subsidiaries: (i) PT Perusahaan Perkebunan Djember Indonesia, (ii) PT Perusahaan Perkebunan Alicia, (iii) PT Perusahaan Perkebunan Kalitengah Indonesia, (iv) PT Perusahaan Perkebunan Melania | owned 5 estates in West Java: (i) Widodaren estate, (ii) Alicia estate, (iii) Kalitengah estate, (iv) Melania estate, (v) Tjibuni estate (tea); | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Widodaren and Kalitengah in Dwikora VI, and Alicia, Melania, Tjibuni in Dwikora V); in December 1965 sold to GOI for \$765,000 |
| Indeur, SA; Swiss/Indonesian | PT Filma; ex Proctor & Gamble (established late 1930s, sold in late 1963) | oil/margarine factory in Surabaya | 9 April 1965 by the Ministry of Peoples Industry |
| Interbra, SA; Belgian | PT Perusahaan Bir Bintang; brewery established in 1931 | brewery in Surabaya (ex Heineken managed/operated) | 18 May 1965 by the Ministry of Peoples Industry |
| Java Consolidated Estates; British | 6 subsidiaries: (i) NV Kroewoek Estates, Limited, (ii) NV Cultuur Maatschappij Soember Mas Kali Padang, (iii) NV Banjoemas Landen, (iv) NV Pasawahan Rubber Company Limited, (v) NV Goenoengsarie Pengeloeran Estates Limited, (vi) NV Cultuur en Mijbouw Maatschappij Burix; | owned 9 estates; (i) Bajah estate in East Java (rubber, 1016 ha, approximately 330 employees), (ii) Soember Mas estate in Malang, East Java, (iii) Bandoeardjo estate, (iv) Kali Minggir estate in Central Java (rubber, 494 ha, approximately 460 employees), (v) Pasawahan estate, (vi) Goenungsai estate in East Java, (vii) Tjaroei estate in East Java, (viii) Redjodadie estate in East Java, and (ix) Tjiboeloe estate in East Java; | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Kali Minggir, Bajah, Tjaroei, Redjodadie in Dwikora V, Soember Mas and Goenungsai in Dwikora VI); |
| Java Investment, Loan and Agency; British | two subsidiaries (i) NV Landbouw Maatschappij Kali Sepandjang, and (ii) NV Cultuur Maatschappij Pegundangan; 1910 | owned two estates in East Java: (i) Kali Sepandjang estate (rubber, 804 ha) and (ii) Pegundangan estate (coffee/rubber, 1030 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VII) |

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| Java Rubber Plantations; British | NV Cultuur Maatschappij Kali Selogiri | owned Kali Selogiri estate in East Java | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VII) |
| Java United Plantations Limited; British | NV Cultuur Maatschappij Kali Klepeoh Gunung Pasang; 1909 | owned two estates in East Java: (i) Tanah Manis estate (coffee, 340 ha) and (ii) Gunung Gumitir estate (coffee, 613 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VII) |
| Johore Para Rubber Company, Limited; British | NV Tjilmoet Rubber Landen | owned Cilaut estate in West Java | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V) |
| Kali Glagah Rubber Company, Limited; British | NV Kali Glagah Estate Limited | owned two estates in East Java: (i) Kaliduren estate, and (ii) Kaliglagah estate | June 1964 by the Ministry of Agriculture and Agrarian Affairs (Kaliduren in Dwikora VI) |
| Laras (Sumatra) Rubber Estates, Limited; British | PT Perusahaan Perkebunan Laras Indonesia | owned two estates: (i) Kerasan estate (rubber), and (ii) Bah Bajoe estate (rubber) (combined 3290 ha with approximately 800 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| London Sumatra / Harrisons Crosfield group; British | various subsidiaries; 1906 | owned 17 estates in North Sumatra, 4 estates in Java and 3 estates in Sulawesi totaling approximately 52,000 ha (with approximately 13,000 employees); also managed estates and engaged in shipping and trade | Jakarta office and estates in Java and Sulawesi taken over in late September 1963, and office in Medan and estates in Sumatra taken over by June 1964, in each case by the Ministry of Agriculture and Agrarian Affairs (mostly Dwikora I and II) |
| MacLaine Watson; incorporated in Indonesia but British owned | MacLaine Watson NV; 1820s | trading firm, with main office in Jakarta and branch offices in Semarang, Surabaya, Makassar, Bandjarmasin | 1 July 1964 by the Ministry of Trade |

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| Manhattan Securities Company; American | NV Lebak Plantations; 1910s | owned Pasir Koppo estate in West Java (rubber) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V) |
| Marawan (Java) Rubber Plantations, Limited; British | NV Tjorah Mas Kepoetren Estates Limited | owned two estates in East Java: (i) Tjorah Mas estate (rubber/coffee, 220 ha), and (ii) Kepoetren estate (rubber/coffee, 355 ha); approximately 700 combined employees | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VI); |
| Martapoera Rubber Estates, Limited; British | Tanah Intan Estate Limited | ownd Tanah Intan estate in South Kalimantan (1350 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VI) |
| Motion Picture Export Association of America; American | branch office | movie distribution company; this company and some of its members (MGM, 20th Century Fox, Warner Brothers, Universal Pictures, United Artists, Paramount, Columbia Pictures) had offices in Jakarta and Surabaya and distributorships with inventory of approximately 3,000 films; | April/May 1965 Indonesian army seized offices and inventory after takeover by boycott group; no official GOI takeover decree; thereafter films controlled by army and Censor Board |
| National Cash Register Company; American | same name | selling/distributing accounting machines; main office in Jakarta, branch offices in Bandung, Surabaya, Semarang and Medan | 10 April 1965 by the Department of Foreign Trade |
| Nicholas PTY, Limited; Australian | NASPRO | pharmaceutical company; aspirin factory in Jakarta (approximately 150 employees) | 26 April 1965 by the Ministry of Health |
| Noco Limited; Canadian | PT Perusahaan Sepatu Bata; 1935 | part of the Bata Shoe Company group; operated a large shoe factory in Jakarta | 17 May 1965 by the Ministry of Peoples Industry |
| Pan American International Oil Company; American | Pan American Indonesian Oil Company; 1962 | oil exploration | 19 March 1965 by the Ministry of Basic Industry and Mining (later Ministry of Oil and Natural Gas) |

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| | | at least 8 subsidiaries: (i) PT Sadang Mas, (ii) PT Maskapai Perkebunan Sumcana Padang Halaban, (iii) PT Maskapai Leidong West Indonesia, (iv) PT Maskapai Perkebunan Batu Lempit Indonesia, (v) PT Maskapai Perkebunan Indorub Sumberadung, (vi) PT Indragiri Aer Molok, (vii) NV Expl. Mij Soengei Lalah, and (viii) NV Cultuur Mij Soengei Parit; | owned at least 11 estates: (i) Padang Halaban Sumcana estate in North Sumatra (palm oil, 7,292 ha, approximately 820 workers), (ii) Kanopan Ulu estate in North Sumatra (rubber, 1655 ha, approximately 500 workers), (iii) Malangsari estate in East Java (coffee), (iv) Sumberwadung estate in East Java (rubber/coffee), (v) Patuahwattee estate in West Java (tea), (vi) Gadung estate in Riau (rubber), (vii) Aer Molok estate in Riau (rubber), (viii) Sungai Sago estate in Riau (rubber), (ix) Djapura estate in Riau (rubber), (x) Sungai Lalah estate in Riau (rubber), and (xi) Sungai Parit estate in Riau (rubber) | the five non-Riau estates taken over sometime from late June to December 1965 by the Ministry of Estates (Padang Halaban Sumcana and Kanopan Ulu estates in Expera I, Patuahwattee in Expera III), except for the Malangsari estate which was occupied by the Brawijaya division of the army; in December 1965, five non Riau estates sold to GOI for \$1.787 million |
| Sampang (Java) Rubber Plantations, Limited; British | NV Batam & Preanger Rubber Company Limited | | owned two estates in West Java: (i) Sampang Peundeuy estate (rubber, 691 ha), and (ii) Pasir Budjal estate | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Sampang Peundeuy in Dwikora IV) |
| Samuba, SA; Belgian | | three subsidiaries: (i) PT Perusahaan Perkebunan Moesi Indonesia, (ii) PT Perusahaan Perkebunan Bajabang Indonesia, (iii) PT Perusahaan Perkebunan Musam Utjing | owned four estates in West Java: (i) Sannah estate, (ii) Bajabang estate, (iii) Sungai Musam estate, (iv) Pasir Utjing estate | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Sannah, Bajabang and Pasir Utjing in Dwikora V, and Sungai Musam in Dwikora III); in December 1965 sold to GOI for \$625,000 |

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| Sea Oil and General Corporation; American | PT Baud Indonesia; 1920s | owned 5 estates in West Java:(i) Pamegatan (tea, 2365 ha, lease expired in 1959), (ii) Djatinangor (rubber, 962 ha, lease expired in 1961), (iii) Tjikasungka (rubber), (iv) Tjarenang (tea, 1000 ha, lease for 700 expired in 1958), and (v) Toge (rubber); | The Tjikasungka estate and Toge estate were taken over in 1960 by the Ministry of Plantations and Agarian Affairs and put under state owned plantation companies because they were mistakenly believed to be Dutch; the other three estates were apparently taken over 7 April 1964 by the Ministry of Agriculture and Agrarian Affairs; the Tjiksanungka and Toge estates were placed under a state plantation company; the Djatinangor and Pamegatan estates were run by the army on behalf of the Governor of West Java, and the Tjarenang estate was occupied by the public; |
| Shell Oil; British | PT Shell Indonesia; 1907 | oil company with primary fields located in South Sumatra and East Kalimantan and refineries in Pladju (near Palembang) and Balikpapan | 19 March 1965 by the Ministry of Basic Industry and Mining (later Ministry of Oil and Natural Gas); on 31 December 1965 sold to GOI for \$110 million |

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| Singer Sewing Company; American | unknown | sewing machine assembly plant in Surabaya (approximately 30 employees); main sales/service office in Jakarta | 10 May 1965 Jakarta office taken over by Department of Foreign Trade; 18 May 1965 Surabaya plant taken over by Ministry of Peoples Industry, then on 24 May 1965 transferred to Department of Foreign Trade; |
| SIPEF (Societe International de Plantations et de Finance); Belgian | PT Perusahaan Perkebunan Tolan Tiga; 1920s | owned Perlabian estate in North Sumatra (palm oil, 7031 ha) | sometime from late June to December 1965 by the Ministry of Estates (Expera I); in December 1965 sold to GOI for \$1.9 million |
| SOCFIN (Societe Financiere des Caoutchoucs or Plantatin Nord Sumatra); Belgian | various subsidiaries and companies; 1911 | owned 18 palm oil and rubber estates in Aceh and North Sumatra totaling approximately 51,700 ha (with approximately 19,000 employees) | sometime from late June to December 1965 by the Ministry of Estates (Expera II); in December 1965 sold to GOI for \$13.5 million |
| Societe Anonyme de Gestion pour L'Indonesie; French | PT Perusahaan Perkebunan Montjolimo | owned Montjolimo estate in Central Java (rubber, 1089 ha) | sometime from late June to December 1965 by the Ministry of Estates (Expera IV); in December 1965 sold to GOI for \$87,000 |
| Societe Anonyme Plantations Indonesiennes & Participations; French | PT Perusahaan Perkebunan Sumatra Tapanuli Selatan or PT Sumatap | owned three estates in North Sumatra: (i) Batang Toru (rubber, 2242 ha), (ii) Malombu (rubber, 937 ha), and (iii) Sangkunur (2505 ha) | sometime from late June to December 1965 by the Ministry of Estates (Expera I); in December 1965, sold to GOI for \$182,000 |

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| Societe de Gestion et de Participation pour L'Asie et L'Afrique; French | PT Perusahaan Perkebunan France Indonesia or PT Franesia | owned six estates: (i) Tjikaso/Tjipangparang in West Java (rubber, 1785 ha), (ii) Pidjor Koling in North Sumatra (rubber, 1255 ha), (iii) Tjisaga (rubber, 913 ha), (iv) Lemah Neundeat in West Java, (v) Rantja Tapen in West Java, and (vi) Matinggeng in West Java; | sometime from late June to December 1965 by the Ministry of Estates (Tjikaso in Expera III, Pidjor Koling in Expera I, Tjisaga in Expera III); in December 1965 Tjikaso, Piidjor Koling and Tjisaga estates sold to GOI for \$521,000 |
| Stanvac Oil; American (joint venture between Standard Oil of New Jersey and Socony Mobil Oil) | PT Stanvac Indonesia; 1920s | oil company; primary fields located in South and Central Sumatra, with refinery at Pladju (near Palembang, South Sumatra) | 19 March 1965 by the Ministry of Basic Industry and Mining (later Ministry of Oil and Natural Gas) |
| Sumatra Anglo Dutch Estates, Limited; British | NV Sumatra Land Syndicate | owned Sungai Laru estate in South Sumatra (rubber, 443 ha) | sometime between February and June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora IV) |
| Sun Insurance Group; British | branch office | insurance company | sometime in 1964 by the Ministry of Finance (Department of Revenue and Insurance) |
| Sungei Buaya (Sumatra) Rubber Company, Limited; British | PT Perusahaan Perkebunan Panigoran | owned Panigoran estate in North Sumatra (rubber, 1717 ha, approximately 240 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Supara Investments, Limited; British | PT Perusahaan Perkebunan Pangkatan Indonesia | owned Pangkatan estate in North Sumatra (rubber, 3262 ha, approximately 600 employees) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Tabacofina, SA (short for Union Financiere Belge Des Tabacs); Belgian | PT Faroka; 1920s | cigarette factory in Malang, East Java | 18 May 1965 by Ministry of Peoples Industry |

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| Tanah Datar Rubber Estates, Limited; British | PT Perusahaan Perkebunan Tanah Datar Indonesia | owned Tanah Datar estate in North Sumatra | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora II) |
| Tanah Estates Limited; British | NV Cultuur Maatschappij Pleihari | owned various estates in South Kalimantan that totalled approximately 3220 ha, including Arba estate and Tanah Ambungan estate | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VI) |
| Tangoel Rubber Estates Limited; British | NV Soekokoelon Rubber Company Limited | owned Soekokoelon estate in Java | March 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora VI) |
| Tebing Rubber Estates (1931) Limited; British | PT Tebing Indonesia | owned Hevea estate in North Sumatra (703 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Teleoredjo United Plantations, Limited; British | two: (i) NV Toeren Estates, Limited, and (ii) PT Perusahaan Perkebunan Dops (owned by a Danish subsidiary of Teleoredjo United) | owned three estates : (i) Tjondong estate in Java (4370 ha), (ii) Teleoredjo estate in Java, and (iii) Telok Pandjie estate in North Sumatra; | Tjondong estate in June 1964, others sometime between February and June 1964, in each case by the Ministry of Agriculture and Agrarian Affairs (Teleoredjo in Dwikora VI, Tjondong in Dwikora V, Telok Pandjie in Dwikora III) |
| Timbang Deli (Sumatra) Rubber Company, Limited; British | PT Perusahaan Perkebunan, Industrie & Dagang Timbang Deli Indonesia | owned Timbang Deli Serdang estate in North Sumatra (rubber, 1331 ha) | 31 March 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |
| Tjikadu Holding Societe Anonyme; Belgian (owned by SIPEF) | PT Perusahaan Perkebunan Tjinihnih | owned Cikadu estate in West Java (rubber, 1314 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V); in December 1965 sold to GOI for \$137,000 |

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| Tjiwangie Tea Estates, Limited; British | two: (i) Wangie Wattie Planting Co Limited, (ii) De Kali Baroe Maatschappij | owned 3 estates in West Java: (i) Tjiwangie estate (tea), (ii) Kali Haroe estate, (iii) Tjikawoeng estate; | sometime in 1964 by the Ministry of Agriculture and Agrarian Affairs |
| Unilever; British | five subsidiaries; 1933 | 4 factories (3 (soap, margarine, and coconut oil) in Jakarta, and 1 (soap/toothpaste) in Surabaya) | 8 February 1964 by the Ministry of Peoples Industry |
| Union Carbide Corporation; American | NV National Carbon Company Java Limited; 1934 | Eveready battery factory in Jakarta; about 300 employees | 3 April 1965 by the Ministry of Peoples Industries |
| Union Insurance Society of Canton; British | same name (branch office) | insurance company | unclear; taken over by the Ministry of Finance (Department of Insurance and Revenue) |
| United Molasses Company Limited; British | PT Java Transport and Trading Company | molasses business; purchases, stores and exports molasses, primarily in Java; assets included storage tanks and plants for molasses in Central and East Java (estimated storage capacity of 120 metric tons); | July 1964 by the Ministry of Trade |
| United Rubber and Coffee Plantations (1932); British | NV Telok Betong Rubber, Tea and Coffee Estates Limited | owned Wai Ratai estate in Lampung, Sumatra (10,673 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V) |
| United States Rubber Company/Uniroyal; American | PT United States Rubber Corporation; 1911 | owned Kisaran rubber estate in North Sumatra (approximately 17,500 ha with approximately 7,300 employees) | 26 February 1965 by the Ministry of Estates (Ampera II); in April 1966 sold to GOI for \$4.1 million |
| United Sumatra Rubber Estates, Limited; British | PT Perusahaan Perkebunan Tanah Abang Indonesia | owned Tanah Abang estate in North Sumatra (276 ha) | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora III) |

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| JA Wattie; British | three subsidiaries: (i) NV Handel Maatschappij JA Wattie & Co Limited, (ii) NV Estate Supplies and Trading Co (Indonesia) Limited, and (iii) NV Handel Maatschappij Caldback Macgregor (Java) Limited; Burt Taylor/Ross Taylor group was also affiliated with this group; | primarily estate management company with head office in Jakarta; also trading company | head office in Jakarta taken over late September 1963, and Surabaya office in February 1964, by the Ministry of Agriculture and Agrarian Affairs |
| parent name unknown; owned by 1 Chinese individual; Chinese | NV Perusahaan Perkebunan Glen Falloch | owned Glen Falloch estate in East Java (coffee/rubber, 911 ha) | sometime from late June to December 1965 by Ministry of Estates; in December 1965 sold to GOI for Rp. 1 billion in cash |
| parent name unknown; owned by 5 Chinese individuals; Chinese | NV Perusahaan Perkebunan dan Perdagangan Kadjaran | owned Kajraran estate in Central Java (rubber/coffee, 1063 ha) | sometime from late June to December 1965 by Ministry of Estates (Expera IV); in December 1965 sold to GOI for Rp. 550 million in cash |
| parent name unknown; Swiss | NVCO Kalilanang | owned Kalilanang estate in Central Java (rubber, 1808 ha) | late from June to December 1965 by the Ministry of Estates (Expera IV, then in March 1969 transferred to PNP XVIII); in December 1965, sold to GOI for Rp. 300 million in cash |
| parent name unknown; nation unknown | NV Koffie Onderneming Tjurug | owned Tjurug estate in Central Java | sometime from February to June 1964 by the Ministry of Agriculture and Agrarian Affairs (Dwikora V) |

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| parent name unknown; Italian | PT Kina Monind | owned Tjibatu estate near Bandung, West Java (tea, 1726 ha) | sometime from late June to December 1965 by the Ministry of Estates (Expera III); in December 1965 sold to GOI for \$500,000 |
| parent name unknown; Malaysian | NV Handel Mij Hok Tong | rubber remilling business; owned four factories, one at each of Palembang, Djambi, Pontianak, and Bandjarmasin | late 1963 by the Ministry of Agriculture and Agrarian Affairs; Palembang, Pontaniak and Bandjarmasin factories operated by BPU PPN Karet; Djambi factory 'rented to' PT Windu, a private company; |
| parent name unknown; Malaysian | NV Hock Lie | rubber remilling business; owned four factories, one at each of Pulau Bjajan Medan, Teluk Nibung, Pantauprapat and Sibolga | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; Pulau Bjajan Medan factory operated by BPU PPN Karet; Teluk Nibung factory operated by PT Cita, Ltd.; Rantauprapat factory 'rented to' PT Teluk Harapan Baru, a private company; Sibolga factory 'rented to' PT Piola, a private company; |
| parent name unknown; Malaysian | NV Sunan Rubber | rubber remilling business; factory in Palembang | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory 'rented to' NV Metro Trading Company, a private company; |

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| parent name unknown; Malaysian | Sumatra Rubber Company | rubber remilling business; factory in Palembang | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory operated first by PT Peksin and then by GAKKAS rubber cooperative |
| parent name unknown; Malaysian | NV Remco | rubber remilling business; factory in Palembang | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory 'rented to' the Dasaad Musin concern (private) |
| parent name unknown; Malaysian | Fa Ngee Hua & Co | rubber remilling business; factory in Djambi | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory operated by PT Tribina Karya |
| parent name unknown; Malaysian | NV Guan Joo Long | rubber remilling business; factory in Djambi | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory 'operated by PT Cinpex' |
| parent name unknown; Malaysian | NV Setjurai | rubber remilling business; factory in Pangkalan Brandan | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory 'rented to' PT Daood Djafar, a private company |
| parent name unknown; Malaysian | NV Seng Lie | rubber remilling business; factory in Medan | late October 1963 by the Ministry of Agriculture and Agrarian Affairs; factory operated by PT PP Berdikari |

parent name unknown;
Malaysian

NV Cultuur Handel en Industrie
Mij Remifa

rubber remilling business; two factories, one
in each of Palembang and Djambi;

late October 1963 by the
Ministry of Agriculture and
Agrarian Affairs; Palembang
factory 'rented to' NV Rahman
Tamin, a private company;
Djambi factory operated by PT
Djambi Waras;

APPENDIX B: GROUPING OF ESTATES TAKEN OVER

Dwikora I.

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|------------------------------------|--|
| Batu Gingging | (London Sumatra/Harrisons & Crosfield) |
| Bagerpang/Namu Rambai/Sungei Merah | (London Sumatra/Harrisons & Crosfield) |
| Rambung Sialang | (London Sumatra/Harrisons & Crosfield) |
| Sungei Rampah | (London Sumatra/Harrisons & Crosfield) |
| Turanggie | (London Sumatra/Harrisons & Crosfield) |
| Bungara | (London Sumatra/Harrisons & Crosfield) |
| Namu Tongan | (London Sumatra/Harrisons & Crosfield) |
| Pulau Rambung | (London Sumatra/Harrisons & Crosfield) |
| Bandar Telu | (London Sumatra/Harrisons & Crosfield) |

Dwikora II.

| | |
|------------------|--|
| Gunung Melayu | (London Sumatra/Harrisons & Crosfield) |
| Aek Tarum | (Borneo Company Limited) |
| Haboko | (Borneo Company Limited) |
| Nagodang | (London Sumatra/Harrisons & Crosfield) |
| Sungei Rumbija | (London Sumatra/Harrisons & Crosfield) |
| Bah Lias | (London Sumatra/Harrisons & Crosfield) |
| Dolok | (London Sumatra/Harrisons & Crosfield) |
| Sungei Bedjankar | (London Sumatra/Harrisons & Crosfield) |
| Tanah Datar | (Tanah Datar Rubber Estates) |
| Si Bulan | (London Sumatra/Harrisons & Crosfield) |
| Bah Bulian | (London Sumatra/Harrisons & Crosfield) |

Dwikora III.

| | |
|---------------|----------------------------------|
| Sungei Birung | (Bandar Property Holdings) |
| Bandar Pinang | (Bandar Property Holdings) |
| Bukit Maradja | (Eastern Sumatra Rubber Estates) |
| Pangkatan | (Supara Investments) |
| Greahan | (Anglo Sumatra Rubber Company) |
| Tanah Abang | (United Sumatra Rubber Estates) |
| Kerasan | (Laras (Sumatra) Rubber Estates) |
| Bah Baju | (Laras (Sumatra) Rubber Estates) |
| Rambung | (Ampat (Sumatra) Rubber Estate) |
| Telok Pandji | (Telegoredjo United Plantations) |
| Panigoran | (Sungei Buaya (Sumatra) Rubber) |

Tandjung Pasir/Situngir (unknown)
 Hevea (Tebing Rubber Estates)
 Timbang Deli Serdang (Timbang Deli (Sumatra) Rubber Company)
 Sungai Musam (Samuba)

Dwikora IV.

| | |
|------------------------|-----------------------------------|
| Bukanegara | (P&T Lands) |
| Djalupang | (P&T Lands) |
| Kassomalang | (P&T Lands) |
| Manjingsal/Tjigarukgak | (P&T Lands) |
| Pasir Bungur | (P&T Lands) |
| Pasir Muntjang | (P&T Lands) |
| Sariredja | (P&T Lands) |
| Serangsari | (P&T Lands) |
| Subang | (P&T Lands) |
| Sukaredja | (P&T Lands) |
| Sumurbarang | (P&T Lands) |
| Tambakan | (P&T Lands) |
| Tjiater | (P&T Lands) |
| Tjipeundeuj | (P&T Lands) |
| Wangunredja | (P&T Lands) |
| Gunung Tjembaka | (P&T Lands) |
| Kalimas | (P&T Lands) |
| Neglasari | (P&T Lands) |
| Tjukul | (P&T Lands) |
| Sampang Peundeuj | (Sampang Java Rubber Plantations) |
| Sungei Laru | (Sumatra Anglo Dutch Estates) |

Dwikora V.

| | |
|-------------|--|
| Wai Ratai | (United Rubber and Coffee) |
| Alicia | (Holding Jabelmat) |
| Melania | (Holding Jabelmat) |
| Sanna | (Samuba) |
| Tjondong | (Telegoredjo United Plantations) |
| Tjilaut | (Johore Para Rubber) |
| Bajah | (Java Consolidated Estates) |
| Tugu | (British Rubber Estates of Java) |
| Tjimenteng | (British Rubber Estates of Java) |
| Kertasari | (London Sumatra/Harrisons & Crosfield) |
| Djasinga | (London Sumatra/Harrisons & Crosfield) |
| Tjisadang | (unknown) |
| Pasir Koppo | (Manhattan Securities) |

| | |
|------------------|--|
| Tjikadu | (Tjikadu Holding/SIPEF) |
| Bajabang | (Samuba) |
| Pasir Utjang | (Samuba) |
| Tjibuni | (Holding Jabelmat) |
| Tjisera/Tjipari | (Bombay Burma Trading) |
| Tjarui | (Java Consolidated Estates) |
| Redjodadi | (Java Consolidated Estates) |
| Kali Minggir | (Java Consolidated Estates) |
| Biting/Kebonroto | (Biting Rubber Estates) |
| Tjurug | (NV Koffie Onderneming Tjurug) |
| Balagiri | (London Sumatra/Harrisons & Crosfield) |
| Balombessi | (London Sumatra/Harrisons & Crosfield) |
| Palangisang | (London Sumatra/Harrisons & Crosfield) |

Dwikora VI.

| | |
|---------------------------|--|
| Telegoredjo | (Telegoredjo United Plantations) |
| Gunungsari | (Java Consolidated Estates) |
| Sumber Mas | (Java Consolidated Estates) |
| Kaliduren | (Kali Glagah Rubber Company) |
| Soekokoelon | (Tangoel Rubber Estates) |
| Tugusari | (British Rubber Estates of Java) |
| Sentoel | (Djember Rubber Estates) |
| Keputren | (Marawan (Java) Rubber Plantations) |
| Tjorah Mas | (Marawan (Java) Rubber Plantations) |
| Widodaren | (Holding Jabelmat) |
| Kalitengah | (Holding Jabelmat) |
| Sumberwuni/Anim Sand I-IV | (London Sumatra/Harrisons & Crosfield) |
| Treba Sala | (London Sumatra/Harrisons & Crosfield) |
| Tanah Intan | (Martapoera Rubber Estates) |
| Tanah Ambungan | (Tanah Estates) |

Dwikora VII.

| | |
|-----------------|--|
| Tanah Manis | (Java United Plantations) |
| Gunung Gumitir | (Java United Plantations) |
| Sumber Tengah | (Amalgamated Rubber and Industrial Products) |
| Soember Ajoe | (Amalgamated Rubber and Industrial Products) |
| Poerwodjojo | (Amalgamated Rubber and Industrial Products) |
| Pegundangan | (Java Investment, Loan and Agency) |
| Kali Sepandjang | (Java Investment, Loan and Agency) |
| Kali Selogiri | (Java Rubber Plantations) |

Expera I.

| | |
|------------------------|---|
| Perlabian | (SIPEF) |
| Pidjor Koling | (Societe de Gestion et de Participation pour L'Asia et L'Afrique) |
| Batang Toru | (Societe Anonyme Plantations Indonesiannes & Participations) |
| Malombu | (Societe Anonyme Plantations Indonesiannes & Participations) |
| Sangkunur | (Societe Anonyme Plantations Indonesiannes & Participations) |
| Padang Halaban Sumcana | (Plantagen AG) |
| Kanopan Ulu | (Plantagen AG) |

Expera II/PPN Ex-SOCFIN.

| | |
|----------------|----------|
| Medang Ara | (SOCFIN) |
| Silabuhan | (SOCFIN) |
| Lae Butar | (SOCFIN) |
| Seumanjam | (SOCFIN) |
| Tripa | (SOCFIN) |
| Meureboh | (SOCFIN) |
| Seunangan | (SOCFIN) |
| Sungei Liput | (SOCFIN) |
| Tandjung Maria | (SOCFIN) |
| Bangun Bandar | (SOCFIN) |
| Negeri Lama | (SOCFIN) |
| Lidah Tanah | (SOCFIN) |
| Aek Loba | (SOCFIN) |
| Aek Pamiente | (SOCFIN) |
| Mata Pao | (SOCFIN) |
| Lima Puluh | (SOCFIN) |
| Tanah Gambus | (SOCFIN) |
| Tanah Besih | (SOCFIN) |

Expera III.

| | |
|--------------|---|
| Tjibatu | (Kina Monind) |
| Tjikaso | (Societe de Gestion et de Participation pour L'Asia et L'Afrique) |
| Tjisaga | (Societe de Gestion et de Participation pour L'Asia et L'Afrique) |
| Patuahwattee | (Plantagen AG) |

Expera IV.

| | |
|------------|--|
| Montjolimo | (Societe Anonyme de Gestion pour L'Indonnesie) |
| Kalilanang | (NVCO Kalilanang) |
| Kadjaran | (NV PPP Kadjaran) |

Ampera I (later PPN Karet XVII).

Wingfoot (Goodyear)
Dolok Merangir (Goodyear)

Ampera II (later PPN Karet XVIII).

Kisaran (US Rubber)

Occupied by Brawijaya (East Java) division of army:

Malangsari (Plantagen AG)

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|---------|--|
| AEPA | Anglo Eastern Plantation Archives, London, England |
| ANRI | <i>Arsip Nasional Republik Indonesia</i> (National Archives of the Republic of Indonesia), Jakarta, Indonesia |
| BKS-PPS | <i>Badan Kerja Sama Perusahaan Perkebunan Sumatra</i> (Sumatra Planters Association)(ex AVROS), Medan, Indonesia |
| GYA | Goodyear Company Archives, University of Akron, Ohio, USA |
| HI | Hoover Institute Archives, Palo Alto, California, USA |
| LBJL | Lyndon B. Johnson Presidential Library, Austin, Texas, USA |
| PDH | <i>Pusat Dokumentasi Hukum</i> (Center for Legal Documents), Jakarta, Indonesia |
| UA | Unilever Archives, Port Sunlight, England |
| UKNA | United Kingdom National Archives, Kew, London, England |
| USNACP | United States National Archives, College Park, Maryland, USA |

List of Persons Interviewed:

Mrs. Sjahfiri Alim (25 July 2006, Jakarta)
Sutan Assin (28 September 2006, Jakarta)
Andre Balot (8 May 2006, Jakarta)
F.R. van Blommestein (12 June and 19 June 2006, Jakarta)
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Majedi Hasan (5 October 2006, Jakarta)
John Karamoy (12 September 2006, Jakarta)
Soedjai Kartasasmita (22 March and 20 September 2006, Jakarta)
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Sjarif Lubis (19 September 2006, Jakarta)
Mohammad Mansur (11 July 2006, Jakarta)
Mirza Mustakim (23 September 2006, Jakarta)
Wisaksono Noeradi (5 October 2006, Jakarta)
Pudji Rahardjo (4 June and 16 July 2006, Jakarta and Surabaya)
Karl Schneider (16 June 2007, Nürtingen, Germany)
Frans Seda (10 February and 10 October 2006, Jakarta)
Suryo Sediono (15 July and 14 October 2006, Jakarta)
Sudono (26 September 2006, Jakarta)
Tampubolan (29 August 2006, Medan)
A Qoyum Tjandranegara (11 September 2006, Jakarta)
Anton Wahjosoedibjo (5 October 2006, Jakarta)

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