TOWARD A NEW ORDER IN INDONESIA

Guy J. Pauker

February 1967

P-3531

TOWARD A NEW ORDER IN INDONESIA

Guy J. Pauker*

The RAND Corporation, Santa Monica, California

The most dynamic factors in Indonesian politics today are the action fronts of university and high school students, KAMI and KAPPI. Many of their members were born after the August 17, 1945 Proclamation of Independence. Unlike their elders, who are still inclined to blame "imperialism" for the mess their country finds itself in, the Generation of 1966 holds President Sukarno personally responsible. For them the man who led the nationalist movement forty years ago is neither a father-figure nor a charismatic leader, but the creator of a bankrupt and dishonorable Old Order.

Almost all articulate adult Indonesians had been for years the mental captives of the cobweb of slogans and acronyms spun by Sukarno. Even his political enemies used his autistic language in criticizing him. The Sukarno regime forced all students to absorb massive doses of indoctrination. But the students choked on what their elders had relished. The Generation of

---

*Any views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of The RAND Corporation or the official opinion or policy of any of its governmental or private research sponsors. Papers are reproduced by The RAND Corporation as a courtesy to members of its staff.

1966 has a mind of its own, hostile to ideology and pragmatically interested in deeds rather than words. They abhor hypocrisy, for which they have coined the term plin-plan, and reject the notion that past achievements can buy anybody permanent absolution from present sins.

A year ago KAMI and KAPPI acted as the catalyst which precipitated the Army's first measures against the Old Order. After the assassination of Army Commander Achmad Yani and five other senior generals on October 1, 1965, the Army reacted in military fashion: viewing the Indonesian Communist Party (PKI) as the enemy, they rounded up and killed or imprisoned all leaders, cadres, and followers whom they were able to capture. Party Chairman D. N. Aidit, about half of the Politburo and of the Central Committee, and no less than 200,000 persons associated with the PKI lost their lives.

For months before the assassination of the generals the PKI and its political allies had spread rumors that a "Council of Generals" (of course "sponsored by the CIA") was plotting to overthrow the President. Yet, in the aftermath of the events of October 1 the Army did not move against Sukarno and seemed to want to ignore the circumstantial evidence incriminating him, although at that time an indignant public opinion might have acclaimed an Army coup. But the cabinet remained intact, with the exception of its overt PKI members who disappeared, of the late Army Commander who was replaced by General Suharto, and of the Air Force Commander, Air Vice Marshall Omar Dani, who was dismissed on

October 16. Obviously the Army was anxious to give an example of self-discipline, leaning over backwards to respect the Indonesian Republic's constitutional framework.

In contrast to the Army's military posture during those testing days, Sukarno reacted in typically political fashion. He said at first very little, except to promise a "political solution" that never came, while obviously biding his time until passions had died down. Deprived of the mass support the PKI had given him for almost a decade, Sukarno was nevertheless still highly confident of his charismatic hold on the Indonesian people. In answer to mounting pressure to have him outlaw the PKI, Sukarno told the leaders of the People's Provisional Consultative Assembly on December 6, 1965, "Do not push me or dictate to me what to do.... If you do not accept my leadership any more, all right, kick me out."

The first significant shift in the balance of political power came a week later, on December 14, when General Nasution, Minister of Information Ruslan Abdulgani, and the highly respected Sultan Hamengku Buwono took over collectively the Supreme Operational Command (KOTI), replacing Dr. Subandrio, the President's closest confidant.

Sukarno personally was not challenged. Direct action against him was only initiated by the students in January 1966, when the cost of living price index (1957 - 100) jumped from 36,347 in December 1965 to 56,020 following an inept currency reform. Years of financial and economic mismanagement had brought about hyper-inflation. The students seized on a universally popular grievance, the

skyrocketing prices, to demand basic changes. Inviting the military to act, KAMI paraded banners saying, "The people are hungry. Long live the Armed Forces." Posters appeared insulting Sukarno and his wives. Students were shot at by palace guards.

There was at the time a meeting of minds between the Generation of 1966 and Army leaders which makes it difficult to establish who initiated specific moves. But KAMI was certainly more than a tool of the Army. Its drive came from religious student groups, both Moslem and Christian, and support was widespread among the younger generation. It kept Djakarta in an uproar for more than a month.

Defiantly, Sukarno paid public homage to the PKI and announced that he had not changed his conviction that the Communists must participate in the government "for the sake of national unity." He also appealed to his followers to form a "Sukarno Legion" for his defense, and made large sums of money available for the creation of goon squads against KAMI. Finally, on February 21, Sukarno dismissed General Nasution, who had been Defense Minister since July 1959. Still the Army did not react and the President seemed to have regained the upper hand.

Increasingly militant, the students staged huge demonstrations, demanding the banning of the PKI, lower prices, and a new cabinet. In striking contrast with his reluctance to ban the PKI, the President showed no hesitation to ban KAMI and to close the University of Indonesia. KAMI responded by organizing a "student regiment" named for Arief Rachman Hakim, a fourth-year

medical student who had been killed in one of the demonstrations against the Palace. Finally, as turbulence mounted, Sukarno panicked and signed, on March 11, 1966, an order drafted by himself empowering the Army Commander, General Suharto, "to take all steps deemed necessary to guarantee security, tranquility and stability." The next day General Suharto used the order to ban the PKI, and a week later fifteen key members of the Sukarno cabinet, including Dr. Subandrio, were arrested, some directly by KAMI who turned them over to the Army.

By the end of the month the cabinet had been reshuffled and its effective control had passed into the hands of the triumvirate which is currently in power, consisting of General Suharto, who became Deputy Prime Minister for Defense and Security; Adam Malik, who became Deputy Prime Minister for Social and Political Affairs; and Sultan Hamengku Buwono, who became Deputy Prime Minister for Economic, Financial and Developmental Affairs.

There is, of course, a difference between the position of General Suharto, whose political power is based on the support of the Army, and that of the two civilian members of the triumvirate who have considerable personal stature but no organized power base in society.

Since March 1966 these three men have faced the forbidding task of having to create a New Order in Indonesia. This involves overcoming the political legacy of the Sukarno regime and establishing a viable new constitutional system. A bankrupt economy must be rehabilitated, stabilized, and turned toward development

after twenty-five years of mismanagement during which time the population of Indonesia has grown from 70 million to almost 110 million. A deep moral crisis has to be overcome, generated in part by the impact of modernization which challenges traditional ways and values, but compounded by the spectacle of corrupt and dissolute leaders and by the material pressures generated by hyper-inflation. The conflicting interests of a central government almost devoid of revenue and of long-neglected and mistreated Outer Islands must also be speedily reconciled to obviate threats to national unity. Last but not least, after being cut off from most of the world community by a foreign policy which had aligned her with Communist China against everybody else, Indonesia has now to redefine her international position at a time when she is equally indebted to the Western world and to the Soviet bloc. Furthermore, all these tasks have to be synchronized and carried out at a pace not so slow as to alienate the impatient young generation, nor so fast as to generate massive resistance from those who had been identified with the Old Order.

II

As with other countries in the Third World, Indonesia's most critical need today is political stability. Without it none of the other urgent tasks facing the new government can be carried out successfully. Indonesia does not start out with a promising political legacy. The Dutch colonial administration avoided preparing the country for self-government. Political activities were repressed and top

administrative positions were occupied by expatriates. Furthermore, the indigenous political tradition was authoritarian and elitist, and did not give the nationalist movement a useful background for the practice of democracy. The only asset inherited from the colonial past seems to have been genuine respect for the rule of law, which may facilitate in the future the consolidation of constitutional government.

The political experience of the first two decades of independent existence left nothing but bitter memories. Democratic leaders such as the brilliant first Prime Minister of the Republic, Sutan Sjahrir, who died heart-broken in April 1966, had prematurely attempted to introduce parliamentary government in 1945. In the decade following the Proclamation of Independence, fourteen cabinets were formed, more or less in accordance with parliamentary rules of the game, although no elections had yet been held. The result was that the country's confidence in its leading political figures had been eroded before they ever received electoral endorsement.

The first general elections held in September 1955 were politically disappointing although technically impressive: they produced perfect representation of a deeply divided society. The illiterate masses proved remarkably capable of choice, singling out four parties from more than forty competitors. The PNI (Indonesian Nationalist Party) obtained 22.3 percent of votes; the Masjumi (Consultative Council of Indonesian Moslems) obtained 20.9 percent of votes; the NU (Moslem Teacher's Association) obtained 18.4 percent of votes; the PKI

(Communist Party) obtained 16.4 percent of votes. All received a proportional number of seats in Parliament.

As the Indonesian people had seen in the elections a modern form of magic ritual promising immediate relief from life's many hardships, optimism was naturally soon replaced by grief. Nothing had changed, not even the names of the politicians who took their places in the new, elected Parliament. Within months Sukarno -- whose formative years in the early 1920s had been shaped by Marxist and Fascist doctrines, not by democracy -- started a campaign to "bury the parties." It ended in July 1959 with the establishment of "guided democracy," supported by the Army which despised party politics but believed in civilian government.

Regarding the President as a nationally important institution rather than as an easily-replaceable politician, the officer corps shunned for seven years the temptation to establish a military regime and tried to convince themselves that "guided democracy" was more than claptrap behind which Sukarno ruled arbitrarily, satisfying primarily his megalomania and romantic world view.

When finally the gruesome events of late 1965 and the pressure of the Generation of 1966 forced the Army to face reality, their political reflexes were conditioned to return to the constitutional system which Sukarno had betrayed with their tacit approval.

The first and most urgent step to be taken was to terminate Sukarno's personal dictatorship. But the Army leaders were aware of the fact that the masses, especially the Javanese who constitute about half of the total population of the country, had strong emotional attachments

to the President, having transferred to him the awe which ancient kings inspired. Even within the elite, including the officer corps, many believed that the President should be kept and his sins covered up, because of his usefulness as the mythmaker on whom national unity depended.

The Army leaders decided that to establish a constitutional tradition and avoid excessive convulsions, the transition from the Old Order to the New Order should take place gradually, eroding slowly Sukarno's authority while establishing that of the new regime. Furthermore, the power balance in the Armed Forces, which were still not completely of one mind, and in society as a whole, had to be shifted carefully by replacing officials favorable to Sukarno with supporters of the New Order.

With General Suharto in charge of the government and of the Armed Forces, General Nasution assumed the role of elder statesman of the Army and political educator to the nation. In numerous speeches and declarations he advocated return to the rule of law and to a moral political order. His personal integrity qualified him well for that task, but he also had reasons to feel personally responsible to the nation, having played a major role in the 1959 abolition of parliamentary government and the return to the presidential system of the 1945 Constitution, which had helped Sukarno to become a dictator.

III

In April 1966, soon after the new cabinet had been established, the Army launched a campaign advocating

"return to the Constitution" and elections within three years. None had been held since 1955 because of the likelihood of a Communist victory. Now that the PKI had been banned, the Army was interested in a return to representative government, in the belief that the country needed a new base for legitimate authority.

General Suharto reminded the President publicly that under the Constitution he was subordinate to the Provisional Consultative People's Congress (MPRS). According to Article I, Paragraph 2 of the Constitution of 1945, "sovereignty is vested in the people and exercised fully by the Consultative People's Congress," which should have consisted of "the members of Parliament" and of "delegates of the regions and other groups." But in March 1960 Sukarno had dismissed the Parliament elected in September 1955 in order to get rid of his political enemies and had replaced it with a handpicked body which would "closely cooperate with the government in the framework of guided democracy." Of the elected 257 members of Parliament, 130 were named to this body, with an equal number of new members representing various corporative (Indonesians prefer the term "functional") groups, including the military. In August 1960 Sukarno then appointed a Provisional Consultative People's Congress (MPRS) consisting of Parliament plus 94 regional representatives and 232 more from corporative groups.

Sukarno himself had never been elected directly or indirectly by the Indonesian people. In May 1963 MPRS adopted a decree proclaiming him President-for-Life. Indicative of the shift that had taken place in Indonesian

public opinion, the new regime found it possible to use MPRS as a first step toward the liquidation of the Old Order. After some delay due to Sukarno's obstruction, MPRS held a session from June 20 to July 5. Purged of PKI representatives and with a substantial number of recent additions, MPRS now had 541 members of which 239 belonged to Parliament, 111 were regional representatives and 191 came from various corporative groups.

The Army was obviously determined to carry out its quasi-legal action against Sukarno as thoroughly as its earlier extra-legal action against the PKI. In preparation for the MPRS session, General Suharto appointed a committee of the Armed Forces which drafted position papers on all issues on the agenda, to guide the 120 military participating in the deliberations.

The final decisions of MPRS came very close to the policies suggested in the Armed Forces' "tactical guidelines." General Nasution was elected Speaker of MPRS. The March 11 Presidential Order giving General Suharto emergency powers was ratified, and MPRS decreed that if the President were incapacitated, General Suharto should take over as Acting President. General Suharto was also instructed to form a new cabinet. The 1963 MPRS decree making Sukarno President-for-Life was withdrawn and the government was asked to hold general elections on July 5, 1968, which limited in fact President Sukarno's current tenure of office to two more years. The banning of the PKI was also ratified. Furthermore, MPRS outlawed the teaching of Marxism-Leninism in Indonesia.

The adoption of these Army-sponsored policies by MPRS meant that they had the support of significant

civilian political forces. Despite this show of strength the Army leaders accepted another compromise with the President. The new cabinet formed in late July had a presidium of five members chaired by General Suharto, but in addition to his political partners, Adam Malik and Sultan Hamengku Buwono, it included representatives of the Nationalist PNI and Moslem NU parties known to be friends of the President.

KAMI and KAPPI were bitterly disappointed, having hoped for a real showdown after the MPRS session. Resorting again to direct action against Sukarno, the students kept demonstrating in the streets, until on October 3 they had a serious clash with Army units while storming the Palace. Sixty-two young men and women were wounded. Thereafter street demonstrations stopped until the end of the year when Sukarno's defiant stubbornness brought KAMI and the military together again.

Between September and December three former cabinet members had been tried and sentenced to death by an Extraordinary Military Court (Mahmilub): Jusuf Muda Dalam, former Minister for Central Bank Affairs and Governor of the State Bank; Dr. Subandrio, former First Deputy Premier and Foreign Minister; and Omar Dani, former Commander of the Air Force. The trials revealed the moral decadence and financial corruption of the Old Order and its intimate association before October 1965 with Communist China. It also gave renewed publicity to the circumstantial evidence linking the President to the events of October 1, 1965.

Far more important politically was the fact that the Mahmilub proceedings, broadcast and televised live to the whole Indonesian nation, gave Dr. Subandrio and Omar Dani a chance to plead that they were merely assistants to the President, whose policies they were implementing. By sentencing them to death, the Extraordinary Military Court was by implication indicting Sukarno. Although to Western eyes the trials may appear political rather than legal proceedings, Indonesian public opinion accepted their outcome.

During its July 1966 session MPRS had asked the President for a full account of the Gestapu/PKI affair, as the killing of the six generals is known in Indonesia. Sukarno ignored that request. Following the Omar Dani trial, which drew attention to the fact that the President had made no effort to use his authority to stop the conspirators and may even have praised their deed, the Associations of Indonesian Lawyers and Judges asked on December 16, 1966 in a joint "Declaration of Truth and Justice," that the President's role in the Gestapu/PKI affair be investigated. KAMI and other groups promptly endorsed the request and resumed street demonstrations against Sukarno, this time obviously in agreement with the Army.

On December 21 the Armed Forces Commanders issued a joint statement threatening to "take firm action against anybody who was unwilling to implement the decisions of the MPRS." Still the President waited three more weeks before sending MPRS a written message on January 10, 1967 challenging that body's right to ask him for any account.

He added that to him the Gestapu/PKI affair "was a complete surprise," repeating a statement he had already made twice in written testimonies submitted to Mahmilub during the Subandrio and Dani trials.

Two days later the Army conveniently announced the capture of the most wanted participant in the Gestapu/PKI affair, Brigadier General Supardjo, believed to have acted as liaison between the conspirators and the President, who had allegedly eluded capture since October 1965. As Speaker of MPRS, General Nasution told the press on January 26, 1967 that Supardjo's investigation had disclosed the President's cooperation with the conspirators and the efforts he had made at that time to prevent General Suharto from crushing the attempted coup. He then announced that an MPRS session was being planned for March or April in order to make a constitutional decision concerning the President and stressed emphatically the extreme importance of settling "this serious problem" in a constitutional manner. As counterpoint to General Nasution's statement, the Indonesian radio network informed the whole country on January 28 that "hundreds of thousands of students held an orderly show of force in Djakarta this morning demanding the trial of President Sukarno by the Extraordinary Military Court (Mahmilub) as soon as possible."

IV

The passing of Sukarno will simplify but not solve the problems confronting Indonesia. The officer corps has now assumed responsibility for the government, though

more reluctantly than military groups elsewhere in the Third World. The political involvement of the Army in the early 1950s started as a reaction against political parties which were trying to use personally ambitious officers for their purposes. Then in late 1958, when the parliamentary system appeared incapable of giving their country good government, the officer corps discussed at length the various military coups which were taking place in Iraq, Pakistan, Burma, Thailand, and the Sudan. For Indonesia they decided on a "middle way" between the total non-involvement in politics expected from the officer corps of Western countries and the Latin American type of military government: there would be no coup, but the officers as a corporative body would participate in the formulation and implementation of national policies. Thereafter, throughout the period of "guided democracy," members of the officer corps were increasingly included in the cabinet, Parliament, the diplomatic corps and the administrative agencies and deliberative councils of government in the capital as well as in the provinces. Although fear of "creeping militarism" was often expressed by thoughtful Indonesians, the Army did not dictate policies.

Even following the July 1966 session of MPRS, which instructed General Suharto to form a new cabinet with the primary purpose of achieving political and economic stability, the military did not take over. To formulate guidelines for the future the Army held in the last days of August a seminar at the Staff and Command School (SESKOAD) in Bandung. Political, economic and defense problems

were discussed by senior officers together with some leading members of the academic community from Djakarta, Bogor, Bandung and Djogjakarta, who were invited to participate in the deliberations and have since played an important role as members of General Suharto's "brain trust."

The seminar argued that the country needs healthy civil-military relations. It noted that because general elections are necessary for the creation of a constitutional-legal basis for the future, some political turbulence must be accepted during the electoral campaign. The officer corps was urged not to seek the kind of stability which stifles the creative forces of society and was warned against the danger of succumbing to militarism during the difficult period ahead. It emphasized that the Army's task must be not only to protect the country from a Communist dictatorship of the extreme left, but to uphold democracy and therefore shun equally dictatorships of the extreme right, including military rule.

However well-meaning and self-disciplined, the Army will not find it easy to make the right decisions concerning the political reconstruction of Indonesia. Not every one of the 150 generals and 400 colonels in the Army equals General Suharto and his closest associates in their dedication to the public good. Vested interests have developed in the last decade and there is no lack of arrogance among some of the military in their relations with civil society. These elements will be a constant threat to the delicate balance between the representative democratic principle, which makes parties and politicians

a "necessary evil" in any polity and the corporative principle which gives the Army the means to participate in the government without creating a military dictatorship.

Of course meaningful elections cannot be held without political parties and this raises serious problems in the aftermath of the Sukarno era. Of the four parties which established their prominence in September 1955, only two are still legally in existence today: the PNI, which claims six million members, and the NU, which claims eight million members. The figures are not genuine indicators of political participation but may come close to these parties' electoral strength. The PNI was always close to the President in the past. How it will adjust to Sukarno's loss of power remains to be seen. The party is also badly divided between a left wing reputed to shelter crypto-Communists who escaped the massacre of late 1965, and a right wing which would like to find its place in the present power structure. The NU in turn is a party with considerable rural strength, but weak among the articulate urban elements and lacking national leaders with real intellectual and political stature.

Although both the PNI and the NU have national organizations, their strength is primarily Javanese, dividing the population of East and Central Java along lines similar to the clerical-anti-clerical cleavages of Western Europe. Being based on ideologies rather than interests, these two parties do not compete for the same

electorate, but represent antagonistic groups which have sometimes clashed violently in the recent past and had been unable to reach a compromise on constitutional issues in the period of parliamentary government preceding Sukarno's dictatorship. A political system dominated primarily by the PNI and NU would not hold much promise for the future of Indonesia, despite their substantial electoral following.

But the future of the extreme left raises even more serious problems. While the new electoral law may disenfranchise former members of the PKI and of its front organizations, there are obvious dangers in bottling up the political energies of perhaps as many as twenty million people. The banning of the PKI has terminated their earlier hopes to secure power via the parliamentary road. The killing of numerous cadres has probably destroyed the organizational structure of the party. This does not mean that the political potential of the extreme left has vanished overnight. Last August the Army revealed that about half of the members of the PKI's Central Committee were in hiding or had left the country. In January 1967 Peking-oriented Communist publications in various countries reproduced a declaration of the Politburo of the PKI dated August 17, 1966 announcing the decision to reconstruct the party, prepare for armed struggle, and create a united front under PKI leadership "to overthrow the Fascist regime of Suharto-Nasution," and expressing the conviction that "the sole road leading to the victory of the revolution is the road of people's war, the road lit by the brilliant thought of Mao Tse-tung."

The Army claims that much of the political turbulence occurring today in Indonesia is "political guerrilla warfare" organized by the Communist underground.

Ideally, the lessons of the recent past should orient the former supporters of the extreme left toward a democratic socialist party. Until now no such party of national scope is available, although discussions are held concerning a merger of the former Socialist Party (PSI), banned by Sukarno in 1960, and of the National-Communist Murba Party banned in 1965 and rehabilitated a few months ago, as basis for a new Socialist Front.

But not only the left creates problems in Indonesia today. There is also serious concern about right-wing Islamic extremism. The fanaticism displayed by some of the Moslem activists who were helping the Army in late 1965 to mop up Communists was disturbingly reminiscent of the terrorism characterizing the Darul Islam movement, which had plagued various parts of Indonesia in the past. The specter of renewed armed insurrection for the purpose of creating a theocratic state still haunts Indonesia.

Ways will have to be found to channel constructively those Islamic political energies which do not find an outlet in the NU. This is especially true in the Outer Islands. The government thus faces another difficult decision: whether to permit the reestablishment of the Masjumi Party, banned by Sukarno in August 1960, or to encourage the creation of a new Moslem political organization. There is at present reluctance to permit the revival of Masjumi, although it included some very able

modern and rational Moslem leaders. One reason is that the Masjumi, rightly or wrongly, had been suspected in the past of hidden sympathies for the Darul Islam as a countervailing power to the PKI. Besides, in 1958 some of its most prominent personalities were involved in the rebellions in Sumatra and the Celebes against the central government. The NU is understandably reluctant to endorse the revival of a political competitor who received almost eight million votes in 1955, being at that time electorally the strongest party in all provinces of Indonesia except East and Central Java.

The problem of the Masjumi merges in part with the equally challenging task of giving the Outer Islands adequate representation. Having rejected a federal system in favor of a unitary state, Indonesia has yet to work out a formula for its "more perfect union." Java and Madura cover only seven percent of the area of Indonesia but contain two-thirds of the total population of the country. This in itself creates in the Outer Islands fear of domination by the Javanese. Compounding the difficulty, the average population density of Java is over 1,300 persons per square mile. It exceeds 3,000 per square mile in the Javanese heartland, which means an average of five persons per acre of all land, including mountains and swamps. Consequently the pressure of population on resources reaches Malthusian dimensions in those over-crowded areas. As Java contains a major part of the country's urban population and is the seat of the central government, its existence depends heavily on imports.

However, it currently produces only 17 percent of the country's foreign exchange-earning exports. Political stability demands therefore not only a reconciliation of ideological interests, but a tolerable harmonization of regional economic interests.

The political reconstruction of Indonesia requires willingness to compromise and coexist on the part of all the political forces mentioned above. But the most difficult problem confronting the Suharto government is to make the New Order meaningful to the Generation of 1966, whose outlook on life is so different from that of their elders. If the actions of KAMI and KAPPI are indicative of the mood of the young generation, none of the existing political parties are likely to be adequate channels of expression for their aspirations.

V

The population of Indonesia grows by 2.5 million annually. Real income per capita has dropped by about five percent between 1958 and 1965. The economy has been stagnant since Independence. The only real achievement of the Indonesian government is its educational program, which produces every year tens of thousands of high school graduates and thousands with university degrees. The political awakening of the Generation of 1966, which debunked Sukarno's charisma, was largely caused by indignation about the country's economic plight. But in the eyes of the young the new regime is also on probation. If the Generation of 1966 loses confidence in their elders, an explosive conflict between

generations could develop. The portents are already visible in the streets of Djakarta, where student battalions are marching to the sound of drums and cymbals.

No feat of political engineering can create a genuine New Order in Indonesia if current efforts to overcome the economic crisis fail. The Suharto cabinet is aware of the problem. Saddled by the Old Order with an external debt of $2.7 billion, which it is currently trying to reschedule, the new government, during negotiations in Tokyo in September 1966, gave its non-Communist creditors a candid account of the economic and financial situation: the price index had risen from 100 in 1957 to 150,000 in July 1966; money in circulation had increased from Rp. 12 billion in 1955 to Rp. 10,000 billion in July 1966; exports (exclusive of revenue from oil) had dropped from $900 million in 1951 to $360 million in 1966; the budget deficit had increased from Rp. 23 billion in 1961 to Rp. 18,000 billion in 1966.

Besides "guided democracy," Sukarno had also instituted a "guided economy." Using international issues as pretext, most of the country's foreign-owned productive enterprises were taken over by the government and were thereafter wrecked by mismanagement. Budget control of government expenses disappeared as the Sukarno regime was making discretionary use of funds obtained through deficit financing. From an average annual increase of about 25 percent up to 1960, the money supply increased by nearly 50 percent in 1961, approximately doubled in 1962 and 1963, rose by more than 150 percent in 1964 and more than quadrupled in 1965.

When Sultan Hamengku Buwono took over as Deputy Prime Minister for Economic, Financial and Developmental Affairs in March 1966, he pledged to balance the government budget as soon as possible as part of a major effort to fight the inflation. Whereas his predecessors no longer bothered to present budgetary draft bills to Parliament before the beginning of a fiscal year, if at all, on November 17, 1966, the Draft Bill for the 1967 Budget was submitted and on December 24 Parliament approved it.

For the first time in years the Budget is balanced, comprising revenues and expenditures of New Rupiahs 81.3 billion (about $813 million at current exchange rates). On the expenditure side an important feature is the reduction of defense spending from 70 percent to 25 percent of the total. On the revenue side the 1967 Budget counts on New Rupiahs 29.5 billion (or $295 million) from foreign credits. Both assumptions may be excessively optimistic, but they do indicate the determination of the Suharto government and of the Armed Forces to achieve stability as well as their reliance on good relations with the international community.

As a further token of the new regime's intent an excellent Foreign Investment Law was also adopted by Parliament on December 24, reversing the trend of past years. This measure was initially recommended during the July session of MPRS by the Faculty of Economics of the University of Indonesia, which drafted comprehensive guidelines for economic, financial and developmental policies and convinced the Armed Forces to endorse them.

On the basis of the new Foreign Investment Law the United States and Indonesia signed on January 7 a guarantee agreement providing insurance for American private investors. Earlier, on December 12, the government had issued orders returning foreign enterprises to their owners, who had been dispossessed in 1963-1965, in the context of the "confrontation" with Malaysia. This measure followed an agreement with the Netherlands in September under which claims for nationalized Dutch estates were settled for 600 million guilders ($157 million) payable over 30 years after a seven-year grace period.

The response to these measures has been favorable. By late January thirteen foreign oil companies, from the United States, Western Europe, and Japan, were negotiating with the Indonesian government for the exploration and exploitation of Indonesia's offshore oil, and foreign interest in various other business ventures in Indonesia was rapidly increasing.

Besides its efforts to create a favorable climate for private foreign investments, the Indonesian government has also taken purposeful steps to ease the burdens on its catastrophic balance of payments. Multilateral negotiations with the United States, Great Britain, France, West Germany,Italy, the Netherlands, and Japan started in July in Tokyo concerning long, medium and short-term debts. Under existing agreements payments due to all creditors in 1966, including Communist countries, amounted to not less than $530 million, while Indonesia's total foreign exchange earnings for that year

were estimated at $430 million. In September at a second meeting in Tokyo an eighteen-months moratorium was granted by the Western creditors on debts already in arrears or due by the end of 1967 and some further progress toward a settlement was made in Paris in December. Meanwhile separate negotiations conducted in Moscow resulted in November in a moratorium on about $800 million on debts to the Soviet Union, a major part of which is the result of armament purchases since 1960.

Unable to repay immediately foreign debts incurred in the past in pursuit of an improvident policy of grandeur, Indonesia cannot hope to overcome the current acute economic crisis without additional credits. These are not likely to come from other sources than her Western friends, who have already made available in 1966 new grants and loans totalling $174 million in support of her stabilization program.

Related to this effort to obtain new credits, Indonesia applied in July for readmission to the International Monetary Fund and to the International Bank for Reconstruction and Development and was accepted by both institutions at their annual sessions in September. Teams of IMF and IBRD experts have since surveyed the economic situation of Indonesia and have made hard-headed recommendations. They suggest, for instance, for 1967 an import program of only $298.8 million, less than half the amount initially envisaged by Indonesian officials. The emphasis is on materials and spare parts that would give quick returns in agriculture, transportation, industry, and energy, while

replacements and new development are to be postponed for a later stage of the stabilization program. These measures are guided by the realization that the most effective immediate steps should aim at increased production in agriculture, to reduce rice imports, increased cash crops and mining production for exports and improvement of the performance of the industrial sector which was operating of late at less than 15 percent of capacity.

Economic stringencies have had a salutary effect on Indonesia's foreign policy. On August 11 the unfortunate "confrontation" with Malaysia was terminated and on September 28 Indonesia was welcomed back into the United Nations. The road is clear now for the constructive role in Southeast Asia and in the international community befitting a country of Indonesia's size, human and natural resources, and strategic importance.

As the New Order consolidates itself and the anxieties and passions of the present recede into history, Indonesia will be able to appreciate the constructive nature of its past relations with the United States. As my good friend, Ambassador Marshall Green, points out, American aid has always been and continues to be genuinely helpful to Indonesia. Besides political support for Indonesia's legitimate national aspirations, American economic assistance over a period of twenty years, until Sukarno told us "Go to hell with your aid," has not burdened Indonesia with crushing debts for unworthy purposes. Of a total of nearly $800 million in

economic aid given until 1965, $302 million was in the form of grants for which no repayment was required, $243 in loans repayable in rupiah, which thus caused no drain on the Indonesian balance of payments, and only $255 million in loans repayable in dollars.

But foreign aid and advice from whatever source and for whatever purpose should be only of marginal and temporary importance to a country with Indonesia's natural endowments. In essence the problems of the New Order are domestic and if the state of mind of the present regime and of the Generation of 1966 remain as lucid and purposeful as they seem to be at present, Indonesia should have a great future in the community of nations.