

THE INDONESIAN ECONOMIC AND POLITICAL MIRACLE

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At the beginning of 1965 Indonesia was the troublemaker of South-east Asia. Eight years later the same country is preparing itself to play the role of the only Asian nation which will supervise together with Canada, Poland, and Hungary the cease-fire and withdrawal of foreign forces if a peace agreement is concluded by the United States and North Vietnam.

In the early 1960s the late President Sukarno's colorful but hollow rhetoric claimed a leading role in world affairs for his country of nearly 120 million, strategically located at the crossroads of oceans and continents. Today a soft-spoken but efficient government of technicians, under the leadership of President Suharto, is establishing by its deeds Indonesia's usefulness to its neighbors and to the peace-seeking international community.

At the beginning of 1965 Sukarno startled the world and even his own cabinet when he decided impulsively and without any genuine benefits to his country to become the first and only government to withdraw from the United Nations. Last fall Indonesia's able Foreign Minister Adam Malik completed a successful one-year tour of duty as the President of the General Assembly of the United Nations.

After several years of severe economic mismanagement under Sukarno, who had confiscated almost all private foreign enterprises operating in Indonesia, and told the United States to "go to hell" with its economic aid, the country's long-suffering population was experiencing the worst inflation anywhere in the world.

In 1966 prices were still rising at a rate of 650 percent a year. Then President Suharto's team of American-trained economists took over

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and set a completely new course, based on their strong belief in free market forces and budgetary responsibility. In fiscal year 1971/72 prices rose only at the rate of 0.9 percent a year and the rupiah had become a stable and freely convertible currency. Currently prices are rising again sharply due to a severe shortfall of rice resulting from unusual drought conditions last summer, but confidence in the Indonesian economy has not been shaken at home or abroad.

In January 1967 Indonesia adopted a foreign investment law aiming at making the country once again attractive to private foreign investors. Previously confiscated assets were returned to their foreign owners. Direct foreign investments as well as joint ventures were encouraged by the Indonesian government. By March 1972, 476 projects totalling \$1,701.3 million had been approved by the Indonesian Foreign Investment Board, ably led by Professor M. Sadli.

Of these projects 108 are direct investments, 351 are joint ventures and 17 are work contracts. For historic and budgetary reasons, investments in Indonesia's growing oil industry, which has become the country's leading earner of foreign exchange, are not included in these statistics. But new investments in the oil industry have been substantial and oil exports have increased from \$366 million in 1969 to an estimated \$590 million in 1971/72.

Of the 476 projects outside the oil industry, mining accounts for 21 totalling \$547.8 million, forestry for 57 totalling \$398.9 million and industrial projects for \$523.3 million. Implementation of the approved projects has been relatively slow, in part for technical reasons common to new projects anywhere, but to some extent also because of the difficulty of dealing with a bureaucracy which, after years of stagnation and corruption, is not yet fully capable of businesslike performance. By the end of the Indonesian fiscal year ending in March 1972, \$380.7 million of the agreed total of \$1,476.3 million in foreign capital, or 22.4 percent, had been actually invested. The Indonesian government is now seriously attempting to improve the implementation of approved projects. In late August 1972, 71 foreign corporations met in Djakarta under the auspices of Business International and expressed strong optimism about the Indonesian government's policies toward foreign capital investments.

Because of its low sulphur content and of its closeness to Japan and to the West Coast of the United States Indonesian oil is in growing demand. In May 1972 an agreement was signed by President Suharto in Tokyo under which his government received special credits of \$200 million for investment in the Indonesian oil industry in return for a commitment to sell to Japan 58 million kiloliters of Indonesian crude over a ten year period. The agreement may be viewed as an example of the increasing strength of countries producing fossil fuels in a world which is awakening to the dangers of a global energy crisis. The Indonesian-Japanese agreement provides that the oil will be sold at current market prices. It is not the producing country which seeks to assure itself a market but the consuming country which wants to have reliable access to supplies.

It is by now well established that Indonesia has substantial amounts of oil, on land as well as offshore. For 1972/73 the production target is 400 million barrels and this amount is expected to double within a few years. Less clear is the situation concerning other mineral deposits. Reputable experts claim that major surprises are possible, as only 5 percent of Indonesian territory has been geologically surveyed. In any case, the financial position of this resource-rich country is bound to improve, as global consumption of natural resources increases in the years ahead.

The most serious problem confronting the Indonesian government today -- and for that matter many other governments of developing countries -- is how to spend the earnings from the exploitation of their natural resources for the maximum benefit of their rapidly growing population. In a country in which the average per capita income is about \$90 a year the quest for social justice raises very different problems from those in the United States where families with ten times the income of the average Indonesian family are considered below the poverty line.

Indonesia's economic planners adopted in 1969 a five-year plan which won wide acclaim from international experts for its sobriety and sound sense of priorities. It focused most governmental efforts on agricultural development, in order to achieve self-sufficiency in food, and on the rehabilitation of transportation, communications, and manufacturing capacity which had been all badly damaged during the Sukarno

in stability, there is growth, but what is still lacking is enthusiasm." Nobody has yet discovered, in Indonesia or elsewhere, how a country can jump in a few years from abject poverty to comfortable affluence. The process is bound to take time and to be marred by self-serving economic manipulations by the elites and frustrated disappointment by the masses. In a country which had in 1965 the largest Communist party in the world after those of the People's Republic of China and of the Soviet Union, the fear of Communist resurgence is strong, even though the odds are extremely low that the Indonesian Communist Party could be revived in the foreseeable future.

Strongly favored by Sukarno, who had also proclaimed in 1965 a Djakarta-Peking axis, the Indonesian Communist Party seemed inexorably on its way to power in 1965, with only the officer corps strongly opposed to its take-over. Even the military were divided and infiltrated by skillful Communist maneuvers. Then the Communist leaders overplayed their hand in seeking to eliminate the last obstacle blocking their road to victory by assassinating a number of top generals. Reacting violently, the military destroyed the Communist Party, unleashed anti-Communist reprisals, in which from 150,000 to 300,000 persons associated with Communism were killed, and arrested large numbers of political suspects of which at least 23,000 are still detained at this time.

Current Indonesian politics are shaped by the fear of Communist resurgence and by the desire to provide stability for economic development. President Suharto has consistently avoided letting his government degenerate into a dictatorship, as has happened in so many other developing countries, but has deemed it necessary to impose sharp limitations on political activities. Emergency regulations established during the convulsions of the previous political period are being invoked to contain the political process within limits which the government considers manageable.

In the summer of 1971 national elections were held for the second time in the history of the Republic of Indonesia, which had achieved its independence in 1949. Unlike the first general elections, held in 1955, in which all political parties, including the Communists, were able to participate and gained parliamentary representation on a strictly

If, after President Suharto is elected for a second term in March 1973, the government manages to stay on the middle road between repression and anarchy and elicits a sense of participation in its efforts on the part of the younger generation, Indonesia is also likely to maintain political stability. Much of course will depend on whether the ruling elites resist the temptation to live ostentatiously by the local standards of a country in which the villagers have often a per capita income of only one tenth of the national average of \$90 a year.

It is likely that President Suharto, who has shown in the past that he has a firm grasp of the situation facing his country, will be able to cope with these and the other problems confronting him in the next five years. If so, Indonesia is likely to play an increasingly important role as a factor for stability in Asia, probably in close partnership with Japan and Australia which share her concern for minimizing the destabilizing effects in their region of a gradual American disengagement.

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