3. Small-Scale Manufacturing and the Weaving Industry in Indonesia

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The Weaving Industry and Ciluluk Village Up through the Sukarno Era

Small-Scale Manufacturing and the Weaving Industry: 1950 through the Sukarno Era

With the coming of national political independence, Indonesia set out to free itself economically from the bonds of its former colonial capital control. Emphasis was put on policies aimed at the "Indonesianization" (*Indonesianisasi*) of the economy (Sutter 1959), which for small-scale manufacturing during the period meant none other than the promotion of indigenous Indonesian (*pribumi*) business enterprises.

One case in point is the weaving industry, whose mills possessed 72,025 hand-looms and 11,267 power-looms in 1951. In contrast to *pribumi* firms accounting for 69.5 per cent of the firms, they owned only 40 per cent of the hand-looms and just 8 per cent of the power-looms. In contrast, Chinese firm owners controlled 40 per cent of the hand-looms and 44 per cent of the power-looms, while a mere 1 per cent of the European firms in the industry controlled 30 per cent of power-looms and 1 per cent of the hand-looms (Sutter 1959: 804).

Historically, by the 1910s *pribumi* weavers survived in limited areas only for household or local consumption under a colonial-capital protectionist policy, but at the end of the 1920s the colonial government introduced the improved treadle hand-loom[1] (hereafter simply "hand-loom") and the growth of *pribumi* weaving took place in the hand-loom industry from the 1930s, mainly in the Majalaya region of then Bandung Regency (Regentschap) of West Java (Matsuo 1970: 19–48; Aten 1952: 194–99; Warmelo 1939: 5–22).[2] Nevertheless, from the end of the 1930s the weaving industry in the Dutch East Indies became dominated by Dutch and Chinese firms (Aten 1952: 196–99).

The Natsir cabinet formed in 1950 implemented the "Benteng Program," under which import licenses were granted and credit extended to *pribumi* traders (Sutter 1959: 1017–29). Then in 1951 central cooperative plants (*induks*) began to be constructed in the centers of various industries (Majalaya in the case of weaving) for the purpose of promoting local industry, followed by the implementation of the Mechanization of Small-Scale Industries Program. In 1955, with the establishment of the Foundation for Supplies of Raw Materials (JPBR—Jajasan Perbekalan Bahan-bahan Perindustrian), the price and amount of imported cotton yarn was controlled and yarn was allocated to *pribumi*-weavers at prices lower than market prices (Palmer 1972: 81–99, 140–42).

In the field of commerce, 1957–58 saw an accelerated attempt to take over and nationalize Dutch trading companies, which were dominating Indonesia's foreign trade. In April of 1959, seven of the nine state trading enterprises (*perusahaan dagang negara*), for example Juda Bhakti, were given the sole rights to import all textile materials, which were to be supplied to *pribumi* weavers through cooperatives. At the same time, the Ministry of People's Industry (Kementerian Industri Rakyat) determined the amount of yarn per loom allocated to each *pribumi* weaver and issued operating licenses to *pribumi* businesses that expressly stated the number of looms that could be employed. Actual yarn allocation was carried out by the textile cooperatives on the basis of these capacity licenses. Finally, in 1960 all the country's small-scale weavers were organized into KOPTEKSI (Koperasi Tekstil Indonesia), the Textile Co-operative of Indonesia (Palmer 1972: 143–64).

Government Regulation No.1 of 1957 on enterprise control,[3] and ensuing policy decisions laid heavy and extensive restrictions on the enterprises of Chinese descent, i.e., the establishment of new enterprises, investment for new plant, and transfer of proprietary authority. From around 1959, when a system of "guided democracy" (*demokrasi terpimpin*) was being implemented as the political form of Indonesian socialism, policies aiming at the replacement of Chinese by *pribumi* as the leaders of industry were becoming more hard-line. In May of that year, it was ordered that the native Indonesian share of the Chinese enterprises' capital had to surpass 50 per cent within five years. The government also ordered that total Indonesianization had to be completed within another ten years (Nagai 1963: 208–24). Presidential Regulation No. 10 of 1959[4] also prohibited commercial activities and retailing by foreigners in villages other than those located in the provincial capitals, district (*kabupaten*) capitals, and municipalities (*kotapraja*), and ordered the ownership of all such businesses to be transferred to local cooperatives.

Within these kind of *pribumi* capital-promotion policies, the small-scale weaving industry, especially the hand-weaving sector, flourished. That is to say, as of 1962 the number of hand-looms in Indonesia had grown to 223,905, while the amount of power-looms had increased to only 20,284 (Palmer and Castles 1965).[5] These numbers are probably overstated for the purpose of obtaining yarn rations; however, from the results of data personally collected by this author in the field, the above figures do not deviate from reality to significant extent.

Weaving in Ciluluk Village from the 1930s till the End of the Sukarno Era

In the 1930s the village of Ciluluk was under the administrative jurisdiction of Paseh Sub-district (Onderdistrict), Cicalengka District. In contrast to the development of Majalaya's extensive urban functions, the region around Ciluluk remained completely agrarian in nature with poorly irrigated paddy and dry fields mixed together. Warmelo (1939: 13) says that as of January 1938 there were between 16 and 50 hand-looms in operation in the village, while Aten (1952: 213) attests to an average of 103 looms on the average in twenty-four out of the thirty-three villages located in Cicalengka District at the same time.

In the survey kampong, Haji[6] H., the father of current farmer-group (*kelompok tani*) leader and RK headman Haji T., sold 100 *tumbak** (1 *tumbak** is equal to 16 square meters) of *sawah* and purchased four hand-looms to weave sarong. We also know that the father of a present-day gauze trader owned three hand-looms during the colonial period. Since there are almost no residents of Chinese descent in the village, we can safely assume that its weavers were all *pribumi* (mostly Sundanese).

During the Japanese occupation, the supply of cotton yarn ran out,[7] putting almost the whole cotton-weaving industry out of business. The weavers in Ciluluk were forced to re-reel their yarn from old clothing and rags.

However, during the 1950s and 1960s the weaving industry in Ciluluk and the surrounding areas grew tremendously, due to the mechanism of supplying via KOPTEKSI cooperatives cheap and good-quality yarn imported from Japan, Pakistan, and China. The two largest cooperatives set up around the study village were Koperasi Fajar and Koperasi Putra, organizations under KOPTEKSI. The former was led by the village headman (Mr. M) at the time and had a membership of about 600, while the latter, whose treasurer was above-mentioned Haji T., was made up of about 800 members. These groups received their yarn from such suppliers as KOPTEKSI, and in turn supplied it to local weavers on the basis of the number of looms registered in business licenses issued by the West Java Provincial Office of the Ministry of Industry.

These cooperative member weavers managed factories ranging in size from 10 to over 100 looms. For example, in 1961 Haji T. was licensed to operate 51 looms. Factories with tens of looms were scattered throughout the village and managed by the local elite, many of whom owned "large" plots of agricultural land, given the standard of landholding of the area (in 1965 Haji T. owned 0.77 ha of *sawah* and 0.80 of dry fields). They carried on operations by employing hired labor from outside the village. The division of labor at these factories differed depending on their size, but in the case of a 50-loom operation, the labor would be divided among workers into sizing, winding, quilling, warping, drawing-in, and weaving processes. In addition to looms, other necessary equipment, which included reels (*golewang*), reelers (*kincir*), bobbins (*paret*), and warpers (*pihanean*), were the property of the factory owners. Those products were either marketed directly by their local *koperasi* or purchased via prepaid order (*inden**) by Chinese wholesalers in such towns as Majalaya and Bandung.

Some of the owners of these enterprises took the opportunity to branch out into the field of commerce. There is the case of the gauze merchant, Mr. V, who owned thirty hand-looms in 1962, but was licensed to operate fifty-four machines. He used the surplus yarn he received as his licensed ration to trade with other weavers for cloth, which he sold in the towns.

At the beginning of the 1950s village weavers where all producing sarong, but by the middle of the decade unbleached shirting (*belacu*) was also being woven. Then at the end of the 1960s sarong disappeared; instead pique (*tike*) and *belacu* were produced. This textiles were supplied to urban textile markets through the *koperasi* and Chinese wholesalers, meaning that these textiles were of a quality demanded by general consumers. The rural weaving industry that developed in Ciluluk village on the strength of the system described above grew in size to an industry boasting as many as 4,000 hand-looms in 1964.

This does not mean that the government's small-scale industry protection policies did not have their problems. In fact, they were fraught with them. First and foremost, there was the illegal diversion of cotton yarn to Chinese traders from the official supply route of state trading enterprises → KOPTEKSI → local *koperasi* → member firms. The state trading enterprises and the Ministry of People's Industry used the funds received from the diverted yarn to run their organizations. This is also how Chinese traders, wholesalers and middle- and large-scale textile firms other than *pribumi* firms obtained their raw material from the yarn markets (Palmer 1972: 159–65). Within such a framework we observe an insufficiency among *pribumi* weavers of working capital to buy their yarn rations, forcing them to divert yarn to Chinese merchants in order to raise the necessary funds, while at the same time larger-scale non-*pribumi* firms were obtaining their yarn through black-market dealings (Palmer and Castles 1965: 43).

Add to the above problem skyrocketing inflation, foreign currency shortages and continuing overall raw material shortages during the last years of the Sukarno era, in the midst of which the Command of Economic Operations (KOTOE—Komando Tertinggi Operasi Ekonomi) was established in 1964 for the purpose of cracking down on corruption and illegal disposition of goods. As a result, many cooperatives stopped functioning effectively (Palmer 1972: 166–70) and village-level *koperasi* were no longer able to obtain inexpensive yarn.

The Weaving Industry during the Suharto Era

From the Beginning of the Suharto Era through the 1970s

In 1967, the Suharto administration, which grabbed power in March 1966, accepted the International Monetary Fund's recommendations and rejoined the fund, from which it had withdrawn in 1965. It was then granted aid totaling U.S.$158 million from the countries participating in the Inter-Governmental Group on Indonesia (IGGI). During that same year the government enacted Act No. 1 of 1967 on Foreign Capital Investment.[8] Then, during the following year, Act No. 6 of 1968 on

Domestic Capital Investment[9] was passed and contained an article invalidating "all the provisions in the existing legislation that are in violation of the provisions laid down in this act" (article 24), and thus abolished many of the laws regulating the economic activities of people of Chinese descent and ensured increased capital investment from that community.[10] As a result, many foreign investors, especially Japanese businesses, entered the Indonesian spinning industry beginning in late 1960s, and many also produced in both the spinning and weaving sectors.[11] Under Act No.6 of 1968 Domestic Capital Investment, Chinese-run businesses were able to obtain government credit and advanced quickly into the synthetic- and cotton-yarn weaving sectors.

In addition, under the Suharto administration a thorough reevaluation of small-scale manufacturing (= *pribumi* capital) protection policies was carried out, and in 1966 the yarn rationing system, in which raw materials were supplied to *pribumi* weavers through state trading enterprises and local cooperatives, was abolished (Palmer 1972: 170). Furthermore, through an export-bonus system (*bonus ekspor*) providing bonus certificates for selling foreign currency to importers, imports (including smuggling) increased, and, as a result, domestic industries, which had up until that time been protected under import restrictions, were forced into severe competition with foreign makers.

Chinese-run weaving firms and Japanese joint ventures in textile industries were not established in traditional textile-producing centers like Majalaya, but rather in such large cities as Jakarta and Bandung (and their suburbs). These newcomers produced in the growing synthetic textile sector, while Majalaya and other traditional textile-producing centers specialized in cotton weaving (Mihira 1980: 305). This is not to say that Chinese and foreign capital did not also advance into cotton weaving; and compounded with the fact that synthetics had become viable substitutes for cotton, the small-scale *pribumi* weavers, who had developed on the strength of previous government protection policies, were dealt a severe blow.

Even in Majalaya, which had up until that time been the country's largest weaving center, the decline experienced by *pribumi* firms was very noticeable. That is to say, in Majalaya and its surrounding areas from 1965 on, there was a significant shift in *pribumi* weavers who entered into putting-out, or wage-weaving contracts (*makloon*) with local Chinese-run wholesalers and weaving firms, resulting in effective control by Chinese capital over *pribumi* capital in the industry there. According to a survey carried out in 1976, Chinese capitalist owned 64 per cent of all the power-looms in the region, and while 20 per cent was owned but rented by *pribumi* weavers to non-*pribumi* businessmen who managed the firm, only 11 per cent was being employed in independently run operations by *pribumi* weavers. This decline in the regions predominated by *pribumi* capital could be observed everywhere, including Pekalongan of Central Java. In Pedan, Klaten District, members of the local *koperasi*, which was closely linked with the Indonesian Communist Party (PKI) were, in the midst of the political disruption following the September 30th, 1965 aborted coup d'etat, almost totally put out of business, to the extent that the region lost all significance as a textile-producing center (Hill 1979: 100–109). Looking at the number of total hand-looms during that time, the 1965 figure of 324,000 had by 1975 declined to 181,600 registered machines, with only 65,600 looms in actual operation (Hill 1979: 55–77).

The Weaving Industry in Ciluluk since 1966

For Ciluluk the Suharto era meant local *koperasi* losing their function and business licensing losing all meaning. From 1967 on, the village's weaving industry fell into decline, and the factories that had been producing *belacu* and pique were forced to either cut back or go out of business altogether. The village's once thriving factory-production system had been all but dismantled. The year 1973 was particularly bad, as the fire that destroyed the Tanah Abang textile wholesale market in Jakarta stopped all sale of pique from this village. As a result, during 1974 and 1975 villagers who had worked at the local pique factory would leave the village in groups at 5 a.m. each morning in order to travel to the wet-rice producing Rancaekek region in search of agricultural day labor. Those for whom work was not available would immediately return to the village; those who found jobs would return when the work was done. Also from 1974, the number of villagers going to Bandung to pull *becak*s (pedicabs) was definitely on the rise.

Small-Scale Manufacturing under the Suharto Administration

The kind of disaster which the small business community of weavers experienced has been perceived as problem involving the fall of *pribumi* capital before the onslaught of foreign and Indonesian Chinese capital. From the time this situation began, a sense of crisis had been growing, especially among *pribumi* weavers and Islamic intellectuals.[12] Strong criticism was leveled by both students and intellectuals in general against what is termed an industrialization policy dependent on foreign capital. Japanese business came under especially strong fire for its tendency to form Indonesian joint ventures exclusively with local Chinese entrepreneurs. "The competition with foreign capital and the difficulty in obtaining credit from banks has thrown existing producing regions into bankruptcy," said one Majalayan *pribumi* weaver at a student conference in January of 1974 (IDE 1975: 455). "From November 1968 to March 1974, the spinning industry has created 18,000 new jobs. However, the traditional weaving industry is threatened with bankruptcy at its loss of 391,000 jobs," explains Siahaan et. al (1978: 92). It was this type of criticism that triggered the anti-Japanese riots (the "Malari" incident) when Prime Minister Tanaka visited Jakarta in January of 1974.

Together with the above criticism leveled at Chinese and foreign businesses, a deep feeling of frustration arose from doubts about the government's ability to promote *pribumi* enterprise and about *pribumi* business people's inability to respond to promotion policies (Kuntjorojakt 1973: xiv). Joedono (1973: 216–18) argues that the problem did not stem from *pribumi*/non-*pribumi* racial distinctions, but rather from a situation that pitted economically weak against economically strong entrepreneurs, the majority of the entrepreneurs in the economically weak category being *pribumi*, a group that tended to be passive in response to market trends, to be dependent on the government's policy decisions, and have difficulty paying their debts.

Joedono's argument is related to Sadli's hope for the Indonesian social elite[13] as a social reference group. *Pribumi* business people are still too fragile to function as a social reference group, like capitalists. Such an argument puts little faith in the creation of a *pribumi*-capitalist social stratum based on the World Bank's trickle down approach, which will only cause greater inequality in income distribution.

Small-Scale Manufacturing Promotion Policy of the Suharto Administration

Even before the Malari incident, the Suharto administration had considered various ways of promoting small industries and had begun implementing a portion of them. After the incident, an all-out effort to enact them was begun. In response to critics who were insisting that not enough restrictions were being imposed on foreign capital, that not enough fault was being attributed to the Chinese business community, and that not enough was being done positively to foster *pribumi* capital, the government took steps to protect weaker economic groups and foster small-scale manufacturing enterprises.

The protection of weaker economic groups took the form of more restrictions on foreign capital and non-*pribumi* entrepreneurs. In 1971 the government prohibited all foreign trading companies from carrying on commercial operations inside Indonesia and drew up a list of industries in which foreign capital would not be allowed to participate. Then on January 22, 1974 President Suharto decided on the following measures through the Economic Stabilization Council. All joint ventures were as quickly as possible to consist of at least 51 per cent Indonesian ownership; a "negative list" was to be drawn up in order to clearly establish what economic sectors would be closed to foreign capital; foreign-capital investors were to employ more skilled Indonesian workers; all foreign-capital investors were to be joint ventures involving only *pribumi* partners; ownership in previous joint ventures with non-*pribumi* Indonesians was to be transferred to *pribumi* partners; and at least 50 per cent of the stock in domestic capital investors was to be sold through the securities exchange to *pribumi* investors. In addition, all investment credit was to be issued only to *pribumi* firms.[14] All businesses financed with domestic capital amounting to Rp. 500 million or more were required to be licensed by the Capital Investment Coordination Board (*Antara*, Jan. 23, 1974: 1–2). Later the government actually implemented a portion of these presidential directives. In 1977, the above-mentioned "negative list" was transformed into the Priority Rating List of 1977 for Domestic and Foreign Capital Investment.[15]

The major part of the small-scale manufacturing promotion policy had to do with financing. In 1971 the government established PT Ansuransi Kredit Indonesia as a "credit insured institution for financing small-scale firms" and then set up PT Bahana Pembina Usaha Indonesia for the purpose of smaller loans, capital participation, and management support for small-scale firms. In response to criticism that the government itself would not give small-scale firms credit, 65 per cent of the government's investment credit during 1973 was earmarked for small-scale firms; and at the end of that year the Bank of Indonesia instituted the KIK (Kredit Investasi Kecil) small credit program for fixed capital and the KMKP (Kredit Modal Kerja Permanen) small credit program for working capital (BP2K 1979: 44–45, 237–44, 250–56).

KIK provided loans of Rp. 5 million or less payable within five years (including any grace period) at an annual interest rate of 12 per cent. KMKP provided loans of similar amounts payable within three years at an annual interest rate of 15 per cent.[16] Moreover, if within two years the corporate performance of a borrower was improving and payments on the loan were on time, an additional loan of Rp. 10 million was possible under each program.[17] (Some of these conditions were changed as time went on [Idrus 1988: 44].) Beginning in 1974 a "*kredit mini*" program was established for loans of Rp. 100,000 maximum, and from 1976 loans of Rp. 500,000 or less were made available to village unit cooperatives (KUD—Koperasi Unit Desa) and village unit business cooperatives (BUUD—Badan Usaha Unit Desa) to finance small-scale commercial activities. Cooperative members were entitled to loans of up to Rp. 15,000 for periods ranging from one week to three months—*kredit candak kulak*.

One more important part of the government's small-scale manufacturing promotion policy involved technological/management training in the form of BIPIK (Proyek Bimbingan dan Pengembangan Industri Kecil), a program to guide and develop small-scale industry. During its First Five-Year Economic Development Plan (Pelita I, 1969/70–1973/74) the government also set up PROBINKRA (Proyek Pembinaan Kerajinan Rakyat), a program to train people in handicrafts, and the guidance was carried out together with exhibit and sale of the craftsmanship in the old *induks* (Lempelius 1979: 122–24). BIPIK was aimed at not only education and training, but also management consulting, experimentation, demonstrations, sales, and market-information networking. BIPIK centers were located both at the central government level and the major provincial cities. On the provincial-level small-scale manufacturing service centers, called PPIK (Pusat Pelayanan Industri Kecil), were set up, while on the district-level small-scale manufacturing development units, called UPIK (Unit Pelayanan Industri Kecil), were established. Also, in the major industrial areas marketing promotion units (UPP—Unit Promosi Pemasaran), technical servicing units (UPT—Unit Pelayanan Teknis), etc. would be located according to the specific needs of small businesses in each locality. In Majalaya a UPT was set up with general and specialized instructors for diffusing technological information throughout the area.

The year 1979 marked the formation of the LIK (Lingkungan Industri Kecil) system of mini industrial estates,[18] as well as a foster parent system (*sistem bapak-angkat*) aimed at developing the art of subcontracting.[19] Finally, there were the cooperatives for small-scale manufacturing including household production, called KOPINKRA (Koperasi Industri Kecil dan Kerajinan Rakyat), which were set up 1987 and based in the *sentra industri*.

How the above programs and policies were implemented in the village of Ciluluk to deal with the crisis that occurred in the local weaving industry will be dealt with in the next chapter.

Notes

1 Textile Inrichting Bandung (Bandung Textile Institute), which was founded in 1921, developed this treadle loom in 1926 by improving the existing indigenous model called the *gedogang* loom. It is generally referred to as the TIB after the institute that developed it, but in Indonesian it is abbreviated ATBM because of its Indonesian name, *alat tenun bukan mesin.* The ATBM helped increase productivity of hand weavers from 1/50 to 1/5 of the power-loom capability. Textile Inrichting Bandung was a research center instrument in popularizing the ATBM and training weavers in its operation.

2 As to the reasons for the expansion at that time of the weaving industry in West Java, particularly the Majalaya region, on the strength of its main commodity sarong, (1) differentiation of the peasantry there was already well advanced, (2) the use in West Java of sarong, which was pre-dyed, was already in widespread use throughout the region, in contrast to the dominance in Central and East Java of batik, which was dyed after weaving, and (3) the development of Majalaya as an entrepôt for agricultural and consumption products by virtue of its being the terminus on the railroad originating at Bandung (Matsuo 1970: 33–36)

3 Peraturan Pemerintah No. 1, Tahun 1957 tentang Penyaluran Perusahaan-perusahaan [Government Regulation No. 1 of 1957 on Enterprise Control].

4 Peraturan Presiden No. 10 of 1959 tentang Larangan Bagi Usaha Perdagangan Kecil Eceran yang Bersifat Asing di Luar Ibukota Daerah Swatantra Tingkat I, II, serta Keresidenan [Presidential Regulation No. 10 of 1959 on Prohibition of Small-Scale Retail Activities for Foreigners Outside the Capitals of First, Second Level Local Governments and Residency].

5 The reasons why the spread of hand-looms was greater than power-looms at the time, in spite of government support given to *pribumi* entrepreneurs, were (1) “they were not convinced of its benefits and their ability to handle it” (Palmer 1972: 89), (2) “the production of sarong is so complicated—using already dyed mixed yarns and making twilled cloth—that power-looms are not usually used” (Matsuo 1970: 65–66), and (3) the slow pace of electrification in the agrarian regions into which the weaving industry had advanced.

6 Haji is a title given to Muslims who have made a pilgrimage to Mecca.

7 Many looms were employed during this time in the manufacture of sacks made out of sisal jute. (See Iwatake 1981: 127–33, 177–78.)

8 Undang-undang No. 1 Tahun 1967 tentang Penanaman Modal Asing.

9 Undang-undang No. 6 Tahun 1968 tentang Penanaman Modal Dalam Negeri. All following references to “domestic capital” are related to the type of investment sanctioned under this act.

10 The 1968 Domestic Capital Investment Act stated that all business licenses issued to foreign enterprises would expire ten years later in the commercial sector and thirty years later in the industrial sector (Article 6). However, by virtue of the implementation in 1960 of the 1958 act (Undang-undang No. 2 Tahun 1958 tentang Persetujuan Perjanjian Antara RI dan RRT mengenai Soal Dwi-Kewarganegaraan) concerning the ratification of a agreement between the Republic of Indonesia and the People’s Republic of China with regard to the question of double nationality, the government basically urged Chinese residents to obtain Indonesian citizenship. Even though the 1958 act was abolished in 1969, a presidential decision (Keputsan Presiden Republik Indonesia Nomor: 240 Tahun 1967 tentang Kebijaksanaan Pokok yang Menyangkut Warga Negara Indonesia Keturunan Asing) in

1967 concerning Suharto administration basic policy on foreign-descent Indonesian citizens stated, "Indonesian citizens of foreign descent are Indonesians with the same rights and obligations as other Indonesians." Therefore, no restrictions on foreign enterprises in Indonesian law apply to naturalized citizens of Chinese descent.

11 Between 1967 and 1977, foreign capital investment (called PMA [Penanaman Modal Asing]) authorized by the Capital Investment Coordination Board and its predecessor amounted to U.S. $2.983 billion (59.1 per cent of the total), while domestic capital investment (called PMDN [Penanaman Modal Dalam Negeri]) was valued at U.S. $2.066 billion (40.9 per cent of the total). For the textile-manufacturing sector alone, PMA accounted for 40.9 per cent of investment, while PMDN accounted for 20.9 per cent. Some 37.2 per cent of all the PMA for this period came from Japan (Okada 1981: 186–90), and between 1967 and 1976 25.9 per cent of that Japanese investment went into the textile industry (Siahaan et al. 1978: 35). Japanese capital was concentrated largely in Indonesian textile production from 1968 to 1974, a period during which nineteen of twenty-one firms put into operation by Japanese textile makers were in the spinning sectors (ten concerns carrying on both spinning and weaving) (Indonesia 1978: 10–133).

12 The Indonesian Islamic League Party (PSII—Partai Sarekat Islam Indonesia) held its 33d annual political convention in Majalaya on July 23, 1972. It was decided there to demand that the government reconsider its stand on *pribumi* capital protection and its policies concerning foreign capital (*Antara*, Aug. 1, 1972: 8–9). It goes without saying that Majalaya is a strong basis of PSII support.

13 Sadli (1957: 374–83), in expressing disagreement with Boeke's (1951) theory of the coexistence of pre-capitalist agrarian society and imported Western capitalism without the former in transition to the latter, perceived the possibility of the former adapting to the latter or some integration of the two forms, and thus offered a valuable problematic for analyzing issues arising from such a process of adaptation/integration. It would be through such a process, said Sadli, that the social elite of the former social form would be able to function as a social reference group.

14 A "*pribumi* firm" was defined as any business having at least 75 per cent *pribumi* stock ownership, or at least 50 per cent, if the business was managed by *pribumi* executives (*Antara*, Jan. 23, 1974: 1–2).

15 This list both prohibited foreign investment and urged through favorable measures domestic investment in such heavy fabrics as sarong and shirting, while stipulating that applications for investment in these products by economically weak groups were to be given special favor (Indonesia 1977: 38). In 1978, investment in these product industries was closed to all except economically weak groups (Decision of the Chairman of the Capital Investment Coordinating Board No. 2 of 1978 dated Feb. 15, 1978 on the Priority Rating List of 1978 for Domestic and Foreign Capital Investment). Dishcloth material and gauze were probably also included in the heavy fabric category. However, restrictions were loosened with the 1985 list, which allowed all domestic investors to participate in power-loom weaving (some cities and all foreign investment being excluded), while only the areas that excluded domestic and foreign investment were *gedogang* loom weaving and hand-loom weaving, and the small-business reservation scheme regarding these specific products had been abolished (Indonesia 1985). Hill (1979: 151–52) describes how a group of weavers lobbied the Department of Industry, which in 1977 recommended that serviettes and cloth for hospital be reserved for small businesses, but concludes that "as in the case of the reservation scheme, it is unlikely that this could ever be implemented."

16 Both of these programs were geared towards small-scale *pribumi* businesses whose assets including moveable and real-estate were valued at Rp. 20 million or less after subtracting liabilities (BP2K 1979: 238–39).

17 Lempelius and Thoma (1979: 164–71) cite many problems with these programs, such as complicated application procedures, late loan repayment, loan security valued higher than the credit, the exclusion of businesses with ten employees or less, and unclear credit conditions.

According to a survey of 100 small businesses in West Java by the Management Research Institute, Padjadjaran University (Indonesia 1980b), the main reason (55 per cent) cited as to why managers had been forced to interrupt operations was lack of working capital, while 75 per cent of the respondents said that they needed bank financing. Sixty-nine per cent said that they had applied for credit at a bank, and 22 per cent said they had sought credit from local cooperatives and/or companies they did business with. However, only 20 per cent could say that they had succeeded in receiving credit from any source. The main reasons why they had been turned down was insufficient loan security (58 per cent) and having no business license (16 per cent).

18 Idrus (1988: 155) conducted a study of these estates in 1979 and found that, not very surprisingly, estates developed if most of the businesses that located there were on sound financial footing in terms of return on investment, working capital ratio, etc. and continued to perform well, while a majority of financially unsound, poor performance businesses were causing stagnating estates.

19 Thee (1985) has shown that the government forced this program through for the purpose of strengthening local procurement of parts for automobile-assembly joint ventures, but the decision had no economic rationality to it. Domestic parts procurement was overwhelmingly done by either the assembler simply manufacturing them itself or obtaining them from established affiliates, subsidiaries, or some other assembler. Therefore, local subcontractors played a rather insignificant role in the process. Hamid (1985) studied subcontractors in a diesel-engine manufacturing enterprise and found that 20 per cent of the necessary parts was supplied by subcontractors to the assembler, and those parts required only very low technical know-how to make.

Concerning the foster parent program itself, in Majalaya and its environs, for example, there were between 1984 and 1985 a total of 230 firms equipped with power-looms; however, the foster parent relations set up between small-scale firms in Majalaya and large corporations elsewhere amounted to only fifteen cases and involved despatchments from one state-textile company and a flour mill affiliate of a large business conglomerate (Indonesia 1985a: 44–52), thus it supported only a very small part of Majalaya's weaving industry.

However, in the case of the export-oriented rattan furniture industry in Tegalwangi, Cirebon District, subcontract relationships between local small businesses and local large trading manufacturers and large city-based exporters grew quickly in connection with the government's ban on the export of raw or semi-processed rattan materials during the mid-1980s. This a special case, since the levels of technology required of the large maker and subcontractor were identical up to the final processing stage excluding finishing process (Iskandar et al. 1991). Also, in the case of Majalaya, where the foster-parent program failed to develop, we do find a quite complicated division of labor involving a lot of subcontracting and putting-out within the area of Majalaya (Matsuo 1970: 70; Hardjono 1990: 17).