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<u>FOREWORD TO GOVERNMENT-BUSINESS RELATIONS IN INDONESIA</u>

Stephen C. Headley December 1980

INSEAD

FOREWORD TO GOVERNMENT-BUSINESS RELATIONS IN INDONESIA

This paper is designed to help businessmen understand some of the tensions and contradictions inherent to the Indonesian business milieu. It is not written in the manner one would approach most joint-venture management problems. There is not a given and fixed company goal, several strategies to be decided amongst, or a set of data to be verified. Rather we have used the epistomological framework of third world sociology. For private companies' priorities, one must substitute the Indonesian government's national avowed development goals as values that foreign investors can only accept in order to enter that market. As for data, we have already verified the social indicators presented, and discarded those that we felt irrelevant. Wherever these indicators show that the Indonesian government's performance, or private foreign investors' behavior, is in contradiction with the national development goals, the tone of the Indonesian reaction (and its source, be it press, business, military or off-the-record government officials) to the alleged malpractice has been echoed in the following paper. That is to say we have felt it useful and relevant for the Asian and European businessmen to hear "live", as it were, the tone of the considerable tensions that currently mar the archepelago's business atmosphere. Needless to say the report is descriptive and the examples cited are just that, telling examples taken at random.

S.C.H.

BUSINESS GOVERNMENT RELATIONS IN INDONESIA : A JANUS IN PARADISE

HOW ARE INDONESIAN GOVERNMENT REACTIONS TO AMERICAN AND JAPANESE INVESTMENT CONDITIONNED BY THE BASIC NEEDS MARKET OF ITS ENORMOUS POPULATION OF SOME 130 MILLION ?

STEPHEN C. HEADLEY

This paper, addressed to the fifty founding members of the Euro-Asian Center, provides businesses working, or considering investing in Indonesia, with an analysis of the causes of social unrest which have influenced Indonesia's business environment ever since her independence.

Only against the background of the poverty and over-population of Java can the idiosyncratic practices of the Indonesian government towards business be understood. This effort to describe the points of articulation of business government relations has taken, as our subtitle indicates, the metaphor of Janus to describe the government bureaucracy's behavior.

Janus, the ancient Roman God, had two faces, one to look in front and the other to look behind him. This means that <u>in time</u> the military bureaucracy now dominating the indigenous business milieu's's is in 1980 both forward and backward looking. It exhibits behavior traits that date from 19th century feudalism in its conduct towards its own Indonesian population. Towards the foreign investors and international agencies however, it seems to exhibit a modern development-oriented attitude which is undercut by its former behavior. <u>In space</u>, this dichotomy can be visualized by opposing the immense mass of peasantry and urban dwellers who are roaming through the island of Java especially looking for day labor.* They, in their desperation, set the conditions of the society's reproduction in space and time, the government's middle and long-range attitudes and also the constraints of long term investment.

* to the international companies operating in the oil, mining, timber, or manufacturing sector.

Our paper examines in three rapid sketches the profile of the social organization, the socio-cultural components of the Indonesian government's "management" of this society and the resulting tensions in its external economic relations.

It is hoped that this paper, by discussing some of the painful contradictions in Indonesia today and by giving businessmen an opportunity to hear the sometimes strident reactions of Indonesians to the current problems, will contribute to clear the air around the government-foreign businesses relations.

On the ensuing brief calm we hope that the long-range interest for the Indonesian government to interest foreign investors in Indonesia may be matched by businesses taking into account the part of the market profile which is determined and structured by the Indonesian society at large.

THE CONSTRAINTS OF THE SOCIAL STRUCTURE

1) The enclave and the "rural" sectors

As anyone who has seen the collected villages which constitute all the Indonesian cities.-except perhaps Jakarta- recognize, the Indonesian village extends right into downtown commercial centers. The opposite is also true : the urban bazaar economies penetrates throughout the village sphere.

To understand the specific impact of poverty today, one must remind ourselves of the characteristics of the 350 years of Dutch colonial presence. Barter and cash economies coexisted in this tropical colonial "dual" economy. The native aristocracy in Java allied themselves with the Dutch East Indies Co's "buy cheap, sell dear" policy in the 1700's initiating the long decline in rural welfare.

A rural subsistence economy which for centuries has participated in trading into urban centers was transformed by the advent of the Dutch. Whereas formerly small coinage flowed into far away villages, beginning with the 1700's the peasants had to sell their goods and services to get cash to pay for taxes (*) For the first hundred years thereafter, the peasantry opened new tax-free lands. But with the closing of the frontier and the abandoning of the forced deliveries systems, everything changed.

The so-called "Culture system", 1830-1859, by transforming the peasants' taxes into forced labor on colonial plantations and forced temporary annexing of peasants' lands, required that they invest more labor into their own diminished field area. To better "detach" temporarily the peasants' lands for sugar cultivation for example, the communal land tenure system was prolonged or revived where it had begun to disappear. The peasant reaction to all this was to increase their family size. If communal land was fragmented by large families, it was less serious than private land. Even more important in the peasant strategy was the fact that rice responds especially to increased care and so many more man hours were poured into the rice fields of increased rural population.
One effect that did not tary to make itself felt, especially in the vallies of large scale sugar cultivation was the hardening out of a fundamental cleavage between small land-holders, artisans with gardens but not wet or dry fields and day labourers owning only their houses. The massive unemployment on the plantations after the great depression (1929) spread the burden of rural poverty into every city of Java as the landless roamed further and further abroad looking for work.

The decline of the plantation economy in the years after 1929, the Japanese occupation, the guerilla revolution against the Dutch colonial power, the nationalization of the primarily Dutch plantations in December 1957, the outer-island rebellions of the same period, the high inflation that accompanied the "confrontation" period of the early 1960's, the physical elimination of the Indonesian communist party after December 1965, and finally the opening of Indonesia to foreign investment after 1967, none of these major social occurences could hardly be said to have changed the stagnation and isolation of the village sphere. Literally millions of landless day-labourers stream back and forth across Java looking for temporary work. Even in relatively better off Sumatra the status of rubber plantation workers has been declining rapidly from semi-permanent working families living in quasi-independent villages on the estate lands to migrant workers, mainly casual female labour.

What developments shaped the trading classes ? Dutch domination in the colonial period had given their own trading houses, banks, estates, shipping and mining companies, a <u>de facto</u> monopoly of the international market , while Chinese were used as intermediaries with the domestic market. After independence in 1949, the use of so-called "Benteng" subsidies and import licences to encourage the long declining indigeneous Muslim merchant bourgeoisie who, since the 18th century, had been losing ground to the Chinese, was side-tracked by political clients who were often simply license brokers for foreign or Chinese businessmen. The avatars of the assistance to indigeneous business lasted from 1950 until 1959 with an aggravated sense of frustration due to the continued failure of the emerging entrepreneurial class labelled native-born or "national" to grow strong and culminating in late 1957 with an attack on the enclave sector in the form of the nationalization of all Dutch plantations. The 1960's were spent in stagnation domestically with rampant inflation and a costly foreign adventure that was terminated internally by the violent massacres of 1966, that eliminated the Indonesian communist party. Immediately afterwards the pendulum was swung the other direction. Instead of the communist cries for land-reform to solve Indonesia's tremendous food and employment derth, the "New Order" proclaimed foreign investment would "trickle down to" the rural economy and revitalize it.

(*) Thus for the first time a government had succeeded in getting cash out of the villages.

If there now exists a very strong "enclave" economy (i.e. a sector (s) controlled by foreign companies or countries), one must never forget that the Indonesian economy and its policies towards foreign investment is conditioned by the following ever-present sociological constraints :

i) that the population density is one of the highest in the world. The Business Environment Risk Index predicts that since sickness, poverty and starvation are so common, the population time bomb will explode from these extremes of poverty and frustration. In fact the World Bank found in 1976 statistics that 50 million (38 %) of the population was earning less than $ 90/year.

ii) Even though the third five-year plan (=Repleita III) prones labor-intensive industries to benefit the poor, infra-structure is lacking, and the pervasive corruption that characterises the present military bureaucratic state emperils such programs aimed at ameliorating what the World Bank circumspectly calls the "low quality" of Indonesia's employment. The head of the national credit board, Gen Umar Eirahadikusumo, said in Jakarta on Jan. 8th 1980 that up to 1 billion US $ or 30 % of the 1979 budget may have been lost due to corruption.

iii) One is forced therefore to describe the present Indonesian social organization as it appears in Java as one not composed of subsistence farmers, but of near starvation farmers surrounded by masses of rural landless and unemployed. In a typical Javanese village of 4000, only half the land area is cultivated because 50 % is taken up by the residential plots. In the river vallies, one find 2500 people/km2 commonly in rural areas.

iv) Capital-intensive manufacturing industries and extractive industries dealing in Indonesia's abundant natural resources are locked in Jakarta and a few other urban centers along the Javanese and Sumatran coast. Without addressing themselves to the basic needs market of this immense population, the foreign companies cannot leave the cities and mining fields.

v) The inchoate pressure of the poor on all and any areas of economic health is translated amongst the Indonesian leaders of the New Order by a nationalistic rhetoric in dealing with foreign companies that may be sincere, but which is accompanied by greed exhibited in their negociations with the private foreign companies and mal-practices involving their own nationalized companies.

In short, one can say that the five above points find their single most important explanation in the fact that the majority of the Indonesian population has lost the right to eat. This effects the planning horizon of the entire nation and all foreign companies who participate in its economy.

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2) Foreign investment in the Indonesian Market

In such a social structure it came as no surprise that General Suharto's military bureaucracy, after it adopted a policy of economic liberalism in 1967, was able to bring into play only feeble domestic market forces. Full convertibility of the rupiah however, permitted private capital to flow in and out of Indonesia freely. Recently it has been mainly flowing out. The Asian dollar market receives a large part of the Chinese businessmen's profits. As the World Bank in their third country report on Indonesia reminds us (Feb. 20, 1979, p. 117) :

"...no comprehensive information is available on private international capital transactions or on private external debt. In view of the high levels of effective subsidy afforded to certain types of industries through the tariff structure and the pervasive, often hidden subsidies in the economy, there is a danger that certain new industries might make a negative net contribution to foreign exchange earnings or savings."

Even though there are no comprehensive figures, the partial indications below will already provide a general silhouette of the relations of the public and private sectors both domestic and foreign. Comparing the approvals of foreign capital investment projects by country of origin (Source : Bank of Indonesia, II. 79, Indonesia selected Economic data, table 3), Europe represents

9.2 % with 156 projects (1967-1978 inclusive), the USA 6 % with 84 projects and Asia 57.3 %. Japan alone had 205 projects (36.2 % of the capital total) again between 1967-1978.

Reviewing the actual number of projects implemented, 9 % were in forestry, 11 % in mining (oil excluded), and 64 % in manufacturing during the same period (same source, table 4). The developing country investors were especially strong in food products ; pharmaceuticals, chemicals and plastic products ; and metals, but the Japanese and Americans were also strongly represented in the later two fields (BIES•, march 1979, p.78).

The projected manpower absorption by foreign capital from 1967-77 amounts to 385,000 Indonesians, of whom 1/3 in industry; 27,000 foreigners were employed, the majority in forestry (source : Coordinating Board of Investment brochure). The growth rate of employment in large and medium firms has slowed down however from 11.8 % in 1970-73 to 8.6 % in 1974-77 (BIES, supra, p. 132-133).

If one compares the sources of public sector expenditures in the the 1979-80 budget (source IMF, Indonesia Recent Economic Developments, III 79, p. 53), the rupiah financing of development expenditure represents some 2,060 billion and project aid 1,430 billion. This foreign aid outweighted the Indonesian share in defense and economic services (i.e. transportation, communication, industry and mining, and trade services).

Claude Mijoux in the French Moniteur du Commerce International (n° 375, Dec. 3 1979) describes below what she terms the "persistent imbalances" in the Indonesian economy that we have seen above :

"In 1978, petroleum taxes were responsible for 58 % of Indonesia's domestic revenue ; international aid (World Bank, Asian Development Bank and IGGI...) furnish the remaining income. Only recourse to indebtedness permitted [Indonesia] to cover the deficit in the balance of current payments. The amounts due grew : (US $) 17.8 billion in 1978 ; according to the World Bank, the total should reach 19.5 in 1979 and 53.7 billion in 1980. To maintain its external debt service ration at its present rate (17 % of export earning or 744 million $ in 1977), the sales of non-petroleum products will have to increase fivefold. The chances of achieving such an increase are very small. The amount of exportable petroleum will diminish due to the stagnation in production and the increase in domestic consumption. Thus the World Bank estimates that in 1990 , they will only be 16,5 % of the 1978 quantity."

• BIES : Bulletin of Indonesian Economic Studies (Australian National University)

Only in the context of internal and external economies of shortage of non-inflationary rupiah funds versus the abundance of foreign exchange resources, can the devaluation of the rupiah be explained. If most employment in Indonesia is ever to come from the private sector and, although employment considerations alone cannot dictate fundamental decisions effecting investment in the private sector, the labor displacing effects of capital intensive investments will have to be delt with. 40 % of the population has experienced a decline in real wages over the last ten years. The World Bank is pleading that the 50 million people who in 1976 were trying to exist on less than US $ 0.25 per day, should not be further jeopardized by the adoption of more labor-displacing technologies, such as the Green Revolution which they formerly advocated. A sketch of foreign private investment, which did not stress the Indonesian governments and the international organization interest in providing an incentive framework to small industries, would have been deficient. The avoidance of the substitution of capital for labour is to be complemented by the creation of backward linkages favouring factories upstream of final stage processing. As Guy Sacerdoti shows, the development problem cannot be separated from the global economic climate (FEER•, 5.X.79, pp. 88-89) :

"...the major long term problem Jakarta faces, is persuading private manufacturers to invest more in expanding the country's productive base rather than being content to reap higher post devaluation profits from exports at the expense of the domestic market...But while the internal economy is reacting slowly, the government can offer little help. It is simply stuck with a lot of potentially inflationary cash revenues. It is a problem of internal and external economies that Indonesia has long faced : the relationship of dollar earnings (essentially from oil) to rupiah funding ; and the high volume of international cash flow with very limited trickle down, effect to the benefit of the population. Of the development budget, foreign aid is slated to supply 42 % through to the end of 1984, still a high ratio considering the total budget represents only 21 % of the gross national product".

• FEER : Far Eastern Economic Review

The importance and role of foreign aid both as a well-subsidized export of donor countries manufactures, and in its relation to IMF monetary policy will be discussed later in this paper.

3) Socially stratified credit and shared poverty

To describe the sociology of credit in Indonesia would require another whole paper, and our next one is in fact consecrated to the rise of the Chinese financiers. Suffice it to say here that the assimilated Chinese play an increasingly marginal role compared to the "Southern Seas's" (Nan Yang) Chinese who over the last decade have become close business partners of the Javanese military leaders. The native Indonesian Muslim trading class has, as mentioned above, taken a clearly secondary role in manufacturing for lack of access to capital. Finally, the military have begun hiring Chinese to manage their capital. This arrangement is called Baba (= Chinese)-Ali (=Indonesian).

The licensing stage procedures by all accounts have failed to channel foreign investment into genuine joint ventures with the local business community, and have not even respected the priority development sectors defined by Bappenas (the development planning board). Instead what occurs is a distribution of investment projects among the relevant government ministry and in fact to different military fiefs. Otherwise how could timber exports,one of the country's principal exports and natural resources be *"...extracted at the lowest unprocessed value to the loss of both increased export earnings and income generation through the creation of added-value as well as to the detriment of much needed indigenous job creation".* (Financial Times, 10.X.79, Survey Indonesia, p. vii, Richard Cowper).

If, as the revised 1971 census claims, 33 % of the labor force is employed only a few hours a week, how can the extractive market be reasonably amputated from the treatment sector and semi-finishing be largely located abroad. This is all the more striking now that Indonesia's share of the South-East Asian timber market is large enough so that it could also influence log prices by controlling supply (FEER 30.X.79, p. 63).

The Indonesian governments avowed preoccupation with generating employment by industrial investment is not born out by their policy implementation. Abstraction being made of the large-scale projects that have recently been dropped (Alcomin bauxite, Cilicap TSP, Plaju aromatics) or reduced (Shell coal-mining), the industrial projects anticipated for 1977-79 were to consist of 68 % large-scale projects and only 2 % in small scale. The World Bank's Problems and Prospects for Industrial Development in Indonesia (25. VIII.77, section 2, 44) concludes :

"While many of these large-scale projects are expected to contribute to exports or substitute for essential imports, it is difficult to take the same favorable view of their contribution to employment... the total (of jobs created), as 110,000, would fall far short of Repelita II's expectations that industry would generate 240,000 jobs on an average year. It should also be remembered that Indonesia's annual increase in the labor force exceeds one million".

In industries like textiles, plastics and synthetic fibres, although the incremental capital/labor ration may be low, between 1.0-1.5, clearly making the cost of job creation less than in mining and petrochemicals where the ratio is between 2.7-4.0, the thousands of workers displaced from the traditional sectors of basket and rope-making or hand-weaving can by no stretch of the imagination be absorbed elsewhere. In october 1972, the newspaper Indonesia Raya for example, reported that after the opening several modernized textile firms by the Japanese in Central Java, 30,000 small artisan companies shut down in that province. Even in the extractive sectors of higher incremental capital/labor ratio like coal-mining and timber, backward and forward linkages can be created so, as mentioned above, as not to export these raw materials at lowest possible value-added accruing to the host country.

How are the sources of investment funds, i.e. the investors to be correlated with the sectors chosen ? One must first of all recognize that if joint ventures predominate in the private sector, often the Indonesian partner does not really provide 51 % of the capital. Only twenty of the advanced countries' investors' projects were wholly foreign-owned in the late 1970's and only some 13 % of the LDC's investors' projects, but no one knows globally in fact what percentage of the joint-ventures capital is not payed under the table by the foreign company to its Indonesian counter-part. If the Japanese need for raw materials or the Americans need to assure low-cost bases for export purposes outside of Japan is well-known the genuine motivation of the host country, Indonesia, is obscure.

The ASEAN Report (1979, p. 68-69) made a statistical correlation of investors to sectors by investing country and host country. The Japanese and Americans motives in primary and manufacturing projects in South-East Asia were broadly comparable. Three or four times more frequently cited than any other motive was the securing maintaining or developing of an overseas market. This was followed, for the Americans by the competitive forces necessitating low cost bases, and for the Japanese the need to secure raw material supplies. Thus they differ in their reasoning only on this second level. Needless to say raw materials and low-cost bases are not lacking for any of the ASEAN country and even if they would like to secure overseas markets they are not sure of being able to maintain them in the face of international competition.

Who are the economic agents conceiving the investments projects in the host country, Indonesia? Primarily, the government, which is both the largest consumer and the largest spender. It, in fact, partially destroys the cycling of productive capital by treating the captive markets of the nationalized countries (tea, coffee, rubber, teak plantations, etc..) and the licensing authority (which is also a "market" through which foreign companies must all pass) as sources of ministerial and private revenue.

The local entrepreneur has not only suffered the diseconomies due in part to the introduction of the labor-displacing new technologies mentioned above, but also the inflation creating influx of the oil, timber and other exported erased rupiah that enter the economy without having increased the purchasing power of the Indonesians. From 1974-78, the total inflation was more than 60 %. Many small industries unconnected with the international market or the Nan Yang Chinese banking circles could expand only in scale but not in structure. The result was the sporadic growth of large-scale cottage (pembantu-domestic) industries. The government in fact launched two programs to relieve this barrier to credit. The K.I.K. provided up to 3 million rupiah at 1.25 % a month and the K.C.K. for small traders could borrow up to 100,000 rupiah (= $ 160) at 1 % a month. In discussing the sociology of the avaibility of credit, it is perhaps less important to speak about the unfair competition with domestic industries coming from abroad, than it would be to single out as we have the inaccessibility of the genuinlly domestic "basic needs" market to foreign companies unables to see its basic demands.

Credit is clearly stratified socially. The example of the labor-displacing phenomena on the village level such as the Green Revolution, or the drama of annihilated artisan sectors such as the small textile, only shows the after effect of this stratification. It is not due so much to the adoption of advanced technologies ; it is to the distortion wrought on the basic needs markets of a misguided policy of credit. Since the opening of Indonesia to foreign capital, the percentages of investment by sector, have not changed noticably from 1972-76 as shown by the World Bank's 1977 report on industrial development (n° 1647, p. 106). One could say this simply reflects the constant needs of each sector for given quotients of capital input. But given the Indonesian government's announced goal of increasing jobs and purchasing power, why restrict credit to those already capable of entering the capital intensive sector ? It can only mean that the urban and rural poor continue to share their poverty in "scavenger" schemes and that the few financiers enter the higher profitability businesses integrated into the world economy. The result of such a short-sighted policy is that the very existence of these capital markets is not menaced by the de facto neglect of the immense majority of the population left behind.

In the famous 1978 Student Whitebook prepared by the student council of the Bandung Technological Institute, the government's use of statistics was attacked as deceptive, better reflecting foreign interests than Indonesian's and incapable of really measuring development. Thus they vehemently claim (Indonesia 1978, April) : *"Ten years ago the Astra group, the Panin group, the Central Asia Bank, Liem Soei Liong and other cukong (Chinese financiers) were nothing to what they are now. But the people of Krawang still starve. The government proudly aggregates the incomes of those cukong with the incomes of the people of Krawang,..and then averages them,..Is this not manipulation ?*

II) THE "ECONOMIC AND CULTURAL" COMPONENTS OF GOVERNMENT MANAGEMENT IN INDONESIA

A - An Historical Introduction to Trade and the Apanage System.

In this non-European society with a "dual" economy that Boeke described only existed in Java and on the periphery of the other islands. Even so, as many an Indonesian historian has remarked, the terms of village, town, bourgeoisie, handicrafts, nobility and central authority must be given a genuinely local definition before they are used in non-European societies (see van Leur in Soedjatmoko, 1965:396). This is especially true of Indonesia whose rich history stretches back, and one should also say forward, from the beginning of our era.

The "autonomy" practiced by the kings involved each need he or his court had (for the state, nagara, was identified with its kraton or capital, being assigned village land and the manpower that resided on it. Even today, despite the recent reform (see Far Eastern Economic Review, 9.XI.79: 28 29) the Indonesian government still does not pay the village headmen. They are auto-financed by being given some 6 ha. of village lands, the remenant of the old communal lands. Appropriately these lands are called kas desa (the village cash). Corvée labour can still be called up from the village to form work teams for public work projects. The patron-client (sikeys-numpang) networks typical of the old feudal apanage state are still alive and well on the village level. If the apanage system (in Latin ad-panis = "for bread")has been replaced by sharecropping and landless day labourers, the government on the sub-prefectural level is still paid, we repeat as it were, in apanage terms. Much of the psychological attitude towards those in authority and even some of the actual modalities of salary payment are alive and well today in Java.

The resurgence of patrimonialism amongst the pangeh praja ("rulers of the realm", Java's colonial native civil service in areas under direct Dutch rule) of the 1970's is the result of a direct continuity in this civil servants corps. Heather Sutherland in her study, The Making of a Bureaucratic Elite notes (1979:160):

> *"The native civil servants perfected the "Janus-faced" technique long before the arrival of foreign experts: it was quite in harmony with Javanese conceptions of polite behavior and it was also an absolute prerequisite for success in dealing with colonial society and the Binnenland Bestuur (= Interior Administration, European Civil Service). In his characterization of the pre-World War II native officials Anderson* illuminated the face they showed the Europeans; but - except for the Westernized members of the corps - his description left much of their indigenous or mestizo side in the shadow. Many of the techniques in modern political behavior which he saw as a return to ancient roots were in reality, also present in the shadow side of Pangreh Praja routine in their contact with local society, but were not part of the keen and businesslike face they showed the Dutch."*

The concern for "paper and pangkat (rank)" and a strong desire to avoid difficult decisions, confrontations or breaks with precedent described by Ann Ruth Willner (1970) as the neo-traditional accommodation to political independence was in fact, insists Sutherland, from a pre-Dutch past mediated by the colonial period through to the present day. As she says (1979:159), *"There is no simple and absolute contrast between a 'rational' yet 'feudal' colonial corps and an 'irrational' and democratic pamong praja (civil servants)."*

II) B - The Neo-Feudalism of a Patromonial Bureaucracy

It is one thing to describe the patrimonial characteristics of the bureaucracy and another to delineate the way in which the social psychology of the populus supports and is in turn preyed upon by such a structure. The common

* Benedict Anderson, "The Idea of Power in Javanese Culture" in Claire Holt (ed.), Culture and Politics in Indonesia, Cornell Univ. Press, pp. 1-69.

and age-old attitude of bapakisme or "protectionism" (for bapak means both father, protector and leader) is often described as a fundamental trait of Indonesian society. What is relatively recent and inserted in this attitude is a special formation of economic links called the bapak anak buah system (father-son benefits). Given the fact that government salaries are really nominal, one needs a relationship with one's superior which will provide you with the necessary supplement to get through each month, and your superior feels the obligation to help you. Thus it is that the development objectives are turned into fiefs composed on sham projects which only serve to supplement the incomes of those who administer them. It is common to ask an upper-level bureaucrat not how much he earns; which can't be very much anyhow, but how many projek-projek (projects) he administers.

The phenomena of bapakisme of course extends all the way up to the top, the presidental palace from the hamlet level. The only possibility for the poor to ndèrèk (be counted "in", or more colloquially "get a piece of the action") is to be a follower. It is only in the context of poverty that the bapak could be asked for and expected to provide patronage for in this village-level market. It is not capital which lacks (there is hardly any), but insertion into the group network. The "atom" of this group is the twenty-four hour time horizon of the immense majority of poor who don't know where their and their families next meal is comong from. Were there not this poverty, as the recent history of Malaysia has shown, the bapak's hutang budi (debt of gratitude) which founds the patron-client relationships, would have no value.

II) C - The Role of Military in Business

Only in late 1957 did the TNI (Indonesian National Army) broaden its role of guardian, the newly-declared martial law. It placed all the recently nationalized Dutch companies under direct army supervision. (see Crouch 1978: ch. 1 passim). Finally out of the first Army seminar in April, 1965 appeared a full-fledged conceptualization of its role in the form of dwi-dharma (double duty) or dwi-fungsi. The army thereby claimed the right to continuous representation in all legislative and administrative aspects of government. It assumed not only total military control through de facto martial law in the post 1966 period, but also as a socio-political force, its second function entered the ideological, political, social, economic, cultural and religious fields. This was defined as the karya abri or civic mission of the army (abri) in defence of the five precepts upon which the Indonesian constitution is founded.

The most telling commentary on the internal deploymentof military bureaucrats in which civilian posts are given to army men directly by appointment from Jakarta (e.g. governors, prefects and sub-prefects) is Suharto's speech on October 5th, 1979 on the occasion of the 34th anniversary of the founding of the TNI (Indonesian National Army). President Suharto was obliged to deny that dual function (dwi-fungsi) simply meant the distribution of Armed Forces authority on civilian posts. (Kompas 6X79, p. 1&16). On the same day General Widodo, Army Chief of Staff, said that some three hundred army officers posted to state-owned or private companies would be recalled and that if they did not obey they would be suspended (Indonesia Times 5X79, p.1). On the 12th of October, 1979, the Commander of the Kopkamtib, General Sudomo said that a list of Officers engaged in business activities would be made public shortly. The last paragraph in the DI/Antara release published by Indonesia Times (p.1, 12X79) added with typical incongruity that "Kopkamtib officials have been recruited in the directorate general for agrarian affairs to help solve the problem (of disputes around land issues). It is perhaps unnecessary to make a longer demonstration of the fact that what we have here is a patrimonial military bureaucracy, omnipresent in civilian affairs. The fact that the army budget is usually some two thirds below what it really needs to spend and what in fact is actually spent, suffices to illustrate the impossibility of the army pulling out of business whether private, foundation (yayasan) liability companies under the ministry of defense or nationalized companies.

Moreover, Admiral Sudomo admitted as much (Indonesia Times 12X79, p.1):

> *"Speaking about the ban for military men who are in active service to be engaged in business adtivities, Admiral Sudomo said that they are of sub-lieutenant rank and above, while those below the ranks are allowed to engage in such activities but with their commandent's consent ... (and later) ... the servicemen still active in cooperative units of their respective corps will be subjected to this regulation, except those holding key positions at the central board."*

As Martin Rudner has remarked (1976: 265): *Administrative regulation and attendant corruption were only the tip of bureaucratic intervention in the ostensibly market economy."*

III) THE POLITICS OF EXTERNAL ECONOMIC RELATIONS

A - Bilateral and Multi-lateral Aid to Indonesia *

Weinstein (1976) came to the conclusion after interviewing a large number, that although they perceived the relations that Indonesia could entertain with the big foreign powers as inevitably hostile ones in which essentially Indonesia had every chance to be exploited, they nonetheless felt that the present economic and political situation domestically required seeking foreign aid. Weinstein conjectures that (1976:356) the narrower its domestic base of power, the more Indonesia will perceive the dangers of dependence on foreign aid. This, Weinstein adds, is not to say that other factors do not condition the dilemma of dependence. Reactions to the failure of previous policies, economic conditions, availability of aid and attitude of the aid-givers as well as the personality and approach of the president all tilt the dependence factor in this way or that.

* This section is endebted to Weinstein's interviews and research.

But basically not only do Indonesian leaders, especially of the 1928 Generation, perceive the outside world as hostile through the prism of an inferiority complex engendered during their colonial youth, but basically they see foreign policy as irrelevent to the basic needs of their country. The Islamic and Catholic leaders and businessmen, who despite a favorable predisposition towards any non-Communist country (1976:360, n.é), were nevertheless highly suspicious of the effect of foreign relations on economic policy and the role of the IMF (International Monetary Fund) in particular.

It is interesting to note that the idea that Indonesia cannot develop without foreign aid is as persistant as the view that it will render the archipelago dependent on neo-colonial bankers. The "Ten Year Plan for Reconstruction and Development announced in 1947 ..."

Even the Masjumi Party leaders like Jusuf Wibisono who argued that the restrictions on foreign capital be minimal, admitted that "supported approach" risked dependence, only they felt the "autarkic approach" involved totalitarian techniques to be rejected as violating human rights. In justifying the Round Table Conference agreements of 1949 which stipulated the transfer of sovereignty and guarantee the rights of foreign capital, Hatta felt obliged to say that dependence on foreign aid and investment would not necessarily perpetuate the exploitative character of economic relationships as in the recent colonial past (see Weinstein 1976:209-210).

If from 1954-1965 aid was often under attack, beginning in 1965 attracting foreign aid was given top priority by the New Order. The attack on the policies of the Guided Democracy (1959-65) period first emerged in the form of a series of essays by professors of economics at the Univ. of Indonesia. They attacked their adversaries' production approach saying that productivity could never keep pace with the increasing money supply, and that only monetary measures could reduce money supply (Weinstein 1976:225). These economists had no illusions that they would be able to attract Western aid without adopting economic policies acceptable to these Western creditors. Adam Malik then foreign minister said in 1970:

> *"There is no question that the advice of the IMF was an important factor in the decisions having to do with the tight money policy ... There was the feeling that failure to follow the IMF's advice might lead to a loss of aid."* (Interviewed by Weinstein, Jakarta, 7 February, 1970/1976:233,n.70).

In late 1966 after the apparent disinterest in the American-backed proposition for a "tight" aid-consortium whose decisions would be binding on its members, Indonesia struggled in the context of the "loose" IGGI to gain some influence over the forms and terms of the aid they were going to have to accept. Their main victory in this struggle where their only backer amongst the IGGI consortium was the Dutch, was to be the extension of the Bonus Export (BE) system to include foreign aid credits. This meant that:

> *"...certificates entitling importers to purchase commodities on the 'BE list' were sold on the open market. Thus it was the level of demand among importers for particular items, rather than decisions on the part of either Jakarta or the creditor governments, that ultimately determined how the credits were to be used."* (Weinstein 1976:234, n.72; see also B.I.E.S. no. 7,VI.67-pp18-25).

Apparently Japan only acceded to this scheme when specifically asked to by the IMF. A major loophole remained for donor countries vitiated this victory however. They simply "tied" most of their aid upstream, i.e. to the commodities that particular creditor country wanted to sell. In 1968 the battle on this issue between Indonesia and Japan almost caused the dissolution of the IGGI. After Suharto's unsuccessful bid for aid commitment in 1968 in Tokyo itself, the Japanese won the interest rates they wanted for their "aid" in 1969.

Criticism of the use of Indonesian trade and foreign investment in Indonesia as being in fact anti-development, and really in the interest and only in the interest of donor countries, was not long in coming. Imported consumer goods under foreign credit drove prices down with w withering effect on local industries, and tight money policies were stopping all expansion domestically except in those sectors where foreign or overseas Chinese capital could be invested. Clearly these sectors were not in the hands of the Indonesians. Even Suharto admitted that the tight money policies had brought about a recession. (see Weinstein 1976:238, n.78).

What with the rice crop failures in 1972 and the two years of inflation that followed, the non-indigenous Indonesians, mainly Chinese were reported by the weekly news magazine Tempo (9.III.74) to have invested 74% of all capital under the domestic investment law and more than 90% of all that invested in joint ventures with foreigners under the foreign investment law. Not only were there student demostrations in November 1973 attacking this state of affairs with slogans like: "Foreign Capital Assists Internal Colonialism", but the quick decline of domestic entrepreneurial activity was seen as the direct result of the aforementioned policies. The newspaper Indonesia Raya editorialized (29VIII.73) that the way government policies were effecting the nation, indigenous businessmen would end up as "mere grocers ... in the same position they held under Dutch colonial rule. Was the struggle for Independent Indonesia confined to achieving only a political goal and is the economy to be left to foreigners and Chinese middlemen?"

Other criticism frequently heard in the newspapers concerned the improvident selling off of Indonesia natural resources (see Weinstein 1976:240, n.88) and the undue exposure of indigenous businesses to the overly competitive foreign companies whose efficiency and access to capital created large-scale unemployment. That such criticism should have been voiced despite heavy censorship in the newspapers and elsewhere is not in itself surprising. What is indeed amazing is as Weinstein shows in chapters 6 & 7 of his book, that most of the high government officials with first-hand experience in these domains were quite ready to agree with their critics in private conversation!

The form that aid had taken, and not the existence of aid, was held responsible for demobilising the country's drive for development. The 1966 student generation that had been partially responsible for bringing Suharto to power, together with Islamic leaders, assailed foreign aid as the catalyst for corruption. Weinstein interviewed (1976:268) an Islamic leader who had a good reputation as an economist. He said that under the Bonus Export scheme in which the government sold foreign credits to Indonesian importers, the only beneficiary was the government who, he claimed, "sucks up all the money and spends it in unproductive ways." High government officials privately cited many cases of "dumping of artifically highly-priced goods bought under low-interest credits. Weinstein, paraphrasing his interview with a PNI leader (1979:269) quotes him as saying:

> *"The credits which comprises the bulk of foreign aid actually profited the creditor nations more than they benefitted Indonesia ... because they were 'simply taking products they could not otherwise sell qnd forcing us to buy them at higher than normal prices'."*

A PSI leader who talked to Weinstein (1979:269)felt the fault should have been shared equally between his own government and the donor nations.

> *"The National Planning Board (Bappenas) and the United States embassy don't worry about the fact that foreign aid, especially in the form of BE credits n certain commodities, is having a damaging effect on domestic industries. The textile industry has been very badly hurt, for example ... They are prepared to accept stagnation."*

According to Weinstein again (1976: 283):

> *"There was fairly broad agreement among the Indonesian leaders that the government had experienced considerable difficulty negotiating investment agreement beneficial to Indonesia and had found it even harder to hold investors to their commitments."*

Mining Minister Mohammad Sadli, a former head of the Foreign Investment Committee (Sinar Harapan 13III74, quoted by Weinstein 1976:283) claimed that multinational corporations had harmed the economic development of countries like Indonesia. So if conditions for recycling debts through the IMF has been the acceptance of detrimental soft "aid" credits and stunting private foreign investment, the disappointing results cannot have come as a surprise to anyone. And indeed the French business magazine L'Expansion entitled an article by Alain Murcler in its July-August issue of 1979: "INDONESIA, A GIANT TIED UP - Pillaged by its leaders and by foreigners, it will have difficulty becoming an economic power."

The farmers in the field of Krawang; Boyolali and Gunung Kidul have a more sober, less strident reaction that, coming from dirt-poor peasants, is even more devastating. Franke reports several conversations: (197:377).

> *"... it is not only their own debts which farmers found appalling: 'Why is the government taking all those new vehicles from foreigners? How will we pay for them?' Unlike the government office workers, farmers do not expect they will receive handouts from anyone; and anyone who thinks he will is obviously being tricked. And the acceptance of these gifts by their leaders proves to them not their corruptability - for that they already know without any foreign assistance to help them. Rather it adds proof of their naiveté, and naiveté is not taken as a quality for good leadership. Further, there are the culture-of-repression implications of the statement above - how will we pay for them? ... "President Suharto, in a rare emotional speech during the political campaign preceding the 'elections' of 1971, made what seems to be a reply to misgivings about the scale of*

foreign borrowing undertaken by his government: 4We are not eager to show off our debts. We will not go back on our promises. We will not worry that we will not be able to pay.' "(Kompas 15VI.71).

III) B - American Political-Economic Penetration

When the French Moniteur du Commerce International (5.VI.78,p.31) published under the aupices of the French Ministry of Overseas Trade and not known for condoning unrealistic or hypercritical positions, runs articles with titles like "L'Equilibre financier contre le developpement", (*) it is time to ask oneself whether America and Japan for instance are not in for some more harsh criticism in Jakarta this year.

Without going into the problem of America's role in the 1965-66 coup d'état and subseauent anti-PKI massacres which has never been satisfactorily cleared up, it is nonetheless clear that a strong anti-Communist Indonesia has long been a top priority in America's Pacific rim strategy. The pressure on Indonesia up till 1968 to change its stance on the Vietnamese war, to vote against China's entrance into the U.N. in 1971, the recent presence of American military in Dili, East Timor advising the Indonesian anti-guerilla units fighting Freitlima there, all these facts suggest this. The Nixon doctrine of replacing U.S. ground combat forces with U.S.-equipped indigenous ones, brought the role of U.S. military assistance to the top of the agenda of the Nixon-Suharto meeting in May of 1970.

Although most of the weapons initially were for counter-insurgency and internal security (i.e. mopping up what might be left of the PKI), Indonesia's appetite for newer and more powerful armaments grew faster than the U.S. Military Assistance Program (MAP) was willing to accede to, at least in a grant program.

The Ford Administration by 1975 switched rapidly from grants to sales (MAP to FMS, Foreign Military Sales) with $ 37.2 million dollars in order for 1975 up from $ 100,000 FMS order in 1974.

And as Michael Klare* has said America was determined to equip Indonesia for the eventualities that were inherent to her strategic location: (Klare 1976:9).

> *"U.S. strategies note with satisfaction that Indonesia and Malaysia have claimed joint ownership - and control - over the Strait of Malacca which maritime powers, including the Soviet Union, consider an international waterway. The United States and Australia have agreed to provide Jakarta with new patrol boats and reconnaissance planes to insure effective surveillance of these routes. Washington has provided six ex-U.S. Navy minesweepers and one 1,450-ton escort ship, and Canberra has promised 8 modern patrol boats (recently France has too). Australia will also provide 6 G.A.F. "Nomad" maritime surveillance planes in 1975-76, and the United States recently sent 16 L.T.V. A-7 "Corsair-II" jet strike aircraft."*

Although this sketch of American political pre-occupations in Indonesia is quite insufficient to give an idea of the dimensions of their involvement; it perhaps establishes that they are not in Indonesia for reasons of investment alone. Curiously the 1974 shift from grants in arms to sales or arms corresponds also to the major changeover from extractive industries (forestry and above all mining) towards manufacturing and real estate and in this new profile of foreign investments Japan was to completely overshadow the United States (see BIES, vol. 11 no.2 (July 1975), pp. 24-45).

The strength of American penetration into Indonesian economy is thus composed basically of three sectors: arms, extractive industries and its influence in the IMF-World Bank-IGGI decisions.

* The same language was used in July 1979 in the common report of the Conseillers Commerciaux des Neuf p.1-2

* Our knowledge of these matters is entirely dependent on Klare's article.

When in December 1966, the Indonesian parliament passed the new investment law, they did so with the idea of inviting back mainly the British and American companies that had been taken over during the Guided Democracy period. In oil investments alone some $ 2 billion dollars worth of production-sharing contracts were approved between 1966-1974. However the largest companies like Stanvac and Caltex were under work-contract systems for which no figures are available. The Far Eastern Economic Review (4VIII78 p.40) reported that:

"For Caltex (P.T. Caltex Pacific Indonesia), the contract with Pertamina is nearly as good as a license to print money. Every day the company earns more than US$ 1 million in profits from its Sumatran holding. Before Indonesia creamed off an additional US$ 1 per barrel in 1976, the profit was estimated at between US$ 600-700 million a year. This is likely to continue, in much the same way, for another two decades."

Another example of American extractive industry is the "Tree Growing Company", Weyerhauser whose Indonesian subsidiary International Timber Corporation Indonesia (ITIC) is clear cutting its 1.5 million acre concession north-west of Balikpapan and south of the Mahakam River in east Borneo (Kalimantan Timur). For a company that in Washington state pioneered sustained yield forestry and monoculture plantation, the present cutting practices in Indonesia represent something of an innovation.* After having discovered that selective harvesting as imposed by Indonesian regulations in the mid-1970's preclude profitable harvesting a second time round, they apparently went ahead outside the laws:

"Meanwhile, Weyerhauser is apparently clear-cutting its concession, probably with the approval of the Indonesian government. One foreign botanist who visited the site even charged: The main purpose of the plantation effort seems to be to show the Indonesian government that logging dipterocarp forests with a rotation of 15-20 years is not harmful to the local economy as long as you replace them with fast growing plantations of pines and eucalyptus. (William Meijer cited by Grossman and Siegel 1977:7).

Since hardwoods are difficult to pulp for paper and related products and since these North American softwoods give ten to fifteen times more wood that selectively harvested hardwood forest, Weyerhauser may yet deserve its catchy promotion title, "The Tree Growing Company." What remains of the flora, fauna and local populations of East Kalimantan is quite another issue.

But how did the Indonesian government come to bypass their own regulations? Below we give an example of the army's dual functions. After the 1967 investment laws (especially Law no.5/1967) were passed, the Indonesian state lumber corporation, Perhutani, which had previously held a monopoly on all outer-island production-sharing operations, began to give 20-year renewable concessions to foreign companies with either wholly-owned subsidiaries or in joint venture with Indonesian "timber" firms. Whatever the role an American entrepreneur recommended by President Lyndon Johnson (see note 19, p.11, Grossman and Siegal 1977), on June 25, 1971 Weyerhauser gained 65% interest in ITCI.

"Weyerhauser's partner is P.T. Indonesia Regional Development Agency; a subsidiary of P.T. Tri Usaha Bhakti. Tri Usaha Bhakti is a private, army-controlled holding company. The army's 35% equity is essentially fiction, a legal way to channel profits into the hands of generals. President Suharto reportedly granted the concessions to 73 top military leaders ... to maintain their loyalty. The Indonesian partners have contributed nothing to the project but the license, while Weyerhauser has provided all the capital and expertise. Nevertheless, the generals siphon off 35% of the profits, and Wenkam even claims that Weyerhauser paid them $ 3.5 million more up front meremy to buy into ITCI.

* See Pacific Research vol. IX, no.1 (Nov.-Dec.,1977), pp.1-12 passim on which I depend for the following data: "Weyerhauser in Indonesia"by Rachael Grossman and Lenny Siegel.

(Grossman & Siegel 1977:3).

P.T. Tri Usaha Bhakti is a company belonging to the Department of Defense (=Hankam), a typically Indonesian form of bureaucratic capitalism. The director of P.T. Tri Usaha Bhakti in 1977 was General Sudjono Humardani, leader of the Opsus business group. He was a typical choice for this position having had extensive experience in the finance and economy sections first of the Diponegoro Division (Central Java) and later as Deputy Chief of Finek (= finance and economy) at the Army Central Command (see Robinson 1978:26-28). These bureaucratic military capitalists, who were completely disinterested in investment and production, sought connections with foreign and Chinese entrepreneurs in order to trade access to the market for a share of the product. As Robinson explains (1978:28):

> *"More recently, however, import monopolies have been eclipsed to some extent by other forms of monopoly, notably lumber concessions. These concessions have been distributed along the various centers of politico-bureaucratic power, primarily military commands. Thus the Hankam business group P.T. Tri Usaha Bhakti, in partnership with the business groups of particular regional commands, controls at least fourteen concessions and timber companies. Others are owned by Kostrad. P.T. Poleko, the Presidential Palace, the Ibnu Sutowo family and assorted military groups. In every case the concession-holding company is established with minimal capital investment, rarely exceeding Rp. 5 million (about $ 12,500). The concessions are transformed into operational companies only with the infusion of foreign and Chinese capital, which generally lifts the investment to the level of Rp. 1,000 million and above. This represents an Indonesian contribution on the order of 0.5 percent."*

The asli or indigenous partners in joint ventures are thus rarely chosen for their capital and usually for their connections with high-ranking military men. Although Goodyear and Unilever apparently have resisted extortion and refused to pay bribes, Mobil and most other American companies have gone the way of Weyerhauser even if they are not in fake joint ventures and are apparently doing well. Weyerhauser in 1976 was getting a return of 33% on investment even after deducting the 35% of profits that went to Tri Usaha Bhakti (Grossman & Siegal 1977:11, note 32). The above is unfortunately about all one can sketch out of the manner in which American companies invest in Indonesia for the figures on the individual companies as the World Bank has found are never available to the public through verifiable tax returns.

III) C - Japanese Economic Penetration

Having described in section I the sociology of the "basic needs market" of the Indonesian peoples, and especially those 80 million living on the island of Java, and in Section II the economic and cultural components idiosyncratic to the government management approach of the Indonesian military bureaucracy today, we are now in a position to contrast American and Japanese economic penetration in function of their entrepreneurial and managerial attitudes and styles.

It was mentioned above that in 1974 the Japanese entrance into manufacturing as opposed to extractive industries gathered considerable momentum. In 1971 the foreign direct investment in Asia of the United States was roughly four times that of Japan but in 1973 it was only double, and the Japanese surpassed all other investors in the number of subsidiaries investing directly in Asia for these were centered in small and medium size firms (van den Poel and de la Torré 1979:5). What characterized these market-oriented investments in textile, chemical, electric and electronics was that their small- and medium-sized firms. Such low technology industries such as timber, pulp, steel and non-ferrous metals also used a group approach that spread the risk over some three to seven Japanese firms with an indivisible link between local manufacturing and "mother" trading firms in Japan.

In the mid-sixties when the ASEAN began developing import substitution policies, Japan was already well established in her revival of the Greater East Asia Co-Prosperity Sphere (= economic border expansion*). With increasingly scarce raw materials and its own import substitution program to implement, the Bank of Japan, the Ministry of Finance, AND MITI (Metal Mining of Japan) were joined after the fifties by the Japan Petroleum Develop-Corporation (1967) and the Japanese Overseas Development Corporation (1970) to provide loans for capital subscription for exploration and the launching of joint ventures. These public financial institutions provided for 20% of Janan's direct foreign investment. Japanese M.P.'s ha batsu (   ) factions with their "non-profit" societies for the study of subject X acted as political middlemen between the individual entrepreneurs at the bottom, the parallel financing provided by the "black curtain" (kuro-maku)mafia and MITI.

Table Japan-US Comparisons of Direct Investment Profile, March 1972

	Japan-based	U.S.-based
Size of parent firms	(1) 40 percent of investments by small- to medium-sized firms. (2) Large R&D intensive firms go abroad often with their small subcontractors.	(1) Large R&D intensive firms dominate overseas investments. (2) Small- to medium-sized firms may have subcontracting relations with foreign manufacturers.
Where invested	Three-quarters of investments in developing nations. Overwhelmingly in Asia.	Two-thirds in developed nations.
Organization of subsidiaries	Joint venture dominant. Many minority interests.	Fully-owned or majority controlled.
Partner, if any, of subsidiaries	(1) Many with Japanese trading firms and local partners. (2) With other Japanese firms in the same "industrial group" in Japan.	On its own or local partner.
Parent's control over subsidiary	Loose.	Close.
Parent-subsidiary relations	Disjointed. Local market oriented.	Globally integrated.

Source: Yoshi Tsurumi, "Japanese Multinational Firm," *Journal of World Trade Law* (February 1973).

That murky aggregate phenomen's importance reflects the need and use for overseas subsidiaries of government patronage and the kuro-maku (   ) financing, and in fact the M.P.'s representing their faction societies ha batsu initiated many ventures successfully in Indonesia and South Korea.

What had started in the fifties as a small scale launchings of little Japanese companies requiring modest Indonesian backing through a network of low-level contacts with small-time Japanese politicians providing patronage for the fledgling firms, by the late sixties had taken on decidedly larger proportions. If initially the smaller modest circuits required only small-time political patronage in Indonesia as well as in Japan by the time the ha batsu factions began to realize the potential of kickbacks from the subsidiary through its mother trading society in Japan the sums had become decidedly more important.

In any event the practice of gifts (omiage) à la Lockheed dates further back than the creation of the financial cliques (zaibatsu) of the Meiji Restoration (1868), and if it made the integration of Japanese business firms into the hyper-corrupt Indonesian milieu easier, bribes cannot be expected to explain everything about their successes. The table above contrasts the structural profiles of American and Japanese investment. The role of the general trading houses (sogo shosha)

.../...

in consolidating an economic sphere of influence into an economic boundry must be understood through an analysis of the partially-owned joint ventures which they organize, initiate and manage. Tsurumi Y. (1976, 208) remarks that local partners are used to negotiate with local government and local distributor networks but excluded from the selection of new products and markets. And in fact, recent Japanese ownership patterns are changing with the appearance of totally owned "off-shore" manufacturing subsidiaries exporting electronics, for example (Van den Poel & de la Torre, 1979, 17).

Kiyoshi Kojima (1978, 135) has characterised American-type anti-trade oriented investment as practicing technology transfer in reverse order. Starting from industries in which it has the greatest sophistication and therefore advantage, it creates outstations or enclaves of these new technologies in the LDC country and practices no transfer. It remains however to be proven whether in Indonesia, as Kojima's theory would have it, Japanese low-technology, labor-intensive and price competitive industries actually do transfer their technology to the host country and not just their profits back to the general trading house in Japan. Intermediate technology providing more jobs, reducing social inequalities and lessening dependence on outside capital and technology can hardly be said to be the hallmark of say the Japanese textile factories in Java.

The January 1974 riots in Jakarta, for which Prime Minister Tanaka's visit was the igniting spark, were replete with denunciations of foreign manufacturers. They were accused of circumventing tariff barriers and, with little or no transfer of technologies, deploying "Made in Indonesia" products on the Indonesian market to the detriment of less competitive indigenous entrepreneurs (pribumi wiraswata). In June 1974, there were some 20,000 foreigners working in Indonesia mostly from Japan, the Philippines and Malaysia : some in forestry, 4000 in oil and natural gas, and the rest in textiles and other fields. (Merdeka, 20.VIII.79, quoted by Weinstein 1976, 281-note 12).

It could be surmized that many of these are so employed precisely to avoid the transfer of technology.

Interestly there are only a few Indonesians who are interested in the differences in approach between Japanese and American managers. These are mainly economists whose training has sensitized them to the differences. The average high Indonesian government official lumps them all together in his outrage at what he considers their unreasonable demands. As we said above, Weinstein found that although no one could be found who wanted to totally exclude foreign capital from Indonesia (1976, 279), many wanted processing factories targeted for investment, instead of fishing, forestry and mining concerns :

"One economist expressed his dismay at the demands of American businessmen for monopoly rights throughout Indonesia. 'I told some of them' he recalled, 'that I had studied economics in the United States, and everything I learned about monopolies was bad. How could they come here and ask for monopoly rights ?'.......By and large Japanese business were the most bitterly criticized. According to an army general, they were 'cheating us blind in everything they do : fisheries, forestry, joint ventures...' Another general told of their practice of maintaining two fleets of fishing vessels, each with identical markings, sending one out to fish while the other was in port, and paying for fishing rights for only one fleet. Other leaders brought forth additional cases of alleged Japanese trickery ; for example, they had promised to build processing facilities as part of an investment agreement, and then simply failed to do so... A PSI leader, for example, characterized both Japanese and American investors as vultures." (Weinstein, 1976, 280-281).

If in Indonesians' eyes both are predators, it is still true that they exploit the terrain differently. This is partially due to the factors briefly sketched out above, but also to the recent history of Japanese-Indonesian relation from 1951-1966. This period is characterized first of all by the legacy of the Japanese occupation (see Sluimers 197, passim). Masashi Nishihara (1976, ch. 9, passim) has summarized as follows that period. First of all, and curiously enough to one ot familiar with the initial favorable reaction of INdonesia to the Japanese occupation, there were personal bonds that survived the post-war period ; one supposes they were the bases in the early 60's for the small-time commercial contacts cited above. Although few Indonesians were cognisant of Japanese post-war domestic evolution, the increase dependence of Indonesia on Japan during this 15-year period helped to keep these contacts alive. By 1972, Japanese real estate investments symbolized by four of the major high-rise building in Jakarta (Sarinah, Wisma Nusantara, Hotel Indonesia and the Japanese Embassy "et al" building) left no doubt as to the terms of the recent balance of power. The indifference and hostility that had characterized Indonesia's attitude towards the old defeated imperialist nation at the end of world war II was replaced by suspicion and fear. The traditional admiration of educated Indonesians for Japanese culture and the Japanese war-time fascination for the colonial aspects of the little Amsterdams that they occupied in the second world war, was hardly the basis for a fallback zone of culturally-shared or understood traits.

Instead Indonesia came to understand that Japan's Indonesia policy was dictated by three dominate interests : its large market, its natural resources and its safe oil route. This is what had led the otherwise intractable Japanese negociators to include capital goods in the reparations funding package and to cancel Indonesia's trade debt. And all this was simply the continuation of Japan's greater East Asia development policy after further advances in Manchuria had been blocked off before the great war.

The reparations lobby is a curious example of the meeting of cultures. Whether it be for gifts (omiyage or olehé)or for monetary commissions (orei, tesuryo or komisi), the attraction to lobbyists on both sides of this binational committee was considerable. Both considered it an unofficial way to redistribute wealth and reallocate profits to political funds. That the Kinoshita and Tonichi trading companies and Sukarno's Japanese wife Dewi contributed to the extensive corruption of the Sukarno regime, does not obviate the fact that in dealing with Indonesians the Japanese had here valuable experience that Americans lacked. Unfortunately, it was only the prologue to a more unhealthy dependency of the post-1965 military bureaucracy on Japanese capital.