

INSTITUTE OF CURRENT WORLD AFFAIRS

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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 inability of the Indonesian Armed Forces to put a stop to rubber smuggling from Sumatra's long east coast has been a source of wonder to observers here for some time.

Now, official sources inform them that the North Sumatra Territorial Command of the Indonesian Army is actually sponsoring a large illicit trade in rubber from Teluk Nibung harbor to Singapore and Penang.

With this disclosure, the name "Teluk Nibung" has been added to "Bitung Harbor" and "Macassar" in the growing list of Indonesian regional disturbances for 1956. In these three cases, regional units of the Indonesian Army have been directly or indirectly involved in glaringly illegal acts.

At Bitung, North Sulawesi, the local army command cooperated in the illegal export of thousands of tons of copra. At Macassar, South Sulawesi, a group of army veterans, sponsored by army officers, seized control of the semi-governmental Copra Foundation and attempted to block copra exports from eastern Indonesia to Java. At Teluk Nibung, the army arranged for and guarded the smuggling of at least 5,000 tons of rubber. In each instance, the central treasury was at least momentarily denied control of vital revenues.

Six years of full Indonesian independence have left political reporters somewhat sophisticated about such crises. They rise and abate with the regularity of Java's floods, but still the Indonesian government appears to make plodding, persistent progress. One observer has commented that the situation in Indonesia is "always hopeless, never serious." This axiom--in itself an absurd mixture of cynicism and hopefulness--is an excellent antidote for despair, but it should not be swallowed whole.

Indonesia has been rescued from her crises not by stumbling luck and a friendly fate, but rather by a combination of more positive factors: a strong desire for national unity, cautiousness and humility

in facing complex problems, and sufficient national wealth to allow for experimentation and failure in economic planning. The regional-military crises of 1956 have been especially serious because they have struck the government at its weakest points: they have threatened national unity, demanded quick, decisive counter-action, and siphoned off the revenues so urgently needed by the central treasury to finance government activities in this year of decreased national income.

Like the copra crisis in Sulawesi, the Teluk Nibung affair materialized as a single dramatic event out of a complex matrix of problems.

At Teluk Nibung

Teluk Nibung is a tiny harbor near the town of Tandjung Balai, which lies at the southern end of the East Sumatra plain. To the west, barren hills roll out toward Padangsidempuan and Gunung Tua; to the south lie scattered rubber groves and jungles teeming with the tigers, elephants and snakes which made Sumatra appear a land of dangerous adventure in the Frank Buck movies of the thirties.

After years of peaceful stagnation, the harbor at Teluk Nibung came alive in May, 1956. On May 16, the ship Nan Yang, registered at Singapore, entered to load. On May 20, it sailed with 700 tons of first and second quality rubber for Singapore. By the time the Nan Yang left with its cargo, valued at more than half a million U.S. dollars, the Hing Cheong (Singapore) and the Thit Mayanna (Rangoon) were at Teluk Nibung, taking on a similar cargo.

From May 16 to June 5, seven ships carried approximately 5,000 tons of rubber away from Teluk Nibung.

The commerce through Teluk Nibung became first-page news when an observer noticed that two Military Police officers were present at the time of loading. If they hadn't been in uniform, the story of army smuggling may not have burst forth quite so dramatically. As it was, most of the newspapermen in nearby Medan got wind of the story in a short time, and the Tandjung Balai area was soon host to a number of curious reporters.

The story emerged bit-by-bit. Local district officers, information and customs officials were reticent to tell all they knew, but their incidental information fit together. The main points of their story were later verified by a spokesman of the North Sumatra Territorial Command of the Indonesian Army.

Early this year, the highest officers of the army division garrisoning North Sumatra and part of Central Sumatra decided to augment their appropriations by extraordinary means. The morale and fighting quality of the troops under their command were at a low level because of delayed salaries and abominable living conditions. This situation, which would have distressed responsible officers even in times of peace, was doubly serious because of the festering rebellion in Atjeh, at the northern tip of the garrison area. In three years of rebellion, the North Sumatra Territorial Command had made little headway against the fanatic Muslim rebels.

In February, the commanding officer of one of the other armed agencies of the Indonesian government in North Sumatra was informed of the army's plan to smuggle rubber to Singapore. According to reports, he was so shocked by the conditions he saw in army living quarters that he agreed to maintain silence about the illegal scheme. Another armed agency of the government was also informed of the army's intention; as in Macassar, its refusal to participate did not become an obstacle to action.

The actual arrangements for smuggling were made not by the army, but by a Chinese firm in Medan. According to the reported agreement, the Chinese firm would be allowed to smuggle 5,000 tons of rubber to Singapore and Penang. In return for army permission and protection, it was to surrender a sizeable percentage of its profit. The arrangements for shipping and purchasing were apparently made by the Chinese firm itself.

As in the case of the copra smuggling from Bitung Harbor in North Sulawesi, certain permits were obtained from local customs officials and officials of the Ministry of Economics. It is generally agreed that the permits obtained did not give legality to the operation, and it is certain that no provision was made to transfer foreign exchange to the central treasury.

By early July, extensive repairs and improvements were already being made in army barracks in Medan.

On July 3, the Djakarta newspaper, Indonesia Raya, quoted an army spokesman as saying that the smuggling operation had been planned and consciously initiated by the highest officers of the North Sumatra Territorial Command. This source claimed that the action had only been taken after the army officers concerned had lost all hope of receiving sufficient appropriations from the Ministry of Defense in Djakarta. It became common knowledge in Djakarta that the divisional commander for North Sumatra had informed the cabinet of his intention by letter in the first week of July. It was even rumored that an official above cabinet rank had been given notification of the plan in early May.

In Djakarta, cabinet officials held special meetings to deal with the situation in the west, slightly more than a month after the copra crisis in the east had subsided. In keeping with the custom of the Indonesian government, they considered not only the legality of the action under scrutiny, but also its causes.

Behind Teluk Nibung

The causes of the Teluk Nibung scandal are to be found in the needs of the Indonesian Army and the general incentives to smuggling in the Indonesian economy.

Two decisive dates in the history of the Indonesian Army are October 17, 1952, and June 27, 1955. On the first date, officers of the Army General Headquarters in Djakarta attempted to impose their will on the executive branch of the government. In the ensuing weeks, officers of several territorial commands reacted strongly against this effort and showed their displeasure through decisive action. This crisis ended in confusion and the removal or demotion of the initiating officers. It was clear that army ranks were seriously split by political issues.

On the latter date, all important officers of the Indonesian Army united to oppose the cabinet's choice for Army Chief of Staff. Army officers had found a common meeting ground. Their united opposition led to the removal of the left-wing Minister of Defense and, eventually, to the fall of the first Ali Sastroamidjojo Cabinet. One reason for their action was the discriminatory policy practiced by the Minister of Defense in apportioning defense appropriations. The basis of their joint action was the Jogja Declaration of February, 1955, in which all highranking army officers on active duty swore to maintain professional standards and unity in the face of political pressures.

In less than three years, the army had found unity, but the creation of unity had entailed defiance of the President and the cabinet. A precedent was established.

By early 1956, the operating units of the Indonesian Army were facing a critical situation. The divisions in West Java, East Indonesia and North Sumatra were stalemated by irregular forces of the Darul Islam rebellion. To an appreciable extent, their operations were hindered by insufficient equipment, irregular pay and low morale, originating in part from inferior supplies and quarters. Their hopes for an improved situation were shattered by news of impending budget cuts.

In both East Indonesia and North Sumatra, the Territorial Commands sought succor outside the limits of law. It can be assumed that their decisions were made easier by the precedent of the extra-legal steps taken in June, 1955, when the army took action to safeguard what it considered to be professional standards.

In Sulawesi, army units engaged in extra-legal copra smuggling. In North Sumatra, the divisional headquarters turned to illegal commerce in rubber.

A rudimentary knowledge of Indonesia's export situation reveals the temptation presented to the army officers of North Sumatra.

For the potential smuggler in rubber-rich Sumatra, the basic fact to consider is the gap between the legal and black-market rates for the Indonesian rupiah. If he exports through legal channels, he receives something less than Rp. 10 for a kilogram of first quality rubber. If he can arrange to ship his rubber directly to Singapore, he will receive the black-market equivalent, or 250% more. Smuggling to nearby Singapore is profitable; because of inadequate preventive measures, it is also easy.

In the last years, the increase in smuggling has cut large chunks out of Indonesia's export-based revenues. An indication of the government's alarm was the recent statement of Attorney-General Suprpto that one-third of Indonesia's rubber output was being smuggled annually. Taking the modest figure of U.S.\$.25 per pound as the average price of the rubber thus exported, the value of such a transaction would be U.S.\$125,000,000. Experts consider the Attorney-General's estimate to be unreasonably high, but they do not dispute the immense losses to the state through smuggling.

A more specific example is the value of the rubber smuggled through Teluk Nibung harbor in the nineteen days following May 16. If the quantity of 5,000 tons is a correct figure, the total value of the transaction was at least U.S.\$2,500,000.

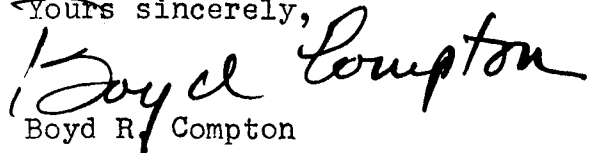
To date, the cabinet has not taken action against the officers who planned and carried out the rubber commerce through Teluk Nibung. The government's caution may stem in part from the frightening experience of Bitung Harbor, when the Minahasa region appeared to be on the verge of revolt following a government order designed to stop the copra smuggling. The North Sumatra area does not have the ethnic or cultural unity of Minahasa, and it is doubtful that the army officers involved would be able to whip up broad popular support if they decided to defy the central government. Yet it appears that Djakarta is not eager to take decisive action at the present time.

Foreign observers will certainly ask whether the regional military crises of Sulawesi and North Sumatra are symptoms of nascent "warlordism". At present, the answer seems to be "no". The territorial commander in Sulawesi has already been transferred to Peking as Military Attache, and Colonel Simbolan of North Sumatra has indicated no opposition to a routine transfer to another post. This fact argues that a degree of central control still exists in the Indonesian Army; it is significant, however, that this control is exercised by the army itself and not the civil executive.

The regional military crises of 1956 are baffling in their implications. The motives of the army officers involved in the copra and rubber cases were certainly patriotic, and there is no indication that they harbored the intention of revolt or separatism when they took their action. The central government faces a genuine dilemma in that it must safeguard its laws and revenues without taking the precipitous actions which could force armed defiance.

The situation in North Sumatra is not as dangerous as that in Sulawesi, but the emergence of both crises indicates the growing drift of power away from Djakarta. If the copra crisis showed the necessity of allowing considerable regional autonomy in economic matters, the Teluk Nibung scandal showed the real danger of allowing too much regional autonomy in military finance.

Yours sincerely,


Boyd R. Compton

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