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Dear Mr. Rogers:

In 1955, Indonesia made substantial progress in building and rationalizing her state administration, but failed again to formulate or implement a program of economic development. Her gains for the year might be compared to the humdrum work of provisioning and organizing which must precede a great voyage or venture. Yet if increased prosperity and social justice are to be accepted as national goals, the long voyage to attain them has hardly begun.

Two developments of the year were exceptional and newsworthy: the Asian-African Conference in Bandung in April, and the twin general elections of September 29 and December 15. Indonesia wears these bright events like medals and she should.

Otherwise, the eye-catching news stories of 1955 were disturbing: corruption leading to the arrest and conviction of the Minister of Justice, continued rebellion on three islands, President Sukarno's apparent swing to the radical left, and several types of economic mismanagement.

Yet behind the news stories, there was significant progress at the most basic levels. Before discussing the key developments of the year, I would like to distinguish among the various fields where Indonesia met with her successes and failures.

A useful distinction can be made between the spheres of routine state administration and national development. There is also an important difference between fields where political conflicts affect policy and those in which politics plays a minor role.

It was in the field of normal state administration that Indonesia continued to forge ahead in 1955. Examples can be cited in the work of the civil service executive corps (pamong pradia), the State Police, and several of the technical bureaus. Further progress in these spheres tends to bring Indonesia back toward the extremely

high standards of government administration which prevailed in the colonial period.

Correspondingly, it was in the fields of new development and experimentation that some of the worst failures of 1955 were recorded. Government policies in transportation, implemented through the Ministry of Communications, resulted in a partial breakdown of inter-island trade. State control over the distribution or purchase of vital commodities such as copra and textiles failed to achieve its purposes. The work of the government bureaus and offices operating in such spheres was often characterized by lack of direction or corruption.

The government's performance was thus at its best in those spheres in which norms were laid down during the colonial period and in which some Indonesians have had administrative experience. Performance was less satisfactory where the government has been obliged to build new bureaus almost from scratch to implement new ideas and policies.

This distinction alone, however, does not explain enough. Education is in a sense a "new" field, yet Indonesia has registered her greatest single achievement in building and staffing thousands of new schools. Why has development in other fields been so much less remarkable? Part of the answer has to do with politics.

The whole question of economic development is meshed in with politics. The problem of development in manufacturing, trade, mining or communications is first of all a matter of adopting firm and workable policies toward the foreign business firms now dominant in these fields. Here, the great obstacle to progress in 1955 and previous years has not been aggressive ultra-nationalism, but rather an uncertain, wavering type of nationalism of postponed decisions and shifting attitudes. In six years, Indonesia has not really begun to plot her economic course. At the year's end there seemed to be little prospect that the battling political leaders of Djakarta would be able to accomplish the task in the near future.

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ORGANIZING THE STATE

Not even the Indonesian newspapers give their readers any notion of the important and excellent job being done by the civil service executives (pamong pradia) who are charged with carrying out state policy from the provincial level down to the sub-district. Unpraised and unrecognized, this group has done much to hold Indonesia together during the last six years.

1955 was a frustrating year for the pamong pradia corps. Heavy, unseasonal rains hurt the rice harvest in Java and obstructed the government program of rice buying. Decreased appropriations for public works slowed down the local schedules of dam and road building. Government funds for agricultural loans were too limited, and rural credit remained the most disheartening village problem. Policy in these and other fields is coordinated by the pamong pradia; many policies met with failure in 1955 despite their efforts.

Yet 1955 must be listed as a year of triumph for the pamong pradia, for it was principally their job to organize and carry out the general elections of September 29, for members of Parliament, and December 15, for members of the Constitutional Assembly.

Both elections were remarkably successful. Altogether, more than sixty million votes were cast on the two days. The involved business of building polling booths, distributing ballots, registering voters, training committeemen, maintaining security and insuring honesty in the casting and counting of ballots was managed with an ease and administrative poise which could hardly be expected from a government so young.

The election was a demonstration of the inherent orderliness of the Indonesian people when they are well led and of the energy of leaders whose task is clearly laid out.

Yet people still ask, "Who won the election?"* The question points out the only major weakness in the election system: vote counting. The long, frustrating delay in the announcement of official results has apparently been due to a lack of foresight in planning.

On September 29, votes were counted by the polling place committees in the thousands of Indonesian hamlets. The method proved unworkable, and all votes are being recounted at the provincial level. The snarl will not be entirely untangled for many weeks. For the December 15 election, votes are being counted at the second lowest committee level, the sub-district. This time, the task has been accomplished more rapidly and smoothly.

The elections of 1955 produced a wealth of stories and tales,

* The newspapers now agree that the Indonesian Nationalist Party (PNI) won the first election by a small margin in total votes, but that the Masjumi may have won more seats. The Nahdlatul Ulama and Indonesian Communist Party followed close behind. The December 15 election was apparently won by the PNI, this time by a greater margin.

some of which revealed the fear and tension underlying the orderliness of election day. For a month, the north coast of Java was panicked by rumors of a coordinated poisoning campaign. Unproved and unfounded, the stories raced through Java. Guards were put on wells and roadside food stands lost heavily. The panic was an ugly proof of the tensions which revolution and free political competition have brought to a people so long accustomed to authoritarian rule.

In some places, the new political method clashed with old custom. A Javanese woman threatened to divorce her husband for supporting the Communist Party. He resisted stubbornly until she went to the local religious official to start proceedings. Finally, he signed the traditional Letter of Reconciliation stating that he would vote for the Masjumi on election day. Not all disputes were so nicely settled; during the year, over five thousand divorces were handed out for "political reasons". The giddy pace of political change was being felt throughout society.

The organization of the general election was also a credit to other branches of government. The local branches of the Ministry of Information finally received an assignment of incontestable importance and did a commendable job of explaining the election to millions of villagers. Local police and army units worked well with the pamong pradia in guarding security on election day. In short, individual performance and coordination were excellent.

The possibilities of productive executive coordination were also brought out by the plans to "intensify government" along the important border regions in Timor and Kalimantan (Borneo), where Indonesia is neighbor to colonial rule. Observers were not certain of the political implications of the schemes, but they were given an example of how area development plans could be launched when coordination of the economic, public works, and educational projects is put in the hands of the pamong pradia.

The events of 1955 again showed administration to be notably more effective and efficient at local levels than in the nation's capital. This has been apparent not only in the pamong pradia, but also in the technical departments in agriculture, irrigation, and forestry. Insofar as these bureaus are performing the same tasks they executed before the war, their work has been well done in spite of immense obstacles. Perhaps the most remarkable job of all is being done by the irrigation service, which is successfully administering the water needs of Java's rice economy despite its almost complete lack of graduate engineers.

The case of the Irrigation Bureau is a good point of departure, however, in illustrating a problem of development. While it is succeeding generally in its routine administrative work, the bureau has not

been able to take effective measures against floods. Action must be taken soon to prevent a recurrence of the floods of 1955 which wiped out the great gains made in agricultural production during the year. The problem is not one of maintenance, however, but of construction. The bureau is faced with typical problems: lack of funds, lack of trained technicians who can make use of funds available, lack of coordinated planning with other government agencies, lack of effective leadership and pressure from Djakarta.

Major floods are a new problem. Their control demands new types of government coordination. Problems of this nature and scale must be faced first in Djakarta, where the worst obstacles to development are to be found.

A similar situation is found in inter-island communications. For years, the Dutch-owned K.P.M. shipping company has held a virtual monopoly on inter-island shipping. In keeping with its program of "nationalizing" key enterprises, the government has set up its own competing company (P.E.L.N.I.) and has heavily subsidized another. During the reign of the Ali Sastroamidjojo Cabinet, certain key routes were turned over to the national companies. In 1955, the action began to look premature as thousands of tons of copra piled up in the eastern islands and severe shortages of rice were felt in most of the islands outside Java. At the height of the shipping crisis at midyear, several stories came to light of mismanagement and waste in the national shipping companies. The government's venture into the shipping field--desirable and necessary--was apparently costing the nation heavily in service and foreign exchange.

Other problems were shared by all government bureaus. Perhaps the most important of these was the twin problem of official salaries and corruption.

A middle-level official in Djakarta receives Rupiah 700. a month. To support a family in the simple austerity which is typical of Indonesian officialdom, he should have at least Rupiah 2000. With this salary he could buy his family food, very simple clothing, a few school books for the children and keep himself in cigarette money. But he makes only a third of this amount, and the monthly salary may only last to the fifteenth of the month. The official is thus caught in the humiliating net of borrowing and sponging, and his morale suffers. Or he takes an outside job, and his official work suffers. Or, all too often, he finds a workable means of petty corruption, and the state suffers in several ways.

Most corruption in Indonesia is not for luxuries, but for the necessities of life. The big corruptors--with their cars, girl friends and resort bungalows--got the lampooning they deserved in the hit

movie, "The Housing Crisis". But their cases were atypical. The worst demoralization of 1955 was at the lower levels of government.

1955 brought Indonesia's underpaid officials a minor concrete improvement and a major hope. A wage law was passed which added a small fraction to current salaries, but the gain has already been wiped out by the rise in rice prices. A greater hope is found in the new consumers cooperatives for state officials.

By October, central cooperatives had been set up in all provinces. Each has been promised a working capital of Rupiah 2,000,000 to be given by the government as a two year loan. Through a government go-between, the 700,000 potential members of the cooperatives and the three or four million members of their families will eventually have access to cheap government rice and reduced prices on sugar, oil, kerosene, textiles and cigarettes.

The officials' co'ops have been organized with great speed and purpose. For the moment, they are experiencing growing pains of several sorts--poor coordination with other agencies, competition with existing cooperatives for available supplies, and inability of officials to scrape together the modest initiation fee. Eventually, however, they could serve to check the demoralization that has led to so much petty corruption.

If corruption was a major internal threat to the Indonesian bureaucracy in 1955, insurrection and banditry were serious outside challenges. Not that Indonesia is a land of general chaos; less than fifteen percent of the land area of the nation is endangered by disorder, and none of the rebels are actually organized into an army capable of large-scale operations. The main loss of the rebellions is to the state treasury, which has continued to pay extraordinary sums for the maintenance of government forces and the relief of affected areas. The money is badly needed for economic development.

Government troops did not make substantial progress in 1955 against the three rebellions in West Java, North Sumatra (Atjeh) or Sulawesi.

The Darul Islam movements in West Java and Atjeh have become debilitating wars of attrition. The government controls strong points in both regions, but finds it impossible to prevent nightly forays by its poorly armed adversaries.

The situation in Sulawesi is more serious. There, the government controls not more than fifteen percent of the southern half of the island. Visitors in Macassar find that they cannot leave the

city; sometimes the airport road is cut by rebel activity. Rebel bands and local militia in the hinterland exert varying degrees of control over their areas. Some are so stabilized that they collect taxes and operate schools. The situation appears as a novel, modern continuation of the period of warring principalities so well described by Conrad in Lord Jim.

The Sulawesi situation shows how far sentiments of regionalism motivate Indonesia's rebellions. One facet of this feeling is dislike for the Javanese who dominate the Djakarta government. A more important one seems to be economic and concerns government control of the copra trade. During the year, a vigorous movement was started in loyal areas against the management of the Copra Foundation, a government body which has been made sole buyer and exporter of Indonesian copra. Resentful of the heavy-handed central control over their livelihood, the local growers and merchants demanded higher prices and a greater voice in determining government copra policy. A few concessions have been made, but they are clearly insufficient. The smuggling trade to the Philippines continues on a large scale; it is well rumored that even the provincial authorities play their part in these operations. Such conflicts between the region and the state obstruct the extension of central authority in the island.

In addition to corruption and insecurity, a third factor appears to obstruct the growth and rationalization of the fledgling Indonesian government. It is the spoils system of political appointments which became almost universal during the period of the Indonesian Nationalist Party Cabinet under Ali Sastroamidjojo. By the end of the cabinet's reign at mid-year, almost all influential posts in the state apparatus were held by P.N.I. men or favorite sons of allied parties. To some extent, the development was a sign of the natural affinity between the P.N.I. and the semi-westernized officials of upper class origin. Many just naturally joined. Others felt that naked, unashamed "politics"--still a rather dirty word here--was having a field day. To an outsider, the main weakness of this particular type of spoils system was that it placed political appointees not only in the unimportant sinecures, but also in high executive and technical posts.

With the fall of the Ali Cabinet, the new government took strong measures to undo the work that had been done; it began to replace many of the old political appointees by its own men. The system may become a permanent obstacle to the development of a professionalized civil service. Whatever the merits of the spoils system, it was a key Indonesian political institution in 1955.

Allowing for weaknesses and failures, the total performance of the Indonesian government in 1955 was encouraging. Most developments were in the direction of rationalization and growth. Those

charged with the routine administration of the state outdid themselves in meeting the extraordinary administrative problem of the general election. Within limits described by their budgets and staffs, the technical bureaus were holding their own or better in the fields of irrigation, forestry, agriculture and fisheries.* The poverty of the greater part of the officialdom was an increasing drain on morale and efficiency in 1955, but measures such as the official's co'ops promised relief.

The failures in state economic activity and controls cannot be discounted, but they should be seen in perspective. Officials who work in the bureaus controlling government transportation, raw material purchasing, distribution and licensing are operating in comparatively new fields. In these first years they are learning through many trials and many expensive errors, but it may be assumed that they are actually learning. The many Indonesians now studying overseas may soon bring more order and knowledge to these jobs.

Such hopefulness cannot be felt about the political aspects of development. Political uncertainty threatens to remain the major obstacle to economic progress. A rationalized development program cannot emerge, nor can it be efficiently implemented, as long as the nation's highest political leadership fails to agree on goals and methods.

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CONFUSION OF POLITICAL AIMS

The key to Indonesian politics for ten years or more has been Sukarno, the articulate, brilliantly perceptive young man of Blitar who became President of the Republic of Indonesia.

Like all the years since 1945, the past year became a sort of personal stage for Sukarno. He strode energetically across its weeks, rallying the Indonesian nation and preaching the fivesplendid principles which he has called the Panchasila.

Yet the events of 1955 may have passed Sukarno by. His

* A modest but well-proportioned program of American technical assistance has been beneficial in all these fields. Its appropriation in 1955 was over seven million dollars.

magnetism on the podium seemed undiminished, and his personal influence was still immense at the end of the year. But somehow the great events of 1955 appeared as a threat to his position.

The general elections and the development of the political parties were a warning that political influence is being exercised more and more through the normal, controlled channels of a modern state. During 1955, Sukarno continued to operate outside these channels as the sort of mass leader who is effective chiefly through the emotional impact of his personality. It was as if he had forsaken the role of "father of state" in order to perpetuate himself as "father of the revolutionary movement".

His most characteristic effort of 1955 was a failure. After Indonesia lost her case for West Irian in the United Nations, Sukarno called for the convening of an "All-Indonesian Congress", whose task was described as the "mobilization" of national unity for "the completion of the revolution". To Sukarno, the winning of West Irian is evidently the principal unfinished revolutionary task.

The Ali Sastroamidjojo Cabinet was still in power, and the "All-Indonesian Congress" was given government backing. Committees sprang up quickly. They soon constituted a sort of make-shift democratic machinery standing outside the law and the normal hierarchy of government. Very soon it was evident that the busy efficient communists were gaining more than their proper share of control in the local committees.

As the time for the "All-Indonesian Congress" drew near, Djakarta was shaken by a new army crisis. Its essence was a struggle between Sukarno and the Cabinet against the greater part of the army officers' corps for control of high army appointments. Sukarno's candidate for Army Chief of Staff, the unfortunate Colonel Bambang Utojo, was snubbed in an embarrassing fashion by his associates. By the time Sukarno left for Mecca in July, he had lost his battle. When he returned, the army officers were firmly in control and Bambang Utojo was out. Shrewdly, Sukarno went into seclusion and left Hatta as acting chief-of-state for a short period. The pro-Sukarno cabinet fell and a new Masjumi-led coalition was sworn in. Sukarno's influence had never been less.

The excitement following the army crisis pushed the "All-Indonesian Congress" into the background, and the convening of the congress in August was a near fiasco. The Indonesian Nationalist Party had already decided not to participate, as had the so-called right wing Masjumi and its allies. Sukarno delivered a mild speech to the closing session, and the event was ignored by most of the nation.

Surprisingly, Sukarno chose the "All-Indonesian Congress" as his podium when he again brought his ideas to public attention. The congress had since formed itself into a permanent body with a nationwide hierarchy of committees. Under the auspices of the West Java committee, he presented a mass audience in Bandung with a sensational but inconclusive story of foreign intrigue in Indonesia.

Basing his comments on documents in his possession, Sukarno described a two-phase foreign plot to destroy the Republic of Indonesia. A first phase of active sabotage, which was to culminate in an armed attack on the nation, had already failed. A second attempt was being made, however, to overthrow the republic by turning "group against group" and thus destroying national unity. An important weapon in the second phase was supposed to be mammoth bribes doled out by foreign powers to Indonesian politicians. He ended the speech without naming the foreign powers or the Indonesians supposedly involved.*

Sukarno's treason documents became momentarily famous. When reporters asked if the documents were to be made public and if they were possibly false, Sukarno replied, "Believe me! Believe me! The documents are not false." Weeks later a newspaper printed an alleged copy of the principal document, a letter from a Kuomintang Chinese to a high police official offering payment to certain politicians if they would work for the fall of the Ali Cabinet. The men listed were all from the parties opposed to the P.N.I. and the source of the money was listed as the American Embassy in Djakarta. The newspaper also printed evidence from a police handwriting expert that the letter was a forgery.

The brief hullabaloo came inconclusively to an end with the start of the general election campaign.

Sukarno's last major effort of the year was a vigorously conducted speaking tour before the December 15 election. According to one newspaper, he had spoken to more than five million people before leaving Java. He then went on to the outer islands, speaking on his favorite themes: West Irian and the Panchasila.

* I do not mean to imply that the charge of foreign subversion is baseless. The Jungschlager trial now proceeding in Djakarta has uncovered strong evidence that individual Dutchmen have been instrumental in smuggling arms into the Darul Islam area of West Java. The conduct of the trial has been subject to the strongest Dutch criticism, and some of the state witnesses have presented absurd testimony. Notwithstanding, the state has built a strong and convincing case for its charges against the Dutch defendants.

At Purworedjo, he touched on a few ideas he had been stressing during the year 1955:

"It is our fault that West Irian has not yet become a part of the Republic of Indonesia. It is because we are not united enough and not revolutionary enough."

"I, Sukarno, am the trumpet of the people. It is my function to express the feelings of the people. We must work toward a state which is just and prosperous, not for capitalism."

In Surabaya, he said,

"...according to the unofficial results of the recent election, the Indonesian Communist Party received 20% of the votes. It is therefore illogical that the Indonesian Communist Party, whose ideology and ideals are supported by sixteen million people, should be excluded from the government."

In a way, it is unfair to Sukarno to quote single sentences and paragraphs of his speeches. His forte as a speech writer is not logic, but an extremely perceptive collecting of the symbols and attitudes which have popular appeal and significance. He usually does not propose any program of concrete acts, but rather a certain style or personality. He speaks often of "unity", "revolutionary attitude", "consciousness", "nationalism" and "firmness". Or in speaking about foreign intrigues, he calls for "vigilance", but does not recommend that the Attorney General take action. "West Irian" must become a part of Indonesia, but he does not indicate what his listeners can do to bring this about, except adopt attitudes which are "revolutionary".

Whatever his reasons, Sukarno continued to lay overwhelming stress on political attitudes rather than economic goals during 1955. When he did speak of national development, he spoke in the most general terms. In his August 17 address, he spoke of the Pancha Dharma (five tasks) as a necessary supplement to the Panchasila. They were,

1. Restoration of national unity.
2. The fight against insecurity.
3. Development in all fields.
4. The struggle for West Irian.
5. No postponements in carrying out the general election.

The problem of national unity, which he admitted was an "obsession"

with him, was seen mainly as one of attitude:

"In order to subjugate other nations the imperialists made use not only of real power, but also of an abstract weapon, i.e. the effort to weaken our mentality and destroy our unity, so that we would be filled with mutual hatred. One result of the Dutch effort...is the outlook of some Indonesians who prefer colonial rule because, they say, it advances the economy, builds highways, etc..."

"Because of this, the first mission of the nationalist movement is to eliminate the mentality planted in the Indonesian nation by the Dutch imperialists. They were able to rule Indonesia because we were not united. The Majapahit (empire) was destroyed because of disunity. Hence, the nationalist movement has the task of developing a (new) mentality in an atmosphere of unity..."

"...I do not find it difficult to associate and mix with any group of any belief, be it Marxist or Masjumi. My very soul is unity. I am certain that the Indonesian nation cannot exist without unity..."

The extreme contrast to Sukarno's temperament is that of Vice-President Hatta:

"In my opinion, we cannot hope for success in our struggle for West Irian in a short time...The only answer is to develop our own country and develop it now. If we become an advanced country, then the outside world will realize that West Irian will only progress if it is turned over to us. So we must first of all make a tremendous effort in national development..."

At first glance, Sukarno and Hatta seemed to constitute a balanced team in 1955, Sukarno devoting his attention to higher politics, Hatta to the specific problems of cooperatives, public works, small industries and economic development in general.

Their efforts, however, were more in conflict than harmony. In listening to Sukarno, the citizen--especially the Javanese--was complimented by discovering that the President understands intuitively what already is on the average man's mind. Hatta, on the other hand, often has little patience with the emotional problems of the average man and advocates things that are unexciting or actually foreign to the citizen: hard work, good organization, rationality, concreteness, choice.

Together, Sukarno and Hatta represented two of the extremes in Indonesian outlook and temperament. These extremes were in conflict in 1955, and their conflict was mirrored in the policies of the two cabinets which held office in 1955.

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THE ALI CABINET

The Ali Sastroamidjojo Cabinet, which took office on July 30, 1953 and fell on July 24, 1955, has been called "Sukarno's Cabinet". If it was not his creation, it was certainly a firm supporter of his ideas. The main targets of its policies were nationalistic and political.

The most impressive success of the Ali Cabinet was the Asian-African Conference in April. Never had the concern of nationalistic Indonesians for anti-colonialism, revolutionary unity and high moral purpose been shown in a more attractive way. The well-organized conference was success partly because it spoke for rather than to the twenty-nine delegations present. The conferees did not produce a definite program of action, but they did not pretend that this was their mission. What they created was a modest, well considered statement of shared sentiments.

The style and attitude of idealistic nationalism--so suitable to the Asian-African Conference--was very evident in the domestic policies of the Ali Cabinet.

An important and controversial policy was implemented by Minister of Economics Iskaq. Through close control over trade licenses and foreign exchange allocations, the government succeeded in doing great damage to foreign trading companies in Indonesia. When the Ali Cabinet came in, more than 50% of Indonesia's foreign exchange for imports was being given to foreign companies. When the cabinet fell, more than 70% was being used by Indonesian firms.

The percentage figures indicate that the radical policy was successful. Actually, the principal immediate effect of the plan was to create a large class of Indonesian license brokers who won substantial profits by reselling their licenses to foreign and Chinese trading firms. It is too early to know how many of the Indonesian businessmen will actually become entrepreneurs and engage seriously in foreign trade. Present evidence indicates that very few of them have really taken root.

If the Iskaq policy brought doubtful and temporary advantages to a small group of Indonesians in Djakarta, it brought great power and profits to members of the Chinese community. This energetic and capable group appears to have increased its control over commerce almost to the extent that Dutch firms have lost theirs.

The cost of Indonesian license-brokerage in imports was reflected in the skyrocketing retail prices of many commodities. Luxuries, of course, went sky high; by midyear, a new Plymouth or Dodge cost the equivalent of \$35,000 (U.S.) at official rates or \$10,000 at black market rates. Still, the sensational prices for cars probably had less important effects than the 50-100% rise in textile prices. The inflationary process was also propelled by loopholes in import-export management which allowed large-scale smuggling of foreign exchange out of the country.

A number of factors disturbed the export economy. Transportation snarls limited copra export. Domestic inflation of prices and costs in rubber production made export decreasingly profitable. Sugar was exported at a loss, the amount of the loss being distributed among the entire producing group. In September, it was estimated that the disparity between domestic and world market prices for exports was averaging between forty and seventy-five percent. The cabinet's answer to the export problem was to offer inducement in the form of foreign exchange allocations for the immensely profitable imports. Export was bolstered in this way, but the policy offered no solution to the basic problem of production.

Export production remained the focal point of Indonesia's immediate economic problem. Most of the field was still dominated by foreign capital in 1955. That sector free of foreign control was largely in the hands of Chinese, some of them Indonesian citizens, some not. During the year, many foreign factory owners felt the squeeze of the government's import policy. Essential materials and spare parts were difficult to obtain or unreasonably expensive because of the cumbersome import machinery. General Motors closed its assembly plant near Djakarta. Generally, foreign capital continued the process of indirect liquidation, lifting the greatest possible profit out of their operations and failing to reinvest in machinery or materials. The oil industry remained the great exception. Caltex and Stanvac continued to invest in exploration and exploitation, and production grew. As a result, the percentage of the state income derived from the oil industry continued to expand. Oil threatened to surpass rubber as Indonesia's most valuable export.

The causes for Indonesia's discouraging circle of export-import problems cannot all be found in policies of the Ali Cabinet. World market prices for several commodities were low during 1955, and no government would have been able to eliminate problems of inflation

and low productivity by mere decree. Neither could the Ali Cabinet be blamed entirely for the condition of the national budget, which of necessity included huge items for operations against rebels and the running of the general election. Such extraordinary expenditures were inflationary and had their effect on domestic price levels and hence on exports, yet they could scarcely be avoided.

The weakness of the Ali government was not so much the errors made because of nationalist sentiments, but rather the hit-and-miss quality of its nationalism. The most important field for nationalistic policy-making was the import trade, and it might have been expected that the creation of a small class of native Indonesian importers would be an expensive project for the state and the consumer. Perhaps the results of the policy will someday justify the expense. But meanwhile no coordinated policy was being carried out in the more basic field of export.

The understandable aim of all Indonesian political groups is to win national control over Indonesia's economy, including the vital export sector. The policy of the Ali Cabinet--as seen in its policies on imports, interinsular transportation, Garuda Airways, and electric power--was to win this control quickly. It carried out these policies courageously enough, but the whole performance must be called erratic for it operated on the fringes of the problem.

The stepping stone for any large-scale economic development plan must be the creation of a basic attitude and law on foreign investments. No such law has appeared in the six years of Indonesian sovereignty, and during the Ali period there was no evidence that such a law was being seriously considered. A draft of the basic law on investment in mineral exploitation reached the cabinet, but was not presented to Parliament. No word was heard of the draft of a basic law on foreign investment, formulated under the preceeding Wilopo Cabinet, nor was any substitute arrangement revealed. Only the vaguest statements were made on the subject by the Minister of Finance.

The vacuum in foreign investment regulations has had manifold effects. It has been first of all a barrier to new foreign investment, though there are no indications that Indonesia would be able to attract sizeable investment if regulations existed. Of more immediate importance, this vacuum has done serious harm to the foreign operations already in progress. Processing machinery for rubber, sugar and other exports is deteriorating rapidly and not being replaced. The Dutch rubber estates are not replanting and most of the trees now producing will soon be past their prime years of production. Difficulties and delays in transferring profits have compounded the troubles of foreign entrepreneurs and nourished their pessimism. The situation threatens to produce an absolute decline in export production in these fields, coupled with increasing costs of production.

The principal losses under the Ali economic policy were sustained by the Indonesian government, whose revenues originate in great part from various export levies and the related taxes on imports. Another appreciable slice of the state revenue comes from direct taxes on the production of the foreign firms. The policy of the Ali government tended to restrict these revenue sources and would have eventually tended to dry them up.

If the Indonesian economy is to be "nationalized",* the task must be accomplished principally by the government itself. There is simply not enough private domestic capital to be mobilized for the task. There seem to be two alternative courses open to the government: (1) to force through a radical and tough "nationalization" program, sacrificing in great part the revenues currently originating from the foreign sector of the economy and attempting to make up the difference by harsh mobilization of the economic resources at hand, or (2) to carry on a coordinated expansion of the national sector of the economy, financed by continued or enlarged revenues originating largely from foreign firms whose investments would be guaranteed and protected by the government for a stipulated time period. Actually, these two extremes are like markers fixing the limits of the channel through which future development must flow if it is to come at all.

The first radical alternative was clearly beyond the capacities or desires of the Ali government, which showed no ability to clear squatters off plantation land, limit the illegal woodcutting in Java's forest preserves or to take action limiting strikes. The same lack of harshness was seen in the failure of the government to force acceptance of Copra Foundation policies in Sulawesi, or in the government's inability to fulfill its quotas in rice purchasing on Java. From one end of the archipelago to the other, there was evidence of an administrative moderation which has been characteristic of Indonesian government since independence. This moderation is the strongest foundation stone of Indonesian democracy, but in its exaggerated form it negates essential government authority.

The second alternative of gradual "nationalization" also failed to materialize. Scattered industrial and public works projects were being carried out from funds available, and fairly substantial aid was being given to handicraft and cottage industries through loans and government allocations of materials. But there was no sign that the government would be able to plan or finance a large or more integrated program to increase production in the Indonesian sector of the economy.

* "Nationalization" is generally used in Indonesia to mean a transfer of control from foreign to Indonesian hands, state or private.

Nor was there evidence of a coordinated program to take over foreign export enterprises and staff them with Indonesian personnel. The State Plantations Board had its hands full managing the plantations already under its control, while Chinese buyers were grabbing up most of the smaller plantations being sold by the Dutch. "Nationalization" was simply not coming about in the decisive sectors of the economy.

Thus, the Ali Cabinet tended to drift along in its basic economic policies between the extremes of radical anti-foreignism and conservative planning. The direction of drift was generally determined by the weight of political sentiments within the Indonesian Nationalist Party, where the ascendant Ali faction continued to reflect the feelings of President Sukarno.

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THE BURHANUDDIN CABINET

When the Ali Cabinet fell on July 24, it was replaced by a Masjumi Party coalition, headed by Burhanuddin Harahap. The new cabinet was sworn in by Vice-President Hatta, and its policies until the end of the year revealed a temperament and outlook close to Hatta's own.

The Burhanuddin Cabinet rushed quickly in to undo Ali policies. The Central Import Office--which had become a nest of corruption--was abolished and replaced by a new bureau controlled by Minister of Finance Sumitro (Indonesian Socialist Party). Importers were rescreened, and foreign firms soon found themselves better able to obtain foreign exchange.* Prices on imported goods tumbled as much as twenty-five percent in a few weeks, and the black market rate for the U.S. dollar fell from more than 45:1 to 32:1. The domestic prices of many export commodities (rubber, copra, pepper) began to fall toward the level of world market prices, and the government offered new direct inducements for weak exports. As the end of the year approached, it was apparent that the government had radically shifted its focus of attention from political to economic considerations.

The reign of the new cabinet was soon disturbed by the revelation of a tremendous pending shortage of rice. A snarl of problems in shipping and planning had been complicated by the disastrously unseasonal rains all year. The shortage had threatened since

* The great share of foreign exchange was still going to Indonesian firms.

early summer. In fall, it came with a sudden skyrocketing of rice prices on the market. Emergency orders were placed in Rangoon for quick delivery of several shiploads of grain, but the situation could not be quickly untangled. Rice prices, which had ranged between Rp. 2.50 and Rp. 3.50 for more than a year, fluctuated between Rp. 5 and Rp. 10 in the outer islands. By the end of the year, it was clear that Indonesia would have to import at least 100,000 tons of rice to offset the immediate shortage. The great gains made under the Ali Cabinet in basic food production had been cancelled out by the weather, and the Burhanuddin government was in office to bear political responsibility.

Despite its troubles, the new cabinet pursued its policies with a single-minded disregard for political consequences. It's popularity was probably increased by the settlement of the army dispute and the strong, shortlived campaign against corruption. Opposition from Sukarno, the Indonesian Nationalist Party and most of Parliament killed the cabinet's emergency anti-corruption regulations, but several dozen arrests were made, including some of the higher-ups from the parties supporting the Ali Cabinet. Ali's Minister of Justice was arrested, tried and finally sentenced to a year in prison. Ali's Minister of Economics, Iskaq, fled the country.

In other fields, cabinet policies courted violent criticism. In October, the Foreign Minister requested increased foreign aid under the Colombo Plan. The head of the Planning Bureau, Djuanda, made a confident announcement that a Five Year Plan would soon be ready for publication. On December 7, a short government statement described a policy for the investment of foreign capital. The "interested but unfriendly" attitude of the Ali government toward foreign enterprise and aid had been dropped and replaced by one of open friendliness.

As the year ended, a new and risky departure in foreign policy had been taken. Following up its announced intention of improving relations with the Netherlands, the government made preparations for a high-level conference with the Dutch to discuss West Irian and financial-economic matters.* The Burhanuddin Cabinet was approaching the traditional enemy with a conciliatory and confident manner.

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* The conference has since begun. Two principal government parties (the Nahdlatul Ulama and the Indonesian Federated Islamic Party) have refused to support the negotiations, and the cabinet has all but fallen before the first results have been announced.

THE GENERAL ELECTIONS AND THE FUTURE

The election results of 1955 did not indicate a clear choice between the proud, sensitive nationalism of Sukarno and the more confident "development-mindedness" we associate with Hatta. If there was any mandate implicit in the returns, it was a demand that the two styles be combined.

The P.N.I. won both elections, but by a very small margin. It appears that the Big Four parties received the following percentages of the total vote on September 29:

P.N.I.	24%
Masjumi	22%
Nahdlatul Ulama	20%
Indonesian Communist Party	18%
total	84%

The future government will have to be a fairly broad coalition in which the desires and demands of all participants are compromised to some extent.

Of the four, only the Masjumi and the Indonesian Communist Party have shown clearly where they stand on matters of economic development. The Masjumi, strongly influenced by the small Indonesian Socialist Party, favors a coordinated development plan in which foreign capital is given an opportunity and inducement to operate in Indonesia. The communists, of course, take the opposite position.

The Nahdlatul Ulama has apparently not yet determined its stand. It participated in the Ali Cabinet, then joined the Masjumi Party cabinet which undid much of Ali's work. Now, the N.U. has pulled out of the Burhanuddin Cabinet because of the negotiations being held with the Dutch. It would appear that the N.U. is willing to join any combination which does not produce major domestic conflicts, providing that the combination does not include the communists. As the local leaders of the N.U. gain more experience in national and international politics, they can be expected to develop more concrete views on economic and political problems. Presumably, these will conform in some manner to the ultra-conservative religious outlooks of the party. In the meantime, the N.U. holds a decisive position between the Masjumi and the P.N.I., following first the lead of one and then the other.

The P.N.I. probably holds the key to developments in 1956. It could continue along the path indicated by Sukarno and the Ali wing

of the party, wavering between caution and a truly radical nationalist program. Or the party could rediscover moderation and work once again with the Masjumi, as it did in the days of the Wilopo Cabinet.

The future line of P.N.I. policy depends on the real depth of the party's radicalism. Viewed domestically, it is a conservative party which has nothing to gain from a radical social policy. To a great extent, it is a party of the bureaucracy and the elite. Its victory in the election was built on the support of local leaders in positions of authority: village chiefs and central officials. Its appeals during the election were for moderation and unity. West Irian and foreign importers were not campaign issues in the hinterland where the P.N.I. won millions of votes.

The party has more to gain from the type of radical economic policy carried out under Minister of Economics Iskaq. The close controls exercised by government over import licenses and permits insured the development of a large group of semi-capitalists from the ranks of P.N.I. politicians. The material gains to the party and members of the party certainly justified the policy from a practical point of view. The policies, however, made only the slightest dent in the structure of foreign economic power in Indonesia.

Other aspects of P.N.I. radicalism in 1955 seemed to be built on less concrete considerations. But concrete or not, nationalist pride is no less real than national interest. The fight for West Irian has been largely such a matter of pride for P.N.I. leaders, and within the framework of nationalist logic, their claim is certainly not extreme or unreasonable. The refusal to take measures which would attract or protect foreign investment seemed also to be a matter of pride more than concrete interest, for Indonesia is bound to suffer economically from such policies as long as no alternative method of national development is adopted. Yet national pride--Dutch or Indonesian--can't be measured in rupiah. The popularity of the P.N.I. lies in the fact that it represents or understands this national pride better than its competitors. Like so much of the Indonesian elite, the P.N.I. has been willing and anxious to take firm negative stands on most issues involving relations with foreign wealth or power, but it has not yet chosen a positive direction in which to act.

The mixed radicalism of the P.N.I. has not led it into the arms of the Communist Party. Informal cooperation with the communists in the past three years has been largely a matter of convenience and politics. It has been immensely profitable for the P.N.I. and much less so for the communists themselves. Now, there is evidence that a sizeable segment of the P.N.I. leadership believes further cooperation with the communists to be unwise. The communists have not won real power in the state administration, the police or the armed forces, but their mass support has been growing swiftly and their dominance in the

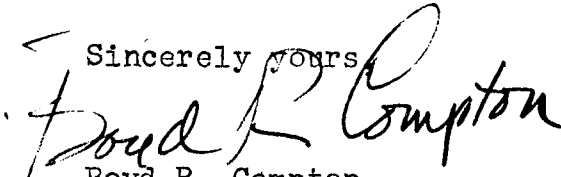
urban centers of east and central Java is disturbing.

If the P.N.I. cuts the rather tenuous bonds of good will which connect it with the Communist Party, it will be refusing the advice of President Sukarno, who has advocated the inclusion of the communists in the coming government. In making national unity his obsession, Sukarno has indirectly advocated that no steps be taken in internal development which would offend or greatly displease any major group. Any decisive step toward national planning and development--conservative or radical--would be bound to estrange the communists, for the party would be obliged to oppose new taxes or labor regimentation almost as much as it would new foreign investment. The hope of the communists would then seem to be that the P.N.I. will continue its recent course of proud but rather indecisive nationalism.

At the year's end, the rationalization of the political process had proceeded a long way in Indonesia through the election of a representative parliament. But two unpredictable, ungaugeable factors loomed in the background. Sukarno's All-Indonesian Congress was functioning intermittently outside the regular channels of politics, providing a rallying ground for extreme nationalists from all parties and a work-shop for the communists. At the other end of the political stage, the army still seemed seriously united in its efforts to create the professional standards it had espoused during its squabble with the Ali Cabinet. The future political role of either the All-Indonesian Congress or the army could become significant if the administrative and political gains of 1955 are not followed soon by economic growth.

The message of the 1955 elections was that the goals for Indonesian development in 1956 and the future will not be easily chosen. The government administration has shown an ability to carry through its most important tasks and the people have indicated a willingness to follow firm leadership; it remains now for the higher political leaders to find compromise objectives which would give equal service to the country's honor and her livelihood.

Sincerely yours


Boyd R. Compton