

INSTITUTE OF CURRENT WORLD AFFAIRS

Hotel de Boer
Medan, North Sumatra
Indonesia
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Mr. W. S. Rogers
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Dear Mr. Rogers:

In one of the kabupatens (districts) of Sumatra--I won't say which--there is a printing and trading firm which I will call "Progress." It is not accidental that the manager of "Progress" and the Bupati (district officer) have the same name, for they are father and son. There seems to be an integral relation between the son's official position and the family's private profit.

I only came in contact with "Progress" for a short time, but the brief acquaintance was highly instructive. In this letter, I want to describe "Progress" very briefly, as an example of the manner in which Indonesia's so-called middle class is coming into being.

The kabupaten of X. is far from the provincial capital, so far that one of its minor officials complained to us that X. is a "forgotten land," and jokingly suggested that the governor open up a consulate in the kabupaten. The roads in X. are poor. A jeep can travel between several of the principal towns, but only in the dry season. The cash economy of the area revolves around copra, the valuable meat of the coconut which is used in making soap and other products. Much of the area is still outside the money economy, and hundreds of villages live in semi-isolation, growing their own food crops and selling a few cash crops to obtain cloth, salt, and simple metal utensils. I was surprised when an agricultural official claimed that X. is self-sufficient in rice. Then I learned that only a small part of the population eats rice, so the area's limited production is sufficient for local needs. There is not yet a rice mill in X., another indication that the local economy is backward by Indonesian standards.

The several small towns of X. are typical of other areas of Indonesia, in that they are physically and economically dominated by Chinese. On the main street of the kabupaten seat, all but three or four of the shops are Chinese owned. Indonesians run the smallest cigarette and candy stalls, but they buy their goods from Chinese merchants. Tiny stalls in the market place are also managed by Indonesians, as are some of the small carpentry and metal working shops. The rest of the commercial part of town is Chinese. The simple fact is that all copra is sold to Chinese and almost all the necessities of life which the citizen can't make himself are bought from or through Chinese. As in other Chinese dominated towns of Indonesia, the traveler is amazed to see so many hundreds of Chinese living so well off an agricultural economy that is far from rich. It is doubly puzzling in X., for the prices of copra are kept fairly high by competition among Chinese buyers, and money lending does not yet constitute a major field of business activity.

If the sole avenue to wealth and prestige for a Chinese is business, the only real road for an Indonesian is government service. With the exception of a small colony of Moslem traders from Minangkabau, almost all Indonesians who are not farmers, small artisans, or coolies, are in some way connected with the government. Government has been so expanded under the Republic that this group is by no means small. I was told that a total of around 1700 people serve as salaried government employees of one kind or another in the area of X. Accepting this figure, we can estimate that perhaps 7000 of the kabupaten's 230,000 inhabitants are from official families. This figure does not include the families of the small religious and political leaders in the several hundred villages in the region, who do not receive salaries from the government.

In broadest outline then, the people of kabupaten X, divide into three major groups: Indonesian officials, Chinese merchants, and Indonesian farmers, with a fringe element of Indonesians in other occupations.

This rather sizable governing class has grown around a core of assistants, clerks, and minor officials who served under the Dutch regime. The Japanese found it necessary and desirable to put Indonesians in more responsible jobs, so the governing group was enlarged during the war. It was during this period that the present Bupati reportedly got his start as a fiery young leader of a nationalist group. When the Japanese were defeated, kabupaten X, entered the Republic of Indonesia, and the present officials were appointed, either from X, itself or from other parts of the province.

Not long after independence, the Bupati's father established the firm "Progress."

"Progress" is distinctive in that it seems to live almost entirely off government orders. As a printing company, it naturally prints all official governmental forms not supplied by the provincial capital. In its carpentry shop, it makes the furniture used in government buildings and the government rest house. Its book store is the sole supplier of regulation texts required in the area's growing school system. According to the chauffeur, the "Progress" jeep is often rented by the kabupaten government at rates more than 100 per cent above maximum rates set by the Ministry of Communications. The rates are "legalized" by a tariff schedule signed both by the Bupati and his father, as manager of "Progress."

Business has evidently been good, for "Progress" is currently expanding its field of activity. A surplus army jeep has been purchased from the provincial capital, equipment has reportedly been ordered for a rice mill, and general goods stores have been opened in two of the towns of the kabupaten. "Progress" has a special advantage in opening new branches, for it owns the only private jeep in the area, and larger cars cannot travel the poor roads. Chinese merchants are now pressing the Public Works office to improve and reclassify the roads so they can use trucks for their copra purchasing and general business activities; I was told by one official that the Bupati has shown no initiative at all in pushing these road improvements. It must be admitted, however, that the Bupati's hands are tied by a lack of

funds and the conflicting spheres of responsibility in road maintenance.

The company treasurer was obviously proud to tell me that "Progress" is the only Indonesian-owned, Indonesian-operated firm in X. He explained that the success of "Progress" was in keeping with the Indonesian government's policy of protecting and supporting native enterprisers. Official assistance to struggling Indonesian businesses is commendable in theory, and perhaps not too evil in practice. Yet scores of cases like that of "Progress" go to show that government officials often choose themselves as the enterprisers to be supported and protected.

Through his family or through semi-legal or illegal pressures, the official has access to capital to start in business. Once his firm is established, he may be in a position to protect himself and hurt his competitors in various ways: in granting permits, approving government loans, placing government orders, licensing vehicles, enforcing or failing to enforce existing laws, or even in the outright use of force. It seems that the government of X. assists "Progress" in ways that could not strictly be termed illegal. Government backing, however, is unmistakable.

It is a matter of taste whether this type of business activity is classified as corruption, merely a characteristic of the economy, or both. In Kuomintang China, it became a major point of weakness and political vulnerability for the Nationalist regime. In America and Western Europe, the practice is certainly not unknown, especially in periods when large government orders are going to private business. But in Indonesia several circumstances have combined to make private enterprise by bureaucrats and officials an important institution in a changing economy: the Chinese monopoly of many business fields, the government policy of creating an Indonesian business class, the leading role of the government in the private economy, the lack of capital in native hands, and the small size of the group of educated Indonesians capable of undertaking business activity. A small but distinct business group is arising which is little more than an appendage of the officialdom.

All of these factors can be seen at work in the case of kabupaten X. There is the additional factor of the high prestige that goes with an official position as compared to commercial activity. According to the principal of the only junior high school (sekolah menengah pertama) in X., a great majority of his male students hope for an official career. I was able to verify his generalization to some extent by asking direct questions of the students during several class sessions.

The case of "Progress" is minor and in some ways atypical. It is a rather clear example, however, of what has happened in one backward kabupaten since the revolution. At present, the firm is being nurtured by very special governmental favors. It has a monopoly position in several minor fields of the underdeveloped economy of X. The question now is whether "Progress" can successfully expand into retail trade, rice milling, the copra trade, or other spheres where Chinese competition is stiff. Success will depend to a great extent on its financial resources, the

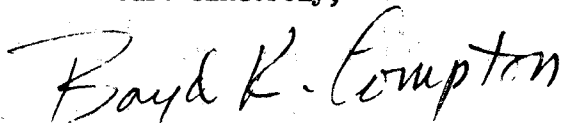
competence and experience of its personnel, and the continued availability of official and unofficial government support. If the Bupati is transferred, an interesting situation will develop which will provide a much sharper definition of the nature and role of "Progress."

The case of "Progress" brings to mind the current confusion of terms in Indonesian politics. The word "nationalization" is a mighty weapon in the fight against western and Chinese economic interests. The word is used indiscriminately, however, and can mean either the transfer of foreign controlled enterprises into the hands of the Indonesian government or into the hands of private nationals. In such cases as the North Sumatran oil concessions of Dutch Shell (BPM), advocates of both steps seem to be united at present in their fight for "nationalization." Apparently the word "nationalization" will be defined at a later date. I believe that the current coalition between the Indonesian Nationalist Party (PNI) and the Indonesian Communist Party (PKI) is to a certain extent based on an understanding to act together now and define interests later. The fundamental incompatibility of the two political groups increases as more and more PNI officials and politicians find it profitable and easy to become businessmen of a sort.

Given the economic and social conditions in kabupaten X., it is difficult to imagine the development of an Indonesian business class which is at all independent of the official group now in office. The alternatives to private bureaucratic enterprise would seem to be state enterprise or a continuation of the past situation in which business meant Chinese business.

The ultimate fate of firms like "Progress" will probably be determined in the largest cities of Indonesia, where the same type of economic struggle is being waged for much higher stakes.

Yours sincerely,



Boyd R. Compton

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