



Parahyangan Catholic University

Faculty of Political Science

International Relations Program

Accredited A

SK BAN—PT NO:451/SK/BAN-PT/Akred/S/XI/2014

**The Influence of Chinese Diaspora on Indonesia's
Economy during the New Order**

Thesis

By

Emily Marie Tahar

2015330077

Bandung

2019



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During the New Order Era

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ABSTRACT

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Title: The Influence of Chinese Diaspora in Indonesia's Economy During the New Order Era

The Chinese population is infamous for their economic aptitude. Their Confucianism lifestyle actually motivates them way more than just being in high savings mode or being their pragmatic self which in most cases lead them to public resentment. They believe in the value of family, friendship, and trust. With their demographic worldwide, they are renowned for having the biggest diaspora movement in the world. The biggest of their destination country is Indonesia, even when the social and political ostracism is truly high in the region especially in the New Order. This paper describes how the Chinese diaspora in Indonesia actually contributed to Indonesia's economic growth through the social resentment and violence they face.

The research revolves around the migration systems theory and modernization theory. The migration systems theory help elaborates how the Chinese diaspora in the New Order era actually contributes to the improvement of the business environment, infrastructure, and trade with the driving factors of the five capitals of diaspora: social, financial, intellectual, political, and cultural capital. The research uses some empirical data to act as national level proxy measures that is proposed by the modernization theory such as GDP growth, inflation, investment, and also trade growth. The aim for this research is to acknowledge the contribution of diaspora communities especially the Chinese diaspora not to their own country of origin like what other diaspora theories and studies show, but to their destination country where they settled down.

Keywords: Chinese Diaspora, Indonesia's Economic Growth, New Order Era

ABSTRAK

Nama: Emily Marie Tahar

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Judul: Pengaruh Diaspora Tionghoa Terhadap Ekonomi Indonesia pada Masa Orde Baru

Masyarakat Tionghoa sudah dikenal sebagai masyarakat dengan talenta di bidang ekonomi. Budaya Konfusianisme yang mereka hidupi memotivasi mereka lebih dari hanya sekedar menjadi suka menabung atau menjadi orang-orang yang pragmatis. Mereka percaya dengan nilai-nilai kekeluargaan, pertemanan, dan kepercayaan tinggi. Dengan demografis yang luas, mereka menjadi pergerakan diaspora terbesar di dunia. Negara destinasi yang paling besar untuk diaspora Tionghoa berada di Indonesia, walaupun dengan pengasingan sosial dan politik yang tinggi khususnya pada masa Orde Baru. Penelitian ini mendeskripsikan bagaimana dengan semua diskriminasi dan kekerasan yang dialami sebagai minoritas, diaspora Tionghoa di Indonesia sebenarnya membawa kontribusi kepada pembangunan ekonomi di Indonesia.

Penelitian ini menggunakan teori migration systems dan teori modernisasi. Teori migration systems menjelaskan bagaimana diaspora Tionghoa di masa Orde Baru berkontribusi dalam mengembangkan lingkungan bisnis, infrastruktur, dan perdagangan di Indonesia dengan lima faktor dari kapital diaspora: sosial, finansial, intelektual, politik, dan kapital budaya. Penelitian ini menggunakan data-data empiris berguna sebagai langkah-langkah proksi tingkat nasional yang di pakai di teori modernisasi seperti pertumbuhan PDB, inflasi, investasi, dan pertumbuhan perdagangan. Tujuan dari penelitian ini adalah untuk mengakui kontribusi dari diaspora Tionghoa di negara destinasi yang mereka tinggali bukan kepada negara asalnya seperti yang dikemukakan teori-teori dan studi diaspora pada umumnya.

Kata Kunci: Diaspora Tionghoa, Pertumbuhan Ekonomi Indonesia, Masa Orde Baru

PREFACE

This basis for this research originally stemmed from my passion for learning my own heritage as being a Chinese, Dutch, and Indonesian descent. As the world moves further, discrimination still happens to certain minority groups, especially the Chinese in Indonesia. It is my passion to not only find out, but to acknowledge the hard work that the Chinese population did in Indonesia and how they to some extent affect the country as a minority group.

In truth, I could not have achieved finishing this thesis without a strong support group. First of all I would like to give thanks to God for guiding me until the end of my thesis. Second, my parents, who supported me with love and understanding. Third, Mr. Saptia Dwikardana, Ph.D. for being a great advisor that guided me in this process and inspired me with his philosophies and knowledge about academics and life. Lastly, my friends, each of whom has provided patient advice and guidance throughout the research process. Thank you all for your unwavering support.

Bandung, 4 January, 2019

Emily Marie Tahar

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CHAPTER 1

INTRODUCTION

1.1 Research Background

One might have mistaken Forbes Indonesia's 50 richest list a typo for Forbes' China's 50 richest list. Most of the faces and names in the list are definitely Chinese or of Chinese descent, which intrigues the question of where the indigenous people rank up on the list. Why are these Chinese people, some with extremely Indonesian names, taking over Indonesia's top food chain? Indonesia might boast its slogan—*Bhinneka Tunggal Ika* that means plural but one with all of its different cultures; race, languages, habits, lifestyles, history, and skin colors. However, Forbes' Indonesia's 50 richest list shows that the Chinese's dominance is truly significant.

There used to be a time where the Chinese and the local Indonesians lived together in harmony, and there was also a time where the tension between them grew them apart. Both times are topics often marginalized in the history of Indonesia. History explains the phenomena of one of the most prominent diasporic chapters as a great one done by the ethnic Chinese.¹ The ethnic Chinese migrated to mostly South East Asian countries such as Indonesia, Malaysia, Cambodia and Vietnam for a better life and are receiving blessings from the Chinese government to contribute building their motherland's economy.² At first they are labeled as migrants, but diaspora goes beyond just a group of people making conscious choice

¹ Tan Chee-Beng, *Routledge Handbook of the Chinese Diaspora*, (London: Routledge, 2012)

² Laura Madokoro, *Elusive Refuge: Chinese Migrants in the Cold War*, (London: Harvard University Press, 2016), 176.

to leave their country to seek a better life elsewhere. Diaspora is a community of migrants or descendants of migrants based in another country that has a collective identity from their original country.³ Most Overseas Chinese in Indonesia migrated due to the need of a better life.⁴

The economic aptitude and dominance of the Chinese diaspora expanded to the rest of Southeast Asia, however the resentment against them differs from each Southeast Asian countries. Singapore and Malaysia, the closest of Indonesian neighbors had different approaches towards how they treat the Chinese diaspora. Singapore embraced the Chinese diaspora as an economic opportunity, and they did not mind the rapid assimilation of the Chinese diaspora in Singapore. Malaysian government alike the Indonesian government resented the Chinese diaspora with series of anti-Chinese policies. They all made it into a government issue, but each country had their different approaches towards the Chinese diaspora. In Thailand, the locals still think that the Chinese diaspora as aliens and would not socially assimilate with them, but they were still given political roles. Some of the historical conditions were similar, they were formerly colonized, yet Indonesia is known as the country with the highest anti-Chinese riots and violence. Yet, the anti-Chinese treatments still did not prevent Indonesia as having the biggest Chinese diaspora community in the world.

Why did the Overseas Chinese come to Southeast Asia in the first place?

Chen managed to break down the history of the Overseas Chinese into four periods.

³ Robin Cohen, *Global Diasporas: An Introduction*, (New York: Routledge, 2008), 83.

⁴ Hong Liu. 2016. "Opportunities and Anxieties for the Chinese Diaspora in Southeast Asia." *Current History* 115 (784), 312.

<https://search.proquest.com/docview/1847548214?accountid=31495>.

The first period is during the 12th until mid 16th century when they started off as merchants with trade missions after the surplus of commodity productions in China.⁵ The second period follows up to the mid 18th century with most of the Overseas Chinese migrating to Southeast Asian colonized countries.⁶ The colonialization by the West actually provided the Overseas Chinese economic dominance in those countries. The third period is from the mid 18th century up to mid 19th century where a massive migration occurred as labor vacancies signifies in the newly independent countries as well as other countries with labor shortages.⁷ The fourth period is from the mid 19th century until now, where the Overseas Chinese became more and more assimilated in the host countries and the Greater China's international status began to be widely acknowledged.⁸

The Overseas Chinese up to the 19th century are called the Huáqiáo to label them as China's assets, sources of foreign investment, as well as a bridge to overseas knowledge.⁹ Huáqiáo engraved the philosophy of hardworking, enterprising, patriotic, and supporting China in its name.¹⁰ This label referred to the Chinese immigrants who still maintained their Chinese citizenship and hence became Chinese sojourners that alienates them from the host country.¹¹ The problem with this label is that most of the Huáqiáo eventually stayed in their host countries which assimilated them from the host country.

⁵ Peter S. Li and Eva Xialong Li, "The Chinese Overseas Population", in the Routledge, 2012, 15.

⁶ *Ibid.*,

⁷ *Ibid.*,

⁸ *Ibid.*,

⁹ Hong op.cit.

¹⁰ Peter op.cit., 17.

¹¹ *Ibid*, 18.

Following the 19th century, came the term *Huáyì*, which labels them as Chinese descent but without Chinese citizenship which became a more literal translation of Chinese Diaspora.¹² The problem with this definition is that the Chinese descents are not part of the term and dismissed their connection with China, which is insufficient to explain the fact that most Chinese businesses depend on their folks back in China. The term then developed into “Overseas Chinese” used mostly in the mid 19th century to describe assimilated ethnic Chinese located and permanently lived outside of China who obtained new identities.¹³ Some books still used this term however the term “Chinese Diaspora” began to rise as a substitute with a more loose and imprecise boundary.¹⁴ The Chinese diaspora grew as a loose term with imprecise boundaries to acknowledge the various cases of Chinese population in Indonesia as they rapidly assimilate into the society which will be the main term for this thesis. Basically any Overseas Chinese, and any Chinese descent that have assimilated to the society are bound together to this term because of a certain innate collective identity of Neo-Confucianism values and being a Chinese.

Indonesians used to classify the first generation of the Chinese overseas as *Totok* Chinese Indonesians whereas the new Chinese overseas comers as the *Peranakan* Chinese Indonesians, but both share a common definition as *Huáqiáo*.¹⁵ However these labels are insignificant to the fact that they both are perceived as outsiders to the local Indonesians which is why the term “Chinese Diaspora” is

¹² *Hong op.cit.*

¹³ Peter op.cit., 17.

¹⁴ *Ibid.*,

¹⁵ Leo Surayadinata, *Peranakan Chinese Politics in Java 1917-1942*, (Singapore: United Press, 1981)

used. The Overseas Chinese rounded up to 3% of the population in the 1990s which is approximately more than 6 million Overseas Chinese.¹⁶ Indonesian economies were targeted in the sectors of trade, hotel and restaurants; transportation and communication, construction; non-oil and gas manufacturing; and finance; which upholds a significant number of more than 30% of Chinese share in Indonesian economy with some people even debating the numbers up to 75% share.

The Overseas Chinese was greatly known for their economic aptitude, and it created a huge tension that grew into a state-wide hatred against the Overseas Chinese. This discrimination encompasses different aspects such as their rights: rights to education, rights to not be oppressed, rights to freedom, and rights to safety.¹⁷ The problem with Indonesia was that the people were oppressed and they got jealous of the Overseas Chinese for being tax collectors and money lenders. This hatred united people and a nationwide level anti-Chinese philosophy that blew up into violence and riots.

The backstory of the hatred is actually the Dutch's and the government's fault. When the Dutch conquered Indonesia, they gave social privileges for the Overseas Chinese to be in charge of the economic sector, putting them above the local Indonesians as tax collectors and money lenders.¹⁸ Thus, this "foreigner" Overseas Chinese community is seen as a threat to local welfare.¹⁹ However, post-

¹⁶ Calculated from *The Interdependent Family Centric Career: Perspective of the Overseas Chinese in Indonesia* by Andre Pekerti. It is estimated that the Overseas Chinese were only 3% of the population of Indonesia's 201.6 million population in 1998 which therefore is more than 6 million people.

¹⁷ Laura Madokoro, *Elusive Refuge: Chinese Migrants in the Cold War*, (London: Harvard University Press, 2016), 176.

¹⁸ *Ibid.*

¹⁹ "Chinese," Minority Rights, accessed March 20, 2018.
<http://minorityrights.org/minorities/chinese-3/>

independence, when the locals have managed to secure their freedom and sovereignty of Indonesia's government, the poor Overseas Chinese community had to face series of discrimination by the locals and even from the government through its discriminating laws and policies.²⁰

The government, however, introduced economic opportunities such as tariff incentives they provided to the Chinese community which also ignites further hatred by the locals. Since the Chinese Diaspora are excluded from Indonesia's politics and most social sectors, the only option available and allowed for them would be in the business sectors.²¹ Allowing the Chinese Diaspora to only dominate the business sectors resulted in their economic dominance in the economy. Their economic aptitude also advanced their dominance to create even more social segregations in the economy which ignites hatred. The discrimination and anti-Chinese riots happened during the Old Order as well as the New Order and even seen through the Reformation era, even though through the longevity of time, the rate of discrimination gradually diminishes.²²

The significance of the Overseas Chinese community on trade and Indonesia's economy is highly underappreciated but very significant in the New Order Era. During the Crisis at the end of the New Order, the discrimination against the Chinese Overseas was at its highest level to the point that a lot of them flee

²⁰ Hong op. cit.

²¹ Laura op.cit.

²² "Chinese," Minority Rights, accessed March 20, 2018.
<http://minorityrights.org/minorities/chinese-3/>

abroad for the sake of their safety from violence targeted upon them.²³ At the start of the Reformation Era, Indonesia tried to gain the confidence of the Overseas Chinese community that fled, to come back to Indonesia with the efforts by the president along with the government envoys.²⁴ This is due to the fact that the capital outflow of just the middle class Overseas Chinese that did not all flee the country was more than US\$ 1 Billion.²⁵ These numbers are significant and the Overseas Chinese are urgently needed for restoring the capital and the economic activities as to bring their economic expertise rather than actually promoting Indonesia's new non-discriminative society.²⁶

Even though laws and policies regarding ethnic Chinese discrimination have gradually diminished, and the ethnic Chinese began to take place in a higher platform of politics, the discrimination on ethnicity never seemed to end. It becomes normal that nowadays, the perception of the economic dominance of the Overseas Chinese community seems to be innate in them and that joking about that or calling Chinese Indonesians as stingy or profit-oriented seems to be very normal in an everyday-basis. Still, it is better than all the violence and the discriminative in the old days. On one side, it is true that the Overseas Chinese community's DNA contains somewhat of a business and economy-oriented mind; their economic aptitude landed their earlier roles in the finance sector of Indonesia. However, it is

²³ Jemma Purdey, *Anti-Chinese Violence in Indonesia, 1996–1999*, (Honolulu, H.I.: University of Hawaii Press, 2006), 175.

²⁴ *Ibid.*,

²⁵ George T. Haley, Chin T. Tan, and Esha C. V. Haley, *New Asian Emperors: The Overseas Chinese, their strategies and competitive advantages*, (New York: Routledge, 1998), 147.

²⁶ Jemma op. cit.

still important to see how significant their economic aptitude brings to the development process in Indonesia, if there is even any.

The factors that lead towards the influence of Indonesia's economy pivot by the ethnic Chinese diaspora will also be discussed in this thesis. Factors will include the capitals of diaspora, the diaspora network, as well as their technology and skills. These factors would act as a background to analyze how the Chinese diaspora actually shapes Indonesian economy and in the New Order era through a series of Indonesia's government black and white system in 1966 to 1998.

1.2 Research Problem Identification

The research question of this thesis is "what are the effects of Chinese diaspora movement on Indonesia's economy during the New Order era?" with the title: **The Influence of Chinese Diaspora on Indonesia's Economy during the New Order Era**. The main variables here include the Chinese Diaspora and Indonesia's Economy with the time frame of Indonesia's New Order era which counts from 1966 until mid 1998. The Old Order Era will be a supporting fact to see what the New Order's administration was left with.

The Reformation era until Megawati's presidency in 2004 will truly showcase the impact of what the Chinese diaspora have done. The time frame is perfect because it is the time where Indonesia had an economic recovery with an authoritarian leader that discriminated the Chinese diaspora with his policies, yet became friends with them for their economic aptitude. The significance of the Chinese diaspora in the New Order Era can also be analyzed within just five years after the 1998 crisis up to Megawati's presidency on how much Indonesia's

government conducted campaigns to gain the trust of the Chinese diaspora who fled the country.

In the Old Order era, every aspect of Indonesia is in the infant state because they have always been under colonization. The government, the economy, the belief system, and the foundation of the country is in the process of afterbirth which is why they need all the help to be fully secured as a newly independent country. The laws and policies that were made, are all based on the scars of colonialization they are still healing from. In this case, the discrimination policies against the ethnic Chinese are enforced based on that. Even so, since the economy needs growth, the ethnic Chinese in the higher strata of the society especially due to their expertise in the business sectors are most welcomed by the government.²⁷

In the Old Order, Indonesia's economy was starting in the low point with the average annual rate of GDP of 2.0 percent only.²⁸ During the New Order, Indonesia's average annual rate of GDP came to a rise with a mesmerizing 7.5 percent and a slight decline to 7.2 percent on the edge of the New Order.²⁹ During the brink of the Revolution Era, Indonesia's economy and average annual rate of GDP flunked to -6.4 percent, which is where the biggest violence and massacre of the Overseas Chinese community happens and they began to fled outside of Indonesia.³⁰ However the average annual rate of GDP had a tremendous rise during the Reformation Era to 5.2 percent in less than a decade right after the Indonesian

²⁷ Jemma op. cit.

²⁸ "Bulletin December Quarter 2011," *Reserve Bank of Australia*, accessed on March 20, 2018, <https://www.rba.gov.au/publications/bulletin/2011/dec/pdf/bu-1211-4.pdf>

²⁹ *Ibid.*,

³⁰ *Ibid.*,

government made their big effort to reclaim the trust of the Overseas Chinese community to re-enter Indonesia to help with Indonesia's economy which provides a hypothesis of how they are truly the superhero of Indonesia's economy.³¹

The New Order era had quite an interesting trend that is similar to the Old Order. It started with a crisis and a violence, then the economy was highly unstable with the hyperinflation that happened. The former president was ousted out of a coupe where the new President, Suharto and his administration rapidly created an even more stable politics, and the resentment against the Chinese was relatively high. The interesting part of the New Era comes with the growth of anti-Chinese policies and social tension that parallels with the dependency on the Overseas Chinese.

During the Old Order, the anti-Chinese policies made sure the Overseas Chinese did not gain economic dominance, but then as time passed by their role in the economy starts to show. In the New Order, the anti-Chinese policies made sure of the social and political ostracism against the Overseas Chinese, but at the same time the government depended on them for their economic aptitude. The Chinese Diaspora was not allowed to use their Chinese names, no Chinese education or media was allowed, and they can only be in the business sectors. At the Reformation Era, the trend seemed to stop and the tables suddenly turn with the government basically begging the Chinese diaspora to come back "home" to Indonesia.

The indicators of diaspora in this thesis is well defined by the understanding of diaspora by William Safran who managed to box out shared features of diaspora

³¹ *Ibid.*,

members which are from an expatriate minority community that have been distributed from an original center of two or more regions.³² Second indicator of diaspora members are that a collective memory, vision, and/or myth, are clearly innate about their homeland such as its history, geographical location, as well as its successes.³³

Third indicator of the diaspora members are that they believe in the possibility that they are not fully accepted in the host land which is why they will distant themselves from the locals, and that it is possible to have a connection to their ancestral home³⁴ Safran also define the members of diaspora having shared a feature of solidarity and relation with people with the same ethnicity and country of origin.³⁵ The indicator of diaspora also is best portrayed by Robin Cohen's definition that believes the diaspora happens because the diaspora members were looking for job opportunities, for trade, or for colonial ambition and in the end they have the positive obligation to create an enriching life in the country of residence.³⁶ In this case, the term "Chinese Diaspora" will be used as a more relevant substitute over the term "Overseas Chinese" as a rather relaxed term that takes account of the ethnic Chinese in Indonesia.

Previous studies correlates how migration and the economy correlates, but with the development of their origin country as the single variable, leaving out the

³² William Safran, *Diaspora in Modern Society: Myths of Homeland and Return*, (Toronto: University of Toronto Press, 1991), 83-99.

³³ *Ibid.*,

³⁴ *Ibid.*,

³⁵ *Ibid.*,

³⁶ Cohen opt.cit., 83-99

destination country.³⁷ This research intends to investigate on finding answers on how diaspora affects the receiving country's economy still with the help of the country of origin as factors that enriches their impact. It is important to highlight that the empirical data of how much shares a certain ethnic group owns in a destination country may be scarce which leads to proxy measures with the theories of migration and economic development. Migration theories will be used in this thesis since diaspora happens through migration and diaspora theories often only focus on the impact of the migration to their origin country only. The driving factors of why the Chinese population migrate will not be in the elaborate form of discussion as the thesis focuses more on descriptive impacts on the economic growth of Indonesia as their destination country.

The hypothesis of the Chinese diaspora as bringing contribution to Indonesian economy is very much debatable and scholars even argue that the factors of Chinese business success are not unique, and insignificant enough to be beneficial.³⁸ The roles and impact of the Chinese diaspora business in national and regional economic development are mostly accounted for being less prominent as some scholars mentioned, yet some also mentioned that the Chinese business contributes in the rise of a country's productivity and output growth especially in Southeast Asian countries.³⁹ Authors vary from international scholars to Indonesian

³⁷ Yaohui Zhao, 1999, *Leaving the countryside: rural-to-urban migration decision in China*, (American Economic Review, 1999), 281-286.

³⁸ Linda Y.C. Lim, "Southeast Asia Chinese Business and Regional Economic Development" in Tan Chee Beng's *Routledge Handbook of the Chinese Diaspora*, (New York: Routledge, 2013), 250.

³⁹ *Ibid.*,

scholars with Chinese Indonesian heritage. It is important to address this because the facts may vary, but it did not make the driving factors any less true, and they mostly address the misconceptions by disregarding social, economic, and political situations that were occurring in Indonesia at that time. Some scholars argue that the Chinese diaspora are not rich and that they do not control more than 30-45% of the economy, hence even acknowledging their economic dominance is not beneficial.⁴⁰

The expertise in economic domination and aptitude is a very weird concept in the first place, knowing that China is a communist country. Being a communist country means that the idea of free trade and endorsing trade to elevate the welfare of an individual is a concept that should not even be practiced by the ethnic Chinese.⁴¹ Even though the roots of Chinese in Indonesians have been marked from centuries prior, the ethnic Chinese are always viewed as intruders and foreigners from then, and that created a long history of the ethnic Chinese separation with the locals.⁴² After the ethnic Chinese move forward for their better welfare, they managed to create a phenomena where they can help shape Indonesia's economy through all the supporting factors. This thesis will mention a case from the Salim and Lippo group, one of the top five in Indonesia's conglomerate list during the New Order Era.⁴³ They are one of the biggest trade moguls even until the present

⁴⁰ Joseph C.H. Chai and K.C Roy, *Growth, Development, and Poverty Alleviation in the Asia Pacific*, (New York: Routledge, 1999), 65-66.

⁴¹ Hong Liu, *op. cit.*

⁴² "Chinese in Indonesia," *Facts and Details*, Accessed on May 18 2018, http://factsanddetails.com/indonesia/Minorities_and_Regions/sub6_3a/entry-3993.html

⁴³ Table 1.1

day, even though some more Chinese enterprises began to take their hierarchy in Indonesia's top conglomerates. Their case helps describe the elaborate network the Chinese diaspora own as a part of facilitating international and regional trade. Other contributions include advocating the improvement of Indonesia's business environment as well as enhancing the infrastructure. The national level proxy

Table 1.1
Indonesian Top 12 Conglomerates in 1994 and 2002

1994	Company	2002	Company
1	Salim Group	1	Gedung Garam
2	Sinar Mas Group	2	Djarum
3	Gajah Tunggal	3	Sampoerna
4	Pasopati/Nusamba	4	Kalbe (indigenous)
5	Lippo Group	5	Panin
6	Astra Group	6	Rodamas
7	Barito Pacific	7	Lippo
8	Bank Danamon	8	Central Pertiwi
9	Austindo Group	9	Bhakti
10	Bank Bali Group	10	Ramayana
11	Panin Group	11	Tempo
12	Bakrie Group (indigenous)	12	Wicaksana (indigenous)

Source: Leo Suryadinata 2002, pp. 276, 282.

measures will be used to imply how much contribution they promote.

1.3 The Aim and Contribution of the Research

The purpose of this thesis is to describe the contributions of the Chinese diaspora on Indonesia's economic growth in the New Order Era. Despite all the discriminations and the stereotypes that the Chinese diaspora receives, this research describes the impact that they bring towards the local welfare and how they actually help either boost Indonesian economy or that shapes its economic growth. This research would like to acknowledge the social, political, and economic challenges

that the Chinese diaspora had to face. This thesis also highlights the factors that made their impact possible in the destination country rather than on the origin country

This research can be used as a platform of diagnosing the trends of the Chinese diaspora, and how to describe the recognition that they probably deserved. This thesis also highlights and portray the system of Indonesia with its ideology and nationalism to the way it shapes how the minorities are treated and viewed but secretly just wanting the advantage of the Overseas Chinese's economic aptitude and dominance. In a more general scale, the main aim as of the use of this thesis is to help forecast the significance of diaspora on a host country's social life, economy, politics, and culture, not just being significant in its demographic for the use of further research.

1.4 Literature Review

The trends of Chinese diaspora treatment throughout Southeast Asia differed even though a common similarity is that they face some level of resentment. The trends of contribution and influence that they provide to each country is different because of how the government treated them. It is interesting to compare the different social transformations the Chinese diaspora contributed to each countries through the social challenges to help examine the trend that happened with diaspora and the economic development of a country.

Not just Indonesia, the overseas Chinese also flooded other Asian countries such as Singapore, Thailand, Malaysia, Cambodia, to the extent that in most part of the Asian countries, the presence of the overseas Chinese are available and strong.

In the early 20th century, the Overseas Chinese had a great change from being immigrant laborers and other low status occupations into becoming more desirable positions of the middle class in Indonesia, Thailand, Malaysia, Singapore, and Philippines.⁴⁴ It came to the spotlight that the Overseas Chinese became a prominent part of the urban middle class which means that they exercise quite a preferable economic power in these countries, but not really of a political power.⁴⁵ Other than predominating economic power, one common backlash of resentment towards the Overseas Chinese was popular in nearly all Southeast Asian countries due to the economic competition between them and the indigenous people.⁴⁶

The resentment created a series of anti-Chinese outbreaks in all Southeast Asian countries, but the most frequent and intense discrimination against the Chinese mainly happened in Indonesia.⁴⁷ How is it possible that Indonesia became the country with the most frequent series of hate towards the overseas Chinese that helped the economic growth of the country? Indonesia and the rest of the Southeast Asian countries share common frictions between the Overseas Chinese and the indigenous businessmen as well as the construction of virtual exclusion of the Overseas Chinese from the countries' economic life through a series of discrimination, which becomes the first trend.

In Singapore for example, the Overseas Chinese dominated the middle class and their competitive advantage and strategies created a vast gain of Singapore's

⁴⁴ J.A.C. Mackie, *A Comparison of Indonesia and Thailand* in J.C. Cushman and W. Gungwu's *Changing Ethnic Identities of the Southeast Asian Chinese Since World War 2*, (Hong Kong: Hong Kong Press, 1988), 217.

⁴⁵ *Ibid*, 216.

⁴⁶ *Ibid*, 218.

⁴⁷ *Ibid*, 219.

economic power.⁴⁸ What makes Singapore different with the other Southeast Asian countries is that Singapore lets the Overseas Chinese to exercise more than just economic power, they were given political power as well. The government sees the Overseas Chinese as an economic opportunity that influences their country's growth. The government not only appreciates the economic abilities, they even wanted to maintain the Overseas Chinese economic power by creating a World Wide Web Page which is a government web page that helps in listing the Overseas Chinese companies and networks that were operating in Singapore with the goal to help facilitate potential foreign investors and collaborators to be in contact with the Overseas Chinese companies.⁴⁹ Singapore embraces their Overseas Chinese to the extent that they were called the "Third China" alongside with Hong Kong.⁵⁰

In Malaysia, the country closest to Indonesia, the Overseas Chinese also dominated the middle class, but did not provide them with political power. In the beginning, Malaysia opened their arms to the Overseas Chinese because they believe in their "Malaysia Redistribution Policy" where their goal is to alleviate poverty no matter what their race was.⁵¹ The "Malaysia Redistribution Policy" provide the Overseas Chinese with access to productive assets, inputs, credits, training, and other marketing facilities and services.⁵² However in 1975, the government declares an Industrial Coordination Act (ICA) that required private manufacturing firms with a certain size to be owned with at least 30% of indigenous

⁴⁸ George op. cit., 147.

⁴⁹ *Ibid.*,

⁵⁰ J.A.C. Mackie, *op cit*, 217

⁵¹ J.C.H. Chai, *Ethnic Inequality and Growth in Indonesia Under the New Order* in the Economics Conference Monograph No. 6, (Brisbane: The University of Queensland, 1999), 74.

⁵² *Ibid.*,

interest's equity in order to lower down the Foreign Direct Investment (FDI) and private investments.⁵³ The ICA resulted in the Overseas Chinese community to flee the country alongside with M\$30 billion with them just between 1976 until 1985.⁵⁴ The fleeing of the Overseas Chinese resulted in the Malaysian Deep Recession in the mid 1980s, which the government then realized that change needed to be done therefore they changed the ICA into more flexible, and Malaysia entered a speedy recovery after.⁵⁵ The second trend thus is the way the government allows them in the economic sector rather than the social and political sector.

Some might argue that the fleeing of the Overseas Chinese in Malaysia is from government policy unlike what happened in Indonesia which was driven from public discrimination and violence. However, what happened in Thailand and Cambodia questions Indonesia's action towards the Overseas Chinese. In Thailand as well, the Overseas Chinese dominated the middle class but did not exercise political power like Singapore. The Overseas Chinese was very much assimilated because in Thailand, the indigenous people accepted them as the people of Thailand to a full sense.⁵⁶ The Overseas Chinese still received backlash because even though the assimilation into the society occurred, the lower and middle class of Thai did not want to get married with the Overseas Chinese. However, the upper class Thai did get married with Overseas Chinese and the Overseas Chinese even got some

⁵³ Jomo K. S., and E.T Gomez, *Rents and Development in Multiethnic Malaysia* in H. Aoki, H.K. Kim, and M. Okuno's *Fujiwara, the Role of Government in East Asian Economic Development*, (Oxford: Clarendon Press, 1997), 365.

⁵⁴ *Ibid.*,

⁵⁵ *Ibid.*,

⁵⁶ J.A.C. Mackie op.cit.

spot as politicians.⁵⁷ Some might argue that Thailand is not colonized therefore they did experience the hatred out of nationalism, in which in this case, Cambodia is a very much better comparison.

In Cambodia, the Overseas Chinese were merchants, artisans, or market gardeners.⁵⁸ They did not become government officials or farmers like the Khmers but they assimilated themselves to not be direct competitors with the Khmers.⁵⁹ Since the Overseas Chinese and the Khmers did not work in the same spheres of economic activity, they are seen as providing useful services, and not as exploiters. There came to the point that the assimilation grew to the point that the Overseas Chinese lost their identity and proclaim themselves as the people of Cambodia.⁶⁰ So here we have Southeast Asian countries that are also colonized, but have different mindset towards the Overseas Chinese. We also have Malaysia that also have a recession just like Indonesia, and also they managed to bring them back and now the Chinese are a big part of Multiethnic Malaysia.

What about Indonesia? It was once colonized, the nationalism grew, the Overseas Chinese fled, and now they are back still with cases of discrimination and exclusion. The friction generated by the competition between the Overseas Chinese and the indigenous people of Indonesia in the course of history is sadly not fading quite rapid enough. There are rules and policies that are changed to welcome the Overseas Chinese back. But are they getting the amount of appreciation they

⁵⁷ *Ibid.*,

⁵⁸ William E. Willmott, *The Chinese in Cambodia*, (University of British Columbia Press, 1967), 45.

⁵⁹ *Ibid.*,

⁶⁰ *Ibid.*,

deserved? Countless studies mentioned about the discrimination and hatred of the Overseas Chinese in Indonesia but proper acknowledgement of how big of the economic wheels that the Overseas Chinese can roll and how exactly they are able to do it in the midst of all the hate is not prominent enough for the public to know about.

1.5 Theoretical Framework

This thesis focuses on the International Relations aspect of the issue of Chinese Diaspora movement with its impact on Indonesia's economy during the New Order Era. Empirical data on this thesis does not serve as answers mainly because the focus of this thesis goes beyond empirical calculation and data. It is necessary to note that empirical data will be present to ensure factual reasons when talking about economic development in Indonesia.

The hypothesis is that the Chinese Diaspora in Indonesia actually shaped the economic environment in Indonesia. However, when talking about theories, migration and diaspora theories usually dismiss the idea of an impact in the destination country. The reason is that through the migration and diaspora, the migrants and diaspora movements were meant to come back eventually to the origin country and boost the economy there. Some theories promote the idea of migrant dwellers also called the diaspora in a sense, where the theory focused on the idea of remittances, demographic changes, and investments to the origin country, and dismissed the idea of how much impact the diaspora brings to their host country.

This thesis follows the framework of a mezzo-leveled theory with a more functionalist character that helps interpret the complex system where interacting

elements of diaspora and social life occurred. The significance of diaspora to other areas of the social life which are economy, social relations, culture, and politics is best described using the migration systems theory. This approach focuses on ties, networks, and also ethnic identities in both the origin and host country that proceeds to social transformation and development while facing social resentment, poverty, and being a society's minority.⁶¹ The theory believes that in a micro and mezzo level, migration and diaspora creates a different social, economic, and cultural structures in both origin and the host country which is linked to the exchange of information, goods, ideas, and money.⁶² The ties, network, and the identities that the migrants bring to the receiving country means that the migrants consciously challenge the possible structural constraints, the level of poverty, and even social exclusion that they will face in the receiving country.⁶³ In this case, other than just economic opportunities they contributed, the social challenges acknowledged in this helps showcase the social exclusion that the Chinese diaspora face.

Mabogunje, the pioneer of the migration system theory acknowledged the need to see the migration system in the context of the origin and host country, not just focusing on how and why the migration happened.⁶⁴ Even so, the theory generalized that the migration process is due to a form of exchange from links between the countries, whether it is colonialization, political influence, trade, investment or cultural ties, but in the end wherever the form of exchange happened,

⁶¹ Stephen Castles, Hein de Haas, and Mark J. Miller, *The Age of Migration: International Population Movements in the Modern World*, (New York: Palgrave Macmillan, 2014), 39.

⁶² *Ibid*, 43.

⁶³ *Ibid*.

⁶⁴ *Ibid*.

there is bound to be a boost of trade, capital flows, and investments which will be summed up into three main contributions: advocating Indonesia's business environment, enhancing the infrastructure, and facilitates international and regional trade in Indonesia.⁶⁵

The settlement of the migrants will start to form a community and establishment of ethnic businesses that fuels feedback mechanisms through social networks and family linkages.⁶⁶ Harris and Todaro eventually puts out a formula to count on a host country's economic equilibrium or welfare improvement by how much the migrants acquire jobs in the host country, also through calculating the policy instruments in the country such as the minimum wages and the migration restrictions.⁶⁷ The welfare improvement formula calculation will not be used in this thesis, but will still adopt the idea of the migrants creating an economic equilibrium or welfare improvement.

Since critiques claim that this theory dismisses the focus on the forming of the migration and diaspora by the looseness of definitions and generalizations, it actually paves a way for a rather loose level of analysis. Critiques also disagrees with the fact that migration systems theory mostly concentrated on the migrant networks and feedback mechanisms, which is because theorists usually connects migration with how much impact they can bring back to their origin country. However, this critiques are actually a reason why this theory is just perfect for this thesis since the focus is not on the country of origin but on the host country.

⁶⁵ *Ibid*, 44.

⁶⁶ *Ibid*.

⁶⁷ J.R. Harris, and M.P Todaro, *Migration, Unemployment and Development: A Two-sector Analysis*, (American Economic Review, 1970), 137.

Migration system theory presents migrant network as a part of social change, remittance-financed migration as a part of economic change, and transfers of migration-related ideas and information as a part of the cultural change. These domains actually integrated together to create better development. Imagine having migrant businesses but without migrant networks, it will definitely take longer for the Overseas Chinese to even expand their business especially when they have certain sectors that they have to concentrate with. Also imagine having to generate migrant businesses without their identities that represents Confucianism values of hard work and self-cultivation or their knowledge and skills. The migration systems theory helps frames how the Chinese Diaspora in Indonesia helps advocate Indonesia's improving business environment and investment climate, advocate better infrastructure, and facilitate international and regional trade in Indonesia while also pointing out the social challenges they face through the resentment, anti-Chinese policies, as well as the violence that happened.

The Chinese diaspora's contribution to the economic growth of Indonesia will be measured using Modernization theory. The basic characteristics of modernization theory is that developed societies tend to have social and economic functions in the society that can achieve further development in the country.⁶⁸ The society will advanced into taking their occupational roles and the growth of markets in the specialization of economic activities.⁶⁹ With this theory, the economic scopes will be new technology from knowledge and skills of the society, people will be

⁶⁸ Richard Peet and Elaine Hartwick, *Theories of Development: Contentions, Arguments, Alternatives*, (New York: The Guildford Press, 2009), 16.

⁶⁹ *Ibid.*,

expertise in their skills and knowledge following the specialization of economic roles and there will be a more complex market. The measurement of the society into promoting economic growth is through the national level proxy measures that involves the country's the GDP growth to indicate the country's economic output growth, investment to indicate greater productivity and also inflation to indicate the growth of investment and exports in the country.⁷⁰ Modernization theory believes that developing societies will indicate economic growth through how much productivity is it encouraging, how much investment is drawn to that, and how much output growth they can help assists.⁷¹

The social transformation and development is made possible through the five capitals of Diaspora. The first is financial capital in terms of remittances to the origin countries such as investing in the origin's country's entrepreneurship.⁷² The second capital is the intellectual capital which is the skills and knowledge surplus.⁷³ The third capital is the political capital which means that members of the diaspora deploys political influence on the development on domestic to global issues.⁷⁴ The fourth capital is the cultural capital which are sets of values, norms, or perspectives that members can bring forward to bring innovation.⁷⁵ The fifth capital is the social capital which are ties that binds the members of diaspora, or also obligations they

⁷⁰ *Ibid.*,

⁷¹ *Ibid.*,

⁷² *Sonia Plaza and Dilip Ratha, Diaspora for Development in Africa in Reinforcing the Contributions of African Diasporas to Development. Chukwu-Emeka Chikezie in DFD Full Report, (Washington: The World Bank, 2011), 269.*

⁷³ *Ibid.*,

⁷⁴ *Ibid.*,

⁷⁵ *Ibid*, 270.

have to serve.⁷⁶ These capitals are factors that sums up how they were able to contribute to Indonesia's economic development process.

1.6 Research Method and Data's Collection Technique

The methods of the research are through a theoretical systematic analysis of qualitative data collection. Qualitative data collection tries to explore the human elements of a given topic to explore new phenomena and help understands the idea of interpreting meaning and process.⁷⁷ The Qualitative method is using a case study research approach that studies one or a few instances of phenomena in depth.⁷⁸ The case study will be of the Chinese diaspora in Indonesia in the New Order Era. This thesis will mainly be based on literature analysis and data collection from economic development reviews and official documents. This thesis focuses on the process of analysis and not merely on the quantitative data on Indonesia's economy that comes from empirical equations. The empirical data comes as empirical facts that follow the analysis and the conclusion of the process to help the author elaborates the theory through an inductive process of analysis. Empirical data helps determine the economic influence of the Chinese Diaspora but the value of the influence will be achieved through a qualitative perspective.

The validity of this thesis is determined through the triangulation across data sources. As mentioned by Creswell, the data triangulation is basically a procedure that uses the congruency of multiple and different sources of information to form

⁷⁶ *Ibid.*,

⁷⁷ Lisa M. Given, *The SAGE Encyclopedia of Qualitative Research Methods*, (Thousand Oaks, CA: SAGE Publications, Inc., 2008), doi: 10.4135/9781412963909.

⁷⁸ *Ibid.*,

certain themes or categories used in the study.⁷⁹ The multiple sources means that the research did not rely on just a single data for evidence and for the construction of the research.

1.7 Thesis Structure

This thesis will start of in the first chapter with the background of the research, then continue with the research problem identification, and continue with the aim and contribution of the thesis. Along with that, the first chapter includes a literature review that highlights on the similar and different trends of Chinese diaspora impact in Indonesia and other Southeast Asian countries. The first chapter ends with the theoretical framework as well as the methods of data gathering that focused on the theory of migration systems with the qualitative research method of case study and data triangulation to determine its credibility.

The second chapter will elaborate more about what economic development process Indonesia through the modernization theory using the national level measures of GDP growth, GDP per capita, investment growth, and inflation in the Old Order, New Order, and Reformation era, and where the Chinese diaspora fall into place with their economic dominance as they face social and political ostracism. This chapter discusses more about the historical background and the trend happening in Indonesia in the social, political, and economic way that takes a rather macro level analysis. This chapter also brought a micro analysis in terms of

⁷⁹ *John W. Creswell, and Dana L. Miller, The Theory into Practice, Determining Validity in Qualitative Inquiry*, 39:3, 127. DOI: 10.1207/s15430421tip3903_2

the local response and the Overseas Chinese response on what happened in Indonesia during and towards the end of the New Order.

The third chapter would be the analysis to answer the research question using the migration system's theory and the five capitals of diaspora. This chapter would analyze how Chinese diaspora movement affect Indonesia's economy during the New Order era. The three main contribution will be seen from how the Chinese diaspora advocates Indonesia's business environment, the infrastructure, and facilitates international and regional trade in Indonesia. The factors are analyzed through the five capitals of diaspora with a few examples of renowned Chinese businessmen. The last chapter would be talking about the conclusion of this thesis which will then conclude a big picture of whether the research question has met its answers or not, or whether there are both significance and insignificance of the Chinese Diaspora in Indonesia's economic development. The conclusion will also highlight whether the misconceptions of the Chinese diaspora in Indonesia actually true or just fake news.