Indonesia's First Affirmative Policy: The "Benteng" Program in the 1950s

Thee Kian Wie

A. Introduction

To a much greater degree than has been the case in the other newly-independent countries in Southeast Asia, economic nationalism in Indonesia has remained a potent force until the present. Although its contemporary manifestations has in general become less aggressive and less overt than they were in the 1950s, economic nationalism remains a driving force that to a large extent still influences economic policies today. Whereas economic nationalism during the early years of independence in the 1950s was mainly directed at the continuing economic dominance of the Dutch and ethnic Chinese business interests, in the years following the Asian economic crisis in the late 1990s economic nationalism was mainly aimed at the perceived interference of international organizations, particularly the IMF, in the formulation of Indonesia's economic policies.

Despite the strong economic nationalism, pragmatic considerations have more often than not over-ruled ill-considered economic nationalism. In this way, pragmatic policies have often been able to mitigate the adverse economic and political effects of emotional economic nationalism. This was, as will be argued in this paper, evident when the Indonesian government in the second half of the 1950s, terminated the unsuccessful 'Benteng' program, its first affirmative program to promote indigenous Indonesian entrepreneurs.

B. Economic nationalism during the early years of independence

During the early years of independence in the 1950s a basic aspiration of Indonesia's economic nationalism was the need 'to convert the colonial economy into a national economy'. This popular demand appealed to many Indonesians, as during the Dutch colonial period Indonesia had become an outstanding example of a colonial primary export economy. The growth dynamics of such an economy was primarily determined

---

1 Senior Economist, Economic Research Centre, Indonesian Institute of Sciences (PELIPI), Jakarta.
Having achieved political independence without meaningful economic independence, the Indonesian government took several steps to counter Dutch economic dominance. This was possible within the constraints of Finoce. One economic dominance in the 1940s, the government implemented measures that aimed to strengthen national sovereignty and economic independence. These measures included:

1. Nationalization of Dutch enterprises: The government nationalized Dutch enterprises, which were considered a symbol of Dutch economic dominance. This was achieved through various legal and political means, ensuring that these enterprises were operated under Indonesian control.

2. Development of local industries: The government encouraged the development of local industries to reduce dependence on imported goods and Dutch-controlled enterprises. This was achieved through financial support, protection from foreign competition, and investment in local infrastructure.

3. Expansion of the national banking system: The government expanded the national banking system to increase financial independence. This included the establishment of the Bank Indonesia, which became the central bank of Indonesia.

4. Creation of regulatory frameworks: The government created regulatory frameworks to control foreign investments and ensure that they aligned with national interests. This included regulations on foreign investments, trade, and economic policies.

5. Development of the education system: The government focused on developing the education system to ensure that the workforce was equipped with the knowledge and skills needed to drive economic independence. This included investing in education and training programs.

These measures were part of a broader strategy to reduce Dutch economic dominance and establish a strong, independent economy. The government's efforts were crucial in building a foundation for Indonesia's economic development and sovereignty. Through these initiatives, Indonesia began to lay the groundwork for a stable and self-sustaining economy that could withstand external pressures.
C. Promoting Indigenous Indonesian entrepreneurs: the 'Beentjeng' program

The nationalization of Dutch enterprises went a long way towards satisfying the national aspiration to convert the colonial economy into a national economy. However, this conversion was not felt as complete, as the large indigenous population was still facing the economic dominance of ethnic Chinese businessmen, including sectors of the economy, particularly the intermediate trade. Ethnic Chinese economic dominance of the modern sectors of the economy (plantations, mining, large-scale manufacturing, banking system and public utilities) led to an American Indonesianist, Indonesia.

Building a 'national economy' (ekonomi nasional) gave expression to the national aspiration for an economy which would be controlled by indigenous groups, rather than foreign groups, like the ethnic Chinese, regardless of whether they were citizens or not (Coppel, 1985: 32). In view of the Indonesian policy-makers since the early 1950s put a high priority on promoting the mentioned measures to counter Dutch economic dominance, the Indonesian government took steps to reduce the economic role of the ethnic Chinese.

However, in view of the above factors, taking measures to curtail Chinese interests. For one thing, the number of ethnic Chinese was much greater than the Dutch, and their economic activities in the rural areas were much more intertwined.

Having achieved political independence without meaningful economic independence, the Indonesian government took several steps to counter Dutch economic dominance insofar as this was possible within the constraints of Finance. One of the most important early measures was the nationalization of the Java Bank, the former Bank of Circulation in the Netherlands Indies, through the purchase of shares of both domestic and overseas shareholders. The purchase of shares proceeded smoothly, and on 6 December 1951 law no. 24 of 1951 on the nationalization of the Java Bank was officially enacted (Sasburi, 2003: 72), and under its new name Bank Indonesia became the central bank of Indonesia. Sjahrir, former Minister of Finance in the Hatta and Natsir cabinets, was appointed as the first Governor of Bank Indonesia.

Other measures to reduce Dutch economic dominance included the replacement of the Netherland Indies Airline Company (Koninklijke Nederlands-Indische Luchtvaart Maatschappij, KNILM) by Indonesia's new national airline Garuda Indonesia Airways. The Indonesian government also took over several Dutch enterprises deemed of strategic economic interest, including the railways on Java and several public utility companies, such as electricity and gas companies (Burger, 1975: 170). Since initial plans to nationalize KPM (Koninklijke Paketvaart Maatschappij, Royal Packet Company), the inter-island shipping company, were not successful, the Indonesian government in 1952 founded the limited liability company Pelayaran Nasional Indonesia or PELNI (Indonesian National Shipping) with a nominal capital of Rp. 200 million (Dick, 1987: 167). In addition, Indonesia first general trading company, the Central Trading Corporation (CTC) which had been established in Jakarta in 1947 during Indonesia's war of independence, was given the task of challenging the monopoly of the 'Big Five' Dutch general trading companies (Daud, 2001: 256).

Throughout the first half of the 1950s heated political debates raged about the pace at which the vestiges of Western (i.e. Dutch) capitalism should be eliminated in order to build up a national economy which, most nationalist leaders agreed, would not be built along capitalist lines. A vocal group of radical nationalists advocated the establishment of state-owned enterprises (SOEs) occupying the 'commanding heights of the economy' and cooperatives for the 'economy in small groups in society' to replace the foreign-owned capitalist enterprises. Arraigned against them was a smaller, less cohesive group of pragmatic nationalists, who argued that the pace of eliminating capitalist enterprises, particularly the foreign-owned ones, would have to be gradual to prevent serious economic disruption (Paauw, 1983: 207).

While these political debates proceeded, political relations with the Netherlands deteriorated rapidly after the mid-1950s as a result of the unresolved political conflict over the status of West Irian (West New Guinea, now called Papua province). When in the autumn of 1957 the Indonesian government failed to persuade the United Nations General Assembly to force the Netherlands to negotiate with
outside building up a class of indigenous businessmen, the Banteng program (Siumutro, 2000: 144), particularly the power of the Dutch trading houses. Although the Ministry of Trade and Industry in the Netherlands (1956-51), as an
in the 1930s. This time the import controls, however, had to be

protective for the indigenous importers was to be provided by reserving the sole import rights for "renowned" goods and by channelling credits to those importers in the qualifications for receiving preferential treatment through the "Banteng" program. Indigenous businessmen had to be "renowned" importers and residents of at least 20 years in the business. In addition, they had to provide a minimum of 50% of the capital. However, among these provisions there was no reference to

The reference to "indigenous" and "residents of at least 20 years in the business" may suggest that racial discrimination against "non-Indonesian" citizens did not apply to the provision of financial assistance. The government's view was that although it did not practice racial discrimination, it was the government's role to make regulations to protect the economically weak groups. Djuanda wanted to protect the needs of Indonesia as a group were

included in the economically weak groups, while the non-Indonesian, with some exceptions, form the economically strong group. With this statement, Indonesian citizens of foreign descent (e.g., citizens of Chinese descent) were given notice that they could not expect a more favorable treatment than that given foreigners (Sutardjo, 1959: 19).

Choosing the import trade as the first major economic activity, on which policies to promote indigenous entrepreneurship would be focused, was understandable, as at the time, almost all the export and import trade were in the hands of the Dutch and the Chinese (Sutardjo, 1967: 218). Focusing on the import trade to secure indigenous dominance appeared to be the most feasible, as this trade seemed to be most responsive to state direction through controls over the allocation of import licenses (Robinson, 1958: 44). The import trade that appeared the most accessible to indigenous businessmen, as they could easily set up their business with a minimum of overhead investment, could concentrate on products sufficiently standardized which only required a minimum of business experience, and could deal in goods that enjoyed a seller's market because of import restrictions (Auspach, 1969: 166).

Moreover, prospective indigenous importers could learn from the example of the "Big Five" Dutch general trading companies (Borsourij, Jacobus van den Berg, Geo Wohry, Internationale and Lintersche), which had used their activities in the import trade as a springboard to diversify into plantation agriculture, internal distribution, insurance, and the manufacture of various import-competing goods (Auspach, 1969: 168). Learning from the experiences of these Dutch general trading companies, several indigenous importers, such as Dasaad Musin, had diversified into tea cultivation and the weaving industry, while Djohan Djojar had moved into rubber cultivation and brick manufacture, and Rahman Tamte had diversified into textile manufacturing (Auspach, 1969: 168). The government hoped that these indigenous business pioneers, the "Banteng" importers, could use their activities in the import trade as a base for capital accumulation which would sustain the expansion of indigenous capital into other sectors (Robinson, 1958: 44).

To assist the indigenous importers, the government selected certain kinds of goods which could only be imported by the "Banteng" importers. Most of these goods were basic consumer goods which could be easily sold, such as yarn, textiles, sugar, stationery, matches, and sundries. To enable the "Banteng" importers to import the selected goods, the government allocated Rp. 40 million for this purpose, of which Rp. 40 million was allocated for the import of textiles, Rp. 12 million for weaving yarns, and Rp. 7 million for ready goods (Sutardjo, 1967: 218).
D. Implementing the 'Benteng' Program

The 'Benteng' program attracted a lot of interest. While in 1951 some 250 businessmen had registered with this program, in 1952 this number had increased to 741, and to 1,500 in 1953 and to 2,211 in 1954 (Suhadi, 1967: 188). As a result, the percentage of total government foreign exchange credit allocated to the 'Benteng' importers increased from 37 per cent in 1952-53 to 76.2 per cent in late 1954 (Robison, 1986: 45). This great interest was not surprising, since the government, making ample use of the existing system of import control, allocated scarce foreign exchange to the favoured indigenous importers who, as a result, could earn windfall profits from importing various goods. Lobbying to obtain an adequate share of the foreign exchange, the indigenous importers formed a group which, after the 'Benteng' program, was called the 'Benteng' group (Suhadi, 1967: 218). As a result of this program, the early 1950s around 70 per cent of the import trade was conducted by indigenous businessmen (Burger, 1975: 171).

Another group which attempted to obtain a share in the rents created by the foreign exchange control system of the 'Benteng' program was the relatively small group of indigenous industrialists who realized that their prospects for making good profit depend on the opportunity of purchasing imported raw materials and capital goods at official prices. As the Indonesian government since the early years of independence had been anxious to promote industrialization, it had put important industrial raw materials in the category of essential goods in the approved list of imports. Imported raw materials were therefore charged with low tariffs or sometimes could be imported duty free. However, as it were, the indigenous importers who were free to sell their imported goods, it was they who benefited most from the rents created by the foreign exchange control system and the industrialists (Suhadi, 1967: 219-20).

From the time that the new indigenous importers had started receiving preferential treatment under the 'Benteng' program, with several of them lacking capital or business experience or both, engaged in certain business practices which, although not in violation of the letter of the law, did offend ethical standards. There were of course several other new indigenous importers who had established a bonafide cooperation between their indigenous companies and non-indigenous or foreign companies. However, there were many more cases which could hardly be named 'bonafide' enterprises, in which indigenous importers and ethnic Chinese businessmen (whether Indonesian citizen or foreign national) had set up so-called 'Ali Baba' concerns. In fact, 'shotgun weddings' between new indigenous importing companies and the older importing companies owned by ethnic Chinese businessmen proliferated under various forms, such as fronts and strawmen and the selling of import licenses to genuine, mostly ethnic Chinese, importers (Sutter, 1959: 102-7).
Although the government was obviously aware of these malpractices, in malpractices, which had existed from the beginning of the 'Benteng' program. Economic Affairs (Sitter, 1955: 121), and Ong Eng Die became Minister of in the first Ali Sastroamidjono cabinet (1955-55). Both of them were members of the President Sukarno, did not care much about finance. With the first general elections import licensing system to buy political supporters'. Then I saw how much harm was 61).

As the 'Benteng' program progressed, it became increasingly apparent to the government that the program was not successful in achieving its stated aims. In 1955 as a result was able to reduce the number of registered indigenous importers, and from about 4,300 to about 2,000 (Burger, 1979: 171).

Office of Imports estimated that about 90 per cent of the registered national importers by Rooseno, the new Minister of Economic Affairs, who had replaced Ikap. Even 'Benteng' program acknowledged that import licenses were being sold at 200 to 250 foreign exchange auction system in the textile sector. He also banned discrimination participate in the import trade. The auction system, however, turned out to be unsuccessful, as it did not allow indigenous importers with inadequate financial to acquire licenses with adequate financial resources continued to serve as agents for ethnic Chinese businessmen (Anspach, 1969: 174).

Thus Indonesian experience with its first affirmative program to promote a second half of the 1950s came to an inglorious end, even though this program was deteriorating rapidly, partly as a result of the nationalization of all Dutch enterprises in foreign Chinese traders from the rural areas, and partly because of the government's efforts. With the introduction of Guided Democracy and Guided Economy by President Sukarno in 1959 and his call for an

Indonesian-style socialism (socialisme in Indonesia), the promotion of indigenous private entrepreneurs took a backseat, as the new state enterprises, which had been established from the expropriated Dutch enterprises, were now given a leading role in the economy. This was in line with the "New Order", with its emphasis on accelerating economic growth, in which the ethnic Chinese businessmen, with their greater business acumen and experience and access to financial resources, were in general able to prosper. This did not only apply to the ethnic Chinese business community, who were in the forefront with the political power holders established large conglomerates, but also to the medium-sized and smaller businesses of which, however, unlike the Chinese conglomorates, had to survive by their own effort. Nevertheless, the rise of powerful Chinese conglomerates under the patronage of President Soeharto and other senior military officers and government officials caused social tension and gave rise to the strong public perception in the late Soeharto era about the widening gap between rich and poor and between the non-prabhu (non-indigenous) and prabhu (indigenous) citizens. In the end these social tensions erupted in various racial riots, particularly in Solo and Jakarta, on the eve of Soeharto's fall in May 1998.

At present these racial tensions have abated, as other social conflicts, sometimes religious and sometimes ethnic in nature, have arisen following the collapse of the so-called "nation" under Soeharto. The situation is described by President Husein Andjarwulan Wahid and Megawati Soekarnoputri have also been absorbed by the strong need to re-establish political stability and achieve economic recovery. With the urgent need to achieve strong economic recovery and restore economic growth, and with the emergence of new indigenous successful and confident entrepreneurs and a skilled and experienced indigenous managerial class, opportunities for a more slow and mutually profitable business cooperation between prabhu and non-prabhu businessmen appear to better than they seemed only a few years ago.
Bibliography


