Dutch enterprise in independent Indonesia: cooperation and confrontation, 1949-1958

Research > Indonesia

Indonesian independence was achieved between 1945 and 1949, but the decisive step towards economic decolonization was only taken in 1957/58, when the Indonesian government ousted the remaining Dutch and nationalized Dutch corporate assets.

Jasper van de Kerkhof

In December 1949, after four years of diplomatic and military struggle, the Dutch government finally acknowledged Indonesian independence. The protection of Dutch economic interests in Indonesia had been the focal point of the Dutch delegation at the Round Table Conference (RTC) in The Hague, which was to settle the future relationship between the former colony and colonizer. The Financial and Economic appendix to the RTC Treaty, the so-called Finec, offered 'maximum available guarantees to the continued existence of Dutch firms in Indonesia' (Baudet 1983:213). Independent Indonesia not only respected the rights, concessions and licenses extended to Dutch enterprises under Netherlands Indies law, but also pledged that their future operations would not be obstructed.

The manager of a Dutch trading firm in Jakarta, December 1957. The graffiti states: 'You must be swept from West Irian'.

Jonker, Joost, Keetie Sluyterman. 2000. *Thuis op de wereldmarkt; Nederlandse handelshuizen door de eeuwen heen.* Den Haag; Sdu Uitgevers. p.270

There was no overwhelming Indonesian opposition to the restoration of Dutch business interests. Most Indonesian politicians grudgingly conceded that Indonesia still badly needed Dutch capital and expertise for its economic survival (Sutter 1959:662-8). There was, however, widespread feeling in Indonesia that the achievement of political sovereignty should be followed by the realization of economic independence. The continued supremacy of the Dutch and the attendant inferiority of the Indonesians in their own economy were considered an intolerable relic of Dutch imperialism. Sooner rather than later, the 'colonial economy' needed to be replaced by a 'national economy' in which Indonesians would own and control the country's productive assets and take up key economic positions.

A 'national economy'

In the early 1950s, successive Indonesian cabinets tried to give meaning to the ideal of a 'national economy' within the boundaries set by the RTC agreements. Policies aimed at cooperation with Dutch capital, and limited socialization to maximize prosperity for the Indonesian people. This occurred mainly in sectors where the Indonesian government exerted direct influence over business operations, such as banking, mining and transportation.

The nationalization in 1951 of Indonesia's circulation bank, the *Javasche Bank* (later renamed *Bank Indonesia*), proceeded without major difficulties and by way of adequate financial compensation (Lindblad 2004). For the Indonesian government, however, such lawful takeover of Dutch assets had two drawbacks. First, although the top positions in the nationalized firms were taken over by Indonesians, on the level immediately below the Dutch continued to form an almost impenetrable bastion. Second, the acquisition of Dutch shares rapidly depleted the Indonesian treasury. Indonesia therefore attempted to extend its control over Dutch firms without formal nationalization - at least for the immediate future. An example was the joint venture with the Dutch airline KLM, which provided for the establishment of Garuda Indonesian Airways in 1950. The Indonesian government was co-owner but delegated management of the new company to KLM. The Dutch carrier, in turn, was to train Indonesians as technicians, managers and pilots in preparation for formal nationalization.

The strategy to increase influence over Dutch firms in vital sectors was not always successful. In 1950, negotiations broke down between the Indonesian government and the Dutch shipping company KPM - which held a virtual monopoly in the archipelago's inter-island shipping. The Indonesians wanted to create a mixed company in anticipation of future nationalization along the lines of Garuda, but KPM refused. In the event, the Indonesian government decided to set up the state shipping company Pelni that rather ineffectively competed with the Dutch shipping line until December 1957.

The most ambitious Indonesian effort to advance the 'national economy' was the *Benteng* (fortress) program launched in April 1950. Its emphasis was on reserving the import of certain goods for indigenous merchants and formulating criteria 'national importers' had to meet to receive import licenses. The program was directed against the 'Big Five', the principal Dutch trading houses in the archipelago. *Benteng* led to an astronomical growth in the number of Indonesian importers. However, Indonesian lack of capital and expertise led to degeneration of the system: the vast majority of Indonesian 'national importers' were so-called Ali Baba constructions or *importir aktentas*, indigenous Indonesian front men controlled by Chinese and Western capital. Favouritism in the allocation of import licenses further perverted the scheme, resulting in its virtual collapse in 1954/55.

Thus the first and only noteworthy attempt to promote indigenous private entrepreneurship in a foreign-dominated sector failed. At the same time, efforts towards a *modus vivendi* between the Indonesian government and Dutch enterprise met with limited success. Indonesia could not fully dispense with Dutch capital and expertise and the Dutch firms were loath to surrender their privileged positions. The breakdown of the *Benteng* program convinced the government that state direction over the 'commanding heights of the economy' was the only viable alternative.

Indonesianisasi

The 1949 Finec agreement obliged Dutch firms to 'as quickly as possible bring skilled Indonesians into executive (including top managerial) and staff positions' (Finec: article 12d). However, no time schedule was given, nor did the agreement specify the percentage of Indonesians to be promoted to leading positions.

The replacement of Dutch expatriates by locally recruited personnel was known as *indonesianisasi*. In the Dutch firms that were legitimately nationalized in the early 1950s, such as the *Javasche Bank*, the government had usually already placed Indonesians in the top positions while the expatriate Dutch staff continued to run day-to-day operations. Here, *indonesianization* took place prior to nationalization. However, indonesianisasi was not easily forthcoming in private Dutch firms over which the Indonesian government exerted little control. Dutch companies were reluctant to invest large sums in training schemes for their indigenous workers, since many Indonesians after graduation opted for more reputable careers in government service (Meijer 1994:354). Also, legitimate Dutch claims that the training of Indonesian employees for higher functions would take time coincided with iniquitous assertions of Western superiority and the inaptness of Asians to lead and assume responsibility. The proportion of Indonesians in the work force of Dutch companies increased appreciably in the 1950s but, with a few notable exceptions, their advancement remained confined to the lower and intermediate levels (van de Kerkhof 2005). In Dutch corporate enterprise, genuine *indonesianisasi* had to await the expulsion of the Dutch in December 1957.

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Nationalization

The final stage of the economic decolonization of Indonesia began on 3 December 1957 when members of a local labour union occupied the headquarters of the Dutch shipping company KPM in Jakarta. The activists declared that they had taken over the firm and that Indonesians would at once replace the Dutch managers. Similar takeovers of Dutch companies occurred in the following days. These dramatic events found their roots in a dispute that seemingly had little to do with Dutch enterprise in Indonesia in general, or KPM in particular. Throughout the 1950s, Indonesia had challenged Dutch sovereignty over western New Guinea, excluded from the RTC agreements and therefore still under Dutch control. The issue had increasingly soured Indonesian-Dutch relations.

When on 29 November 1957 Indonesia for the third time failed to receive United Nations backing for a resolution calling on the Dutch to negotiate over New Guinea, the Indonesian government threatened to use all methods 'short of war' to achieve its goal. The authorities deliberately encouraged popular anti-Dutch sentiment as aggression turned against Dutch citizens and property. In this tense atmosphere, KPM - the 'colonial' shipping company - became a scapegoat for Indonesian frustrations over New Guinea and the unfulfilled promise of a national economy.

The takeover of Dutch enterprise in Indonesia led to an exodus of Dutch personnel and their families. Over 50,000 Dutch and Indo-Europeans left for the Netherlands. Meanwhile, the Indonesian government tried to direct the 'spontaneous' outburst of anti-Dutch sentiment. Dutch companies were put under nominal control of local military commanders, while day-to-day operations were taken over by leading Indonesian personnel. In December 1958, the Indonesian parliament enacted the formal nationalization of all Dutch corporate assets in the archipelago - with the exception of oil company BPM and Unilever, which were considered British enterprises. Thus with one stroke the Republic of Indonesia acquired possession of a large part of the country's productive capacity. State trusts were set up to manage the formerly Dutch companies, but lack of capital and expertise continued to be major problems. Many important industries declined after the departure of the Dutch.

Further research

Indonesia in the 1950s offers a fascinating case of the many-sided process of economic decolonization. Yet, its uniqueness should be placed within the broader perspective of roughly parallel developments in other decolonizing societies. Comparisons with, for instance, Malaysia and the Philippines would bring to light the differences and similarities with the British and American approaches towards economic decolonization and the responses in the emerging nations.

A different set of questions is related to the social and racial components of economic decolonization. Racial prejudice played an important role in the Dutch reluctance to promote Indonesians to leading positions. Equally, Indonesian views of the Dutch as 'shameless exploiters' hindered fruitful cooperation.

Finally, the takeover and nationalization of Dutch assets in 1957/58 raises further questions. There is no strong evidence that Sukarno engineered the takeover of Dutch assets, yet it is unlikely that he was completely oblivious to what was about to happen. Also, one wonders if a more gradual elimination of Dutch economic interests would not have been possible, which certainly would have had less detrimental effects on the Indonesian economy. <

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***Jasper van de Kerkhof** is a research fellow at IIAS and a freelance journalist for Dutch national newspapers.*
J.vd.kerkhof@let.leidenuniv.nl

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