

INSTITUTE OF CURRENT WORLD AFFAIRS

BRC--41
Indonesia's Chinese Puzzle

Kantor Pos
Modjokerto, East Java
Indonesia
April 9, 1956

Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 36, New York

Dear Mr. Rogers:

The enclosed letter treats a fascinating problem: how can the Indonesians hate the rich, industrious Chinese minority so much, and yet do so little to show their animosity? Now, one man, Mr. Assaat (of course a Sumatran), has opened up the situation completely by leading the recent National Importers' Congress to make strong anti-Chinese resolutions.

Usually, I don't place much stock in words and resolutions. Especially in wordily resolute Indonesia. But this is a specter of a different color, and all my intuitions tell me that the words and resolutions of Mr. Assaat and his fellow businessmen will become very important during this year. Influential Indonesian leaders in government, business and party politics have been waiting for someone to formulate their attitude toward the Chinese for them. Now that it has been done, many of my friends in Surabaya are nodding their heads in agreement and saying, "Just what I think." The political party which can grab hold of this new development, nourish and lead it, could win great political profits.

The cagey communists would be the natural ones to lead an anti-Chinese campaign, except for the fact that they obviously get a lot of money from the Chinese merchants. But then many other party leaders, businessmen, policemen and officials get their spending money from the same source.

The new cabinet is a strange one. The men in it are almost all conservative or moderate. The communists didn't get in, despite President Sukarno's efforts. Superficially, it would seem that such a group could work together productively on important problems of foreign investment, import policy, export inducements, governmental decentralization, and so forth. But the big three cabinet parties (Masjumi, P.N.I. and N.U.) have never worked together well in the past. I will be surprised if the present coalition can find a really significant basis for compromise and cooperation. The crucial question seems to be whether the P.N.I. is going to follow its conservative instincts or its radical pretensions (fostered by Sukarno). The appointment of Ali Sastroamidjojo as premier for the second time indicates that they will try to do both, and that the most indecisive, anxious elements of the P.N.I. are still in control of the party. This is a shame, with so much talent in the party.

Yours sincerely,



Boyd R. Compton

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March 31, 1956

Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
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Dear Mr. Rogers:

March, 1956, produced an interesting variety of news stories in Indonesia. John Foster Dulles visited Indonesia for a day; his appearance drew cold, suspicious comments from many nationalist leaders. Marlon Brando dropped in for a longer stay and was mobbed by romantic, curious teen-agers. The swearing-in of the new, elected parliament was a bright date in the chronology of Indonesia's formal institutional development, and the formation of the second Ali Sastroamidjojo Cabinet on March 24 set observers to wondering how such a mixed coalition of radicals and conservatives could deal firmly with unsolved economic problems.

Most of the stories of March were familiar in pattern, and events seemed to be following in familiar grooves. But out in Surabaya, an exceptional meeting was taking place. The Association of Indonesian Importers met during the last week of March and during the sessions of their congress a succession of speakers rose to talk frankly and harshly about the economic position of Indonesia's dynamic minority of two and a half million Chinese.

The importance of the Surabaya congress goes beyond the content of the statements expressed there. Unlike government declarations of policy and intention--which are often unrelated to social and political realities--the statements made in Surabaya served to crystallize a broad public attitude which has been growing for years. As influential members of the government parties, the Indonesian businessmen who attended the meeting will have a major voice in forming future government policy toward the Chinese minority. Future cabinets can hardly ignore their demand that government economic policy discriminate against the Chinese as a social and racial group, regardless of citizenship.

The migrations which created the Chinese minority have been going on for centuries, but the bulk of the Chinese population has come south from Fukien, Kwangtung and Chekiang in the last hundred years. Generations of Indonesian living have led to some cultural and racial assimilation, yet the community as a whole still stands apart from Indonesian society, proud of its position, anxious for its future and somewhat contemptuous of the new Indonesia.

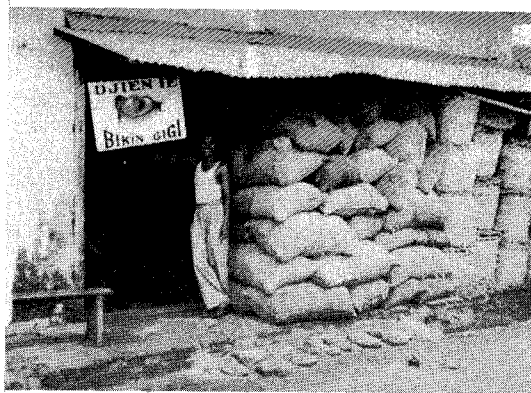
A stranger walking down the main street of a town like Modjokerto (population, 54,000) can appreciate the extent of this power at a glance. All but a dozen of the shops on the long main-street are Chinese owned. Most of the busses and trucks which service the town belong to the Chinese. The small factories off the main street (furniture, coffee, soy sauce, shoe-making) belong to Chinese. Chinese run the rice mills, the bakeries, the lotteries and the two movie houses. And from Modjokerto, they dominate the trade in agricultural products which provides the livelihood for half a million Indonesians in the surrounding regency. Yet the dynamic Chinese minority in Modjokerto Regency numbers less than 10,000 persons, or about 2% of the population.

Chinese economic predominance is nearly as marked in Surabaya, Semarang, Djakarta, Palembang, and Bandjarmasin. Their position in these large metropolitan centers is growing stronger as the Dutch firms narrow their fields of operation.

In any corner of the archipelago, an Indonesian need only look around to see the immense and growing power of the relatively small Chinese minority.



In town. The stores are Chinese. The principal contractors who build stores are Chinese. The truck in the foreground is Chinese-owned. The pedicab is one of many owned by a Chinese enterpriser. Most bicycles are sold in Chinese shops. The oxcarts are Indonesian-owned.



In the countryside. Three specialties for a Chinese merchant in Ngoro: rice, charcoal, false teeth. He almost certainly has relatives in nearby towns who serve as trade contacts. He has a truck which sorties out into the villages at harvest time to buy cash crops. If he lends money to farmers for their unharvested crops, he realizes a profit not less than 100% at harvest. He lives simply and works hard.

Strangely enough, the Indonesian reaction to Chinese economic domination has generally been one of polite silence during these six years of full independence. Indonesians seldom say what they really think of their wealthier, more energetic neighbors, though resentment and bitterness often shows clearly through their good manners.

The anti-Chinese riots in West and Central Java during the revolution showed how quickly Indonesian resentments could be fanned into open, destructive hatred. But, until very recently, Indonesian leaders have shown no willingness to act as spokesmen for a public movement against the seemingly irrepressible Chinese minority.

Since the first days of full independence in 1950, the Indonesian government has treated the Chinese minority as a legal rather than a social problem. The pivot

of government policies has been the definition of Indonesian citizenship for non-natives and the question of the rights of non-citizens. The legalistic approach to the Chinese problem was maintained despite the fact that Indonesians have looked on the powerful Chinese minority as a social unit, without considering the legal position of its members.

After six years, the legal position of the Chinese is in confusion. Their status as Indonesian citizens has been established by two conflicting agreements. According to the Round Table Agreements of December 27, 1949, all resident Chinese who did not actively reject Indonesian citizenship within two years would automatically become Indonesian citizens. The period ended at the end of 1951. Official figures have not been released, but it is reported that slightly less than half of the Chinese community rejected Indonesian citizenship.

This arrangement was superseded by the Chou-Soenario Agreement of April 21, 1955, which stated that all Chinese residents would be obliged to make an active choice to become citizens either of the Peoples Republic of China or Indonesia. Those who failed to do this would automatically assume the citizenship of their male parent. The Chou-Soenario Agreement was heralded as a major achievement, but nothing has been done to put it into effect. Some observers think it has become a dead letter.

In the meantime, all Chinese who hold the "yellow citizenship card" are treated as Indonesian citizens. These cards were issued by the Ministry of Justice, before the Chou-Soenario Agreement, to Chinese who could give evidence of their place of birth and who had not rejected Indonesian citizenship.

So in theory, the eligibility of Chinese for business licenses, permits and contracts has depended on the question of citizenship. In practice, a type of gentlemen's agreement among Indonesian officials has provided the basis for mild discrimination against all Chinese, citizens or not. But the gentlemen's agreement has hardly been binding, and it has operated only sporadically. Economic realities and ungentlemanly pressures have helped the Chinese maintain and even increase their power.

In many ways, nationalistic economic policies have played directly into the hands of the Chinese. During the reign of the first Ali Sastroamidjojo Cabinet (July 30, 1953 to July 24, 1955), government manipulation of foreign exchange allocations to importers was designed to nourish and subsidize a group of native Indonesian Importers. A greater part of the nation's foreign exchange for imports was suddenly diverted to the newcomers. Few of them had the facilities, experience, or the desire to use the licenses and permits they were given.

Scores of "Ali-Baba" firms sprang up, consisting of Indonesians with proper connections (the "Alis") and Chinese merchants possessing energy, facilities and capital (the "Babas"). Too often, the Indonesian acted as a mere front or stooge and played no active part in the firm. Other Indonesian importers acted independently as license brokers, selling their import licenses on the open market. By the time the license reached the hands of a competent firm, heavy commissions had already been paid to a string of middlemen and fixers. Retail prices for imported goods soared as these irregular business practices added pressure to inflationary forces already at work.

The nationalistic economic policies of the Ali period were continued under the Burhanuddin Cabinet (August 13, 1955 to March 3, 1956) but in a more moderate

form. A vigorous rescreening of Indonesian importers eliminated many of the Ali-Baba firms, and a reorganization of the government import-licensing system cleaned up some of the dirtier nests of corruption that had grown in recent years. Indonesian importers still received preferential treatment and maintained a monopoly of the import of many items, including the entire trade with the Asian-African countries. Foreign importers were again allowed direct access to licenses and foreign exchange, with the provision that they deposit Rp. 5,000,000 with the government. During the months of rationalization and clean-up, the principal complaints heard from Indonesian businessmen had to do with the cabinet's policy of extending equal treatment to native Indonesians and Indonesian citizens of Chinese origin.

The loudest complaints against equal treatment for the "new citizens" have come from the tiny group of legitimate native importers who have established roots in the commercial world during the recent years of confusion. Within this group, the shameful end of the first Ali Cabinet seems to have created an awareness of the damage done to legitimate native businesses by the policies which encouraged the Ali-Baba firms. Now, they demand government policies which are not less radical, but more explicitly and effectively discriminatory. In doing this, they are expressing a sentiment with which almost all interested Indonesians would agree.

The stand taken by the Indonesian importers was described publicly in a statement of December 20, 1955, which was a summary of the position which the importers would take at the March congress. The statement--which so clearly reveals the Indonesian sense of frustration and futility--was signed by ten national business associations:

...No clear understanding of the problem of protecting native citizens against citizens of foreign origin can be made without reviewing the policies and regulations of the former Netherlands Indies government.

As the Prime Minister knows, the Netherlands Indies government divided the inhabitants of the Netherlands Indies into three groups: Europeans, Natives and Foreign Asiatics... In practice this meant a division into Dutch, native and Chinese groups.

As a consequence of the policy, the three groups possessed real and separate identities in the economy and in society in general. In the large cities, we saw the Dutch living in the best sections, the natives in the worst, and the Chinese in-between, generally near the centers of commerce. There were special schools for the Dutch, Chinese and Indonesian. Even in the railroads, there were special sections for the three groups, and there were three classes of tickets at the Gambir Market cinema for Dutch, Natives and Chinese.

What was the significance of Chinese descent? Although a legal differentiation was made between Chinese citizens in residence and Chinese who had become Netherlands subjects, the Chinese nevertheless constituted a single exclusive group in the social-economic field.

The Chinese group, which came to Indonesia intent on seeking a livelihood, was utilized by the Dutch to obstruct any development in the native Indonesian community.

The Chinese made good use of the situation provided by the Dutch. They gleaned the greatest profit out of the political advantage given them, realizing full well that this was detrimental to the Indonesians.

The Chinese position became progressively stronger until they finally dominated all sectors of the economy--distribution, commerce, imports, wholesale trade, and medium-sized businesses down to ice cream parlors and coffee stands. Down to this day, they control shipping, trucking, bus companies and even pedicab transport...

In the crafts, carpenters, cobblers, tailors and laundrymen are Chinese...

Indonesians know how to farm, but they can't sell their own produce. Papa Farmer goes to his fields, but the milling and trading of rice is in the hands of Chinese who earn large profits. Papa Farmer grows the soybeans, but soybean trade and the making of bean-cake are in Chinese hands. Papa Farmer grows the cassava, but the Chinese control the trade and export of tapioca...rattan...salt fish...batik...wovens... Indonesians do the work, but Big Brother gets rich.

Who owns the fine, big houses in Djakarta? If not the Dutch, then the Chinese. The de luxe cars are Chinese-owned... Who plays tennis? The Chinese. The greater per cent of airline passengers are Chinese. Almost all the Indonesians who ride the airlines are on government business...

The Chinese have developed an attitude of superiority toward the Indonesians. And the Indonesians have a feeling of inferiority towards the Chinese. Any why not, if every day they see this unbalanced state of affairs?

The situation was the same under the Japanese and has not changed since independence.

Culturally and socially, the Chinese will not mix with other groups. The reasons may be found in religion, nationality and custom, but most of all in the former Dutch colonial policy.

If an Indonesian wants to sell rice in his restaurant, he must buy it from a Chinese merchant. He receives slower service there than a Chinese restaurant owner. In credit, price and quality, the Chinese rice merchant gives better service to the Chinese...

The same holds true if the Indonesian restaurant owner wants to sell salt-fish, sugar, coffee, salt, soy sauce, potatoes, charcoal...

The result is that the Indonesian who wants to open a restaurant encounters unfair competition from the Chinese restaurant operators. The Indonesian must have access to greater capital than the Chinese to open the same-sized restaurant, for he can't get the same credit. In price and quality, he always loses out. In addition, the Chinese are more industrious and thrifty...

Indonesian cobblers have to buy leather, nails, thread, needles, etc., from the Chinese merchants who monopolize trade in these commodities.

Competition with Chinese cobblers is even fiercer when the government places large orders for shoes with both Chinese and Indonesian firms. When the Indonesian needs large quantities of materials, the Chinese wholesalers give priority to Chinese cobblers. Very often the Indonesian is turned away with the explanation that supplies are already exhausted.

An Indonesian importer who really wants to operate his business must sell his goods to Chinese wholesalers. Since the wholesale trade is almost 100% monopolized by the Chinese, the Indonesian feels the full force of Chinese competition when supplies of imports are relatively plentiful, for the foreign importer then makes use of his good connections with the wholesalers.

The fate of the Indonesian importer is shared by the factory owner. With great sacrifices, Indonesians have been able to establish knitting enterprises by cooperative methods. But they must sell to Chinese wholesalers or directly to the shops which are also nearly 100% Chinese-owned. Here again, they meet discrimination...

Perhaps these examples will suffice to show the monopolistic nature of the Chinese economic position which serves to obstruct the development of national Indonesian enterprise...

What is the significance of Indonesian citizenship for the Chinese community? To answer this question, we must look at the current regulations on citizenship.

Former Netherlands subjects of Chinese descent who did not refuse Indonesian citizenship, became Indonesian citizens in the eyes of the law as a matter of course. This applies to all Chinese whose parents were considered "Asiatic Chinese in permanent residence" (under the law of the Netherlands Indies).

So Chinese born in Indonesia, whose mothers and fathers were in permanent residence, became Indonesian citizens if they were willing...

But do they consider themselves as Indonesians?...

Would they be willing to defend Indonesian interests if there were a dispute with Peking or Taiwan?

The short history of the years since 1942 indicates that, in conformity with their aim of seeking a livelihood, they have sided first with the Dutch, then with the Japanese during the Japanese period, again with the Dutch during the revolution, with Chiang Kai-shek when the Kuomintang was in power and now with Mao Tse-tung.

To give special protection to citizens of this type would mean giving the Chinese an opportunity to dig in and extend their influence in free Indonesia. Using their citizenship, they can strengthen their position. Any arrangement which gives priority to Indonesian interests will be... nullified by the Chinese by means of their new citizenship.

Consider the Netherlands Indies agrarian regulations which were designed to protect Indonesian land from foreign ownership. No matter how strong the precautions taken by the Dutch government, a great deal of land actually fell under Chinese control through the use of servants and washerwomen as fronts...

In passing, we request a clear explanation from the Minister of Finance and Minister of Economics as to whether they intend to extend their policies of nondiscrimination among citizens to the agrarian field? Does the government intend to abolish the Netherlands Indies laws protecting Indonesian landholders?... The effects of such a step would be drastic.

Our opinion that special protection must be extended to native citizens in the economic field does not spring out of hatred or jealousy toward the Chinese community, but arises instead from a consideration of the facts explained above.

It is only just and reasonable to give priority to the interests of the weaker group rather than the stronger, so that all may enjoy equal happiness and prosperity in our nation.

On the contrary, equal treatment of weak and strong groups would mean a strengthening of the stronger group, an act which would be contrary to any sense of justice. It is not merely permissible but obligatory for the government of a state based on the Panchasila (Five Principles), which includes Social Justice, to give priority to the interests of the weak. To act otherwise would be in violation of the Indonesian Constitution.

Indonesian governments since the time of the proclamation to the period of the Ali Cabinet have carried out policies giving preference to the interests of native Indonesians rather than the new citizens. Despite occasional objections from the Chinese community, the government maintained its stand.

Because of the coincidence that the weak and strong groups in the economic field are identical with the Indonesian and Chinese communities, Chinese have charged the government with carrying on a policy of race-discrimination.

Any government with confidence in its strength and policies will ignore such baseless accusations. We therefore express the deepest disappointment in the present Cabinet which has bowed to the accusations and intimidations of the new citizens, who are supported by the entire Chinese community. The Minister of Finance and Minister of Economics have refused to recognize a difference in the treatment of native and non-native citizens, and have threatened to take strong measures against any official who acts otherwise.

This attitude does the greatest damage to the interests of Indonesians in the economic field...

If we accept defeat, then the thousands of casualties of the revolution will have been offered in vain. Our economy will be forever dominated

by the Chinese. We are disturbed by the possible repercussions of the government's policy. Although our opinion is not in any way based on racial hatred, we fear that existing anti-Chinese sentiments will flare up and blaze, with unforeseeable consequences.

For this reason, we propose that the problem be "localized" as quickly as possible. We hope that the government will understand and agree with our viewpoint and advise the new citizens also to accept this viewpoint in good spirit, instead of exaggerating and distorting the matter in their meetings and their yellow press...

Among the new citizens, we recognize the existence of a group who feel a true identity with the Indonesian nation... In order to give an opportunity to these (Chinese)...it is best to consider any enterprise based on cooperation between native Indonesians and new citizens as a "national enterprise."

The weaknesses of such a statement should be recognized before its virtues are discussed. It is obviously untrue that Chinese power grew solely out of former Dutch laws and regulations. Despite the strict limitations placed on native Indonesians by Dutch law and the interpreters of that law, the reasons for the Indonesian economic decline in recent centuries cannot be found in the wording of regulations. They must be sought at a deeper level, in the intricacies of the general cultural decline of the Indonesian peoples under Dutch rule. With their superior energy and purpose, the immigrant Chinese were able to utilize the Indonesian situation to their own purposes, just as they have in other countries of Southeast Asia. Aside from moral and political considerations, the overseas Chinese are an exceptional group. The present-day tendency to blame all national problems on the Dutch hints at the Indonesian cultural dislocation which assisted the growth of Chinese economic power here. Social Justice--the most strongly based of Sukarno's Five Principles--can hardly be attained by a change in the old Dutch laws. A willingness to recognize realities and work hard is also essential if Indonesians hope to outdo the Chinese.

The statement is equally perplexing for its criticism of the profit motive. The distaste of revolutionary socialists for profit taking is understandable enough. The sentiment seems somewhat out of place, however, in a statement made by ten business associations intent on competing in a business world. It is even less understandable coming from Indonesian business firms which have shown little reticence to take profits when they come along. Indeed, one of the greatest weaknesses of neophyte Indonesian firms has been their tendency to milk exorbitant profits from undercapitalized enterprises.

Making some allowance for the emotional and idealistic tone of the statement above, most observers would agree with its general picture of the situation. At the very least, it is an accurate description of the way most Indonesians view that situation.

The discussions at the Surabaya congress expanded the ideas of the December 20 statement and brought them down to earth. The talk given by Mr. Tobing of the Federation of National Indonesian Importers was especially forthright and realistic. Tobing blasted the Ali-Baba firms and stressed the fact that Indonesian firms can

never compete with the Chinese unless they operate legitimately and in accordance with business principles. His criticism of the Ali policies was, in essence, that they did not provide explicit enough protection for legitimate importing firms. He ended his long speech by asking that the government give such protection to native firms and discriminate consciously against all foreign businessmen, whether they are Indonesian citizens or not.

The real leader of the Surabaya congress was Mr. Assaat of the Indonesian Importers' Buying Federation (Gapindo), former President of the United States of Indonesia and chairman of the Managing Board of the Indonesian National Committee (BP, KNIP). With his immense prestige, Assaat guided the congress to adopt a strongly anti-Chinese resolution. It demanded that,

- (1) National enterprises be defined as those completely financed and controlled by native Indonesians or those jointly financed by native citizens and foreign-born citizens in which control is retained by the native citizens.
- (2) All imports be channeled through "national" firms.
- (3) Preference be given to "national" firms in all fields (i.e. in matters of licenses, allocations, contracts).
- (4) New enterprises be encouraged. (Such as new buildings for retail stores.)
- (5) In the issuing of new business permits, preference be given to "national" firms. Permits for non-national firms be limited to stipulated time periods.
- (6) No non-national firms be allowed to operate in fields which can be adequately serviced by national firms.
- (7) The export of certain commodities be given as a monopoly to "national" firms.

Such resolutions do not in themselves constitute an economic change nor do they guarantee that a transformation will be accomplished in future years. The Chinese hold on the Indonesian economy could be peaceably broken only through the sustained efforts of thousands of individual Indonesian entrepreneurs. Until now, the Indonesian business group has shown no real capacity to take advantage of the protection afforded it. It is difficult to imagine a greatly different situation emerging even if the "explicit" protection demanded at Surabaya were provided.

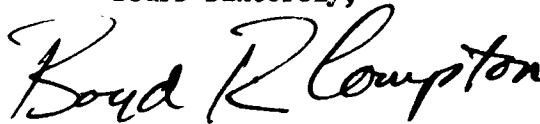
The immediate importance of the new attitude shown at Surabaya is political rather than economic. An influential group has dared to put its cards on the table in speaking of the Chinese minority. Many Indonesians have been waiting for some brave spokesman to do just that. If economic conditions fail to improve, it is quite possible that the Surabaya congress could set off a chain of events in which party leaders would be tempted to whip up the latent anti-Chinese feelings in the islands for political purposes. The extreme result could be disorder and riot. At the very least, an official program of discrimination could be pressured through parliament.

The repercussions of official discrimination might be disturbing. The spirit of the Chou-Soenario Agreement calls for fair and equal treatment of those Chinese who become Indonesian citizens. If the government effects a discriminatory program, it will run the risk of offending a powerful neighbor or of forcing many Chinese to reject citizenship, a condition which would in itself enlarge Communist China's concrete interests here.

The problem is delicate, especially for the Indonesian Nationalist Party, which has pushed most energetically for the "nationalization" of the Indonesian economy. The P.N.I. has placed great importance on friendly relations with China, but it must now pay heed to the anti-Chinese feelings of important businessmen within its own ranks. If the P.N.I. does not follow the problem through, it will lose respect and support.

The frank demands of the importers could be ignored or sidetracked by the new Ali Sastroamidjojo Cabinet. Such an attitude would prevent the crystallizing of an uncomfortable situation. It would only be a postponement, however. The eventual consequences of further postponement and suppression might be more dangerous than free, open, painful discussion now.

Yours sincerely,

A handwritten signature in cursive script that reads "Boyd R. Compton". The signature is written in dark ink and is positioned below the typed name.

Boyd R. Compton

Received New York 4/18/56.