

INSTITUTE OF CURRENT WORLD AFFAIRS

S. S. Tjiluwah
Enroute Macassar--Surabaya
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Mr. W. S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 36, New York

Dear Mr. Rogers:

The copra dispute between the Indonesian central government and regional groups in Sulawesi has revealed the weakness of the tenuous lines of control which bind the islands of this archipelago into one nation.

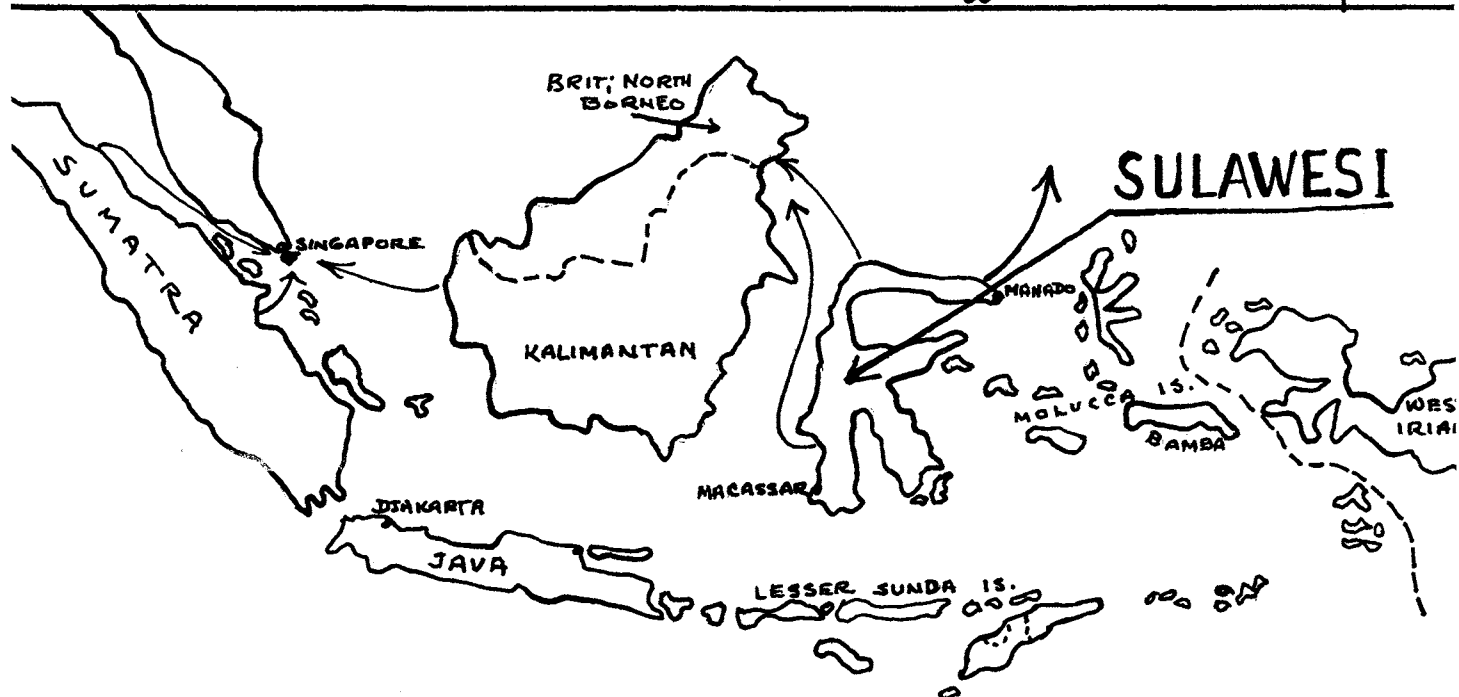
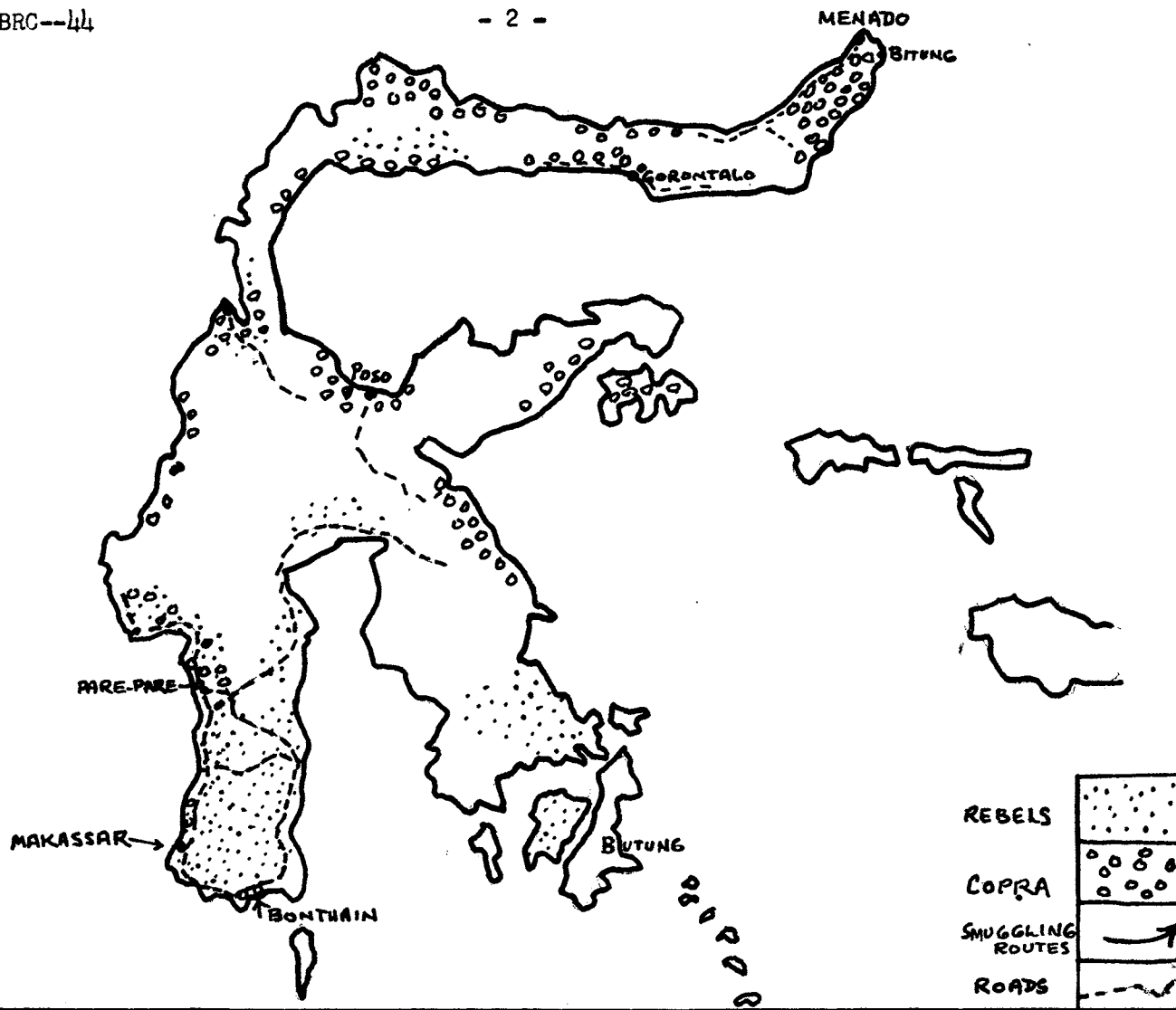
Superficially, the dispute has been concerned with the economic problems which led to the insolvency and abolition of the Copra Foundation--the giant, semi-governmental corporation which has enjoyed a monopoly on domestic purchases and foreign sales of the valuable dried meat of the coconut. For years, the Copra Foundation has played a determining role in the economy of Sulawesi, the Moluccas and the other islands of eastern Indonesia which dot the two thousand mile stretch of sea separating Java from Dutch-occupied West Irian (West New Guinea).

At a more basic level, the dispute has been a political tug-of-war between the power-weak central government and various regional groups in the scorpion-shaped island of Sulawesi. The events of the copra crisis fall into an alarming pattern, in which regional groups reacted so strongly against an over-centralized system of authority that they found themselves taking, without plan or clear intention, a position of defiance and near-rebellion.

The danger of regionalism can be seen in Indonesia's unique geographic-economic structure.

The life blood of the Indonesian government is the stream of revenue and foreign exchange which flows in great part from the export of rubber, palm oil, petroleum products, tin, copra and an assortment of agricultural products. Almost the entire production of these commodities originates from the sparsely-populated arc of islands which swings nearly three thousand miles from North Sumatra to the shores of Irian.¹

Down south, at the hub of this arc, over-populated Java produces rice and food products which help sustain the export economy of the outer islands. In the past, Java's food production has been an essential part of the economic balance of the Indonesian nation,



but population growth and irregular weather conditions have decreased the island's rice surpluses in recent years, thereby decreasing the economic interdependence which integrates Indonesia.

A basic condition for the existence of the Indonesian nation is a satisfactory relationship between the central government on Java and important groups in the rich outer islands. Under the democratic Indonesian system, central control must be bolstered by a high degree of voluntary regional support.

Differences in culture and historical experience among Indonesia's ethnic groups also obstruct the creation of national unity. The Javanese people, numbering at least thirty-five million, have naturally assumed a leading role in the new Indonesian government. In view of their numbers, high civilization and leadership in the revolution, any other situation would be unthinkable. But relations between the Javanese and the vigorous, small ethnic groups of the outer islands are often fraught with misunderstanding. The level of conflict is often exaggerated by foreign observers, but it is always high enough to intensify any political crisis of a regional nature.

Since 1950, when the short-lived federal United States of Indonesia was transformed into the centralized Republic of Indonesia, the central government in Djakarta has had to deal with the centrifugal forces produced by these factors of economics and cultural conflict.

At the extreme western end of the outer island arc, Atjeh has been torn by Muslim revolt for more than two years. West Kalimantan (West Borneo) has recently been placed under martial law because of banditry. South Sulawesi has suffered for nearly five years from Muslim rebellion. And now, just as the last remnants of the separatist movement in the South Moluccas are being eliminated, a new wave of lawlessness is rising in idyllic Bali.

After more than six years of full independence from Holland, the basic style and pace of Indonesian government leadership are becoming apparent. In approaching such issues as democratic elections, the constitution, and foreign investment, the Djakarta government has exhibited certain rather constant qualities: slow, careful planning, an ability to learn from experience, and a willingness to compromise its aims and program in the face of group pressures. Slowly and pragmatically, step by step, Indonesian leaders have been proceeding with the task of constructing their state; their success has been all the more notable because it has been won despite widespread corruption, lack of government coordination, and low levels of technical proficiency.

A crucial test of Indonesian statecraft will be the work of the Constitutional Assembly, which is scheduled to convene on August 17,

1956. During its months--perhaps years--of labor, this body will be expected to create a workable concept of central-regional relations. It is by no means certain, however, that the present centralized system can last so long without radical change and adjustment.

In a sense, copra management has become a test-case for regionalism. In its political aspect, the copra crisis has exposed the basic ingredients of Indonesian regional instability: lack of unity and command in the army, faltering and uneven economic development, the erratic conduct of veterans' groups, cultural conflict, and the exuberant sense of independence fostered by the revolution. It has also shown that a combination of circumstances and accidents can suddenly combine these ingredients into a political crisis of major proportions.

In sorting out the roots of the copra troubles in Sulawesi, it is well to keep several facts in mind:

- (1) Dutch rule in the outer islands was not firmly established until the turn of the twentieth century.²
- (2) The conflicts among outer island regions are as intense as between these regions and Java (e.g. Christian North Sulawesi and Muslim South Sulawesi, Atjeh and Tapanuli in North Sumatra).
- (3) From 1946 to 1949, the Dutch succeeded in creating a federal state, in which the outer regions enjoyed very wide formal autonomy. Present-day regional leaders supported the dissolution of the federal state in 1950, but they are nearly unanimous today in condemning the concept of highly centralized rule now prevalent in Djakarta.

The Copra Foundation

Outside of the rich rice lands in South Sulawesi, the entire region of eastern Indonesia seems to live on the products of the coconut palm. If the typical scene in Java is of irrigated rice fields, cut up by densely packed strips and plots of village area and backed in the distance by a graceful volcanic cone, the typical scene in eastern Indonesia is of a shoreline fringed with coconut palm groves, dotted at intervals with villages and occasional warehouses and wharves for handling the oil-rich dried meat of the coconut.

Other commodities bring wealth to Sulawesi, the Moluccas, and the Lesser Sunda Islands (nutmegs, cloves, jungle products, pearls), but copra is far and away the leading product and export. In 1951, an Indonesian official estimated that seventy percent of the population of the copra-producing eastern islands obtained their major income from copra, and that copra accounted for sixty percent of the value of the region's exports. The same year, copra from eastern Indonesia earned more than ten percent of the foreign exchange brought in by Indonesian exports abroad.³

Europe's need for copra increased so rapidly in the first decades of this century that the Dutch colonial government was encouraged to take steps to increase and improve production in the Indies. The graceful tree and its fruit became so important that an official census of coconut trees was carried out in 1917, some time before an accurate count of the human population of the islands. A gradual shift in the copra economy became apparent in these decades, during which the colonial government fostered but did not control copra production and export. In the 1917 "coconut census", nearly sixty percent of the 100,000,000 odd Indonesian coconut trees were in Java and Madura. By 1952, the balance was reversed and the eastern Indonesian islands were in the lead. Almost all of Java's coconut production went for local consumption, whereas the greater part of the eastern coconut crop was made into copra for export.

The Indonesian copra economy suffered a disabling shock with the German occupation of Holland in 1940. The busy Amsterdam market was cut off, and the coconut farmers and merchants of Indonesia faced sudden ruin. True to its constant policy of social responsibility, the Dutch colonial government took action. On September 13, 1940, the Copra Foundation (Het Coprafonds) was set up as a semi-governmental corporation to buy, stockpile and export copra. Building largely on the administrative organization of the Danish-owned Macassar Produce Company, the new corporation soon had agents buying up stocks of copra throughout the islands. The Copra Foundation did much to avert economic disaster until the coming of the Japanese in March, 1942.

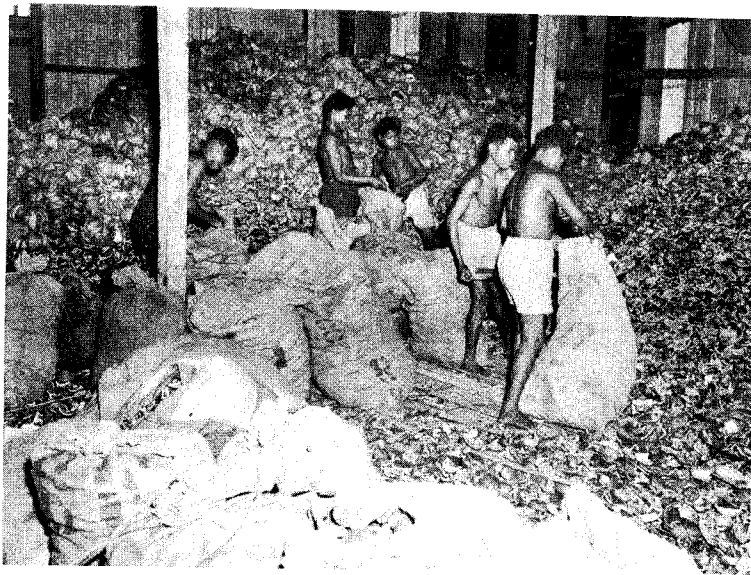
Outside of its principal task of stabilizing the domestic market for copra, the Copra Foundation had other aims. With its wide network of storehouses and agents, it was an ideal instrument to improve and standardize the quality of Indonesian copra. It could also serve as a means to transform the appalling social-economic situation in the copra area, where the farmers were perennially bound to the idion system, by which the unharvested crop is sold at cut-rates to a merchant (usually Chinese) who advances money or supplies goods from his store.

Before the Copra Foundation was two years old, the Japanese struck the Indonesian islands. Copra trade came to a standstill during the three-year occupation. When the Dutch returned to Sulawesi and



Typical scene on one of the tiny islands to the east of Sulawesi. Loading copra.

Sacking copra in a Copra Foundation warehouse.



Col. Warrouw, civil officials and newspapermen inspect copra loading on Macassar dock.

the eastern islands in 1946, the emergency organization of 1940-42 was quickly reinstituted as a permanent body, with its headquarters in Macassar, the greatest port of the eastern archipelago. Copra production revived, and exports had climbed close to their pre-war level by 1949. The smooth-running operation of the Copra Foundation was a source of great pride to its European managers.

Indonesia won full independence on December 29, 1949, with the establishment of the United States of Indonesia. Within less than one year, this federal state had been disbanded, and the "unitarian" Republic of Indonesia had full power in the entire area of the former Netherlands East Indies, except for the region of West Irian (West New Guinea).⁴ Het Coprafonds was translated literally as Jajasan Copra, headquarters were moved to Djakarta, and the process of Indonesianizing the organization began. An interministerial committee recommended that the monolithic Copra Foundation should someday be transformed, from the bottom up, into an immense federation of democratic cooperatives. There was also talk of putting more emphasis on the social-economic activities of the foundation, but for the time being operations continued under the old regulations and system.

During five years of Indonesian management, the Copra Foundation floundered into a swamp of difficulties, some of them economic, some administrative and some political.

Purchasing and export figures for eastern Indonesia show an interesting shift in the operations of the Copra Foundation during this period:

Year	Copra Foundation purchases in East Indonesia	Sales abroad	Sales in Java (to factories)
1946	107,000 tons	49,000 tons	3,000 tons
1949	333,000	306,000	24,000
1950	327,000	242,000	50,000
1951	488,000	464,000	8,000
1952	365,000	287,000	68,000
1953	406,000	240,000	113,000
1954	382,000	197,000	129,000
1955	310,000	122,000	142,000
1956. (4 mo.)	111,000	26,000	40,000

The striking trend here is the steady decrease in the volume of copra exports, during a period in which copra purchases in the eastern Indonesia area remained fairly constant. One reason for the decline can be found in the rapid "nationalization" program of the

first Ali Sastroamidjojo Cabinet (July 30, 1953--August 24, 1955), under which shipping routes in part of the copra area were taken from the powerful Dutch company, K.P.M., and handed over to fledgling Indonesian enterprises. Shipping schedules became confused, and thousands of tons of copra piled up in eastern Indonesian ports in an embarrassing, expensive snarl. As a result, the Copra Foundation was forced to default on some contracts with European buyers and important customers were lost. In late 1955, K.P.M. was invited to take back some of its routes, but great damage had already been done.

Other reasons for the export decline have been the inexperience of Indonesians who played an increasing part in managing export sales in Europe, and the mounting competition of other producers (the Philippines) and products.

The booming sales of copra to factories in Java have tended to compensate for the export decline. This development may represent, in part, a shift in the supply source of the factories involved, but it is principally due to the same phenomenal rise in the Indonesian consumption of supplementary foodstuffs which has saved the Javanese sugar industry from ruin.

The expansion of the Javanese market for copra has spotlighted a Copra Foundation ruling which many businessmen and officials in eastern Indonesia consider unjust. Only the Copra Foundation has been permitted to transport copra over the 116th degree of longitude, a line which separates Java from the principal copra-producing areas. In a normal transaction, copra is sold for Rp. 130-140 a quintal (220 lbs.) by a farmer or petty merchant to the local agency of the Copra Foundation. The copra is then exported abroad or sold in Java for prices up to Rp. 225 a quintal. Many regional leaders have called this an unjustified margin of profit, claiming that either the price paid the farmer should be increased or a greater portion of the foundation's earnings should be invested in the copra-producing area.

The feeling of injustice in eastern Indonesia has been fed by reports from foreign markets. Recent Amsterdam prices have varied between NF 60 and NF 70, an average of nearly Rp. 210 at the official exchange rate. Critics have also considered this margin unreasonably large.

In the past five years, critics of the Copra Foundation have been asking more and more embarrassing questions about the financial condition of the multi-million dollar monopoly, and they have shown some willingness to supply their own answers, often without adequate proof. These answers add up to a monumental charge of mismanagement, favoritism and corruption.

Some of the fiercest criticisms of the Copra Foundation

have concerned the level of policy making. As in the Indonesian government, policy control in the Copra Foundation has been centralized in Djakarta.⁵ Representatives of the copra-producing regions have played no determining role in making decisions on prices, selling policy, transportation, and the disbursal of funds for Copra Foundation wharves, buildings, automobiles and equipment. There is no conclusive evidence that decisions in these fields worked to the detriment of the copra-producing area, but regional critics were passionately certain that such was the case. They spoke of the scores of houses built by the Copra Foundation in Djakarta's new suburban housing area, of the new automobiles used by Copra Foundation officials in Djakarta, and of the enormous Copra Foundation contributions to projects being carried out by the Ministry of Economic Affairs. Yet the regional critics had no opportunity to act, for policy decisions in the giant monopoly were made by the Directorate of the Copra Foundation, which was in turn controlled directly by the Ministry of Economic Affairs.

Copra Foundation supporters could defend themselves with facts and statistics of various sorts. To back up their claim that the Copra Foundation was working effectively for the Indonesian farmers and traders of the copra area, they could display interesting figures on the pattern of copra purchases by Copra Foundation agencies in eastern Indonesia:

Bought from:	1949		1954	
	tons	percent	tons	percent
Chinese merchants	242,636	72.14%	163,759	42.87%
Plantations	15,555	4.62	13,869	3.63
Indonesian merchants	47,097	14.00	136,025	35.61
Cooperatives	20,430	6.07	27,307	7.15
Copra Foundation cooperatives	0	0	1,545	.40
Farmers	10,175	3.03	39,361	10.31
Other	<u>471</u>	<u>.14</u>	<u>88</u>	<u>.03</u>
	336,364	100.00	381,954	100.00

These statistics argue that the Copra Foundation has won a victory in encouraging the development of native Indonesian sources for copra; in 1949, native Indonesians supplied 23.10% of the copra purchased, and in 1954, they supplied 53.47%.

Actually, the figures are misleading. As in other sectors of the Indonesian economy, Chinese merchants of the copra area have set up a great many Indonesian "front" companies or gone into partnership with native Indonesians; through such "Ali-Baba" arrangements, they

have been able to maintain their position of dominance as intermediaries between the Copra Foundation and the farmers. The part played by native Indonesians in local copra trading was still minor at the beginning of this year when the copra crisis began to develop.

In its first phase, the crisis was financial. For several years, the farmers and merchants of the copra area had been experiencing occasional delays in getting payment for their produce from local Copra Foundation agents. A more serious situation arose in March when payments stopped altogether.

By mid-April, a general restiveness was reported from the entire eastern archipelago. In Timor, Copra Foundation promissory notes were being circulated as currency. Chinese merchants were bustling through the seaside villages of Sulawesi, paying Rp. 60 to Rp. 90 for copra which the farmer could ordinarily sell to the Copra Foundation for Rp. 140. Smuggling to the Philippines and British North Borneo rose from its usual busy pitch to the level of a major boom. Throughout the region, local leaders--civil officials, army officers, veterans, businessmen--were reaching conclusions on what should be done about the critical situation.

The political phase of the copra crisis began in earnest when it became known that the Bank of Indonesia had refused to advance more credit to the Copra Foundation in Djakarta. The debts of the Copra Foundation to farmers and merchants amounted to more than Rp. 50,000,000 and there was now no prospect that they would be paid. The Copra Foundation--heir to a busy, profitable trade and functioning organization--was facing bankruptcy.

While political repercussions mounted in Macassar and Manado, observers were asking how the Copra Foundation had slipped so rapidly into insolvency. Part of the answer was given by Vice Minister of Economic Affairs Umbas at a copra conference which began on May 25.

When the Indonesian management took over the Copra Foundation in 1950, its assets totaled Rp. 169,000,000., of which more than Rp. 100,000,000. constituted a stabilization fund.

By May, 1956, the Copra Foundation was practically without funds, and owed Rp. 102,000,000. to various organizations and government agencies, of which Rp. 59,000,000. was the debt to farmers and merchants for copra already delivered. Moreover, its credit at the Bank of Indonesia had run up to Rp. 85,000,000. before it was cut off. Even allowing as much as Rp. 60,000,000. for the value of the current unsold copra supply, the Copra Foundation had obviously reached an incredible degree of insolvency in less than six years.

Part of the organization's wealth had been dissipated on constructive projects, such as the purchase of lighters for loading copra, the construction of Bitung Harbor in Minahasa, a dessicated coconut plant, and a fibre-board factory. Another major share had gone for what can be called political expenditures, like the transfer of property, cash and supplies to the independent Minahasa Coconut Foundation (see below) and the gift of Rp. 20,000,000. for "the benefit of the farmers of the copra-producing area". According to Mr. Umbas, the total of such outlays, made at the order of the Ministry of Economic Affairs, was Rp. 187,000,000.

Although the internal budget of the Copra Foundation has not been made public, there is evidence of immense outlays not in keeping with the organization's financial situation or function.

This level of expenditure and investment was apparently not justified by Copra Foundation profits. When the organization came under Indonesian management in 1950, operations were profitable. Within three years, according to a Copra Foundation official, the margin of profit had disappeared and the organization was incurring annual losses on its marketing operations. It appears that this unfortunate reversal of fortunes was due largely to an increase in overhead costs. Significantly, the tumble from profit to loss took place during a period in which the margin between prices paid by the Copra Foundation to farmers and prices paid to the Copra Foundation by foreign customers remained fairly constant:

Copra Prices

Year:	Export price, F.O.B. Macassar:	Price paid by Copra Foundation to farmer:
	(Rp. per quintal)	(Rp. per quintal)
1950	144	119
1951	189	140
1952	169	100
1953	219	140
1954	198	125
1955	183	135
1956 (January)	209	140

The increase in overhead costs was in some ways inevitable. The price of gunny sacks rose sharply from 1950 to 1956, as did the price of the rice made available to farmers through local Copra Foundation agencies. Costs of construction and interinsular transport also rose at a greater rate than did Copra Foundation income.

The more important reasons for the increase in overhead were lack of managerial skill, heedless pursuit of social-political goals, and, possibly, corruption.

Of these factors, the most decisive was probably the removal or easing out of Dutch members of the technical and administrative staff. By 1955, only a small handful of Europeans remained with the Copra Foundation; almost all important posts in the technical and administrative staff had been taken over by Indonesians with scant experience and little familiarity with the subtleties of a huge marketing operation. Those Europeans who remained had little influence on basic policies.

The quick removal of European staff members suggests a change in the fundamental concept of the function of the Copra Foundation. It was originally conceived as a monopoly marketing organization, run on business principles, which would bring social benefit through long-term price stabilization. Under Indonesian management, it became the object of an experiment in nationalistic social-politics. While its overall efficiency was bogging under the over-rapid "nationalization" of its staff, it was transformed into a sort of nationalist milch-cow which was expected to give financial support to a wide variety of projects, some of them unrelated to its field of operation. Accepting the goals and outlook of Indonesian nationalism, the projects and principles supported by the Copra Foundation were on the whole admirable, however expensive.

One of the most praiseworthy efforts of the Copra Foundation in eastern Indonesia was the establishment of cooperative-type organizations for the coconut farmers (called "DUPKO", or "Copra Farmers' Fund"). By 1956, fifty "DUPKO" organizations had been set up under Copra Foundation guidance, and some of them had already become viable business organizations when the Copra Foundation fell. From the business point of view, however, the establishment of the "DUPKO" organizations meant a large outlay of funds without the hope of repayment in the foreseeable future.

The shipping and export sales policies of the Copra Foundation show the same expensive admixture of political nationalism. The government decision to limit the role of the Dutch K.P.M. line in inter-island copra shipments was only revoked after important foreign customers were lost. Similarly, the attempt to divert copra from the hands of the biggest Dutch wholesalers in Amsterdam appears to have failed in its purposes and added substantially to the market price of Indonesian copra. These and other measures helped create a situation in which Indonesian copra lost ground steadily to Philippine competition.

In short, the history of the Copra Foundation showed the great cost of bringing nationalist politics too quickly and carelessly

into the operations of a going business concern, just as the bankruptcy of the Copra Foundation showed what a great amount of administrative finesse and technical knowledge is needed to run a multi-million dollar marketing organization.

Early this spring, the credit of the Copra Foundation at the Bank of Indonesia was exhausted, and a practical decision was made not to extend more funds to the sinking enterprise.

The irony of the copra crisis was that the predominance of social-political goals over business principles led finally to a violent political reaction in the copra-producing area. Weak in military power and lacking control in its outer regions, the Indonesian government was forced to scuttle the Copra Foundation without a detailed consideration of alternative courses of action.

The centers of political reaction were Manado and Macassar.

Manado: the Scorpion's Tail

Manado, situated like a stinger at the tail end of Sulawesi's northern peninsula, is the principal city of Christian Minahasa. Most of the half-million inhabitants of Minahasa are literate, and thousands of young men in the area had experience in the Dutch Colonial Army (K.N.I.L.). Criss-crossed in its history by a variety of influences, Minahasa has a distinct cultural personality; its people--usually called Menadonese--are considered active, able and proud.

The Menadonese are very conscious of their wealth. With an average annual export of nearly 100,000 tons of copra, they have made a contribution to Indonesia's export economy which their articulate leaders are not reticent to publicize.

The factors which distinguish Manado--wealth, dependence on copra, energetic leadership, group solidarity--were precisely those which led the region to take action against the Copra Foundation a full year before the copra crisis developed in other areas.

In February, 1955, a group of Menadonese farm leaders, businessmen, veterans, and officials seized control of the local Copra Foundation facilities and declared the establishment of the autonomous Minahasa Coconut Foundation. Their surprising action had sprung from long-nurtured disappointment in the policies of the Copra Foundation and the scant imports which the area received in return for her export of copra. The government was not only obliged to recognize the new

organization as a legal body, but was forced to turn over more than Rp. 20,000,000. worth of equipment and supplies formerly belonging to the Copra Foundation. There was little else the government could do, in view of the strong support given the Minahasa Coconut Foundation by the local populace and Indonesian Army garrison.

While the reverberations of the Manado coup were spreading to other copra areas, the Menadonese began to exploit their position. In fall, the cabinet ordered that the new harbor at Bitung, a few miles from Manado, be opened to international trade. Agents of the Minahasa Coconut Foundation made contact with foreign shipping firms and customers. The growing troubles of the Copra Foundation in other areas apparently did not deter the optimists managing the new operation.

Little news about copra issued from Manado until April, 1956. Then, the story broke. Newspapers in Java reported that foreign ships were entering Bitung Harbor to unload foreign goods and load copra. From the start, the commerce was termed "smuggling", for the participants were said not to possess proper import-export permits from Djakarta. It was completely fortuitous that the dramatic story came to light just as trouble began to boil down south at Macassar, the capital of Sulawesi province.

For several weeks, the "smuggling" continued. The people of Manado and the surrounding countryside began to taste the fruits of free trade. Foreign rice flooded the market and prices skidded. New sedans and jeeps appeared in town, and long-awaited machinery became available. These were rare days of plenty which made the deepest impression on the people of the region. Persistent reports stated that local army units were not only guarding the smuggling trade, but were also receiving a good share of the imported supplies and equipment.

In Djakarta, the reaction to "foreign ships in Bitung Harbor" was confused. The Minister of Economic Affairs let it be known that at least some of the ships had entered Bitung illegally and that steps would be taken. Newspaper editors indignantly demanded action.

Meanwhile, in Manado, the criticism lodged by outsiders was causing excitement and anger. The correspondent (Antara News Bureau) who had sent in the first reports of smuggling and army involvement was badly beaten. Vice Prime Minister Roem and the Minister of Information, on tour from Djakarta, were forcibly held and threatened by a crowd in a Manado meeting hall.

The climax to the Bitung affair began to mount in early June. Colonel Worang, commander of the Indonesian Army garrison in Minahasa, announced that he had papers to show that a high official

in the Ministry of Economic Affairs had approved the copra transactions, but that, because of an oversight, no provision had been made to pay in foreign exchange through Djakarta. Other Menadonese claimed that an arrangement had been made, with cabinet-level approval, to pay for the copra in a foreign bank with sterling. Still others claimed that the trade was nothing but illegal barter and that the papers produced by Worang did not carry authority. Everyone seemed to agree that, legal or illegal, the commerce was directly sponsored and guarded by local army units.

Suddenly, the attitude of the central government was made clear by an order closing Bitung Harbor to international commerce.

With the swiftness so common in Indonesia's fluid political situation, all forces in Manado seemed to crystallize against Djakarta. The newspapers of Saturday, June 9, carried two ultimatums to the central government, signed by dozens of Menadonese organizations. Their message, in plain words, was "Reopen Bitung Harbor or face revolt." In private conversations, Menadonese claimed that the region would be able to muster fifty well-armed battalions in a matter of days. Rumors reported the readiness of the local Indonesian Army garrison to support such action.

With revolt in the air, the central government retreated gently from its position. Prime Minister Ali Sastroamidjojo announced, as he stepped off a plane at Djakarta's Kemajoran Airport, that the government did not have any intention of closing Bitung Harbor. It had merely issued a ruling saying that the harbor had not been opened according to the correct legal procedure by the previous cabinet. Proper measures would be taken as soon as possible. In the meantime, the harbor could continue to function normally.

The drama of Bitung stopped there and a possible tragedy was averted. No one could say, however, that a settlement had been reached. Important leaders of Manado are still angry and suspicious. The central government in Djakarta is aware that it has once more lost prestige and seen its effective authority whittled down.

The pattern of the Bitung affair is disturbing, for all its elements continue to exist after the immediate crisis has abated. It is clear that the Indonesian Army was directly involved in loading and unloading of the foreign ships, and that some of the equipment imported went directly to army units. It is also clear that a combined leadership of private citizens, officials and army officers emerged very suddenly when the central government made its belated effort to exert control. This group has succeeded in denying the authority of the central government and siphoning off a part of revenues and foreign exchange that should go to the central treasury. The needs of the

army for equipment and money have not diminished, and the anti-Djakarta sentiment in Minahasa has apparently not weakened.

Macassar

Developments in Menado became the model for an equally disturbing chain of events in Macassar. As in the north, the crisis in South Sulawesi grew out of the economic and administrative failures of the Copra Foundation, then developed quite suddenly in the direction of an anti-Djakarta political movement.

Looking back, it is now apparent that the establishment of the Minahasa Coconut Foundation in early 1955 was a death notice for the entire Copra Foundation. During the succeeding year, the government was forced to retreat slowly before the movement toward autonomy.

Not long after the successful action in Menado, the government was forced to recognize the People's Coconut Foundation of Sangir-Talaud. Within a short time, local leaders at Gorontalo were also making preparations to follow the Menado example, and the South Sulawesi Coconut Foundation was set up in Macassar. Officially, only the coconut foundations of Menado and Sangir-Talaud were recognized by the central government, but other groups were eager to follow their example.

As the movement toward autonomy spread, the government attempted to provide guidance rather than opposition. At a series of meetings, culminating in the Kinilow Conference of March 20-21, 1956, representatives of the provincial government, the army and various private bodies produced a general plan for a transition period in which "coconut foundations" would gradually replace all the local agencies of the Copra Foundation in Sulawesi. All parties agreed that some type of coordinating body would be formed at the provincial level, though no decision was reached as to the future division of powers between this body and the Copra Foundation.

The controlled pace of developments in Sulawesi was upset completely when the Copra Foundation stopped paying its suppliers. While protests and complaints rained on Djakarta from most of eastern Indonesia, direct action was taken in Macassar, which was the Copra Foundation headquarters for the entire region.

On April 27, a committee of ten men, mostly army veterans, issued a startling proclamation:

The Action Committee for the Decentralization of the Copra Foundation hereby declares: (1) that it has taken over the leadership, property and function of the Copra Foundation in eastern Indonesia, outside the areas of Minahasa and Sangir-Talaud, and (2) all matters connected with the above point will be settled in the shortest possible time, in the interests of the Copra Producers in particular and the Republic of Indonesia in general.

Strangely, this bold and impudent declaration, so like the Indonesian Proclamation of Independence in wording, was immediately enforced. The Director of the Copra Foundation for eastern Indonesia and the Acting Governor of Sulawesi signed an agreement on the same day, bowing in each particular to the demands of the Action Committee.

No deep research was needed to discover the basis for the Action Committee's power. Most of the members were veterans who had maintained close ties with army leaders in South Sulawesi, particularly with the Base Commander for Macassar, who wielded great power under the condition of martial law prevailing in the rebellion-torn southern peninsula. It had been rumored for some time that local army commanders were involved in copra sales and even in copra smuggling. Now, the immediate interest of the army in the copra trade was sufficiently clear. The action in Macassar could never have been taken without military support.

Djakarta's reaction to the Action Committee was polite silence. The seizure was admitted, but not recognized. No condemnation of the Action Committee was issued, but orders were quietly given that copra shipments from eastern Indonesian ports would henceforth come directly to Java, bypassing Macassar. Nearly Rp. 12,000,000. had been promised by the government to ease the position of the copra farmers in eastern Indonesia, but the money was channeled directly to government officials, again bypassing the articulate, impotent Action Committee.

On May 19, the Action Committee took reprisal by stopping all shipments of copra from Macassar harbor and declaring, in mockery of an unpopular Copra Foundation ruling, that no more copra could be shipped over the 116th degree of longitude until the Copra Foundation's debts had been paid.

Although the central government worked skillfully to prevent a spread in the influence of the upstart Action Committee, it became

apparent that a decisive blow had been dealt the Copra Foundation. On May 25, a conference was convened at Tugu, near Djakarta, to discuss the copra crisis. The participating organizations agreed to the abolition of the Copra Foundation and the establishment of a Giant Copra Cooperative, in which control of policy would rest with the copra farmers instead of the central government.

The aftermath of the Tugu conference was confusion, laced sparingly with hope. July 12, 1956, was hit upon as the date for the formal disbandment of the Copra Foundation. July 12, 1957, was declared as the date for the formal inauguration of the Giant Copra Cooperative. In the intervening twelve months, preparatory committees, guided by central government officials, were to sponsor the establishment of local copra cooperatives and provincial coordinating bodies. It was agreed that a "single-seller" policy would be maintained, but no clarification was given about the future role of the facilities of the defunct Copra Foundation.

The dream of a "Giant Copra Cooperative" had been referred to vaguely in 1950, when an inter-ministerial committee reported on the transfer of the Copra Foundation to Indonesian management. Suddenly, now, the hazy dream has become a plan, and a deadline has been set for its realization.

July 12 is approaching and no reaction to the Giant Copra Cooperative has yet been heard from the Minahasa Coconut Foundation or the Action Committee of Macassar. Both groups have adopted a "wait and see" attitude. With their proven power, it can be assumed that they will reserve the right to pass judgement on the success of the central government's efforts. Recent events indicate that their evaluation will depend on the amount of real financial autonomy Djakarta is willing to give to local and provincial copra-management bodies which emerge in the coming year.

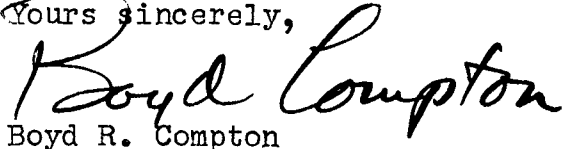
The copra crisis has presented the full panoply of problems, frustrations and hopes which characterize the young Indonesian government. Until now, the Indonesian government has shown a salutary capacity to learn from trying and embarrassing experiences. The important lesson of the copra snarl seems to be that the regional power groups, led, sponsored or befriended by army officers, have the capacity to impose an absolute limit on the degree of centralization in policy formation. This is especially true in cases where rapid "nationalization" appears to threaten the economic interests of important regions outside Java.

Despite the high temper and pretensions of the regional leaders in Manado and Macassar, the will to national unity remains strong in Sulawesi. So far, Djakarta's reactions to regional sentiments

in this area have veered wildly from bluster to passive retreat. Somewhere in between, there may be a middle ground where the central government can grant a real degree of regional autonomy without sacrificing control of essential revenues. The situation in Sulawesi is critical enough today to demand that this middle ground be discovered before the coming Constitutional Assembly has taken months or years to formulate basic principles.

In the long run, Indonesian political unity is of greater consequence than the fate of a marketing organization for copra. In recognizing this fact, the central government has once again shown its ability to ride an irreversible tide. This combination of weakness and skill seems to be the essence of the "Eastern Style" which so many Djakarta officials extol as a political outlook. Perhaps it was to be expected that a complex "western style" business operation like the Copra Foundation would fail to survive in the fluid Indonesian situation where basic political and economic institutions are still in the process of formation.

Yours sincerely,

A handwritten signature in dark ink, reading "Boyd R. Compton". The signature is written in a cursive, flowing style with a large, prominent "B" and "C".

Boyd R. Compton

NOTES

1. Sumatra is by all odds the greatest producer of foreign exchange and export-based revenues. Oil and rubber from this island have accounted for more than 50% of the value of Indonesia's exports. See the monthly publication of the Central Statistical Office (Djakarta): Statistik Konjunktur.
2. The last areas to come under full Dutch control were Bali (1904) and Atjeh (1907).
3. See Ichtisar Statistik (previous title for Statistik Konjunktur) for any month in 1952.
4. Arthur Schiller's, The Formation of Federal Indonesia, 1945-49 (W. Van Hove, The Hague, 1955) gives an excellent general description of the federal state.
5. It should be pointed out that this over-centralization of policy control also existed under the Dutch.

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