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THE INDONESIAN ECONOMY AND POLITICAL STRUCTURE
DURING THE EARLY NEW ORDER, 1966-1971

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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* * * * *

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ACKNOWLEDGMENT

The process leading to the completion of this work involved various kinds of support and advise afforded by a large number of people. This dissertation, and my study in the Ohio State University, could not have been finished without such an encouragement. It is, therefore, a great pleasure for me to acknowledge their benevolence.

First of all, I should express my gratitude to Professor R. William Liddle, whose teachings have made my academic life more meaningful and whose empathic friendship has made the burden of graduate study much less severe. A deep thankfulness is also for Dr. Colin MacAndrews, whose "maneuvering" five years ago made me landed in this big university. The Rockefeller Foundation and its staff in New York and Yogyakarta, especially Dr. Joseph Black, also deserve a special appreciation for supporting my study here and my field research in Indonesia.

The arguments developed in this dissertation have been improved by the advise of my reading committee. Professor Liddle position of seeing Third World politics
from Third World perspective has made me aware of the danger of judging Indonesian phenomena by applying "un-Indonesian" values. Professors Goldie Shabad and Richard Gunther have also rescued me from the fallacy of economic determinism.

While doing my field work in Indonesia, I benefitted from the information and suggestions provided by many people. Among them are: Gen.A.H.Nasution, Gen.T.B.Simatupang, Gen. Abdul Kadir Besar, Dachlan Ranuwihardja, Slamet Bratanata, Frans Seda, Suryo Sediana, T.A.Salim. Dr.Emil Salim, Dr.Suhadi Mangkusuwondo, Professor Sarbini Sumawinata, Dr.Umar Kayam, Dr.Fuad Hassan, Dr.Yuwono Sudarsono, Dr.Dorodjatun Kintjorojakti, Dr.Alfian, Dawam Rahardjo, Adi Sasono and Gunawan Mohamad. I am also indebted to Salim Said, Makmur Makka and P.P.Simatupang for their unselfish support. I have to acknowledge that Salim's critical views had several times made me rethink about the arguments developed here.

To all of these people, I am very grateful. If there is something valuable in this work, it is due to them. Although the sins of commission or omission found in it are solely mine.

Finally, I dedicate this work to my "Niek" and our wonderful "three little wild cats": Luki, Alvin and Yulian. Without them, all that I have done would be meaningless.
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INTRODUCTION

This research is based on a broader effort to study the political problems - domestic as well as international - facing Third World countries in their economic development ventures. Conducting such a study in the early 1980s, I have benefitted a great deal from the rapidly growing literature discussing the problems confronted by many countries in the "less-developed world". Learning about the Third World - especially those Latin American - nations' experience in developing their economies is enlightening for understanding the same political problems facing Indonesia after 1965.

One major theme of the lessons coming out of their experience is the rejection of the hypothesis, common to the "modernization theorists", relating economic modernization and political democratization. Most of the nations' experience tends to show the reverse, that is, economic modernization tends to be accompanied by the breakdown of democracy. In other words, there is a positive correlation, although not necessarily one of causality, between the effort to modernize the economy along capitalist lines and
the drive toward authoritarian politics. It is this theme that underlies this study.

More specifically, this study is influenced by the theoretical construct authored by Guillermo O'Donnell, i.e. "Bureaucratic-Authoritarianism", a concept that seems in some but not all aspects to reflect present reality in Indonesia. Applying the theoretical framework to Indonesian politics, after adjusting it to the Indonesian situation, this research expects to achieve two goals. The first is to better understand Indonesia's present authoritarian political system by studying its origins and the variables that gave it its present form. And the second is to contribute to a more complete understanding of the "Bureaucratic-Authoritarianism" literature.

The principal hypothesis of this dissertation is that the emergence of the New Order political structure is best explained by a combination of: (1) the circumstances of political and economic crises in the mid-1960s; (2) some opportunities afforded by the international capitalist economy; and (3) the specific governmental economic policy choices made at the outset of the New Order.
CHAPTER I

THE CONCEPTUAL FRAMEWORK

The questions and possible explanations.

This study of the relationship between economy and polity in Indonesia after 1966 is a modest step toward the understanding of the phenomenon of authoritarianism in the country. Specifically, it attempts to answer two questions: First, "why did authoritarianism reemerge in Indonesia?" Is it simply the historical continuity of political tradition or culture? Or, is it caused by structural necessity? Second, "what is the nature of the authoritarian regime after Sukarno?" How is it different from Sukarno's regime? Did it emerge from the same causes as Sukarno's? What and who constitutes the alliance supporting it? What role do international factors play in it?

Why did authoritarianism repeat itself in Indonesia?

In dealing with this question, I should start with the "great debate" in the mid-1960s on Indonesian historiography by two Indonesianists, Herbert Feith and Harry J. Benda. As the title of his book reveals, The Decline of
Constitutional Democracy in Indonesia, Feith deals with the factors that caused democracy's breakdown and its replacement by the authoritarian Guided Democracy. He explains it in terms of conflict between two elite groups, i.e., the "administrators" or the "problem-solvers" group (those emphasizing Western ideals of socio-economic modernization as the more important governmental business) versus the "solidarity-makers" group (those emphasizing political problems of nation-building, national unity and autonomy). And it is the victory of the "solidarity-makers" over the "administrators" that was mainly responsible for the emergence of authoritarianism during Sukarno's era.

In his review of the book, Benda argues that the cause lies much deeper in Indonesian history. The emergence of the authoritarian regime, hence, the breakdown of the democratic regime, should not be explained in terms of elite conflict; it should be seen against Indonesian traditional historical conditions. From precolonial times until the end of colonialism, Indonesian political history did not experience styles of governing other than patrimonialism and paternalistic-authoritarianism. Therefore, given the alien nature of democracy, the efforts to create structures believed to be conducive to democratic ideals, "were doomed . . . . . once Indonesian
(especially Javanese) history found a way back to its own moorings." Furthermore, Benda argues that "the odds were from the very outset far more heavily weighted against constitutional democracy in Indonesia than most sympathetic students of the postwar era ... have so far been willing to admit".

By implication, it could be argued, Benda sees the emergence of authoritarianism in Indonesia as the revival of a precolonial, indigenous (meaning mainly Javanese) political tradition. Studies by other proponents of cultural arguments such as Ben Anderson and Ann Ruth Willner, in a more explicit manner, show abundant evidence of the revival of Javanese political culture in the Guided Democracy as well as the New Order regimes. It could also be argued, therefore, that since traditional Indonesian, or Javanese, political culture was authoritarian rather than democratic, there is little possibility of eliminating authoritarianism from the polity.

Despite its persuasiveness, the historical- or cultural-continuity argument suffers from some weaknesses. First, as Feith shows in his reply to Benda's criticism, it underestimates the impact of social and economic modernization that has been taking place for a century. As Feith
"How useful is it to speak of a country's history finding ways back to its moorings if that country has in fact been irreversibly transformed in much of its economic and social organization by the events of the period of (colonialism and post-independence liberal-democracy)? The 120 or so years of modern colonialism did after all introduce a host of new phenomena which are not easily removed: railways and telegraph lines, cities, large-scale export production and heavy reliance on imports, economic interdependence between different parts of the country, a large bureaucracy discharging a wide range of functions at all levels of society, the monetization of much of village life, an eight-fold increase in population, landlessness, and so on . . . . . . . it was quite impossible for the actual processes of governing to remain unaffected".

The modernization, indeed, has profoundly influenced Indonesian people's social life and therefore the way they perceive their polity and their rights and duties in it.

Second, the argument emphasizing the revival of precolonial, indigenous political tradition is rather fatalistic. In its extreme form, this argument would assert that, given the cultural condition, whoever governs will behave in authoritarian way. So, it ignores the possibility of a change into a more participatory or inclusionary system. Third, it also ignores the possible autonomous role of the state, as an "agent of change", in manipulating its environment. Fourth, stretching out the implication of the cultural-continuity argument to explaining Indonesian
authoritarianism after the fall of Sukarno, we would find that it also overlooks the novelty of today's authoritarianism in Indonesia compared to the precolonial period. The new authoritarianism is also not unique to Indonesia; the comparable phenomenon can be found in several other nations with very different cultural settings.\(^7\)

As will be revealed later in this section, this study prefers a structural to a cultural approach. Yet, it does not accept all structural theories. Especially rejected are those structural arguments asserted by Samuel P. Huntington, Morris Janowitz, Lucian W. Pye, and Ulf Sundhaussen. Considering the dominant role of the military in New Order Indonesia, Huntington\(^8\) would explain the emergence of the New Order regime by referring to the "absence of effective political institutions capable of mediating, refining, and moderating group political actions", or the "praetorian" characteristics of the previous regime. While Janowitz,\(^9\) Pye,\(^10\) and Sundhaussen\(^11\) would argue that the emergence of the military into political prominence in today's Indonesia is natural and perhaps necessary, given the superior quality of the military establishment in terms of modernization ethos and managerial organizational skills. Having such qualities in a polity lacking any strong and effective civilian political organizations, the military easily
emerged as the dominant actor in the political arena and as the promotor of modernization of the society.

These arguments, in my judgment, do not explain the New Order phenomenon satisfactorily. They seem to imply that the military, as an unwilling actor, is forced to intervene in the political arena in order to save the nation from "praetorianism". They, thus, fail to recognize the fact that the Indonesian military, i.e., the army, had been prepared for long to be involved in politics. 12

Also, the problem with the "military rule" argument is that the New Order is not a military regime or military dictatorship. In the New Order regime the military leadership as the power-holder does not adopt a militaristic approach to policy-making. As Karl Jackson argues, "the basic style and goals (policy priorities) of the government are bureaucratic and technocratic rather than military". 13 As this study will demonstrate, the military officers do not emphasize the pursuit of policies typically associated with military governments, such as military build-ups. They, instead, are committed to pursue goals that are not directly related to the military's traditional interest, such as economic development.
Most importantly, in my view, all of the alternative explanations, the cultural as well as the structural ones, do not pay attention to the interaction between domestic and international factors, and between political and economic factors. Many agree that, at least since 1966, the history of Indonesia has been shaped by the dynamics of domestic and international capitalism, and its political and economic structural manifestations.\footnote{14} The search for such a framework relating domestic and international variables as well as political and economic variables has led me to the theoretical frameworks developed in the Latin American context. After making some adjustments, in order to improve their validity in dealing with Indonesian conditions, I adopt them to explain New Order Indonesian politics.

This study by no means underestimates the merits of the cultural arguments. It even tries to incorporate them whenever necessary into its conceptual framework, such as when dealing with "patron-client" types of relationship that develop within and perform a system-maintenance function for the regime. Yet, this study, guided by the theoretical frameworks adapted from the Latin American experience, attempts to answer the question mainly in terms of structural necessities as perceived by a leadership facing certain challenges and opportunities.
What is the nature of authoritarianism in New Order Indonesia? This study argues that Indonesian politics after 1966, the New Order period, resembles to some degree the characteristics of "Bureaucratic-Authoritarianism" and "State-Corporatism" espoused by Guillermo O'Donnell and Philippe Schmitter respectively. In its modified form and complemented by State-Corporatism, the Bureaucratic-Authoritarian framework can portray the nature of New Order politics and also explains more elegantly its emergence.

This adoption of the two frameworks is not unique in the study of Indonesian New Order politics. Dwight King pioneered such application in several writings. He consistently argues that New Order Indonesia is bureaucratic-authoritarian as well as state-corporatist in nature. The problem with his works is that he adopts the two models without any qualifications and applies them to explain Indonesian phenomena. While in reality, as this study will show, neither do the New Order's political characteristics wholly resemble the models, nor can its emergence be explained by the bureaucratic-authoritarian model as developed by O'Donnell and the state-corporatist model by Schmitter. Concern for empirical reality in the Indonesian case requires me to modify the models as they are applied to a nation with a very different social and
economic structural setting from that of their origins.

A similar work by Jackson uses the "bureaucratic-polity" perspective developed by Riggs to argue that Indonesian politics since 1957 has been a bureaucratic-polity, "... in which power and participation in national decisions are limited almost entirely to the employees of the state, particularly the officer corps and the highest levels of the bureaucracy, including especially the highly trained specialists known as the technocrats". The weakness of this work is that, first, it fails to recognize the qualitative difference between the Guided Democracy and the New Order regimes. The former was certainly more "pluralistic" that the latter. Before 1966, politics was characterized by the competitive, tripolar balance of power among President Sukarno, the communists, and the army, while after that the army emerged as the only power-holder. Second, it also ignores the fact that both presidents (Sukarno and Suharto for the respective periods) many times could easily disregard the pressures from their bureaucratic circles and take their own way in making policy independent of their bureaucracy. In sum, as I will show in this study, the bureaucracy does most of the time dominate the political process. But it does not mean that it can prevent the top executive from adopting and implementing policies in
his own ways.

In the next section I will discuss the bureaucratic-authoritarian model and try to criticize it and suggest its modification. The last two sections of this introductory chapter deal with the application of the revised version of the model to Indonesian politics and the organization of this dissertation.

Alternative perspective.

The bureaucratic-authoritarian (or, BA) framework is very important in understanding the politics of economic development in Third World countries, for several reasons. First, it shows that the hypothesis relating modernization and democratization does not work, i.e., instead of being accompanied by democracy, social and economic modernization in Latin America has generally been associated with authoritarianism. Second, it considers the state as an important variable, capable of effecting change autonomous of other social forces. Third, it sees the military as an institution committed to economic growth, dictated partly by its own corporate interest in building a strong state. Fourth, it shows the importance of the "dominant coalition of power" supporting such a regime. And finally, it is able to incorporate international variables in the analysis of
the politics of Third World countries.\textsuperscript{25}

There are, however, three major weaknesses of the BA model. First, it does not say anything about interest-representation of the populace, which, given the very nature of the policies taken by such fast-economic-growth-oriented governments, cannot be ignored. Second, Guillermo O'Donnell's conceptualization of bureaucratic-authoritarianism is very Latin American, whereas in fact it is a more general phenomenon in today's Third World countries. Third, the model also fails to appreciate the dynamics of the executive office as distinguished from the rest of the bureaucracy and vested with its own interest. In order to explain a phenomenon of authoritarianism in Indonesia, therefore, the BA model must be modified.

BA regime is characterized by its proponents as follows: 1. The government is led by military, not as a personal dictatorship, but as an institution, in collaboration with civilian "technocrats".\textsuperscript{26} 2. It is supported by oligopolistic "entrepreneurs", who together with the state collaborate with the international business community.\textsuperscript{27} 3. Policy-making in a BA regime is technocratic-bureaucratic in nature, as opposed to a political
approach in policy-making which requires a long process of bargaining among various interest-groups. 28

4. The mass is demobilized. 29

5. The government uses repressive measures to control opposition. 30

The above definition of a BA regime does not say anything about interest-representation of the population, which it is impossible for a government committed to rapid economic change to ignore. For its own interest, a government dedicated to rapid economic growth, such as the BA regime, cannot afford to ignore the problem of the representation of its citizen's interests. First, rapid economic change always results in the emergence of new groups, with their own interests, which put new demands on the government. Second, the process of rapid economic modernization also has a damaging effect, at least during early stages, on some parts of the population. The organization of such frustrated groups by an anti-regime force can pose a big problem to the government. In dealing with the first problem of increased demands, such a government, in however a limited manner, must take into account the behavior of the major groups within the society and try to accommodate them in such a way as will not harm regime
maintenance. While for the second problem, the government must be ready to control them by manipulating interest-representational channels.

For the reasons discussed above, Schmitter's model of state-corporatism could complement the BA model. According to Schmitter, corporatism is

"a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports." 31

In his discussion of corporatism, Richard Gunther argues that "the major thrust of corporatism is the rejection of the liberal notion that class differences can be resolved as the end product of conflict between social groups and their political representatives", and that "corporatism represents an explicit attempt to 'suppress' class or interest-group conflict". Accordingly, he defines corporatism as "(1) the creation of vertical labor organizations to which both labor and management must belong, (2) with the explicit objective of suppressing class conflict
and instilling 'harmony, solidarity, and cooperation' in labor relations, and (3) over which the state exerts considerable, direct, and legally acknowledged influence".32

This notion of suppression of class or interest-group conflict is very important in understanding a regime's effort at channelling interest-representation in ways that could prevent instability. In this sense, therefore, it would complement Schmitter's definition. In my opinion, however, Gunther's definition deals only with the labor-relation aspect of interest-representation. Whereas what I need is a definition of corporatism which allows me to include all corporatist-type interest-groups such as labor, small landholding peasants, businessmen, as well as organizations for government employees, the press, youth and student, religious affairs, and other functional or professional associations. For this reason, I adopt the definition by Schmitter.

Nevertheless, in order to gain greater clarity and comprehensiveness, I will combine the Schmitter's broader definition with Gunther's notion of repression of conflict. Thus, the definition of corporatism being used in this research can be stated this way:
Corporatism is a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories, and in which the state controls their leadership selection and their demand- and support-articulation with explicit objective of suppressing class and interest-group conflict and instilling harmony, solidarity, and cooperation in the relations between the state and society.

On their **raison d'etre**, both bureaucratic-authoritarianism and corporatism are seen as responses to the need of capitalism to create a political arrangement conducive to economic development. The need of capitalism, according to Schmitter, differs according to the stage of the capitalist development and the international context.

In more advanced capitalist countries, the main need is a stable, bourgeoisie-dominant regime. With a strong bourgeoisie facing competition in the international economy, the need is achieved by **associating** and **incorporating** lower-class members more closely within the political process. By incorporating them into the political system and providing them with material benefits, the capitalists can assure an efficient economic production, and therefore enable them to better compete in the international economy. This process results in the gradual decline of pluralist politics and the emergence of what Schmitter calls
"societal-corporatism".\textsuperscript{33}

In less-developed capitalist countries, the weakness of the bourgeoisie and its dependence on external factors, and the shortage of resources available to the state limit the ability of the state to respond favorably to lower-class demand. Hence, the state considers it a necessity to enforce "social peace" not by coopting and incorporating, but by repressing and excluding the autonomous articulation of lower-class demand. This process of lower-class repression and exclusion results in the emergence of "state-corporatism".\textsuperscript{34}

O'Donnell also has his own ideas on "state-corporatism" in less-developed capitalist countries.\textsuperscript{35} He perceives it as a "bifrontal" and "segmentary" process. By "bifrontal" he means that there are two processes in state-corporatism: statization, by which the state conquers and subordinates the organizations of civil society; and privatization, by which the state opens some of its institutions to the representation of organized interest of civil society. Meanwhile, by "segmentary", he means that (1) the state focuses the "statization" process on the lower-class organizations (such as labor unions), and (2) "privatizes" its institutions only for dominant upper-class interests.
In sum, it means that the representation of lower-class interest is restricted, while the representation of dominant class interest is permissible. This notion of exclusion of lower-class interest and inclusion of upper-class interest is parallel with the concept of bureaucratic-authoritarianism.

To return to the discussion of the origins of corporatism above, Mihail Manoilescu, as interpreted by Schmitter, emphasizes the importance of the international factor. Changes in the international economic order and the rising demand for equality of benefit and status between nations plus the awareness of relative underdevelopment on the part of the less-developed countries' elites had resulted in the adoption of nationalistic, defensive "modernization from above" by Southeastern European countries during the 1920s and 1930s, which, in turn, required a "simple" and "efficient" political process, that was provided by the state-corporatist framework.\(^{36}\)

On the emergence of the BA regime O'Donnell conceptualizes it as follows. The transition from the stage of import-substituting industrialization to that of heavy industrialization, which he calls it a process of "deepening" or "vertical integration" of the economy, in Argentina and Brazil, required a much greater supply of
capital and technology than was available at home, so that the state was forced to collaborate with the international business community. In such collaboration the government had to be able to provide some "standard incentives", such as stability and predictability of the economy and politics. These requirements led to the enforcement of conservative economic and monetary policies which were needed to stabilize the economy, as a prerequisite for the launching of a rapid, external-oriented economic development program, but whose result was the elimination of inefficient economic actors, mainly small national entrepreneurs. Such policies consequently generated opposition, and hence, crises. And from the way the state handled the crises emerged the technocratic, bureaucratic-authoritarian "rule of the game".37

The weakness of O'Donnell's conceptualization is that it cannot explain why in some countries BA regimes emerge without an advanced level of industrialization. It is, therefore, perhaps more meaningful to conceptualize the emergence of BA regimes in countries like Indonesia, which has no advanced industrialization, by focusing not on the crises related to a certain stage of industrialization, but on economic and political crises inherited from the previous regime38 and those created by the government's policy of "opening" the economy to international capitalism.39
In the case of New Order Indonesia, as will be demonstrated later, the crises inherited from the previous regime were rampant inflation, balance of payments and a huge burden of debt repayment, and political instability created by a highly mobilized political mass and a bloody coup attempt. These crises were so enormous that they created a situation in which a democratic political process, according to the new leadership, would not be able to create policies that would be both economically feasible and politically acceptable to them. In addition, the government economic policies of stabilization, in a drastic, "shock treatment" way, and later of rapid, externally-supported growth had created other sources of conflict and opposition, even among the original supporters of the regime. The way the new government perceived the crises, which was heavily influenced by its nightmare of the revival of Communist and Sukarnoist forces, determined its increasingly authoritarian and repressive responses.

Besides its omission of interest-representation and its being too Latin American in envisioning the emergence of the BA state, O'Donnell's model also fails to appreciate the dynamics of the executive office in such a regime. The model does not treat the office as separated from the bureaucracy. In other words, it implies that the BA model
perceives the executive office as just another branch of the bureaucracy. Whereas, in reality, as will be shown in this study of the Indonesian case, the executive office can develop its own interest autonomous of the rest of the bureaucracy.

As mentioned above, the BA regime is committed to a political-economic strategy that requires quick and effective actions, which, unfortunately, cannot be fulfilled by the big bureaucracy inherited from the previous regime. There is, therefore, a genuine need on the part of the executive power holder to build a smaller "kitchen cabinet" backed by a network of responsive, efficient, and effective administrators and a web of intelligence apparatus placed in every major bureaucratic area and in every regional capital, all of which are under the direct control of the top executive. This practice positively sets into motion a process which ends up in the centralization of power in the executive office, represented in New Order Indonesia by the personal staffs of the President and the State Secretariat, as the super bureaucracy directly controlled by the head of executive.

Given the nature of the economic strategy that relies on foreign capital, state enterprise and national,
non-indigenous big business, all of which are under the
guidance of the state, and given the prominent role of the
top executive, the success of the economic strategy of
stabilization and development further strengthens the power
of the executive office. The achievement positively facili-
tates the office's undertakings to build its own power
resources, constituents and vested interests independent of
the rest of the bureaucracy, particularly by taking advantage
of the opportunities to manipulate the fruits of the economic
growth. In sum, during the process of building the BA regime,
the executive office might emerge as the first beneficiary
in power building.

This, however, does not necessarily lead to personal
dictatorship. Several reasons contradict such development.
First is the fact that the military institution is the
backbone of the bureaucracy and that its officers are
always ready to vie for power whenever the President, a
fellow general, fails to satisfy their needs, particularly
the economic ones. Second is another fact that the
President's capacity to hold his power is contingent upon
his ability to manipulate the state's resources and to
distribute spoils among his followers and would-be
opponents. Such ability, in turn, depends on the success
of the economic strategy to provide economic surplus and
opportunities for the executive power holder. And, as has
been said above, such an accomplishment can only be guaranteed by the technocrats within the bureaucracy. These stubborn facts, naturally, predispose the top leadership to let some factions within the top layer of the bureaucracy share the power and have some room to maneuver. Although the office of the presidency is dominant, the general framework of the BA regime is still preserved.

**Explaining New Order politics.**

Having comprehended the strengths and weaknesses of the BA model, this study attempts to apply it, in its revised version discussed above, in understanding the politics of economic development in Indonesia during the period of 1966-1971, that is, since the inception of New Order regime until the 1971 general elections which marked the success of the political restructuring engineered by the new leadership. As I see it, the reemergence of authoritarian politics in New Order Indonesia can be best explained in terms of the legacy of the previous regime, the nature of the dominant coalition of power supporting the new regime, and the way the new leadership perceived and responded to certain challenges and opportunities.

It is only logical that to understand the New Order
we have to look back to the previous regime of Sukarno's Guided Democracy. As I will demonstrate in chapter II, this regime was characterized by a very competitive tripolar balance of power among President Sukarno, the army, and the Communist Party. During the period of 1957-1965, while most of the once-very-influential political parties were emasculated, the President gained considerable power, and with his help also did the communists. Within the regime the army also got many opportunities to build its own political and economic bases and managed to be recognized not only as the administrator of security matters, but also as a major political actor.

The competitive relationship among the three main political forces absorbed most of their energy, resources and attentions so that many more basic problems of the polity and the economy were neglected. The persistence of such a situation resulted in the political and economic crises that culminated in the September 30, 1965 coup attempt and continued several months later.

In the wake of such crises emerged a "grand coalition" united by its position against the communists, who were allegedly involved in the coup attempt. This was a coalition of all religious groups, students and intellectuals. It was
headed by the army, whose generals were victims of the attempted seizure of power. Absent from the coalition were only the President and his supporters within the other branches of the armed forces as well as within the nationalist party, most of whom were also sympathizers of the Communists. Generally, it was a grand alliance of those groups long harassed by the aggressive Indonesian Communist Party. So effective was the alliance that it easily "crushed" the Communists all across the nation in several months, and claimed as many as a half million casualties.

The coalition, however, was weakened when it came to deal with the President's authority. Many groups within the alliance, especially those from the political parties, did not want to follow the steps taken by the army against the President. Although President Sukarno had voiced his support for the Communists in recent years, many of the anti-Communist groups, who admired and owed their positions to him, did not think President Sukarno deserved such hostile actions. Nevertheless, they could not do anything when the army, with the support of anti-Sukarnoists, ultimately managed to oust him from office. The coalition shrank further when some more groups either deserted or were expelled from the ranks for their objection to the new leadership's drastic policies aimed at stabilizing the
economy and preparing for the long-hoped economic reconstruction and to their even more heavy-handed policies of political restructuring.

In spite of such erosion, the core of the dominant coalition was still intact. They were the army, the technocrats, the anti-Communist intellectuals, and some big state-related national entrepreneurs. The composition of the dominant coalition is very important in determining the new leadership's behavior.

It is hard to deny the argument that the scope and the intensity of the 1965-1966 crises were so grave that whoever came to power would have not much, or even no choice at all, in dealing with them. Whoever emerged to govern, they had to prevent the crises from getting worse by adopting a strategy of stabilization, politically and economically. Nevertheless, nobody would deny either that the perception of policy makers of problems facing them is very important in guiding their actions to solve the problems. Moreover, the perception is significantly affected by their interests, so that the leaders tend to see a certain phenomenon in a way that conforms to their interests. These interests, in turn, are influenced by their psychological, cultural, and social experience. Hence, we could expect that leaders
having different psychological experiences and ideological commitments, as well as educational and occupational backgrounds, would perceive things in different ways. Returning to the above discussion, it really matters who the leaders were and what kind of groups the coalition consisted of.

The Indonesian army has a long history of keen interest in political matters, especially in its effort to challenge civilian politicians' interference with internal army affairs. For that matter, it had built its own power resource bases, politically and economically. Thus, the army managed to have its own constituency established around interest groups it sponsored and to be the manager of many important state corporations. It did it, however, in a very cautious way as it lacked the legitimacy to play a non-military role. So that, it could be argued that the history of the army during the 1950s and 1960s was a history of its search for a formula that could give it a legitimate title to share the political arena. The search brought it to cooperate and compete with President Sukarno and to contend against the Communist Party.

The other groups within the core coalition were those mistreated under the previous regime. The anti-
Communist intellectuals were more westernized, and, especially those in the academy, mostly educated in European and American universities. They were more familiar with the norms and the mechanisms of international economic relations and eager to utilize it to develop Indonesia. In fact, they had been intermittently sought for their advice in designing Indonesian economic development along the lines of capitalist ideology during the earlier regimes.

Their view of economic development was also shared by some big national entrepreneurs. Originally, Indonesian big businessmen were mainly of Chinese origin, but nationalization of foreign companies in the end of the 1950s produced new big entrepreneurs, the "bureaucratic-businessmen". Consisting mostly of army officers, they got their expertise from running state-owned companies. The indigenization of the economy by Indonesian governments since 1950 also resulted in the rise of some big entrepreneurs called "client-businessmen", i.e., those who depend for their success on government protection and preferential treatments. These groups share an eagerness for economic development and an impatience with political disorder, as do the army and the intellectual-technocrats.
The coalition, especially the army, found itself facing many challenges that were seen as threatening its existence. First, the economic crises inherited from the last regime. Since the end of the 1950s, Indonesia had undergone serious economic crises of international balance of payments, runaway inflation and budget deficits that reached their peak in 1965, when the nation was on the brink of insolvency. Second, the political crises that erupted one after another, but that hit a point of chaos during 1965-1966 following the aborted coup. Third, during the 1965-1966 period the new leadership still perceived President Sukarno, his followers, and the remnants of Communist movement as the most menacing threats to their position. Especially because there were still many within the armed forces and even within the army itself who supported the "Old Order" forces. It was not simply an obsession, therefore, if they saw a great danger in the survival of those opponents. On the other hand, the new leadership saw some opportunities in terms of cooperation from the anti-Communist and anti-Sukarno groups, as well as of international support from European and American governments, which have influential voices within international organizations, and from the international business community.
Given their perceptions of the challenges and opportunities in their surroundings, it is natural to see that the new leadership's main concern was how to devise mechanisms that could minimize social conflicts and at the same time maximize economic productivity. Or, how to restructure the political system into an "ordered" politics. As I will argue in chapter IV, such a politics requires a machinery that could guarantee a fast, effective and efficient process of policy-making and implementation. Hence the new regime's strategists came up with several methods. First, they created a "kitchen cabinet" called SPRI (personal staff to the top executive) consisting of several sections dealing with finance, politics, intelligence and other non-military affairs. This "invisible cabinet" due to public criticism was dissolved in 1968, although its incumbents still did the similar functions in other offices as well as in another smaller "kitchen cabinet" formed thereafter and called ASPRI (personal assistants to the President). Despite its formal disbandment in 1974, the functionaries still performed as close advisors to the President. Second, the implementation of government policies was assured by allowing the already politically involved military officers to penetrate more deeply civilian governmental roles and to supervise civil service officials, by intensifying the network of intelligence apparatus, as
well as by employing more conventional methods of centralizing and streamlining the bureaucracy. Third, controlling the interest-representation of the population by making both legislatures more responsive to the government's wish, by emasculating the parties, and by forcing the existing interest-groups to join the government-sponsored corporatist-type organizations. And, finally, underlying all the efforts was the dissemination of new doctrines aimed at creating new Indonesian men, "development-minded men" or "manusia pembangunan". They are the ideology of "developmentalism" or "modernization" and the doctrine of the "Military's Dual Function". The former is a technocratic ideology emphasizing values such as efficiency, effectiveness, harmony and consensus as the most important prerequisites of economic development. The latter is a doctrine legitimizing the military's role in non-military's affairs.

In practice, these measures were geared toward limiting effective participants in the political arena to those regarded as mostly concerned with the redefined "national interest" of economic development and political modernization, i.e., the dominant coalition members. As will be demonstrated in great detail in chapter III,
these maneuvers were accompanied by economic policies aimed at winning popular acceptance through practical performance in meeting people's economic needs. By so doing, the regime found a new formula for legitimacy by creating "material satisfaction" among the population. First, the government adopted economic stabilization and rehabilitation policies. Backed by foreign commodities assistance, they managed to provide basic necessities, i.e., foodstuffs and clothing, in sufficient amount, as well as to arrest and ultimately control the skyrocketing inflation. And, especially for the urban "middle-class", the government also allowed liberal imports of many consumer and luxury goods banned by the previous regime. Foreign aid also enabled the government to rehabilitate the economic infrastructure, which mostly means repairing transportation and communication facilities. These measures succeeded in stabilizing the economy and positively encouraged export activities. And when the government considered the economy was stable enough, they launched a fast, foreign-propelled economic development.

While they benefited members of the core coalition and international capital, the political and economic policies were not without their opponents. Since their inception, the policies were opposed by some intellectuals within the coalition as well as by those in the parties.
The heavy-handed policy of "ordering" the politics certainly frustrated those who saw the New Order as liberation from Guided Democracy authoritarianism. The economic policies also disappointed small and middle, mostly indigenous, entrepreneurs, who were badly hit by and went bankrupt due to the negative effects of the stabilization policy, such as the "tight-money" credit policy, the liberalization of imports, and the abolishment of preferential treatments for them.

The resentments found more supporters among student leaders and other nationalist groups, and hence sparked a challenge to the New Order government. Perceiving its viability as depending mainly on the success of the policies, the government responded in repressive ways, especially by intensifying the process of "ordering" the political system: banning demonstrations, outlawing strikes, intensifying control on the legislative bodies and the elections of their members, et cetera. The frequent employment of such repressive measures, hence, led to the emergence of bureaucratic-authoritarian politics.

Organization of this study.

After presenting a critique of other possible explanations of New Order Indonesia and arguing for the
conceptual framework used in this study, this work will explicate further such a position and discuss the data supporting it. Accordingly, chapter II describes the legacy of the previous regime in terms of political institutions, such as the emergence of the army as a strong political force, the growing ineffectiveness and inefficiency of the bureaucracy and the emasculation of the political parties and the legislatures; as well as in terms of economic and political crises. The chapter also discusses the sudden emergence of a new coalition against the previous regime.

Chapter III discusses the debate on the necessity of economic development and the strategy of fast, external-oriented economic stabilization, rehabilitation and development. It will be argued that there was an alternative to the government's economic strategy. Also described are the policy instruments to stabilize the economy and to restore the free market mechanism, as well as the favorable responses from several capitalist countries having their interests at stake in Indonesia and from the international business community.

Chapter IV deals with the core of this study, the building of a political framework conducive to efficient policy-making process and to economic development. The
first part discusses the creation and dissemination of the technocratic ideology of "developmentalism" or, in the words of an army ideologue, of "Twenty-Five-Years of Accelerated Modernization", legitimizing the short-term cost of economic development, and of the "Military's Dual Function" doctrine, legitimizing the military's activities in political, economic and social affairs. The second part depicts the efforts of the regime to put the policy-making process in order and under control by centralizing the military and civilian bureaucracies, by controlling the legislatures, the parties, and other channels of interest-representation, as well as by revitalizing the super-bureaucracy of the Presidential Office.

Concluding this study, chapter V reviews the arguments presented in the previous chapters concerning the causes and the nature of the New Order authoritarianism, and discusses the recent and possible future development of the New Order regime.
CHAPTER II

THE SETTING: INDONESIA IN 1965-1966

In discussing the 1965-1966 political arrangement that gave rise to the New Order political structure, this chapter will discuss three groups of phenomena. First, we will discuss, by way of historical narration, the structural legacy of the previous regimes which were characterized by "centrifugal" party politics, a weak legislature, a strong patrimonial presidency, a politically and economically influential army, and a tradition of centralized bureaucracy. Second, we will describe the economic and political crises during the last days of Sukarno's regime. And, finally, attention will be focused on the emergence of a broad coalition against the Sukarno government and its Communist supporters.

Structural legacy of the previous regimes.

The history of Indonesian politics until 1966 was dominated by a desperate search for a political mechanism suitable to Indonesia's plural society. Since the proclamation of its independence, on August 17, 1945, Indonesia has
created several major political and constitutional frameworks in order to achieve the goals as perceived by its leadership. During the turbulent years of the war of independence, in which the new republic fought against Dutch efforts, backed by the Allied Forces, to regain its colony, Indonesia was governed, first, by a presidential cabinet, with an advisory committee but without any specific political body to which it was responsible. Despite wide support enjoyed from all political groupings, thanks to President Sukarno's and Vice-President Hatta's popularity among the populace, the government could hardly govern because of lack of resources and apparatus as well as because of its short tenure.

Concern for international opinion, especially to show to the Allied countries that Indonesia was neither fascist nor a mere puppet of Japan, as the Dutch accused, led to the establishment of a liberal-democratic regime in November 1945, with a prime-ministerial cabinet responsible to a parliament and supported by a newly revived multi-party system. Caught in a conflict between groups favoring revolutionary war and those preferring diplomatic methods in gaining recognition of independence from the Dutch, and unable to mobilize resources due to the Dutch control of major economic sectors, the regime was ineffective and
plagued by instability. In fact, there were five governments between November 1945 and December 1949, when the Dutch finally recognized Indonesia's sovereignty.

After a brief *interregnum* of an unpopular federal system (December 1949 to August 1950), Indonesia reestablished a unitary system and liberal-democracy with a very heterogeneous system of political parties. Without any group being able to claim dominance, establishment of a government was dependent on those who were able to form a coalition. Moreover, having to face great problems of paying the huge foreign debt made by the colonial government, of building the economy itself, and of "state- and nation-building", such coalition governments were very unstable and ineffective. Between 1950 and 1959, there were seven governments, none of which lasted more than two years. And, although the first three governments were considered by many as relatively successful in economic matters, by the end of the liberal-democratic era Indonesia had severe economic and political problems that had reached the level of crisis. The economy was ruined by a high rate of inflation, a depleting foreign exchange reserve, and a government budget deficit. Many blamed corruption among government officials, the use of government money to build a clientele among fellow party members, and the lack of
entrepreneurship within the Indonesian business community, although factors such as de facto control of major economic sectors by foreign companies (in mining, plantations, foreign trade, and interinsular sea transportation), and also the flight of foreign, especially Dutch, capital by the end of 1957 played a more important role in preventing governments from effectively building the economy.

Moreover, the situation of crisis was more apparent in the political sphere. Prolonged and almost futile debate on the state ideology, the growing power of the Communists, the ineffectiveness of the central government in dealing with regional problems, and the split between the revolutionary duumvirate, Sukarno-Hatta, resulted in the emergence of separatist movements in the two strategic islands of Sumatra and Sulawesi (Celebes), which certainly threatened the unity of the new republic. All in all, the problems led to the abandonment of the constitutional democratic political framework that had been there since November 1945.

One of the major factors that created the problems was the centrifugal tendency of the multiparty system. The reason behind the reintroduction of the multiparty system in November 1945 was its potentially greater responsiveness
to diverse groups within the society. As the Komite Nasional Indonesia Pusat (the Central National Committee) or KNIP, the embryonic parliament, put it, the government "favors the establishment of political parties, because with the existence of political parties all currents of thought which are to be found in society may be canalized into a regulated course".¹

Unfortunately, the multiparty system was implemented in a very pluralistic and highly polarized society. Since the 1930s, Indonesian political parties tended to represent diverse political interests which were almost impossible to compromise. So during the first half of the 1950s, there were about fifty political parties, each representing a separate and often narrow interest, which generally could be categorized into three ideological biases: nationalist, Islam, and Communist.² Since many of them represented very narrow interests, such as regional, religious, or even elite cliques, it was, understandably, very hard to find a basis for compromise among them. Consequently, it was almost impossible to build a strong coalition that could provide a stable and effective government.

The national election of 1955,³ which had long been awaited in hopes of resolving the political deadlock,
resulted only in another frustration. It did simplify somewhat party politics by clustering the votes around the big four of the nationalist PNI (Partai Nasional Indonesia), the modern Muslim Masyumi (Majelis Syuro Muslimin Indonesia), the more traditional Muslim NU (Nahdlatul Ulama), and the Communist PKI (Partai Komunis Indonesia). But none of these parties won enough votes to claim a majority in the parliament. And difficulties in establishing a stable and effective government resumed again.

The polarization of Indonesian society was also reflected in the conflict among the parties over what constitutes the foundation and the ends of the Indonesian state. Even ten years after independence, the parties still had not agreed on this fundamental problem. Generally, the issue was whether the Indonesian state should be based on Islam or on the secular ideology of Pancasila (the Five Principles of Belief in One God, Humanism, National Unity, Popular Sovereignty, and Social Justice) introduced by Sukarno in 1945. The Constituent Assembly established after the election of 1955 failed to reach consensus on that matter; hence, no new constitution emerged.

Another factor that helped create the crises was the failure of the liberal-democratic regime to include two
powerful political forces during the revolutionary years, i.e., Sukarno and the army, within the political framework. The constitutional arrangement did not give them a proper role to play. Consequently, the army, as an extra-parliamentary force, on several occasions intervened in the political system. On October 17, 1952, parts of its leadership tried to get the parliament dissolved, and again in June 1955, it refused to accept the new army Chief of Staff appointed by the Cabinet, which resulted in the fall of the Cabinet. President Sukarno, who under the Provisional Constitution of 1950 did not have real power, also expressed several times his disaffection from the regime. He criticised it as an un-Indonesian way of doing things in politics, as irresponsible to the majority of the population, as further polarizing the already pluralistic society, and discredited it as "fifty-plus-one majority" democracy. So intense was this outside intervention, especially after 1955, that it could be argued that it was not the liberal-democratic regime itself that was to be blamed for the failure; instead, the fact that it was not given enough opportunities and support to do its job probably explains more.

The intervention by the two extra-parliamentary actors was more intense when it turned out that the
elections did not provide a strong and purposeful cabinet as expected by the attentive public of Indonesian affairs, as well as the governing elite itself. The parliament and the cabinet that emerged from the elections were still caught in a conflict between the PNI-led group (which included NU and PKI) and the Masyumi-led group (which included the Socialist-PSI, the Christians and the Catholics) in the parliament over the old fundamental issue of state ideology. All of these made the government ineffective and, in turn, weakened its moral authority. Moreover, by the second half of 1956 this weakened government had to face new serious challenges: first, the large-scale smuggling activities organized by regional military commanders in Sumatra and Sulawesi, as expressions of protest against the central government; second, the attempted coup by a strongly anti-Communist, former army Acting Chief of Staff, Col. Zulkifli Lubis; third, the calls by President Sukarno for the abandonment of the multiparty system and the replacement of liberal democracy by a system he perceived as more congruent with Indonesian society and culture, a "guided democracy".

When the last liberal-democratic government resigned in March 14, 1957, this gave way to the implementation of President Sukarno's Konsepsi or ideas on Guided Democracy.
He envisioned a kind of corporatist regime based on the indigenous, traditional principle of *gotong-royong* (mutual help) and *musyawarah untuk mencapai mufakat* (an old village decision-making procedure that emphasizes deliberation to reach consensus), as the most suitable to the Indonesian polity and the most effective strategy in mobilizing popular support. Based on this idea, he proposed to establish a "*gotong-royong*" cabinet which would include all political parties and a "national council" consisting of representatives of functional groups, of the regions, and of *ex-officio* members such as the chiefs of the armed services, the head of the police, the chief public prosecutor and certain key ministers. The council would be chaired by the President. 6

The *konsepsi* was supported by the Communist PKI and the nationalist PNI, but rejected out of hand by Masyumi, while other parties showed a wait-and-see attitude. Since it represented a recognition of the army's right to some political representation, the army leadership supported the idea of a "national council", but not of a cabinet which included the Communists.

After the *formateur* from PNI failed to form a new cabinet on the basis of the balance of power within the parliament, President Sukarno appointed himself as "citizen

Sukarno" to form an "emergency, extra-parliamentary business cabinet", called *Kabinet Karya*, headed by a widely respected nonparty leader, Djuanda.\(^7\) This cabinet fell short of what the President wanted, especially because it did not include the Communists, but it certainly pleased the army.

Sukarno's *konsepsi* was more correctly implemented in the establishment of the *Dewan Nasional* (National Council) by the Cabinet's decree in July 1957. The new body gave the President his long-hoped forum which he could use to realize his great ambition of nation-building, and, more importantly, gave him the legitimacy for his active role in the political system. In practice, the new council rivaled the elected parliament and the Constituent Assembly in the decision-making process.

The *Dewan Nasional*’s first agenda included plans to establish a national planning council, a new parliament composed primarily of functional, nonparty groups, and a new party system, which was intended to be a single-party system.\(^8\) Searching for a firm constitutional basis to embark on such radical reforms, army Chief of Staff General Nasution requested the *Dewan Nasional* to urge the Constituent Assembly to readopt the 1945 Constitution. The revolutionary period constitution was preferred by the army leader because it mentions a kind of nonparty group
and regional representation within the parliament, a loophole that could be filled by the army. President Sukarno, who in the beginning was reluctant to accept such a proposal, also supported it because it provided for a strong presidential cabinet.

When the Constituent Assembly failed to agree on the proposal to revive the 1945 Constitution, President Sukarno, backed by the army and some political parties, reenacted the constitution by presidential decree on July 5, 1959. And by the same decree he dissolved the popularly-elected Constituent Assembly.

The reintroduction of the 1945 Constituent sparked a series of radical changes. First, it ended the long debate on the ideological foundation of the state, because the revived constitution incorporated the principles of Pancasila as the state ideology. Second, it was a change from a parliament-centered to a president-centered government. In the nonparty cabinet that was formed soon afterward, the Kabinet Kerja (or Cabinet of Work), President Sukarno became Prime Minister of the cabinet of thirty seven members, eleven of whom were military men, with the army dominating. Third, the Dewan Nasional was reconstituted in the same month to become the Dewan Pertimbangan Agung (the
Supreme Advisory Council) or DPA which was seen as a kind of State Politbureau, that formulated basic domestic and foreign policies which must be implemented by the cabinet. Fourth, the Dewan Perancang Nasional (the National Planning Council) or DEPERNAS was established with the tasks to plan for a glorified Sosialisme a la Indonesia. Fifth, when the democratically elected parliament, then still dominated by the old party system, rejected the budget proposed by the new cabinet, the President dissolved it and formed a new Gotong-royong parliament and later on the supposedly highest state organ as stipulated by the 1945 Constitution, the Majelis Permusyawaratan Rakyat (the People's Consultative Assembly) or MPR. Sixth, the ground for forming the new legislatures was prepared by a new, simplified party system. From around 25, only 10 "passed" the screening; those were three nationalist (PNI, PARTINDO, and IPKI), three Muslim (NU, PSII, and Perti), two Christian (PARKINDO and Catholic), and two Marxist (Murba and PKI) parties. Finally, another institution which Sukarno initiated and had at his disposal was the Front Nasional (the National Front), whose membership included functional groups, political parties, and also individuals, and whose task was to mobilize popular support for the cabinet. For the President the last organization was a forum in which he could integrate all the political forces into a single party.
These changes decidedly created an authoritarian politics in Indonesia, although given the intense rivalry between the army and the President it was not a monolithic politics. So while the political power of the parliament and the political parties, except PKI, were emasculated, that of the President was vastly increased. Also augmented significantly by the political reform was the army's political power, which finally found a legitimating formula for its involvement in political and economic affairs of the state in the form of functional representation.\textsuperscript{11}

The army's search for such a legitimating formula was started when the army leadership, while frustrated with parliamentary democratic politics, failed to force Sukarno to dissolve the parliament in 1952. Never seeing themselves as merely a tool of the government and, in fact, having kept thinking that it was mostly due to their initiatives that independence was won from the Dutch,\textsuperscript{12} the army leadership always perceived political activity in the government as part of their rights and duties. The problem was how to devise a mechanism so that they could actively participate in non-military spheres legitimately.\textsuperscript{13}

On November 11, 1958, General Nasution, in a speech at the National Military Academy, introduced his ideas on
the role of the army which was later called the "Middle Way" concept. In this concept, the Indonesian military would neither imitate the Latin American military officers' role as a direct political actor, which resulted in repeated coups; nor follow the West European model where the military functions as a dead tool of the government. Instead, the army leadership would share political power with civilian politicians in the cabinet, parliament, and other state organs.  

The idea was further developed when the army ideologues innovated a defence doctrine of "Territorial Warfare" or "Total People's Warfare". The doctrine was based on a realistic evaluation of the technological inferiority of the Indonesian military in waging a modern war. Given the high price of building a modern military force, the army leaders preferred to develop further the guerilla methods, which had been tested during the revolutionary war. In this kind of warfare the military would be dependent on its ability to mobilize the population to support it. This, in turn, would require it to deal with the problem of managing human resources beyond the strictly military sphere, such as government administration, economic management, and the like. From this doctrine, later on, emerged the concept of "dual function" of the military, which entitled it to the
right to participate in political, social, and economic affairs, in addition to its military function.

The ideology of the military was smoothly realized, especially when, soon before he resigned, Prime Minister Ali Sastroamidjojo of the last liberal cabinet signed a decree proclaiming a national state of war and siege. Based on the Netherland East Indies statute, martial law provided that "the military authority is empowered, in deviation from provisions of general regulations, to take measures of any kind whatsoever . . . when it considers them necessary in view of the immediate emergency situation." The army used the opportunity to pave its way deeper into non-military areas, especially through the establishment of a hierarchy of "war authority" offices across the nation to supervise the civilian governments at various level.  

Aside from the effort aimed at reenacting the 1945 Constitution, there were two strategies of the army that must be taken into account in order to understand Indonesian politics after 1966: first, the army's constituency- and coalition-building; and second, the army's efforts at building an economic base. The first strategy was started when Colonel Nasution --after being forced to resign from his position as army Chief of Staff as the result of the
October 17, 1952 Affair—established a political party, Ikatan Pendukung Kemerdekaan Indonesia (the League of Upholders of Indonesian Independence) or IPKI, to participate in the 1955 elections. But the strategy that later on became one of the army's important power pillars was the creation of organizations for nurturing cooperation between the army and civilian (especially non-partisan) groups. The first established was the cooperative body for youth, Badan Kerjasama Pemuda-Militer or BKS-PM, by an army staff officer from the Penguasa Perang Pusat (the Central War Authority) or Peperpu office. Soon afterward, similar "cooperative bodies" were established between the army and labor, peasant, veteran, religious leaders, and several others. By organizing these functional groups, the army leadership intended to rival or to weaken the political parties. The umbrella for such strategy was the concept of functional representation. By the closing years of 1950s, it was not difficult for the army to find an issue to mobilize popular support. The nationalist pride of the Indonesian people had been hurt by the prolonged occupation of West Irian by the Dutch. "To liberate West Irian" was the issue of the day that was manipulated by the army-sponsored cooperative bodies to form the Front Nasional Pembebasan Irian Barat (the National Front for the Liberation of West Irian) or FNPIB, that was expected to be a single
vehicle for the functional groups and, hence, to weaken further the parties, especially the army's most powerful enemy, the Communist party.

President Sukarno, who did not want to see the army's power grow unchecked, disapproved the army-dominated organization. Accordingly, FNPIB was dissolved and replaced by another Front Nasional, in January 1961, whose membership included not only functional groups, as was the case in the FNPIB, but also all political parties. Sukarno expected that the new Front Nasional could be developed into a kind of "vanguard" party, a federation of all political forces where he could assume the chairmanship. He badly needed such an institutional power base if he was not to be dependent on the PKI and the army.

Although the army was not yet in full control of the functional groups, many of which were still attached to and controlled by their respective parties, it succeeded in clearing its way into legitimate political activities. This was very useful in its preparation for deeper involvement in non-military affairs in the days after Sukarno.
The success of the army's political strategy was accompanied by another achievement in its economic strategy of building non-budgetary revenue sources for the army. Since the budget allocation provided by the government were far from enough to maintain a standing army, many regional army commanders were forced to find other sources of revenue in order to finance military operations, and especially to provide additional income to the underpaid military men. This venture could take the form of establishing a "welfare foundation" as an umbrella for some business activities, but often it took the form of simple smuggling. This last type was the characteristics of the army commanders of resource-rich Sumatra and Sulawesi, who later on rebelled against the central government.

The situation during the turbulent years of 1956-1958 helped the army in building its economic power base. The conflict over West Irian had resulted in the severance of Indonesian-Dutch relations. The conflict reached a climax when the Indonesian claim was defeated in the United Nations General Assembly in December 1957. The defeat sparked a popular retaliation toward Dutch business in Indonesia. Within a few days of the UN vote, in the name of the Indonesian Republic groups of workers working in Dutch-owned companies "took over" Dutch shipping companies, banks,
plantations, factories, and other business activities. These actions, which were supported by some government officials, threatened to create chaos in the economy. To avoid this and to prevent the Communist labor organization from manipulating the radical actions for its own benefit, General Nasution on December 13, 1957 issued a martial law decree to put the companies under military control. He then authorized army officers to assume the managerial positions left by the Dutch. Thus, the huge Dutch capital investment fell into the hands of the Indonesian government and was managed by the army. From these companies later emerged a giant army-controlled oil company, PERTAMINA, that produced 60% of Indonesian export revenue in the 1970s.

The last institutional legacy of the previous regime was the patrimonially-inclined and centralized bureaucracy. Especially in Java, the Dutch bequeathed a modernized public bureaucracy to the new republic. Although it was not really effective in implementing public policies, due in part to its degradation during the three-and-a-half-year Japanese Occupation, the bureaucracy in itself, especially the pamong praja (territorial officials in the Department of Home Affairs), was very important for several reasons. First, as a result of Dutch colonial policy, most educated people found their vocation in public office, so that the
bureaucracy became a large pool of modern people equipped with the administrative and technical skills needed to run a government. Since most of the party politicians, except some university graduates placed at the top leadership of some parties, lacked the technical ability, politically the bureaucrats were indispensable. Second, the way they were socialized and recruited into public office made the pamong praja culturally more homogeneous and more cosmopolitan than the party politicians. Third, the bureaucracy inherited from the colonial administration the habit of blurring the boundary between administrative and political spheres, which "created a climate in which political manipulation by government officials was natural and necessary". This made the bureaucracy itself an arena for political conflict and a source of patronage for the political group dominating the government. Finally, the bureaucracy has expanded tremendously since the last years of colonial administration: from 82,000 in 1940 to 2.49 million in 1968. The increase grossly exceeded the increase in population which was 68 million and 110 million respectively.

Moreover, the traditionally centralizing tendency of the pamong praja found its supporters among the proponents of Guided Democracy. Being always preoccupied with the idea
of a unified polity, President Sukarno and the army leaders preferred to have a strong, centralized bureaucracy, especially as a means of reinforcing central control over the regions. The Decentralization Law of 1957 created by the elected parliament, however, threatened the centralized bureaucracy to eventually be abolished and replaced by elected and more autonomous regional government institutions. To the detriment of these regionally-, especially Outer Islands-, based interests, President Sukarno issued a decree in 1959 terminating the decentralization law and restoring the traditionally stronger position of the pamong praja vis-a-vis the regional governments.\textsuperscript{27}

Inherited crises.

Guided Democracy was mainly characterized by a competitive alliance between Sukarno and the army leadership and it was their power relationship that determined the fate of the political parties. Even though party politics in the 1950s had frustrated Sukarno a great deal, he could not afford to let them be eliminated while he confronted challenges from the increasingly powerful army. The parties could lend their support to the President in the new legislatures, the DPA (the Supreme Advisory Council) and the Front Nasional, the institutions on which he based his legitimacy. He tolerated the emasculation of the parties by the army.
only to the extent that it would not eliminate them. In its effort to dismantle the present political representational system based on political parties and to create a new one based on functional group representation, the army did threaten the existence of the political parties. It tried to separate the parties from their mass organizations and to include the latter in the army-dominated Sekretariat Bersama Golongan Karya or the Joint Secretariat of the Functional Groups. It attempted to deprive the parties representation in the FNPIB. It also intruded and sometimes outlawed the parties' activities in some regions. These actions forced the President to intervene and rescue the political parties. And, instead of "burying" them, President Sukarno preferred to reduce their number and to keep them under his control.²⁸

PKI was the least weakened of the parties. Since the early 1950s when D.N. Aidit assumed the chairmanship and started rebuilding the party, PKI chose the "peaceful road" to power, i.e., working under the liberal parliamentary system and participating in the elections.²⁹ It did so for several reasons. First, largely due to its reputation for being a traitor when it rebelled against the government in 1948, a time when the new republic was preparing for another
Dutch's invasion, the Indonesian political climate in the early 1950s was dominated by anti-Communist sentiment. Second, regionally, Southeast Asia was also under the "sphere of influence" of two anti-Communist world powers, the United States and the British, which had their troops stationed there since the end of World War II. Hence, it would be better for a still-struggling Communist party to keep a low profile. Third, the parliamentary system and the President gave it an opportunity to grow as a mass membership party within the boundaries set by the system, although at the expense of party militancy.

PKI's able leadership and Sukarno's lenience towards it were among the most important factors that enabled it to build a strong mass base and to be one of the "big four" of the Indonesian party system after the 1955 elections. Furthermore, its large membership (about 3 million by the mid-1960s), and its command over large numbers of followers recruited by its ancillary mass-organizations (about 15 million people), and its ability to build the best organized party in Indonesia made PKI the most effective organization aside from the army. Therefore, it is only logical that President Sukarno found it indispensible in his dealing with the army. Thus, during most of the Guided Democracy period, Indonesian politics was generally
seen as the reflection of the dynamics of triangular, rivalling power relationship among three main political forces: President Sukarno, the army, and PKI, with Sukarno acting as the balance-holder between the other two.

In such a power relationship, Sukarno was needed by the PKI, as protector against the army; and by the army, as provider of the legitimacy for its involvement in the politics. On the other hand, the President needed the army to check PKI, and PKI to give him an effective organization to mobilize popular support and often to provide a large, mass audience for him to give a speech.³¹

The very competitive power relationship, naturally, had detrimental effects on the effectiveness and the efficiency of the government. A policy issue that might be otherwise instrumental in terms of "national interest", such as economic development, often was put aside in favor of another issue that promised one or all of the power contenders short-term advantage, such as an increase in its power. So after the regional rebellions had been put down, the government, instead of solving the economic problems that partly caused the rebellion, started to deal with a more popular issue of campaigning to liberate West Irian. Sukarno manipulated the issue to enhance his own power by mobilizing the population behind him; the army found in it
a rationale to get more budget allocation to modernize its armament; while PKI and other parties used it as a means to express their patriotism and particularly their loyalty to the President.

When the West Irian issue was settled in 1963 in favor of Indonesia, people expected that the government would pay more serious attention to economic problems that had grown more and more severe. The government did so, at least for a while. In May 1963 the government, aided by an International Monetary Fund (IMF) team, set up an economic stabilization program and then followed that with the Economic Declaration by the President aimed at rebuilding the economy along liberal-capitalist lines. Soon, however, Sukarno saw a more compelling issue, the "Crush Malaysia" campaign.

Angered by the way the British ignored Indonesian opinion in forming the Federation of Malaysia, Sukarno accused the British, backed by the U.S. Seventh Fleet in the Indian Ocean, of threatening Indonesian security. He aroused popular actions against against Malaysia, Britain, and later America, which resulted in the seizure of their properties in Indonesia. Accompanying that, the government abandoned the economic stabilization program.
Again, the three major political actors perceived the economic problems as secondary in importance compared to the military campaigns, which gave President Sukarno and the army tremendous opportunities to enhance their political powers. In addition, in order to preserve the balance of power, the government always put off political-economic decisions that might have caused dissension between the elements within the government. Thus, As Mackie put it, the "political balance was maintained... at the cost of economic equilibrium".

The neglect of economic problems brought the Indonesian economy to near ruin. First of all, the military operations against the rebellions in Sumatra and Sulawesi during the 1957-58 crisis forced the government to resort to huge deficit-financing. The problem of budget deficit was more aggravated later on by the military build-up to support the West Irian and "Crush Malaysia" campaigns. While in 1955 the deficit was only 14 percent of the government revenue, it soared up to 174 percent in 1965 (see Table 1).

Such huge deficit put heavy pressure on the inflation rate. Inflation had been a problem in Indonesia since independence. But it only became a real problem in
the country after the 1957-58 crisis, when the increases in military spending were accompanied by the decrease in export revenues (see Table 2). The bad performance in the export activities due mainly to the mismanagement of the nationalized estates (by then, government estates) which mostly produced export commodities such as rubber and palm oil.

The economic condition was further worsened when the Sukarno government abandoned the 1963 program of economic stabilization. Figures in Table 3 show the seriousness of the monetary situation. While the real value of the money dropped to only 29 percent of what it was in 1954, the money supply rose from Rp.11 billion in 1954 to Rp.20,550 billion 12 years later. The table also shows that between 1958 and 1966 the volume of money stock inflated 701 times larger, and that during the 1965-66 period alone it increased almost 7 times. All of these increases were mostly for financing the government budget deficits.

Table 4 shows that price increases were moderate until 1957. After the crisis, when the government was accustomed to a huge deficit spending, however, prices went up at a high speed, and reached the climax in 1966 when they increased by 635 percent compared to the previous
year. A really spectacular problem of inflation.

Moreover, the skyrocketing inflation was not accompanied by meaningful economic growth. In fact, the economy was almost stagnant. Figures in Table 5 show that between 1958 and 1965 Gross Domestic Product only grew at the average of 1.4 percent annually. And the growth rate, in fact, fell to below zero in 1960 and 1963. The economic growth rate, indeed, lagged behind the population growth rate that was estimated at 2.5 percent per annum.34

The gloomy picture of the economy was also depicted by data on international trade and payments. The total export value in 1956 was $924.7 million and down to $790.7 million in 1958, when the nationalization of foreign companies actually began. In 1965 the figure was $705.9 million (see Table 2).

The balance of payments deficits were also growing between 1960 and 1967. The deficit in the balance of current account was $84 million in 1960 and increased sharply to $523 million, when there was an influx of Soviet military assistance. In 1965 the deficit was $123 million (see Table 6). Correspondingly, the foreign exchange reserve decreased from $313 million in 1960 to merely $8 million
in April 1966. With all of these financial problems, by the end of 1965 Indonesia had to finance the minimum import requirement totalling more than $600 million.

Then there was a problem of foreign debt. The Guided Democracy created a foreign debt totalling $2,358 million. Almost 42 percent of it was owed to the Soviet Union, almost 10 percent to Japan and 7.5 percent to the U.S. (see Table 7). The debt was scheduled to be repaid in a seven-year period beginning 1966. In addition, Indonesia still had to pay compensation for foreign companies in nationalized. And finally, while Indonesia had to repay $530 million of its foreign debt due in 1966 and to finance imports of foodstuffs, textile, machinery and spare parts totalling more than $600 million, its total foreign exchange earnings for that year was estimated at only $714 million (see Table 6).

The financial problems had a severe impact on almost all sectors of the economy. The lack of imported machinery, spare parts and the raw materials itself brought industrial production to less than 20 percent of its capacity. Lack of maintenance also resulted in damaging infrastructure, especially transportation and communication.
On the international scene, particularly in the international business community, Indonesia was increasingly isolated. After the Dutch, the British, and some American businesses, by 1965 it was the turn of the IMF and other UN agencies to be kicked out of the country when Indonesia withdrew its membership from the international organization and planned to establish its own version of international cooperation comprising only non-imperialist countries, duplicating the successful Asia-Africa Conference of 1955. The country was further isolated when Sukarno perceived international politics as no longer a struggle between the Communist East versus the Capitalist West blocs with a non-committed one stay in the periphery, but as already changed into a two-bloc rivalry, that is between the New Emerging Forces (NEFOS) versus the Old Established Forces (OLDEFOS), and tried accordingly to form an alliance between Indonesia, the Communist China, Cambodia, North Vietnam, and North Korea.

At a time when it had to prepare for servicing the mounting foreign debts as well as getting new credits, such international behavior undoubtedly damaged Indonesia's credit worthiness. Even worse, its solvency, and therefore its ability to repay the debts, was doubtful when in December 1965 Indonesia's Central Bank was reported for the
first time unable to pay on letters of credit, which resulted in Japan's Ministry of International Trade and Investment's refusal to insure shipments to Indonesia.39

The economic chaos was accompanied in domestic politics by more fierce power competition, and sometimes open conflicts, between the army and the Communists. The political power of the army leadership was severely weakened by Sukarno, as he kicked General Nasution upstairs to be the Chief of Staff of the Armed Forces and put General Yani, an officer with a less strongly anti-Communist stand but with more loyalty to the President, in the army Chief of Staff position in 1962,40 (which was soon renamed Panglima or Commander in Chief and given Minister status in order to make it more autonomous of Nasution's control as well as separated from the other services). Later on when Sukarno lifted the martial law in 1963, the Communists seemed to abandon their "peaceful road" strategy in favor of more radical actions.41 PKI's mass-organizations, especially the university student organization CGMI, the cultural organization LEKRA and the youth organization Pemuda Rakyat (the People's Youth) were more aggressive in harassing and attacking their enemies, especially the Muslim community, while the peasant wing BTI (the Indonesian Peasant Front) took the law in its own hands in a series of
aksi sepihak (unilateral actions) in rural areas aimed at implementing the landreform laws by distributing lands among the landless peasants mostly at the expense of the military-managed government estates and rural petit landlords. These radical actions, as evidenced later, only created a deep antipathy on the part of PKI's enemies, especially the army leadership and the Muslim community.

The tripolar balance of power broke up with the abortive coup by the "September 30th Movement" shortly before dawn of October 1, 1965. Despite the unsettled and confusing debate on what really happened and why, some facts about the affair are confirmed. The attempted coup was staged by several junior army officers under the leadership Lt.-Colonel Untung, the commandant of the palace guard battalion, was supported by the airforce leadership, who provided the airforce base at the outskirts of the capital city Jakarta, and by the Communist Party leadership, some of whom were present at the base at the night. While the involvement of the two supporters were evidenced, the role President Sukarno played in the coup attempt was unclear. Although he came to the base in the following morning, there was no indication that he knew the plot in advance. His refusal to condemn the communists for their alleged participation in the aborted coup, however, gave the army leadership a good cause to move against him.
The result of the attempted coup, in which six army generals, including Commander-in-Chief Yani, and several middle and lower ranking officers were slain in Jakarta and Yogyakarta, was a severe blow to the PKI and later Sukarno. Having supposedly been waiting for such an opportunity, the anti-communist and anti-Sukarno forces, backed by the army leadership, wasted no time in attacking the PKI, which, after widespread bloodshed that took more than 500,000 lives, especially in Aceh, Central and East Java, and Bali, was eliminated as a political force.

Similar actions were also taken against the PKI's and Sukarno's supporters in the cabinet, the bureaucracy, the armed forces, and the parliament. Among those removed from the Cabinet were the coordinating minister for education, the foreign minister, the central bank governor, the ministers for the airforce and the police, and some others. Hundreds more other Sukarnoists and communist sympathisers were deposed from various positions in the higher civilian bureaucracy and the armed forces, and from the parliament. These measures will be further discussed in chapter IV.

Alliance against the "Old Order".

With the death of Commander-in-Chief Yani and his five staff generals, the army leadership, after an
unsuccessful intervention by President Sukarno, fell to Major General Suharto, who soon filled the staff positions with his own men. Aside from destroying PKI, the army leaders had to face more difficult problems: first, dealing with the President and his followers during the Guided Democracy period, which was soon nicknamed the "Orde Lama" (the Old Order), in opposition to the "Orde Baru" (the New Order) led by the army; and second, consolidating the army as well as the whole armed forces.

The new leadership, naturally, perceived the Orde Lama forces, in addition to the remnants of Communist forces, as a real threat to its newly acquired political power. Considering the genuine perception of threat and the highly emotional calls among the army for "vendetta"-type actions, it is interesting to find that the army leadership was still committed to legitimating the army's actions.

There were two factors that could be attributed to the army's concern with political legitimacy. First, the personality of the army's two central figures: General Nasution and General Suharto. Nasution had been known, probably after the unsuccessful October 17, 1952 "half coup", as a legalistic- and constitutionally-minded officer. Any
political move by the army, he insisted, must be based on a legal instrument, in order not to be accused of creating a military government. Suharto, although in many ways not in agreement with Nasution's ideas, agreed with the latter's legalistic stand. The new Commander-in-Chief was and still is an unemotional and even unexcitable type of leader. Dealing with his superior, President Sukarno, the Panglima Tertinggi ABRI (the Supreme Commander of the Indonesian Armed Forces), he preferred cautious, gradual but firm actions. He repeatedly argued for the wisdom of "catching the fish without stirring up the water". Second, the political reality of the day also dictated the leadership to take such a position. Particularly until March 1966, the President still effectively commanded powerful supporters among the party politicians, the civilian bureaucracy, the Navy's Marine Corps, the Air Force, the Police's Mobile Brigade, and even within parts of the army leadership. It was, therefore, necessary to take a gradualist, less-radical stand against the President and the Orde Lama forces. Furthermore, concern for avoiding a militaristic image was instrumental in gaining international support, especially that of the international business community which was crucial to their dealing with economic problems.
Concern with political legitimation of the army's political actions brought the army to the anti-Communist groups of civilian politicians. The army did not have to take the initiative for such a rapprochement; it did not even have to wait for long. Already by the evening of October 1, 1965, only several hours after the Gerakan Tiga Puluh September (the September 30th Movement), later nicknamed Gestapu, announced its coup attempt and after the PKI's newspaper pronounced its support for the Gestapu, but when most people were still unaware of what was happening, several Muslim politicians met and established a Muslim Action Command Against Communism, and the same evening made contact with the army leadership. The result of the meeting was the formation of an organization with a broader base, the Kesatuan Aksi Pengganyangan Gestapu (the Action Front for Crushing the Gestapu) or KAP-Gestapu, for whom the army gave full support and protection. This organization, later renamed the Front Pancasila, soon enjoyed support from the politicians of all confessional parties, Islam, Protestant, and Catholic, from the anti-Communists within the PNI, as well as student leaders and the "unattached intellectuals", i.e., those outside the parties but who mostly embodied an ideology similar to that of the Socialist PSI.47
By October 25, 1965, sponsored by an army general, a federation of university student organizations, the Kesatuan Aksi Mahasiswa Indonesia (the Indonesian Student Action Front) or KAMI, was established. The coalition of student organizations was very effective in mobilizing popular support for the army and the Orde Baru. Soon thereafter, the efforts to form action fronts mushroomed to involve all fields such as high school students, teachers, university graduates, youth, women, labor, and several more.

Underlying the ease with which the army built such a strong, heterogeneous alliance was a fervent hope, even for some a sincere belief, that freedom, justice, and welfare would come after the Communists were banished from Indonesian soil. Even without a widespread propaganda campaign, such a sentimental feeling grew among the non-Communist Indonesians during the last part of the Guided Democracy period. As I mentioned before, the PKI itself was responsible for creating such a "Communist-phobia". Hence, after those stormy years of political agitations, intrigues and authoritarianism, people naturally found the army, whose leaders had just been slain by the Gestapu, attractively promising something new, something better, a "new order". Such an expectation was really there, even
among the most politically astute groups.

All in all, the army enjoyed wide support in its cause against the Communists, and without much difficulty cracked down on PKI's bases of popular support. Such a mobilization of popular support was also instrumental in giving Sukarno a fait-accompli that unless he gave General Suharto authority to restore order and to bring the Gestapu plotters before judicial courts the army leader could not be held responsible for the actions of the radical army officers that might end up in a civil war. By March 11, 1966, the army leadership managed to have Sukarno issue a Surat Perintah (Letter of Order) which, in effect, handed over government authority to Suharto. This was, certainly, a great accomplishment in the legitimation of the army's political activity.

This important legal document ushered in the legitimate power of the army leadership. And with legal authority at hand, on the next day, General Suharto outlawed PKI, arrested politicians and some ministers accused of involvement in the Gestapu Affair as well as others who were mere supporters of Orde Lama. He also reformed the Cabinet and put it, in effect, under the leadership of a triumvirate consisting of himself, Sultan Hamengku Buwono IX,
a widely respected, liberal traditional leader, and Adam Malik, a skillful politician of a moderate left-wing party. The influence of the triumvirate, particularly Suharto's, was more noticeable when he formed a new cabinet in July 1966, in which he chaired the Cabinet Presidium, occupied the Defence and Security and also the army portfolios; by so doing, he put himself at the peak of the whole Indonesian Armed Forces hierarchy.

The formation of such triumvirate leadership, again, showed the army's concern with the involvement of those respected civilians in order to gain popular support. It also avoided the militaristic image so much afraid of, since it left the Presidency position nominally held by Sukarno.

The army had been successful in banning and eliminating PKI and, by so doing, deprived President Sukarno of his strongest civilian supporters and limited his room to maneuver. But even after the Surat Perintah Sebelas Maret (the March 11th Letter of Order) or Super Semar, the document authorizing army political actions, Sukarno was by no means defeated. He still tried to mobilize his supporters especially among the Navy's Marine Corps and the PNI, and to encourage them to defy Suharto's
orders. This call was echoed in various parts of Central and East Java and resulted in many bloody clashes and skirmishes in those areas between the Sukarnoists backed by the Navy's Marine Corps and the anti-Sukarnoists backed by the army, as well as between the military units themselves. The chaotic situation was more aggravated by the fact that the outlawed Communists built their guerrilla bases in those areas. As if to make the circumstances more complicated, there were still many civilian politicians and even within parts of the army leadership, despite their active participation in destroying PKI, who refused to oust Sukarno from the Presidency. They were happy enough to see the Communists banished and ready to invite the President to the bargaining table to make some adjustments in the framework of the balance of political power.

Dealing with such severe problems, the army leadership could not rely solely on civilian coalition-building efforts. They had to devise ways, first, to consolidate the army and ultimately integrate the whole Indonesian armed services into a single command, and second, to compete with the Orde Lama forces in winning popular supports by providing the population with some "material satisfaction". On this method of political legitimation Seymour Martin Lipset argues that:
"(A)ll claims to a legitimate title-to-rule in new nations must ultimately win acceptance through demonstrating effectiveness. The loyalty of the different groups to the system must be won through developing in them the conviction that this system is an excellent way to accomplish their objectives. For the new states, demonstrating effectiveness largely means economic development".

The choice of economic development as part of the legitimating formula was natural for a leadership of a country troubled for long by economic deterioration. But, more importantly, it promised the army leadership a greater share of the economic activities and, hence, could provide a source of patronage for the army leadership to buy off their opponents and would-be opponents, and to build a sound basis for inter-service rapprochement and, ultimately, integration under the army's leadership. These economic policy instruments will be dealt with in chapter III, and the army's efforts to integrate the armed forces will be discussed in chapter IV.
CHAPTER III

THE "PANACEA": OUTWARD-ORIENTED ECONOMIC STABILIZATION AND DEVELOPMENT

Recalling the discussion in chapter I, this study attempts to explain the resurgence of authoritarianism in the New Order by examining three variables: first, the structural conditions and the political and economic crises it inherited from the Sukarno's regime; second, the nature of the dominant coalition of power supporting the New Order regime; and third, the way the new coalition leaders perceived and responded to certain challenges and opportunities.

In chapter II I set out the legacies of the Old Order in terms of political conflicts that erupted in the September 30, 1965 attempted coup and the economic crises accompanying them. I have also described the emergence of a broad alliance, in the core of which were the army, the anti-communist civilian intellectuals, and the state-related entrepreneurs. Closing the chapter, I discussed the persistent challenge from the Old Order supporters. In this third
chapter I will describe (1) how the new ruling elite perceived both the challenges and the opportunities they found in the internal and external environment; and (2) how they devised economic policies both to respond to the political and economic challenges and to mobilize popular support at home as well as to attract assistance from the anti-communist forces abroad.

In so doing, I will present the following argument. There was an overwhelming consensus among the supporters of the New Order on the necessity of capitalist-style economic stabilization, rehabilitation and development. Given the nature of the coalition, the acuteness of the economic crises, and their frustration with Sukarno's Sosialisme a la Indonesia, an economic strategy that emphasized radical socio-economic structural reforms and ignored the role of foreign capital was out of the question.

Such a strategy was politically unacceptable to the New Order supporters, especially the army, at a time when they had to face great challenge from the Old Order forces. To embark on a landreform and other wealth-redistributing and forced-savings scheme, such as progressive taxation, would only scare away the New Order supporters who saw the new regime as an antithesis of the communist-inspired
program. The anti-communist landowners in the countryside, although mostly smallholders, were important allies the army could not afford to lose at least while it had to deal with the Old Order supporters. Such program could also force many domestic entrepreneurs having international connections to do business outside Indonesia and thus exacerbated the problem of "capital flight". The efficiency- and rationality-minded intellectuals would also not be available for helping the army, if it chose the radical way. And without the support of these allies the army leadership could not expect to solve the great economic problems inherited from the previous regime.

In addition, the army itself considered the landreform program sponsored by the leftist groups during the early 1960s as threatening its control over the state-owned agricultural estates. And finally, even if the army leaders succeeded in enforcing such a radical strategy, they could not expect that it would be able to yield a quick result. Relative to the high cost the coalition members and the general population would have to pay for the radical reform, a slow economic growth that might still be accompanied by high inflation rate would certainly be frustrating for people longing for economic betterment.
Economically, it was not feasible either. It was not realistic to expect a new government having such limited resources to adopt such a radical program. As has been described in the previous chapter, the economic crises were so severe that the government's foreign exchange reserve by April 1966 was depleted to only $8 million, while about $100 million was needed to import rice for the year. For such radical strategy of a "stand-on-our-own-feet" to be successful, the government should be able to provide first the basic necessities. Failure to supply these would only create chaos among the population.

In sum, the best economic strategy, according to the New Order leadership, was one that allowed private enterprise to play an active role, although still under the guidance of the government, in a free market and that made possible the utilization of foreign capital. The strategy promised it a quicker yields without requiring costly socio-economic reforms.

The consensus on the goal of economic stabilization and development along capitalist lines, nevertheless, broke up when the leaders came to the stage of implementation. Two alternative strategies concerning the attainment of the goal were discernible: the "outward-
oriented" versus the "inward-oriented". And the victory of the former over the latter was crucial in shaping the future of the Indonesian economy.

The adoption of the outward-oriented economic policy by the new leadership should be seen against, first, its broader efforts to mobilize the support of foreign capitalist governments and the international business community in general, at a time when there was a gloomy condition of foreign aid activities and a relative scarcity of private capital in the international market during the last half of 1960s; and second, the fact that, having been frustrated by Sukarno only a year before, the foreign governments and businesses were very cautious in providing new credits for the new regime.

Within this context, the role played by the IMF was very important. The "seal of creditworthiness' granted by the Fund to a country serves as a guarantee of the soundness of the country's economic program as well as of its ability to repay debts. The emphasis on the "shock-treatment" approach of the economic stabilization program adopted by the new government was one of the prerequisites to get the "seal". I should emphasize in advance, however, that what we are dealing with here is not a simple causality. On the one
hand, it would be oversimplified to say that the IMF or other external actors imposed such a program on Indonesia, as some believed they did. On the other hand, however, the facts tell us that the economists advising General Suharto designed the program in such a way as to get the favor of the Fund and other creditors. Therefore, it might be better to conceive their relationship as being based on a "common concern".

Primacy of the economy.

Along with the demise of Sukarno's regime, gone was the "politik-sebagai-panglima" (politics in command) slogan propagated by his supporters, and emerged a new slogan of "ekonomi-sebagai-panglima" created by those public opinion makers hitherto suppressed by the regime. For the people repeatedly frustrated by economic crises, the new slogan of economic modernization was very appealing. It easily found its supporters among the members of the anti-communist coalition as well as the general population. Moreover, it was responsible for a widespread and loudly-proclaimed view, that suddenly came out in the open during the end of 1965 through 1966, about the malevolent effects of the previous government's emphasis on policies supporting the "nation-and character-building" as defined by President Sukarno. Ironically enough, many of the criticisms often came from
the same groups or individuals who formerly supported such policies. In sum, a new public-opinion arguing for the premium necessity of economic reconstruction was created by the new leadership without any difficulty.

Already in November 1965 a group of intellectuals from the University of Indonesia, mostly economics professors, published a book criticizing the Sukarno government's policies. The economists argued that the government's neglect of economic problems had brought Indonesia to the brink of bankruptcy. It was seen as not only resulting in the crises of inflation and balance of payments deficit currently undergone by the Indonesian economy, but also in augmenting the situation of underdevelopment and dependence. One of the economists argued that:

"our position in the international economic competition has been getting worse and worse. We have even lagged behind those countries which used to be behind us in terms of economic development . . . . The decreasing foreign exchange receipts in the balance of payments during the last decade is a sign of the decline of our position in international trade . . . . (Even worse) the survival of our economy is increasingly more dependent on foreign credits . . . ."

Their diagnosis of Indonesian economic ills was more elaborated and found more enthusiastic supporters when the
students in KAMI (the Student Action Front) gave them a forum for the discussion of the economic problems by sponsoring a widely publicized seminar on Indonesian economy. The recommendations of the seminar were clearly reflected in the April 12, 1966 economic policy statement of the reshuffled cabinet, the "perfected" Dwikora cabinet, and again in Decision XXIII of the MPRS (the Provisional People's Consultative Assembly) of July 5, 1966 concerning economic reforms.

The credibility of the new leadership's commitment to the solution of the economic problems was reinforced when the army held its second seminar from August 25 to 31, 1966 discussing mostly non-military affairs. By giving the same group of intellectuals another forum for disseminating their views on how to modernize the Indonesian economy and polity, the army made it clear to the public, domestic and international, that it zealously supported the economic policies adopted by the new regime. The support was crucial if the policies were to succeed as the army is the only power holder that could guarantee effective policy implementation. The officers' support was also instrumental in convincing the potential creditors and investors about the new regime's seriousness in solving its economic problems. But it was not until October 3, 1966 that the new leaders
really took concrete steps to implement a stabilization program, at which point the disagreement among the New Order supporters began to emerge.

To understand the program of stabilization and rehabilitation, the discussion of the way the economists diagnosed Indonesia's ills is in order.

As has been described in the last chapter, the economic problems facing the new government were runaway inflation, balance of payments deficits, depleting foreign exchange reserves, and difficulties in servicing foreign debt. The economic disequilibrium was perceived by the economists to be internal in its origins. The main causes were believed to be (1) the ever-increasing government budget deficits, and (2) rapid expansion of bank credits.

The expansion of government expenditures in much higher velocity than the increase in revenues led to substantial budget deficits since the early 1960s. The worse about the deficits was that they were mostly financed not by tax collections, but by drawing money from the central bank and often by simply printing new money. Meanwhile, the government's financial policies also made it possible for the expansion of bank credits during these years. And as has been
revealed in the last chapter, the volume of money in the economy increased tremendously during the first half of the 1960s due to government measures. They certainly put very strong inflationary pressures on the economy. They created so wide a gap between the monetary demands and the available supplies that the prices of domestic and imported goods and services were soared ever higher.

The rise in domestic costs and prices combined with the deterioration of economic infrastructure and the decline of production caused a decrease in export sector activities, which in turn resulted in a sharp decline in export revenues. Meanwhile, imports could not be easily curtailed, partly because the "Crush Malaysia Confrontation" justified imports of goods for supporting the military campaign, and partly also because Indonesia basically needed many imported goods, from machinery and spare parts to rice and textiles. In sum, there emerged problems of deteriorating balance of payments and diminishing foreign exchange reserves, which mostly resulted from the government budget deficits.

The previous government had tried to solve these problems by creating many regulations intended to reduce and to control imports, such as import licensing and
administrative allocation of foreign exchange through export bonus schemes, but they mostly ended up with bureaucratic corruption.

Aside from their diagnosis of political factor of the economic crises, the economists' interpretation of Indonesia's problems implies that the foremost problem to be tackled was financial. To bring back the economy to its equilibrium state, that is to stabilize it, the new government needed to secure the supply of basic consumer goods such as rice and textiles, as well as spare parts and raw materials. Since most of these goods must be imported, the government had to deal with the problem of a huge "foreign exchange gap". While the export earnings for 1966 were estimated at $600 million, the imports for the short-term "austerity-program" of 1966 would need about $600 to $700 million (including rice imports which amounted to $100 million annually) and foreign debt servicing would require about $530 million in 1966 and $270 million in 1967.

To fill the foreign exchange gap, the government had to seek new credits, especially non-commercial ones. In effect, it had to turn to the available sources: Western and Japanese governments. As long as the terms were right, they could help Indonesia in arranging a moratorium and
For the longer-term goal of economic development, however, Indonesia would need more than "stop-gap" foreign aid. It had to attract foreign investment. Given the low domestic savings, Indonesia would not be able, at least for the foreseeable future, to create major development investments out of its own resources without severe reforms in its economic and social structures. The most feasible way to fill the saving gap was to mobilize foreign capital investments, which could be provided by the international business community. In short, Indonesia needed to get the support of both foreign capitalist governments and the international business community in general, i.e. bankers and multinational corporations.

The new leadership realized that it would not be easy to seek such support. They knew well that Indonesia's foreign creditors and investors were scared away by Sukarno's "to hell with your aid" stand, the "Crush Malaysia" campaign and his other adventurous foreign policies. If Indonesia was to get the support from foreign creditors and investors, it had to be ready to deal with them in their terms.
The civilian intellectuals advising General Suharto, in which the University of Indonesia's economists were dominant, knew the terms well. The experience with the aborted 1963 economic stabilization program taught them a lot about what foreign creditors and investors expected from a country in need of their help.\textsuperscript{10}

First of all, the new leadership must show their commitment to solving their economic problems. In a statement of April 12, 1966 by Sultan Hamengku Buwono IX, the Vice-First Minister for Economic and Financial Affairs of the reshuffled cabinet, the government laid bare the economic problems facing Indonesia and announced the policies to solve them. The following is a summary of the statement:\textsuperscript{11}

First, Indonesia faced great problems of inflation, balance of payments deficits and foreign debt. If it had to service the debt as scheduled that year, there would be no foreign exchange left to finance imports of basic necessities. Therefore, the government would approach its creditors to discuss a moratorium and a rescheduling of its debts. Second, the rehabilitation of economic infrastructure would be emphasized especially through the import of spare parts. Third, economic rationality should be the basis of government domestic as well as foreign policies. It also emphasized that the government would welcome foreign aid without
political strings. Fourth, in order to involve the regions more actively in the economic decision-making process, they would be allowed to use their own resources for their own needs as long as they still complied with central government policies. Fifth, subsidies to the state enterprises would be terminated. Sixth, tax collection would be encouraged by reforming the tax system. Seventh, short-term measures for economic stabilization and rehabilitation would be taken soon. For that matter, the private enterprises would be given opportunities to develop and regulate itself, although the government still should give broad guidance.

This first major economic policy statement of the new leadership was later supported by MPRS Decision XXIII on the Reforms of the Basic Economic, Financial and Developmental Policies, drafted by the economists advising General Suharto under the leadership of Dr. Widjojo Nitisastro. The activities of the army officers lobbying for them during the 1966 MPRS sessions were very important for the adoption of the economic document.

Decision XXIII specified three stages of economic programs: (1) the stage of resuscitation, i.e., to prevent the economic breakdown from further worsening; (2) the stage of economic stabilization
and rehabilitation, i.e., to control inflation and restore economic infrastructure;

(3) the stage of economic development.

Concerning the economic stabilization and rehabilitation, Article 15 of the Decision listed the following priorities: (1) control of inflation;

(2) provision of adequate foodstuffs;

(3) rehabilitation of economic infrastructure;

(4) an increase in export sector activities;

(5) provision of adequate clothing.

On the long-term economic development program, the priorities set were: (a) agriculture;

(b) economic infrastructure;

(c) industry, including oil and other mineral mining.

Responding to the MPRS order that the government design more specific programs implementing Decision XXIII, the same group of economists in a conference of the Ikatan Sarjana Ekonomi Indonesia (the Indonesian Economists' Association) or ISEI in July 1966, proposed to the government a three-and-a-half-year stabilization and rehabilitation program as follows: 13
"1. a six-month resuscitation program aimed at reducing inflationary pressures;
2. a two-year stabilization program continuing the resuscitation program, but more intensively;
3. a one-year program aimed at the rehabilitation of the industrial apparatus, including the repair of roads, factories and agricultural estates."

Another cabinet, this time a brand-new one, was formed on July 25, 1966, in which the power of the triumvirate, especially General Suharto's, was strengthened. To catch the sentimental political atmosphere the cabinet was named Ampera (an acronym meaning the "message of people's suffering"). And to deal with the economic problems more effectively the government formed a special organ headed by General Suharto himself, the Economic Stabilization Council,\textsuperscript{14} to formulate and implement government regulations concerning economic stabilization and to watch the day-to-day development of the market. This time the University of Indonesia's economists were formally appointed to be the general's personal staff members in charge of economic affairs. They were Dr. Widjojo Nitisastro, the leader-cum-patron of the group, Dr. Mohammad Sadli, Dr. Emil Salim, Dr. Ali Wardhana, and Dr. Subroto. Since then, the solidly integrated group represented the main "technocrats" of the New Order.\textsuperscript{15}
The government adopted a program of economic stabilization and rehabilitation similar to the one proposed by the ISEI conference, except that the government's version was designed to be a two-year program. (The time-span coincided with the time-limit for the government to prepare a national elections as scheduled by the MPRS to be held on July 5, 1968). As announced in early August 1966, the government's program consisted of four phases: (1) resuscitation, (2) rehabilitation, (3) consolidation, and (4) stabilization. Each phase was expected to be completed in six months.16

Another measure expected to be taken by the Indonesian government in order to get international assistance was in the foreign policy area. General Suharto's advisors believed that Indonesia should reenter the international political and economic community, and seek friendship with as many nations as possible. In sum, Indonesia had to reorient its foreign policy course. A symposium held on May 6 - 9, 1966 at the University of Indonesia titled "The Rise of the Spirit of '66: Exploring the New Course",17 proposed such a reorientation. The revised foreign policy, according to the proposal, should be directed toward solving the economic difficulties at home; avoiding the unrealistic pursuit of "prestige-
oriented" projects such as leadership in the NEFO; settling peacefully the conflict with Malaysia; reentering the United Nations and its agencies as well as participating in other international bodies deemed important in terms of the redefined Indonesian national interest, i.e., economic modernization.

The main point of the argument was that in order to get the support of the international business community, the Indonesian government should focus its efforts on solving its economic problems, reopen the economy to foreign capital penetration, and reintegrate it into the world economic system, i.e., the capitalist system. To examine the process let us now move to the topic of economic diplomacy conducted by the new leadership.

**The dynamics of economic diplomacy.**

By April 1966, there was a consensus among the new leaders than Indonesian economic foreign policy should be directed toward winning the support of its creditors, especially the Western and the Japanese governments. There were many, especially among army officers, whose opinion concerning the possible responses of the capitalist creditors were based on the fact that they had destroyed the largest Communist party outside Russia and China without
asking help from other anti-communist nations, who expected that the Western governments would readily extend their assistance to Indonesia. An observer who met a number of Indonesian army officers visiting the U.S. Congress during Spring and Summer 1966 wrote this report:

"Their approach was distressing to observers because of the unstated but basic assumption that Indonesia was too vital to the interests of the U.S. and the West to be allowed to dissolve in chaos, implying that others inevitably would come to their rescue. These military men may also have conveyed the feeling, either directly or indirectly, that while the U.S. was spending billions of dollars to kill Communists in Vietnam, the Indonesians had killed hundreds of thousands of their own without a cent from the Americans. In that sense, America 'owed' Indonesia a billion or two in foreign aid".

There was, however, another group that perceived the prospect for foreign assistance in a more realistic way. They shared the idea that Indonesian foreign policy should be geared toward maximizing foreign assistance. Yet, they realized that it would not be easy to mobilize the foreign creditors to finance an Indonesian stabilization and development program. First, it was only a year after Sukarno kicked them out from Indonesia. Although a new leader came to power after March 11, 1966, Sukarno was still there as the President. Second, there was also a declining trend
in American aid activities, arising out of a disillusionment with the alleged misuse of aid funds. The American government's attitude toward Indonesia was very cautious as a result of bitter experience during the previous regime. The fact that $800 million transferred from the U.S. to Indonesia from 1946 to 1965, in grants and loans, "neither established a prosperous economy in Indonesia nor created friendly political relations between Washington and Jakarta," put Indonesia at the bottom of the American priority list of aid recipients. In fact, the U.S. Congress tended to take an increasingly harder line toward the American President's aid program and in recent years had voted for the reduction in foreign aid. Third, the international aid situation in 1966 was not very promising. "Official capital flows to the developing countries were stagnating", said an observer. Finally, foreign capital was scarce and very hard to get in the mid-1960s. "Few Third World countries found it easy to attract it in large quantities, not even Singapore and Malaysia . . . and least of all . . Indonesia . . which pursued policies which positively discouraged it".

Both groups, however, were in agreement concerning the special importance of the U.S. government. Given its leading position in the capitalist countries and in the international agencies, such as the IMF and the World Bank, it was a must
for Indonesia to get America's favor. While making a strong case for the continuation of a policy of maintaining ties with both the communist and capitalist countries, Soedjatmoko, a spokesman for the second group of opinion and later an ambassador to the U.S., suggested that a special attention be paid to raising Indonesia in the American priority list by specially setting up a lobby in Washington.23

The foreign economic policy offensive of the new regime started early. On April 4, a week after his inauguration as foreign minister, Adam Malik announced that Indonesia would review its foreign policy by emphasizing (1) an expansion of international cooperation with as many nations as possible in political, economic, social, and cultural activities; (2) participation in international organizations, such as the United Nations and its agencies; (3) peaceful solution to the Malaysian problem. On the same day, the deputy prime minister for economic affairs, Sultan Hamengku Buwono IX also announced that Indonesia would seek moratorium and rescheduling of its debt repayment as well as new foreign aid without political strings.24

On May 6, the foreign minister spoke before the parliament about Indonesia's intention to improve relations
with the U.S. A week later, Indonesia sent its first official, technical mission headed by Umarjadi to several European countries to seek debt rescheduling and new credits. By the last week of the same month the Sultan himself led another delegation to Japan with the same purpose, during which the Japanese government agreed to hold a conference for Indonesia's creditors to discuss its debt repayment.

Other missions were sent to discuss peaceful settlement of the Malaysian problem. The result was the signing of a peace treaty on August 11 between the two countries. A similar move also resulted in the recognition of Singapore by Indonesia in June. The normalization of relations with Singapore was very important step in terms of economic policy. Chinese businessmen in Singapore play an important role in international trade in Southeast Asia. They not only export merchandise to and import from Indonesia, but they are also a source of credits for the Indonesian Chinese business community.

Meanwhile, the responses from foreign creditors to the Indonesian diplomatic moves were mixed. On April 4, responding to the Sultan's appeal, the government of the Netherlands was reported as saying that it "would not let
the door be closed" for Indonesia to get foreign aid through a multilateral body. On April 18, the U.S. agreed to provide a loan of 50,000 tons of rice under the PL 480 program, amounting to $8,998,000, and another American loan, also under the PL 480 program, for buying 75,000 bales of cotton worth $10,508,000. From the West German government, the Umarjadi mission got $7.5 million to be used as a down-payment to private German exporters. Japan also provided $30 million emergency aid during the Sultan's May visit. In addition, Indonesia got various disaster relief donations from several countries worth about $11 million following the big flood in Central Java that year.

These facts, however, were not proof of genuine support by foreign creditors to Indonesia. First, most of the loans were straight commercial transactions. The first American loan was to be repaid in dollars, not in local currency as was the usual practice under the PL 480 program, one year after the last shipment, in five roughly equal annual installments, at an interest rate of 4.9 percent. For a public loan this rate was very high. In addition, the rice had to be carried by American ships which charged more expensive rates. For the first 50,000 tons the shipping cost $1,222,000. The loan provided by Japan carried even higher interest rate, 5.5 percent, and was repayable over
five roughly equal annual installments, after a four-year grace period. While the second U.S. PL 480 loan was less stringent in its terms, it still carried a 3.5 percent interest rate and was to be repaid in dollars, after a two-year grace period, in five roughly equal annual installments. Furthermore, "the U.S. officials sought to minimize the political significance of this loan and stressed that it did not indicate resumption of regular aid".  

Second, the missions to West Europe and Japan failed to get the creditors' agreement on the debt rescheduling, let alone significant new credits. It was reported that the creditor nations insisted on seeing Indonesia's specific program to stabilize its economy before making any commitment to provide significant assistance. It was also suggested that the Western governments would not be able to accept Indonesia's request before the Soviet Union, the biggest creditor of the Sukarno's regime, agreed on the rescheduling.

Such failures only weakened the position of the New Order against Sukarno and the Old Order's supporters. Opposing the rapprochement with the West, President Sukarno in his speech on September 1 warned that "the crown of independence is standing on our own feet" and therefore
there must be no "begging" in the efforts to rehabilitate the economy. Such warnings, however, did not prevent the leadership from searching for foreign assistance to solve the problem of debts they inherited from Sukarno's regime. And only several hours after Sukarno's speech two missions left for another round of the aid diplomacy.

One of the delegations, headed by the Sultan, went to the Netherlands, England, Italy, West Germany, the United States, Japan and India. The other mission led by Adam Malik was scheduled to visit Indonesian creditors in the communist bloc. Only one day before Malik's departure, however, the Soviet government informed the Indonesians that the Soviet leaders were not able to receive him and would not be available until October. When similar action was taken by Poland and Czechoslovakia, the foreign minister cancelled his visits to the three countries. After visiting India, Egypt, Algeria and Yugoslavia, "strengthening the relations with other non-aligned countries", he continued his tour to the U.S. and Japan.

The communist bloc countries' refusal to discuss Indonesia's debts was a major setback for Indonesian foreign policy which had a significant impact on the Western countries' attitude concerning the Indonesian economic
problem. But the disappointment was recovered when the foreign minister succeeded in bringing Indonesia back to the United Nations and its agencies such as ECAFE, WHO, and ILO. And Indonesia formally reentered the international community.

Compared to the foreign minister's delegation, the Sultan's mission was more fortunate. It got a loan from West Germany worth $12.5 million. The British government also provided about $2 million in emergency aid after Indonesia agreed to pay about $240,000 as an advance payment of compensation for the British properties damaged during the September 1963 anti-British riots in Jakarta. For further discussion of compensation for the nationalized companies, the Sultan invited the parties involved to come to Jakarta. 39

The Netherlands government also showed a cooperative attitude during the Sultan's visit. After twice refusing Umarjadi's mission's requests for aid, due to the disagreement over compensation claims for the Dutch estates and other properties nationalized by the last regime, the Netherlands in September agreed to accept settlement of the compensation claim for $157 million payable over 30 years starting from 1973 and, at the same time, offered aid worth $18 million. 40
While Adam Malik was in New York leading the Indonesian delegation reentering the U.N., the Sultan discussed with officials from the IMF and the World Bank concerning Indonesia's rejoining both organizations. The two leaders of the New Order also met with some top officials of American government. Foreign Minister Malik paid a call on President Johnson, Vice-President Humphrey and Secretary of State Rusk. The Congressmen he met with included Senator William Fulbright, the Chairman of Senate Foreign Relation Committee, Rep. Thomas Morgan, the Chairman of House Foreign Affairs Committee, and Rep. Clement J. Zablocki, the Chairman of the Asia and Pacific Affairs Sub-Committee. The Sultan was also reported to have met with other American government officials. 41

The above discussion shows that the foreign creditors, in the West as well as in the East, were very cautious and hesitant in responding to Indonesia's requests for debt rescheduling and for new significant, "soft-term" credits, although they did give some small grants. The creditors' attitude brought about disappointment among the New Order leaders. Disillusionment notwithstanding, they had to face it. They did not see any feasible way to effectively solve the economic problems except to "go West" and get assistance to stabilize the economy.
They were more strongly forced to do so, when in mid-1966 President Sukarno and his supporters in the other branched of the armed services and in the Nationalist Party seemed to get new vigor and to be always ready to shake the New Order power structure whenever the latter failed to put the economy in order. For the new leadership the threat was very real, especially because the MPRS edict scheduled an election for July 5, 1968. It was a very short time for them to prepare for it and to gain victory. The critical moment is described by this report:

"Given the continuous interference of President Sukarno it was doubtful that internal stability and a quiet atmosphere could be established on schedule (for the general elections). In his August 17, 1966 (Independence Day) speech, in fact, the President continued to defend . . . NASAKOM (the united front of the Nationalist, the Religious, and the Communist parties) . . . (and) again on September 6, at a gathering of delegates of the 1945 Generation at Merdeka Palace, he said pointedly, 'I am a Marxist, my chest is filled with Marxism'.

Sukarno was said to have good backing in Central and East Java. In early October 1966, the Indonesian Nationalist Party branches in both areas issued a joint statement expressing unity in attitude and opinion on Sukarno's teachings and his Leadership. Any move to topple the Great Leader of the Revolution would, the statement warned, be resisted by the whole Nationalist Party front".

Furthermore, as was revealed in the last chapter, bloody clashes occurred in the two areas between the anti- and the pro-Sukarno groups, with each side receiving support from its allies in the armed forces. The remnants of the
Although, as the new leadership perceived it, the threat was real, General Suharto kept refusing to apply measures that could provoke civil war. He insisted on the gradual and constitutional way to oust Sukarno from his office. His emphasis on deliberative actions in handling Sukarno's forces, however, was in contrast with his hastiness in dealing with the foreign creditors. In order to "win the peace" without too much using force, the new leadership was compelled to stabilize and develop the economy as soon and as fast as possible. When in this pursuit they encountered the problem of reluctance among the foreign creditors, the new Order leaders were determined that they had to deal with the creditors on the latter's terms. (Such determination was shown during the Tokyo Meeting that will be discussed below). The first to be dealt with was the most important creditor, the U.S. government. And Indonesian diplomatic moves were focused on "raising Indonesia in the American priority list of aid recipients".

The American attitude during the early phase of New Order was reflected in the position taken by its ambassador in Jakarta, Marshall Green. In part, it was his policy to
prevent the U.S. from rushing to embrace New Order leaders and to overflow Indonesia with foreign aid. During the hard days of pre-1965 Indonesia, when American diplomatic standing in Indonesia was at its nadir, Ambassador Green wrote a paper on what he called "relaxed diplomacy". This paper heavily influenced American "low profile" position when dealing with New Order regime. According to Sullivan, the basic tenets of the 'low profile' approach are these: (1) As far as possible, American aid to Indonesia should be given through multilateral channels. (2) Development advice should also come from multilateral sources with American counsel being kept to an informal minimum. (3) American bilateral assistance should be kept to a decent, simple program without a gaudy proliferation of commitments or personnel. (4) All aid should be given with the conscious objective of strengthening the hands of those identified as 'modernizers' within Indonesian government and society. (5) Aid should be provided in such a way as to maximize the sense of responsibility on the part of those nationals administering it".

The "low profile" approach led the ambassador to stick to a "detached attitude" in responding to aggressive moves by Foreign Minister Malik on the problem of foreign credits. Ambassador Green's stand was supported by Secretary of State Dean Rusk and other officials in the State Department as well as Congressmen in charge of foreign affairs. Emerging from a meeting discussing the resumption of bilateral economic aid with Marshall Green on August 9, Adam Malik was reported as saying that "the United States was very
It was only after the signing of the Indonesia-Malaysia peace treaty on August 11 that the American government showed serious gestures to resume bilateral aid to Indonesia. In a memorandum to President Johnson, the U.S. Department of State recommended the resumption of aid to Indonesia on a large scale. The memorandum mentioned some favorable developments in Indonesia, such as the peaceful settlement of the conflict over Malaysia and the general redirection of its foreign policy as well as the decline of Sukarno's power.

The memorandum set into motion a process that resulted in the "revival" of U.S.-Indonesian bilateral economic cooperation, in which the American government added several loans and grants amounting to about $40 million by the end of 1966. Included was a major loan signed on September 30 to buy rice and cotton worth $26,359,000 repayable in dollars two years after the date of last delivery, in 19 roughly equal annual installments, with a 2.5 percent interest rate. The terms of this loan were much softer than the first two PL 480 loans. The second major loan was provided to buy spare parts and raw materials worth $10 millions repayable in 20 years at a 3.5 percent interest rate. The rest
were loans and grants for emergency food assistance, student training, library materials, others.\textsuperscript{47}

In conformity with the first point of the American "low profile" approach, a consortium of seven Indonesian creditors (the U.S., Britain, France, West Germany, Italy, the Netherlands and Japan) and non-creditors such as Australia, Canada, New Zealand, and Switzerland as well as the IMF met in Tokyo, on September 19-20, 1966 to discuss the Indonesian problem. The Soviet Union, the biggest creditor, was invited but refused to attend. In the Indonesian delegation there was Dr. Widjojo Nitisastro, the economic advisor to General Suharto. Expecting that the conference would delay the debt repayment and provide new credits, the Indonesian delegation issued a statement, signed by General Suharto, Chairman of the Cabinet Presidium of Indonesia, which made it clear that the Indonesian government would give priority to economic stabilization and rehabilitation. The statement promised: \textsuperscript{48}

"(1) To streamline existing market operations by providing equal business opportunities for both the state and foreign enterprises.  
(2) To restore the balance between Government receipts and expenditures.  
(3) To pursue a rigid management policy for credits and foreign currency.  
(4) To establish a proper link between the domestic and international economy (by liberating foreign exchange transactions and simplifying exchange rates)"."
In addition, it declared that Indonesia in clearing its debts would treat all creditors equally and would repay the debts as quickly as possible consistent with Indonesia's import requirements and economic stabilization.

The conference, however, only resulted in another disappointment. It failed to reach an agreement on a common period of moratorium of Indonesia's debt commitments. The creditors only agreed "in principle" to defer payments on "certain categories of loans and export credits" already in arrears and falling due between July 1, 1966 and December 31, 1967. But they did not offer new credits. The Soviet refusal to discuss the rescheduling probably affected the result of the consortium meeting. Neither the Soviet Union nor the Western consortium was willing to make commitment if the other did not do the same. Neither of them was willing to give new credit if it would only be used to repay the other. Finally, the consortium agreed to postpone the discussion of a more concrete and detailed settlement of the terms of the moratorium on existing debts and the provision of new credits until the next meeting scheduled for December 1966 in Paris.

It is against the New Order regime's desperate need of the foreign creditors' favor that we should assess the
role of the IMF in Indonesia since 1966. Following an invitation by the Indonesian government, a first IMF team came to Indonesia in late June to help the government in preparing information about the nation's condition, assessing its need for foreign aid, and formulating other technicalities needed to stabilize the economy.\(^{50}\) This kind of job was very important in order to secure foreign aid and investment. In February 1967, when Indonesia formally reentered the Fund, the agency assigned a resident representative and put the initial mission in the Bank of Indonesia, the central bank, to conduct daily consultation with the bank's officials and with the officials from the Department of Finance on the economic stabilization strategy. When the IMF sent another team of fiscal experts soon afterward, the department hosted six IMF representatives. These financial experts had substantial influence on the New Order financial policy reforms, such as tax administration, government expenditure, trade, tariff, etc.

The IMF's role was instrumental in bringing the Indonesian case to the foreign creditors. In the Tokyo Meeting, it strongly argued for rescheduling Indonesia's debt repayment and for the provision of new credits. The conference relied heavily on the statistics and other information provided by the Fund because there was no other
reliable source. Therefore, by the end of the meeting, the creditors decided to send a small team to work in Indonesia, with the IMF's help, in order to get a more complete and accurate picture for the next meeting in Paris.

Since there are already several excellent accounts on the Fund's activities in Third World countries, here I only want to describe some essential points.\(^{51}\) The IMF's source of power is not the financial resources it controls, but the confidence placed in it by the governments of the industrialized, Western countries and the international business community. It has been a common practice for foreign creditors, public as well as private, to make their loans to less-developed countries contingent upon the borrowing countries' coming to an agreement with the Fund on what is called a "stand-by arrangement".\(^{52}\) The signing of the agreement not only indicates the eligibility of the potential debtor to get balance of payments assistance from the IMF, but also means a recognition of its credibility in the business of international borrowings. Getting what the cynics call "the Good Housekeeping seal"\(^{53}\) is very important for economies that want to attract more credits from other sources that can provide more than the Fund does: foreign government aid and international investors.
Two reasons explain this. The stand-by agreement contains a conditionality. The IMF resources are available for a country only after it agrees to adopt certain internal economic policies deemed necessary to warrant the viability of its economy, and to observe the Fund's guidance. Second, before entering the agreement the would-be borrower has to sign a document called the "Letter of Intent", in which it specifically describes the policies that will be implemented in order to stabilize the economy. The specific policies must be discussed first with the IMF's representatives. The policies generally include these basic components:

"(1) Abolition or liberalization of foreign exchange and import controls.
(2) Devaluation of the exchange rate.
(3) Domestic anti-inflationary programs, including:
   (a) control of bank credit: higher interest rates and perhaps higher reserve requirements;
   (b) control of government deficit: curbs on spending; increases in taxes and prices charged by public enterprises; abolition of consumer subsidies;
   (c) control of wage rises, so far as within the government's power;
   (d) dismantling of price controls.
(4) Greater hospitality to foreign investment."

In effect, the conditionality leads to lessening the uncertainty within the economy and improving the business climate. A condition that is favored by foreign creditors and investors.
To see how effectively the Fund's advice influenced the New Order Indonesian government policies, we move now to the discussion of the specific stabilization policies adopted after the disappointing Tokyo meeting.

**The stabilization measures and the debate.**

Even before the first IMF team came, General Suharto's advisors had already had their own ideas on how to dampen the inflationary pressures and to strengthen the balance of payments, the main goals of economic stabilization. They had advised the general to take serious actions, first, to substantially reduce the aggregate demand for money by reducing the rate growth of money supply and the government budget deficit, and second, to increase government revenues through tax collecting improvement and by inviting foreign aid, especially in the form of commodity aid and foreign exchange support. The creditors, however, were not convinced. They did not see the program as specific enough to warrant the continuation of assistance.

With the help of the IMF experts, the Indonesian economists by the last quarter of 1966 made several specific regulations concerning economic stabilization. These regulations later proved to be the "landmark" of the New Order economy. If the March 11, 1966 transfer of power is
seen as the milestone for the New Order politics, the economic regulations of October 3, 1966 are for the economy. Two other important economic regulations of February 10, 1967 and of July 28, 1967 were merely their extension. They represented the first specific "rules of the game" that fundamentally changed the way the Indonesian economy is managed.

The regulations included these measures: fiscal reforms to balance the government budget (through cutting expenditures, increasing revenues by improving taxation, and eliminating the deficit); monetary reforms (credit squeeze by increasing interest rates sharply); foreign aid and investment; foreign trade liberalization (by liberalizing foreign exchange and unifying foreign exchange rate); and "de-etatization" of economic activities.56

Fiscal measures.

(1) Spending cut. As the government budget had been the biggest source of financing, a significant deceleration of monetary growth required a severe reduction of government budget deficit, especially by cutting the expenditures. In fact, the new government emphasized that the financing of all current expenditures must be financed by current receipts. As an observer put it, "the balancing was done
in such a way that when the level of revenues is not achieved as planned, then the expenditure must be cut".  

(2) Tax collection improvement. Instead of restructuring the taxation system, e.g. by making it more progressive, the government chose to improve the tax collecting procedure and to eliminate corruption among the tax collectors. And emphasis was placed on customs duty collections, direct taxes, and excise and sales taxes. On custom duties, the average tariff rates were increased substantially. A sales tax on imports was introduced. Also increased were excise and sales tax on petroleum products, whose prices were also increased.

(3) Elimination of subsidies and price adjustment. Subsidies to all enterprises, state or private, were abolished at once. This measure, which was meant to force the companies, especially state-owned, to do business in a more economically rational and efficient way, resulted in a sharp, upward price adjustment in public utilities and petroleum products. On February 10, 1967 another series of measures was taken to adjust various prices and tariffs. These adjustments put strong pressures on the cost of living to adjust accordingly.
The government, however, took serious measures to keep the prices of most essential foodstuffs, especially rice, and some other basic necessities stable, because it could not afford to let the New Order's opponents to manipulate people's resentment due to price increases in these basic necessities. The government, accordingly, still provided subsidies for these strategic commodities so that their prices could be kept low and also established an agency specifically to purchase and distribute the foodstuffs. The policy of keeping the prices of the basic necessities low was very important for the government to support low-salaried government employees and other urban dwellers.

These measures succeeded in reducing the budget deficit to only 3.1 percent of total government receipts in 1967 and balancing the budget in 1968. In that year, all current (routine) expenditures were financed by current (non-foreign aid) receipts, while the foreign aid counterpart was spent for development purposes (see Table 8). In addition, the budget was not only balanced, but was also set at a very low level. The budgets of 1967 and 1968 were less than 5 percent of GNP, too low a level for government to function normally.
Monetary measures.

(1) Tight money policy. As the central bank had been the major source of monetary expansion, a very serious measure was taken to moderate the expansion. Accordingly, it launched a severe squeeze by setting a very high interest rate, between 5 to 9 percent per month (for example, 6 percent for foodstuff production, 7.5 percent for export production, 9 percent for distribution of domestically made products). In 1968, this rate was reduced to 2 percent per month for selective types of business, after being sharply criticized by many insolvent indigenous businessmen.

(2) Savings deposit scheme. In October 1968, when it was increasingly clear that inflation was under control, the state banks introduced a savings deposit program, under which they paid an interest rate of 6 percent per month for 12-month deposits and lower rates for 3-month and 6-month deposits.

Foreign aid and investment.

(1) Rescheduling the debts and seeking new credits. The new government emphasized the need for longer-term and lower-interest credits.
(2) Foreign investment. To invite foreign investors to do business in Indonesia the new leadership was ready to offer them many incentives, such as tax privileges, in order to give them a better profit margin than those offered by other countries. For that purpose, a new foreign investment law of 1967 provided incentives, such as:

- Exemption from the corporate taxes on profits for a period of up to six years for priority projects. The tax holiday could be extended later by government discretion.
- Exemption from dividend taxes for the same period.
- Exemption from the capital stamp tax on the introduction of foreign capital investment.
- Exemption from import duties on equipment, machinery, tools and initial plant supplies.
- Exemption from property tax.
- A carry forward of losses. Any loss incurred may be carried forward for four successive years. If losses are incurred and sustained during the first six years of operation, the losses may be carried forward for an indefinite period of time.
- The right to transfer profit in the original foreign exchange for current profits.

And several other facilities giving foreign investors a guarantee of profits and privileges, such as exemption from
import duty for some consumer goods they need.

(3) The return of the taken-over companies.
To show its goodwill to foreign investors, the new
government took serious actions to return the companies
expropriated by the previous regime and to provide fair
compensation for those it wanted to keep. Furthermore, the
returned companies were also granted incentives similar to
those given to the newly established foreign companies, and
in some cases even more favorable.64

In addition, on January 7, 1967, Indonesia and the
U.S. governments signed the Investment Guarantee Treatise,
which enabled the U.S. to offer insurance to its nationals
against losses incurred in Indonesia because of national-
ization, inconvertibility of currency, or damage due to war,
revolution or insurrection. Subsequently, similar mutual
investment guarantees were also agreed with the Netherlands,
Denmark and West Germany.65 And in February 1968, the
country entered "The Convention on the Settlement of
International Disputes between States and Nationals of
Other States". Sponsored by the World Bank, the convention
settles investment disputes between governments and foreign
investors.66
The policies to attract foreign capital investment were also supported by many promotional activities, in which many international big businesses played an important role. In August 1966, the Stanford-sponsored Pacific Industrial Conference brought 170 senior business executives to Jakarta. Later on it established the Pacific-Indonesian Business Association (PIBA), and on August 2-5, 1967 held a PIBA meeting in Jakarta. PIBA also established its Investment Promotion Council in Indonesia. In Geneva, November 1966, the New York-based Business International held a conference on foreign investment in Indonesia, in which the Indonesian economic team (Sultan Hamengku Buwono IX, Adam Malik, Dr. Mohammad Sadli, Dr. Emil Salim and Dr. Selo Sumardjan) met with big businessmen from Europe and the United States including David Rockefeller. The conference was sponsored by Time-Life, Inc. Another Business International meeting was held in Jakarta in September 1968.67

During the second half of 1968 two other international business organizations held meetings in Jakarta. They were the Business and Industrial Advisory Council of the Organization of Economic Cooperation and Development (OECD) and the Japanese "Keidanren". The latter is a federation of Japanese economic organizations representing 729 large enterprises of the country.68
The liberalization of foreign trade.

(1) Foreign exchange. The decline of exports during the previous regime was also believed to be the result of a complicated regulation of foreign exchange allocation and multiple exchange rates. The regulation, in effect, taxed exporters excessively, because they were obliged to surrender most of the foreign exchange they earned to the government to be converted into Rupiahs at an official exchange rate which was far below market price. When the difference between the two rates grew larger and larger, the exporters were discouraged from doing business. If they did, they preferred not to report the transactions to the government. In the end, it was the government that suffered most.

During the critical days of its last month in power, on February 11, 1966, the Old Order government introduced the BE (Export Bonus) scheme. The idea was to encourage export activities by giving back a portion of the foreign exchange proceeds to the exporters in the form of BE certificates. These certificates could be sold at a free foreign exchange market rate and be used by importers to import various commodities specially listed by the government. The type of commodities exported determined the size of the portion of the foreign exchange they could claim. For commodities that required harder efforts to sell abroad,
the exporters were given a larger share of the foreign exchange earned.

The October 3, 1966 regulations substantially reduced the portion surrendered to the government and increased that accorded to the exporters, through a complicated method. In short, the government gave many privileges to the exporters in order to encourage export activities.72

The liberalization of foreign exchange was also accompanied by the simplification of the foreign exchange rate. From the previous regime, the New Order inherited multiple exchange rates. The official basic rate of Rp.10 to $1 was used for official conversions, Rp.30 to $1 for calculating import-export transactions, and there was an open market rate of Rp.140 to $1 used mainly for black market transactions. But since almost 90 percent of all international transactions were based on the two official rates, they were the most effective rates. After October 3, 1966, although in principle the rate was floated, for calculating import duties the new government set a new rate at Rp.75 to $1. This devaluation only started a series of adjustment that resulted in the unification of the exchange rate in April 1970 at Rp.378 to $1.73
(2) Other foreign trade incentives. On July 28, 1967 the government gave exporters and importers other privileges including the reduction of export taxes, the simplification of export-import procedures, allowing the exporters and importers to handle their own documents, and similar incentives.74

Debureaucratization and "destatization". With this last measure the government promised to abandon the "command economy" of the Old Order and to let market forces determine economic decisions as much as possible. Thus, government regulations and licensing would be abolished and government agencies would be made more rationalized and more efficient. The existence of state corporations would be reviewed. It seemed that Indonesia was prepared for a full swing toward a "free market economy".

These economic decisions were considered by the new leadership to be crucial in order to stabilize and develop the economy and to attract foreign creditors and investors. They were, however, responsible for a growing resentment within the indigenous business community and their supporters in the political parties and in the academy. There seemed to be many issues involved in the debate during 1967 and 1968. But the most significant of them were those
concerning the severeness of the government economic program and its bias against small and medium indigenous businesses. There was a feeling among them that the technocrats had gone too far in seeking help from the international creditors by compromising Indonesian nationalist pride. In an interview given to this author, Professor Sarbini Sumawinata, a leading critic, said "I did not object to the stabilization as such, but rather the way they (the "technocrats") adopted everything the IMF suggested". 75

From the debate we can discern two lines of argument, representing two alternative ideas on how to stabilize and develop the economy. For the sake of convenience we will call the government's approach "outward-oriented", meaning stabilizing and developing Indonesian economy by using foreign resources, while to that of its critics we will call "inward-oriented" meaning stabilizing and developing the economy by strengthening the indigenous business community while using foreign aid and investment in very cautious manner.
The two positions are summarized below:

<table>
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<tr>
<th>Outward-oriented</th>
<th>Inward-oriented</th>
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<tr>
<td>1) &quot;Shock-treatment&quot; approach to stabilization to reduce inflation as fast as possible.</td>
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<tr>
<td>2) Pro &quot;efficient&quot; business.</td>
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<td>3) Private enterprise as the dominant economic unit in a free market.</td>
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<td>4) Heavy reliance on foreign capital during stabilization and early stage of development.</td>
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<td>5) Emphasis on primary product export crucial as the shortest way to accumulate capital during the early stage of development.</td>
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<td>6) Role of the regions in the economy: not-autonomous.</td>
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<tr>
<td>1) &quot;Gradual&quot; approach to stabilization while encouraging employment.</td>
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<td>2) Pro national, indigenous business.</td>
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<td>3) Dominant role of the state in a mixed-economy.</td>
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<td>4) Cautious use of foreign capital, technology and management skills in sectors which Indonesians have no capability, with the objective of building their own.</td>
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<tr>
<td>5) The exporters of primary products should be directed toward manufacturing or semi-manufacturing.</td>
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<td>6) Regions should be granted autonomy.</td>
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The issue of stabilization strategy.

The literature on economic stabilization policy terms the Indonesian program a "shock-treatment" strategy, which was designed to stabilize the economy within a short period of time: one or two years. The experience of stabilization programs conducted under IMF guidance in many countries during the 1960s revealed that it was the IMF official
strategy to advise nations needing stabilization to adopt such a harsh approach. It is very harsh, because in order to stabilize the economy in one or two years the government must chop its expenditure, raise steeply the interest for bank credits, and abolish as many subsidies in basic necessities as possible. These drastic actions are needed to reduce monetary demand effectively in a short period.

The critics argued that there was another stabilization strategy which was gradual in nature. The advantage of the alternative strategy was that while the government was stabilizing the economy in a step-by-step manner it could rehabilitate the infrastructure and other factors of production, and, by so doing, reactivate the economy. The rehabilitation could be financed by government budget, bank credits or foreign aid. This kind of financing, they believed, was not inflationary. Even an IMF expert advising the Indonesian government admitted that

"(T)he process of stabilization . . . could tolerate a high rate of monetary expansion as long as new credit was directed primarily to essential economic activities rather than to financing current budget deficits or the losses of public utilities and provided that the balance of payments impact of the expansion could be met by available foreign exchange resources including foreign aid".
Such rehabilitation, however, required the government to abandon the "shock-treatment" approach which severely cut government spending and set very high interest rates. Instead, it should selectively give credit supports to productive sectors to rehabilitate economic production and to provide employment. As Professor Sarbini Sumawinata argues

"Stability, although a very important matter in the economy, is unfortunately only part of the total economic problem. Even more important, however, is the problem of unemployment".

On the alternative strategy of economic stabilization, Dr. Widjojo Nitisastro gives this argument:

"if we adopted the (gradual) strategy, it would not require drastic measures. And the patient (Indonesian economy) would not suffer much pain. But it would need a very long time to recover, probably seven or eight years and would delay the implementation of development program . . . On the other hand, if we adopted the drastic strategy, the patient would undergo severe pains . . . but it promised a faster recovery. The faster we achieved economic stability, the sooner we started the development program. Thus, the government chose the drastic strategy".

Another technocrat, Dr. Mohammad Sadli, also admitted that there was an alternative to the government's strategy. However, he argued that the problem was

"we were not convinced that the (gradual) strategy could really restore people's confidence in the currency (Rupiah). With
the inflation rate at 600 percent, the strategy probably could reduce to 300 percent within three years. But it is still a dangerous level. Thus, we believed that the (gradual) strategy would be self-defeating and self-deceiving".

Efficiency versus nationalism.

The critics also pointed to the fact that the program was biased against indigenous businessmen. First, these businessmen, who mostly run small- and medium-sized enterprises, were severely hit by the tight money policy. None of them could do their business using money borrowed at so high an interest rate. Even the lowest rate still means 60 percent interest per year. And as a result, they were facing a very serious liquidity problem and were forced to go out of business. In the last analysis, these bankruptcies only worsened the unemployment problem.

Second, in contrast to the indigenous entrepreneurs' fate, the foreign investors and Chinese domestic businessmen were in a favorable position. In addition to the various privileges offered by the Indonesian government, the foreign companies doing business in Indonesia enjoyed borrowing money from banks outside Indonesia with interest rates between 5 to 8 percent per year. Similarly, Indonesian Chinese, given their exclusive and extensive network of kinship-cum-business relationships in Southeast and East
Asia, also enjoyed cheap credits from the banking community in Singapore, Malaysia, Hongkong and Taiwan, and evaded the "punishment" undergone by the indigenous entrepreneurs.

Third, in 1968 the government tried to mobilize domestic capital, by offering privileges similar to those enjoyed by the foreign investors and a package of credits with interest rates as low as 4 percent per year. The idea was to reorient the investment away from merely distributing and retailing activities toward productive and manufacturing sectors. Yet, the requirements stated in the Domestic Investment Law of 1968, such as matching-capital of 25 percent of the total investment which should be provided by the investors, prevented most indigenous entrepreneurs from participating in it. The only business group that could mobilize large capital was the Chinese. It was reported that by the early 1970s, "Chinese and other non-indigenous Indonesians accounted for 75 percent of all capital invested under the domestic investment law and for 91 to 94 percent of the capital invested by Indonesian citizens in association with foreign investors under the foreign investment law".

In fact, the motive behind the government scheme was to mobilize the Indonesian Chinese economic potential in the
economic program, and, by so doing, urge them to attract more capital from Singapore, Hongkong and other centers of Overseas Chinese business in Asia. The fact that the Chinese businessmen were the only group who were able to capitalize on the lucrative Domestic Investment credit scheme only speeded up the revival of Chinese domination of the Indonesian economy and the driving-out of the indigenous businesses.

The formal position of the government on this matter was that it had to rely on "efficient" economic activity. The officials argued that those who went out of business were the inefficient businessmen who had for long been spoiled by the previous regime with unrealistically low-interest credits, preferential licensing, and the like. The new government could no longer afford to do that. Every business, even the state-owned companies, must be based on rationality and efficiency criteria, not on governmental preferential treatment. 87

The critics, on the other hand, argued that this liberal policy would only strengthen the more efficient modern sector at the expense of the more inefficient, traditional ones and, in turn, worsen the existing social discrepancies. Indeed, most of the "inefficient",

indigenous entrepreneurs were too weak to play the liberal game. Therefore, according to the critics, protecting the indigenous businessmen from extinction and helping them to grow strong and autonomous should be the government's responsibility. This kind of economic nationalism, which Soedjatmoko calls "development nationalism", 88

"... is not the touchy nationalism of the new nations jealously guarding their newly won sovereignty ... Nor is it the simple-minded economic nationalism which sees in the presence of foreign business as a threat to the national existence. Rather it is a nationalism that is rooted in the aspirations and actual requirements of economic development ... (The development nationalism insists) on development strategy that aims at employment-oriented growth, at social justice ... and aims at the kind of growth that will at the same time increase national capabilities and autonomy, decrease dependency from external powers and enhance self-reliance. This search for an alternative growth path then is not simply a matter of ideological preference, but --consideration of morality and equity aside-- a political necessity for the survival of these nations".

On private and state enterprises.

There was also a heated debate on the role of the private enterprise and the state in the economy. The government position was to give private corporations a preeminent role in a free-market economy, although still under the broad guidance of the government. Dr. Widjojo Nitisastro argued that the New Order government should resist the temptation to establish another economic
"etatism" as practised by the previous regime. Such an economic order, he said, was harmful to people's creativity, because 89

"(I)n a system of etatism, the state and the state's economic apparatus are very dominant and will drive out and dampen the creative power of the economic units outside the state sector. Almost everything will be statized and the state (or better, the powerful officials of the state) will control and regulate all economic sectors excessively. . . . In recent years the state sector has increasingly been extended by creating more and more state corporations in various sectors of the economy. . . . Such etatism will create an authoritarian and arbitrary order . . . In such a system, the authoritarian measures are said to be taken in the name of the state's interest, although mostly it simply means the officials' private interests".

The leading technocrat agrees that the state should be given a positive role in the economy. Referring to Article 40 of the MPRS Decision XXIII, however, he writes 90

"the government should give more emphasis to directing the course of economic activity and not taking-over and performing many economic activities by itself. In other words, the government's function is not establishing as many state-corporations as possible, but giving guidance to improve people's economic activities".

Accordingly, and coinciding with the returning of the nationalized companies to their foreign owners, there were also attempts to convert state-owned companies into
either semi-state or private ones. To make them more efficient and to relieve the government from some of its burdens, it wanted to keep only those companies dealing with either the most essential and strategic sectors such as telecommunication, transportation, oil and other mining, and some others, or the sectors which no private business interested in, such as pawn shops.

These "de-etatization" measures were opposed by those who believed in the socialist idea that all economic resources and activities related to people's basic necessities should be controlled by the state, and especially by the managers of the larger state companies, who were mostly army officers. The opposition was so strong and effective that the government only succeeded in closing some state companies, mostly those returned to foreign hands, and converting most of the rest into semi-state companies. And until today, various types of state-companies still dominate oil and mining, railways, civil aviation, banking, agricultural estates, and other sectors of the Indonesian economy.

On foreign assistance and capital investment.

The government, as we discussed in the previous section, relied on the strategy of mobilizing external
support to stabilize and develop the economy at high speed. Given the continuing threat from Sukarno's defenders and the scarcity of domestic capital, the strategy was inevitable. To develop its own capital, technology and management skills, Indonesia should invite those having them to come through foreign aid and investment.

The critics did not oppose foreign investment per se. But they argued that, first, a "safety net" must be prepared before the game of liberalization, in which much stronger players took part, was played. They saw the government regulations as lacking such a safety net, and putting too much emphasis on a "free-fight" market mechanism. 94

Second, as Sarbini Sumawinata argued, not all economic sectors need massive foreign investment, and not all manufacturing needs high-level technology. 95 Therefore, the government should direct foreign capital to those sectors that the Indonesians do not have the capability to develop and prohibit foreign investors from penetrating those sectors which were already managed by domestic entrepreneurs. The experience showed, however, that the privileged foreign investors did exactly that and drove out Indonesian businesses from many small- and medium-scale manufacturing activities such as textiles and soft drinks.
It took almost eight years for the government to finally compromise by limiting the liberty of the foreign investors, through the requirement of joint-ventures for new investment, the closing of some sectors from their penetration, the requirement of local employees' training, and some other actions.

On primary product exports.

Under the New Order, Indonesian export earnings rose very rapidly. Unfortunately, they mostly came from two extractive industries: oil and timber. The latter was only exploited extensively during the New Order. And it was just cut and exported without any "value added" being put in it. The government seemed to accept it as necessary, at least for the time being, as a method to accumulate capital effectively in a short period. In addition, many army officers were involved in the extractive industry. And they had a lot of good reasons to back such business.96

The critics argued that the government should urge the exporters of the extractive commodities to develop manufacturing or semi-manufacturing industry for primary products. While more serious efforts should be taken to diversify the export commodities by improving the traditional export products such as rubber, palm oil,
handicrafts, and some others, and by developing new sources of exportable goods. During the 1970s, the government finally gave favorable responses to the criticisms.97

On regional autonomy.

During the first years of the New Order, the supporters of regional autonomy were very strong and able to have the MPRS issue a decision in 1966 ordering the government to pay special attention to the problem of financial relations between the central government and the regions and to give the regions their autonomy "as much as possible".98 Out of the need to mobilize support from the resource-rich regions of the Outer Islands, especially Sumatra and Sulawesi, the new government acted accordingly by issuing a regulation within the October 3, 1966 package concerning regional autonomy. The decision provided the provinces, or the First Level Autonomous Regions, with 10 percent of their total export revenues in the form of an "automatic foreign exchange allocation" (ADO).

This idea of giving the regions greater control over their own export earnings was not new to Indonesia. There had been a dynamic "tug war" between the supporters of centralization and those of decentralization since the 1950s.99 And this time the new government saw it as a necessary step
to prevent the regional authorities from interfering with foreign trade activities, such as collecting their own export levies, issuing their own export regulations, and the like, as well as from smuggling.

Later on and in accordance with the growing strength of the central government and the weakening of the parliament, however, the government decided to minimize the regional autonomy. And by April 1970 the "automatic foreign exchange allocation" scheme as a means to distribute resources to the regions was abolished. In its place, the government introduced another resource-allocating scheme that was and still is under the direct control of the President. This point will be further developed in the next chapter.

During the span of time under study, 1966-1971, it was the "outward-oriented" strategy that dominated government economic policies. As repeatedly argued in the previous sections, the domestic political considerations, the gloomy international situation, and the nature of the dominant alliance of power predisposed the new leadership to take the course.
On the role of the external actors, we should pay special attention to the IMF. It seems that the Fund put heavy pressure on Indonesian leaders, especially during and after the Tokyo meeting, to follow its guidance. Commenting on this matter, Foreign Minister Adam Malik was reported as saying that:

"There is no question that the advice of the IMF was an important factor in the decisions having to do with the tight money policy. I don't know whether or not you can say this influence was determining, but it was certainly important. There was the feeling that failure to follow the IMF's advice might lead to a loss of aid".

This chapter shows, however, that it was also the Indonesian economists' belief that resulted in the adoption of the strategy. In several writings and various occasions long before the IMF came in mid-1966, they had already actively promoted to elite and mass audience alike the economic doctrine that justify the adoption of the conservative, early New Order economic policies. The Fund, however, might be held responsible for the intensity of the harshness of the stabilization approach. All in all, it would be fair enough to say that there was a "common concern" (or "common interest"?) between the IMF and the Indonesian leaders concerning the economic strategy.
The convergence of mind between the New Order government and the external actor was accompanied by a divergence among the government's original, internal supporters. While the IMF and the government saw it as necessary, the critics considered the IMF-suggested strategy as overkill. And this difference conception concerning the possible affects of the stabilization strategy was one of the major factors that led to the breakdown of the grand coalition that overthrew the Old Order. Together with some other political factors, it set into motion the process that made the government accustomed to use repressive measures to respond to its critics. But, before further discussing the political implications, we will examine first the consequence, the gains and losses, of the strategy in the economy.

The consequence: the gains.

The specific regulations and their serious implementation facilitated and expedited the on-going, but slow, process of mobilizing international support for Indonesia. Following the introduction the October 3 regulations, the group of nations which had participated in the Tokyo meeting met again in Paris and agreed to reschedule over a period of eleven years that part of Indonesia's debt contracted before July 1, 1966 and failing due between that date and
December 31, 1967. Aside from the seriousness of the Indonesian government in the effort to stabilize the economy, to let the market forces work freely and to reintegrate into the world economy as evidenced by the regulations, the Soviet agreement in November 1966 to reschedule Indonesia's debt certainly made the positive result possible.

The discussion of Indonesia's need of new credits really began when the Netherlands' government sponsored another meeting in Amsterdam on February 23-24, 1967. This meeting established the Inter-Governmental Group on Indonesia or the IGGI, which has since served as the biggest source of foreign aid for Indonesia. The IGGI consisted of Indonesia's original non-communist creditors (France, West Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States) and Canada, which in 1969 entered as a member. It also involved the IMF, the World Bank, the United Nations Development Program (UNDP), the Asian Development Bank (ADB), and the Organization for Economic Cooperation and Development (OECD) as well as seven other western nations (Austria, Belgium, Denmark, Norway, New Zealand and Switzerland) that were always present as observers. As an informal organization, it has no secretariat. This function was provided by the IMF, and
since 1969 by the World Bank.

In 1967 the group met three times. Since then meetings have been held twice a year, in April and December, to discuss the performance of the Indonesian economy and its need for aid for the next fiscal year. These meetings provided Indonesian with generous financial assistance with a low interest rate (less than 3 percent a year), a longer term (25 to 50 year duration) and a longer grace period (5 to 10 years).

The IGGI provided Indonesia with foreign aid amounting to $200 million in 1967, which was mostly in the form of foreign exchange transfers to finance the government routine budget. Since then, the group generously poured cash into Indonesia. For the period of 1968-1972 (calendar years) the IGGI's aid commitment totalled $2,353.6 million, although 40 percent of it was left undisbursed (see Table 9). The importance of the foreign assistance was highlighted by two facts. First, most of the aid within the period was given as "program" aid. The recipient of this type of aid has a relatively free hand in using it to finance the needed imports and in creating local funds out of the borrowed foreign exchange. In fact, the Indonesian government sold the foreign exchange received under the program aid in the
Second, almost 50 percent of the program aid was provided in the form of food commodity credits, mostly from the United States under the PL 480 program. This type of foreign assistance was very instrumental in stabilizing prices through the "injection" of imported food into market place.

In addition, the Western countries also extended grants of $69 million in 1969/70, $45 million in 1970/71, and $52 million in 1971/72. Furthermore, support also came in the form of foreign investment. Between 1967 and 1972 the Indonesian government approved foreign investments totalling $2,488.4 million, although in reality only $710.4 million was implemented (see Table 10).

More support was provided when Robert McNamara visited Indonesia in June 1968. The timing of his first overseas business journey after becoming the President of the World Bank three months earlier was considered an important gesture of a better understanding of Indonesia's problems. Such a sign of support was further emphasized when McNamara announced, during the visit, that, first, the Bank had formally started its operation in Indonesia, and second,
that the Bank's first permanent overseas office was to be in Indonesia. The staff's function was[^104]

"... to assist and advise, firstly in the formulation of overall economic plans and programs, secondly in the planning of specific development programs and projects, thirdly in the implementation of these plans and programs, and fourthly in the coordination of the utilization of the technical and financial assistance which is available (to Indonesia) from various sources". (Parenthesis added).

Since then, the Bank has assigned experts on agriculture, transportation, industry, population and other fields to Indonesia. They were actively involved in advising Indonesian officials in the planning agency, BAPPENAS, and other economic departments, and in designing the Indonesian Repelita (the Five Year Development Plan).

In accordance with the changing nature of the problems facing Indonesia, from stabilization to development, the Bank assumed a greater role and replaced the IMF as the main economic advisory group in Indonesia. In that capacity, it also prepared the report to be submitted to the IGGI semi-annual meetings. Through the Bank, Indonesia was also eligible for the International Development Association (IDA)'s soft loans. This agency of the Bank extended loans without interest for a period of 50 years, with grace period of 10 years[^105].
Along with the development bank came also several commercial banks pioneered by American Express, which started its operation in Indonesia on March 26, 1968, and followed by British, Dutch, Japanese, Thai and West German banks. These certainly facilitated financial activities in Indonesia. 106

The generous support of the non-communist governments and the international business community in general made it possible for the Indonesian government to achieve one of the stabilization goals, i.e., controlling inflation, within a short period. Table 4 shows that price increases were reduced to a moderate level by early 1969. The price stability was, in part, due to the stability in foreign exchange prices through the whole period of stabilization, although in 1971 the rupiah was devaluated 10 percent against US dollar.

On the second goal, i.e., strengthening the balance of payments, there was a mixed results. The figures in Table 6a show that deficit was still the order of the day. The balance of trade deficit was up from -$35 million to -$135 million, after being interrupted by two small surpluses in 1968 and 1969. The balance of payments on current account was also always in deficit, from -$352 million up to -$578
million. Unlike the previous government, however, the New Order government was able to finance the deficits by using foreign aid.

Also unlike the Sukarno era, the deficits in the New Order were accompanied by increases in export revenues. As shown in Table 6a, the foreign exchange earnings from exports almost doubled from $770 million in 1967 to $1,364 million in 1971/72. The volume of export also increased by 150 percent between 1966 and 1971. The achievement, however, was mainly the result of the increases in two commodities, oil and timber, which together have dominated the export sector since 1969 (see Table 11).

As mentioned in the last section, the budget was balanced by 1968 and there have been surpluses ever since. The budget balancing, however, was the creation of foreign assistance. The balance was made possible by putting the foreign loans and credits under the "Government Receipts". If the foreign component was removed there would be deficits of about 25 percent (see Table 8). In short, the resources provided by the IGGI were very crucial in balancing the budget.
A promising picture was also shown by the data on economic growth. The gross domestic product (GDP) at constant 1960 prices increased from Rp.441.9 billion in 1966 to Rp.650.8 billion in 1972, which means that during the period the economy grew by more than 6 percent per annum. The growth rate was more than four times higher than it was during the period of 1958-1965 (see Table 5).

Convinced of the favorable condition of the economy, by April 1, 1969 the government launched its first Five Year Development Plan. Compared to the previous development plan, it was a modest one. It aimed at no major structural change. There was no ambitious goal of rapid industrialization. Table 12 shows the targets to be achieved by the plan. The GDP during the period was expected to grow by 5 percent annually.

Basically, the plan was founded on the idea of rapid capital formation, through export activities, to finance agricultural development. Although it called for import-substituting industrialization, the main emphasis was on the agricultural sector, especially rice production. Export revenue to finance the plan was expected mainly from oil, timber and palm oil. Since export revenues from these products were still expected to be small, more than
60 percent of the financing of the first development plan was expected from foreign assistance, in the form of counterpart funds of foreign exchange credits or of PL 480 agricultural commodities (see Table 8). This fact highlighted the "outward-oriented" nature of the development process.

The plan produced an average GDP growth at 9.4 percent, which was twice the expected rate. The growth, however, showed a bias in favor of primary product exports. The two leading sectors during the first development plan were forestry at 21.4 percent and mining at 16.1 percent. Construction also grew at 21.4 percent annually (see Table 13).

The consequence: the losses.

The achievement in price stability and later in a high rate of growth, however, did not solve the basic problems of the Indonesian economy. It had, in fact, aggravated some of them. The problems to be discussed in this section are unemployment, indigenous business bankruptcy, and the phenomena of "client-businessmen" and "bureaucratic-businessmen".
The problem of unemployment.

Unemployment has been a serious problem in Indonesia since independence. Although it is hard to get a reliable statistic to visualize the magnitude of the unemployment, due to the difficulties in measuring employment in rural areas which were generally dominated by subsistent agricultural economy and non-monetized transactions, a casual observer could easily be impressed by the graveness of the problem, especially in urban areas. After the end of the independence war, people moved from the countryside to urban areas in increasingly large numbers. This urbanization was encouraged by the insecurity of living in rural areas due to the prolonged rebellion activities by some splinter groups, the inability of the rural economy to support more people as well as by an expectation that the new nation would provide jobs for its citizens.

Urbanization, however, was not accompanied by expansion of the job market. Urbanization took place without being supported by any significant industrialization. As a matter of fact, until 1966 only 10 percent of the working force of 40 million people were involved in industrial job of various kinds. Generally, the economy grew too slow to be able to absorb a labor force that increased by 1.3 million per annum during the 1960s. Consequently, many of the
new urbanites were left without jobs. Those who managed to find them mostly fell under the category of underemployed, i.e. they only worked for 20 hours or less a week. By early 1967 the number of people without jobs was estimated between 3 and 4 million in urban areas, while in rural areas about 12 to 14 million people were listed as underemployed. This means that almost half of the working population was either unemployed or underemployed.

The sluggishness of the economy made public employment the only alternative for the job seekers. The government, in fact, actively hired people to do various jobs for the state, from white-collar jobs such as civil administration, armed services, banking and the like to blue-collar jobs such as city bus operator, construction worker, janitorial services and the like. So active was the government in recruiting employees that by 1968 it had 2.49 million people listed on its payroll to serve about 110 million population, while the Dutch only needed 82,000 employees to serve 68 million Indonesians in 1940 (see last chapter p. ).

The government's mass educational program also had a negative impact on the unemployment problem. The increasing number of high-school and university graduates could not
find proper jobs in the slow-growing economy. Even if there were jobs, they might not be the ones the educated young people wanted to do. Thus, a new dimension of unemployment emerged as the result of mass education.\textsuperscript{108}

The immediate result of the stabilization program was increasing unemployment and underemployment. Once again, there was no exact figure for this, although two noted economists estimated that by early 1969 in Java alone 3 to 4 million people were unemployed and 15 million were underemployed.\textsuperscript{109} Nevertheless, the point is supported by the fact that following the stabilization measures of October 3, 1966, the state-owned companies, such as agricultural estates, railways, the airline, fertilizer companies, shipping lines, motor assembly plants, and many others laid off tens of thousands of their staffs and laborers. Some of them were dismissed for political reasons, i.e. involvement in previous communist-sponsored activities, as was the case with more than 5,000 railway personnel.\textsuperscript{110} Such lay-offs certainly added tremendously to the number of those without employment.

The problem was aggravated by private sector foreclosures and bankruptcies. As will be discussed later, many companies could not do their business during the
stabilization period and were forced to dismiss many employees and workers, or just went out of business.

Moreover, the inflow of foreign investment did not help much in providing employment for several reasons. First, the amount of foreign investment was too small. According to Dr. Sadli, then a Minister of Manpower, an additional $10,000 investment was needed to create each new job. Considering this, the implemented foreign investment of $710.4 million (see Table 10) could only provide 71,040 new jobs. Even if all of the disbursed foreign aid resources were used for development investment (which was not the case during the period under study) they could only add 140,390 new jobs (see Table 9). The number was too small for an economy facing problem of 1.3 million new job-seekers every year in addition to the more than 4 million already unemployed.

Second, there was a structural problem within the Indonesian labor market. Direct foreign investment required mostly skilled labor, especially in manufacturing and mining, which comprised 73.7 percent of the implemented investment (see Table 10). Third, it was also reported that most of the manufacturing and mining investments were capital-intensive in nature.
When the government succeeded in encouraging investment by domestic capital (mostly Chinese) through the Domestic Investment scheme, it did not help much either. By 1970, the Domestic Investment Board approved investment totalling $280.13 million. Considering the cost creating jobs ranging from $1,263 per job in forestry to $54,000 per job in fishery, it was estimated that only 73,525 new jobs were created.\footnote{112}

**The problem of indigenous business insolvency.**

Indigenous Indonesian business has been in an unfavorable position since the colonial era. There were some attempts to improve it during the 1950s and early 1960s through protectionist measures by the government and through credit privileges. As we discussed in the previous section, the New Order government abandoned this nationalistic but inefficient policy. In fact, the stabilization program, especially the bank credit policy, hurt the indigenous businesses most. This was because the indigenous entrepreneurs did not have access to funds from outside Indonesia comparable to the Chinese (citizen or alien) and foreign investors.

Another blow against indigenous business came when the government introduced the Domestic Investment scheme,
which, *inter alia*, required collateral funds of 25 percent of the total investment to be accepted in the program. Most of the indigenous entrepreneurs could not meet the requirement. As Robison put it:\textsuperscript{113}

"(A)n important factor underlying their (indigenous businessmen's) declining situation is the difficulty they experience in accumulating the finance necessary for the actual process of having investments accepted with the PMDN (Domestic Investment) program. Most traditional commodity producers have all their funds tied up in capital stock and under the terms of the PMDN law, only new investments are eligible for PMDN benefits. Few of the existing producers had enough capital to do much more than maintaining existing operations, let alone begin new investments. This meant that commodity producers forced to operate outside PMDN do so at a competitive disadvantage to those businessmen operating within and thereby enjoying tax and import duty privileges". (Parentheses added).

Being not eligible for such a lucrative scheme, the indigenous entrepreneurs operating medium-sized industry, such as textiles, had to face competition from imported products. The influx of imported textiles of better quality was an intended result of the government policy of stabilizing domestic prices. Similar phenomena can also be found in other small-scale industries such as soft drinks, leather, rubber, household items, and others.
Thus, the indigenous industrialists, especially the middle- and small-sized ones, were hard hit by the government policy from two directions. While they found that their supply of credit was squeezed, they had also to face the malevolent effect of trade-liberalization and the continuing rise in production cost. Two economists surveying the Special Region of Yogyakarta reported that

"existing business firms are dying of an agonizing death for several reasons. The first is an acute shortage of liquid capital, an aftermath of the period of tight money. Another factor often mentioned is the high cost of raw materials, especially imported ones . . . Low purchasing power which depresses the market also affects manufacturing industry adversely. Add the difficulties caused by poor management, bad organization, and an enormous burden of lawful and unlawful taxes and levies of various kinds, and it is no wonder that many businesses shut down completely while others work much below capacity".

The indigenous entrepreneurs operating in the distributing and retailing sector did not fare better than the producers. During the 1950s, when the political parties had strong influence in the political system, the government made several efforts to improve their position, culminating in the banning of alien Chinese from doing business in rural areas. With the implementation of the New Order economic policy many of these policies were just abolished. The indigenous businessmen had to face stiff competition from the Chinese traders, aliens and the naturalized ones
alike, who came back dominating the urban as well as rural economy and who were backed by a closely-knit financial network.

All of these made business foreclosures a usual phenomenon among the indigenous business community during the end of the 1960s and early 1970s. 9,517 businesses went bankrupt during the period of 1966-70, mostly after the implementation of stabilization program. It was really a large number for the Indonesian economy. In 1973, from the 259,645 handlooms registered to the government, only 52,000 or 20 percent were actually being operated because of inability to compete with the modern, mechanized looms.\(^{116}\)

Another survey of the economic condition of 1967 reports that\(^{117}\)

"(D)omestic industry generally is at a low ebb and production has continued to fall; many industries are now operating at only 7 percent to 30 percent of capacity, and some are on the verge of bankruptcy. Out of 86 pharmaceutical factories, 40 percent were operating in August 1967 at 10 percent to 20 percent of their capacities, 25 percent had stopped producing, while 35 percent had closed down completely. No less than 60 percent of textile industries in the country had stopped operation by October 1967 because imported products retailed cheaper".

It was this kind of situation that made Adam Malik confess in 1967 that the government's economic policies had failed.\(^{118}\)
Although the statement was later officially denied, it was no use because General Suharto himself was quoted as saying: "The Government realized fully that its measure have temporarily inflicted a blow to the production sector bringing recession in its wake". Similar statements were repeated in several of his formal speeches.

Most of those who ceased to do business were indigenous entrepreneurs. And for many of them it seemed to be the end of their career in business. When the government encouraged joint-venture type investment between foreign and domestic capital, most of them were unable to participate because, first, they did not have the needed collateral, and second, the foreign investors preferred the Chinese in doing business in Indonesia. Even if they wanted to be merely an agent or subsidiary of an international company, they faced the same problem. The Chinese were always seen as more reliable as businessmen than the native Indonesians.

The repeated blows against the indigenous entrepreneurs since long before until long after independence severely weakened them as an effective motor of the Indonesian national economy. The effect of the destructive blows was so severe that when the government began to rescue them following the political crisis triggered by the anti-
Chinese and anti-Japanese mass demonstration in January 1974, it failed to stimulate their enthusiasm. Most of them were very pessimistic about their prospect of doing business competing with the Chinese, especially when they saw that all sectors of the economy, except maybe agricultural estate and mining, were already dominated by the non-indigenous businessmen.

The state-related entrepreneurs.

Beside the Chinese and the national-indigenous entrepreneurs who started and did business in its real sense, there are also in Indonesia other types of "entrepreneurs": the "client-businessmen" and the "bureaucratic-businessmen". The former are those businessmen "whose emergence and operation depend heavily upon government concessions and bureaucratic monopolies". The latter are those state-officials who started doing business as the managers of state-owned companies, and who are granted many bureaucratic privileges and protection. The entrepreneurial-bureaucrats later grew to include those bureaucrats who never managed state-enterprises but were involved in business activities by virtue of their formal positions in the government.

The "client-businessman" is not a new phenomenon in Indonesia. It was the creature of the nationalistic-oriented
leadership of the 1950s who wanted a strong basis for a national economy by nurturing, protecting and giving privileges to some businessmen having close relationship with those in power. Thus, it was built around a patron-client relationship between a group of businessmen and government officials controlling economic policy sectors.

What was new during the New Order era was the persons who fell under that category. Most of the "client-businessmen" of the 1950s and early 1960s could not survive the regime change. The parties that dominated the political scene had been pushed aside and were not able to function as patrons anymore. There was a new patron since then, the military. And with it came into being many new clients.

These new "client-businessmen" proved to be more dynamic, due mostly to the fact that there were many more resources and opportunities for the government to share with them. The government's favorable attitude toward business also enhanced their positions, but not those outside the new patron-client network. Although it may be contrary to the intention of the technocrats, the New Order government, in fact, exacerbated the problem of "client-businessmen".
Bureaucrats doing business themselves is not a new phenomenon either in Indonesia. It started when the government established state-corporations out of those big companies taken over from the Dutch in 1957. The army leadership under General Nasution, with government approval, assigned army officers to manage the new state-companies such agricultural estates and mining. Many of these managers grew independent of government control and treated the companies as private property. The president-director of the state oil company PERTAMINA was so independent that he many times showed that he was not even subject to army leadership. In fact, these managers were needed by the army to provide non-budgetary resources.

During the New Order, the managers seemed to be even more indispensible. The need to increase export revenues made the government let them stay in their positions despite the fact that many of them used the positions to build their own business empires. The president-director of the state oil company, General Ibnu Sutowo, for example, was known as the owner of various big businesses. This way of doing private business was imitated by other bureaucrats aspiring to build their own fortunes and power bases. And, by virtue of their positions, their businesses were facilitated by many business privileges.
Having described four types of Indonesian businessmen, it is interesting to see how they are related each other. While during the 1950s and early 1960s the "client-businessmen" were at enmity with the Chinese, during the New Order many of them collaborated with the Chinese for practical reasons, such as the Chinese's skill and financial networks. So did the "bureaucratic-businessmen" lacking the skills needed to do real business. What they did primarily was to facilitate the Chinese with bureaucratic paperwork and protection. However unhappy they were in the position, the Chinese managed to use every opportunity to enhance their economic position. And the relationship with the power-holders was indeed very important for a minority living among people who, due to various historical and sociological factors, are still unable to see them as equal members of the society.

Left out of this arrangement were the national-indigenous entrepreneurs, who mostly run middle- and small-size enterprises. In fact, of the four types of Indonesian entrepreneurs the indigenous businessmen were the only ones without any protection and excluded from many lucrative economic projects. Furthermore, with the decline of the political parties' power gone was the protector of their interests in the Indonesian political system.
The protests and the repression.

The effects of the stabilization policies were beginning to be felt by the general public by mid-February 1967 when all state-companies, in searching for a new equilibrium, increased the prices of their products and services greatly. The state railway increased its rate five-fold, while the postal service raised its rate 17 times. These were accompanied by increases in the prices of electricity, water, and bus fares. And most important of all, the price of petroleum was increased eight times. These increases seemed to be justified and acceptable to every group in the New Order coalition. In contrast to the price increases in 1965 that aroused mass demonstration, that ultimately led to the demise of the Old Order, there was no such protest following the prices increases of early 1967.

The increases began to create resentment among the supporters of the New Order when in the second half of 1967 they were accompanied by a food crisis. A long dry season decreased rice production during the year. Combined with the speculative actions of the rice traders as well as of the government rice procurement agency, it made the rice price jump from Rp.10 per liter in August to Rp.45 per liter in December 1967, during which Muslims celebrate the
Lebaran feast. The effects of the price increases on the cost of living were so severe that even a foreign journalist known as a staunch supporter of the New Order reported that

"The economic conditions for the common man have deteriorated to a level not previously experienced. It must be said that the Government has proved itself unable to provide basic commodities at reasonable prices . . . it has failed to bring relief on the most sensitive of all issues -rice, a key problem economically as well as politically".

This worsening condition triggered protests among the population. By the last quarter of 1967 student and youth groups began to dissociate themselves from government policies and to take their cause to the streets by sponsoring mass demonstrations. The tactic that succeeded in forcing Sukarno to resign was now used against a government they helped to create, the New Order government. And the demonstrations developed into a mass rally for five days in late January 1968.

Since then the condition of conflict developed rapidly, especially when the issue of price increases was accompanied by those of bankruptcy among the indigenous entrepreneurs, corruption among state officials, mass impoverishment, and other issues unsettled during the
March 1968 MPRS session. The government, however, was determined to continue the stabilization at all cost. The commitment to balance the budget, for example, made it once again increase the price of petroleum by 400 percent in April 1968. This, of course, triggered another and bigger opposition. While the price increases of early 1967 were understood by many, the increase in the petroleum price, which was soon followed by price increases in other commodities, was opposed by almost everybody outside the government.

The government's commitment to stabilization also resulted in the repression of the protests. Several students were shot dead during the demonstration. The military began to harrass student organizations that criticized the government. And when the government was criticized for letting it happen, the Jakarta Military Commander replied that security reasons justified the actions. He even said, that if his action was called the "law of the jungle", as the protesters accused, then he admitted that he had implemented this law against the devil.

Such responses were repeated again and again during the late 1960s and early 1970s in response to an increasing number of protests and demonstrations. The climax was
reached during the first two weeks of January 1974. During the last quarter of 1973 and early January 1974, student and youth groups sponsored mass demonstrations against Chinese and foreign, especially Japanese, domination of Indonesian economy. The sponsors, unfortunately, were unable to control the rally and it broke out into a mass destruction of a shopping center in Jakarta,\(^{129}\) giving the military a good reason to repress the sponsors.

Despite giving such repressive responses, the government was also prepared to deal with the political opposition by creating various political structures supporting its survival. This arrangement will be discussed in the next chapter.
As has been stated in chapter I, the crux of this dissertation is explaining the New Order political system by looking at the interrelation between domestic and international variables and that between economic and political variables. The domestic-international linkage has been discussed in chapter III to support my argument that the way the New Order's inner-coalition leaders perceived the great political and economic challenges confronting them at home and the opportunities promised by Western governments and capitalists had a lot to do with their choice of the "outward-oriented" economic strategy. The strategy of drastic-economic-stabilization-then-rapid-growth was designed purposefully to respond to the challenges and to mobilize popular support at home as well as to attract the support of foreign non-communist governments and investors. It has also been revealed that favorable responses from the external actors to the New Order economic programs positively facilitated the achievement of economic stability by the end of the 1960s and of rapid growth during the 1970s.
The economics-politics linkage, i.e., the connection between the creation of the "outward-oriented" economic strategy and the establishment of a political system conducive to such an economic undertaking, will be further discussed in the following pages.

In the beginning of chapter III I discussed in passing the emergence of public opinion favoring economic modernization which, in a very short time, created a new slogan of "economics in command". The slogan might have exaggerated the spirit of those people longing for economic betterment, but there really was a widespread consensus among the population, including those still outside the New Order camp, on the primacy of economic reconstruction. The consensus, however, did not last long. Having experienced the painful effects of the stabilization policies required for embarking on the modernizing venture, many groups began to dissociate themselves from the government-sponsored modernization. Consequently, the New Order coalition was increasingly shrunken.

This situation was perilous especially because the government was preparing for the election scheduled for July 5, 1968 by the MPRS. Facing this problem there were two options for General Suharto: first, to build a coalition
with a political party and, therefore, let a participatory political system work; or second, to reform the constitutional framework in such a way as to create a new consensus.

The first choice of building an alliance with a political party would require the General to give the parties more freedom to mobilize popular support and compete with each other in the elections. And, in return, his partners in the party could provide him with the democratic support he needed. Conducted seriously and with the support of the army, this civil-military collaboration could lead to the creation of a participatory politics with a foundation stronger than that of the 1950s especially because the military would be given the long-aspired legitimate political role.

There were two political parties that could give General Suharto the popular support: the Muslim NU and the nationalist PNI. Both of these parties had solid mass bases. NU was dominant among santri\(^1\) Muslim in rural areas as well as among Muslim entrepreneurs that comprised the bulk of the Indonesian indigenous business community, and had a relatively unified leadership. PNI, on the other hand, was popular among abangan Muslim rural population and among the
Several reasons, however, prevented the General from adopting the first strategy. First, given the fact that the parties were supporters of the indigenous businesses, such a choice would only contradict his outward-oriented economic policy. As I argued in chapter III, the success of the rapid-growth economic development program was already guaranteed by foreign capital, the reactivated state companies, and domestic entrepreneurs with international connections and the army. Since the government could not expect the indigenous entrepreneurs to provide such a guarantee, there was no need for Suharto, at least for the moment, to attract the indigenous businessmen's support by collaborating with their supporters in the political parties. In other words, choosing a political party as partner in a coalition would only compromise the economic development program, which could lead to its failure.

Second, he was probably not convinced about the effectiveness of such a coalition. Surely, he could choose either NU or PNI as an electoral ally. But there was a problem with their leadership. While many of both parties' leaders still supported Sukarno, even after the March 11, 1966 transfer of power, the anti-Sukarnoists within the
parties were led by free-wheeling politicians, i.e., Subchan Z.E. in NU and Hardi in PNI. Although these anti-Sukarnoist leaders had a history of collaboration with the army against the communists before 1965, they were openly critical of the army's intervention in non-military affairs. In short, these politicians were too independent to be trusted as allies. In addition, there was also a problem of cultural cleavage between Suharto and the NU's politicians. As an abangan Muslim, General Suharto could not get along with the confessional politics promoted by the NU's santri politicians.

Third, as we will discuss further below, there was a widespread anti-party sentiment among the core members of the New Order coalition, especially the army officers and the reform-minded intellectuals. Finally, Suharto by the end of 1967 had secured his control over the state. He had the army and the civilian bureaucracy at his disposal. Supported by their territorial administrative and command networks, the two state apparatuses could be used effectively as instruments for governing the nation. This point also will be dealt with in more detail later.

Such considerations, therefore, predisposed the New Order leader to choose the second strategy of rebuilding the
consensus by using the mechanisms provided by the Constitution of 1945. The utilization of the constitution was facilitated by the fact that many of its provisions were so vague that there was much room for reinterpretation. In other words, by reinterpreting the existing constitutional framework, the General attempted to create a set of political structures and practices that (1) could provide support for the economic transformation and (2) would be able to control its consequences, especially by coopting the opposition and preventing them from disturbing the government economic undertakings.

In addition to the constitutional reform and despite their contention that the New Order was intended to establish a polity free from ideology, there was a felt need for the new leaders to create a new ideology to justify the economic transformation. A consensus based on an ideology conducive to economic development was considered instrumental in unifying the people behind the government and in effectively implementing the government program.

In this chapter I would like to discuss the New Order government's efforts to build an ordered and controlled political system supporting the economic program. The discussion will be divided into three topics: first, the
emergence of and the debate on the ideology intended to justify the development effort and the role of the military in it; second, the political structures created to guarantee a controlled policy-making and -implementing process; and finally, the process of governing itself.

(A) The ideology of developmentalism and the military's dual-function: two alternative views.

The ideology of developmentalism. It was a widely-held belief among the supporters of the New Order that the future Indonesia should be free from ideology-based politics. Ideological conflict was seen as the sin of the past. Political instability that resulted in the economic breakdown was believed to be primarily caused by the never-ending conflict over ideology. So, together with the slogan of the day of "economics in command", the New Order intellectuals argued for the creation of a society free from ideology.

This argument might stem from their misconception of ideology. As Liddle argues, "to conceive of a polity without ideology is . . . to conceive of a society without conflict and a people without hope, a condition not to be found in any contemporary society, least of all in a new state such as Indonesia". In fact, ideology serves many functions in
a society. It can also be manipulated by power holders as well as power contenders to fulfill their stated goals. On the uses of ideology, Liddle argues in a Geertzian vein that

"it produces a map of social reality, distinguishing important from unimportant determinants of human behavior, explaining how the past shaped the present and how the present might shape the future; to the extent that its explanation of the past and present and its vision of the future conform to the aspirations of a significant segment of the politically active (or activable) public, it confers legitimacy upon its formulators and proponents; it contains or can prescribe a course of action designed to attain the desired future; and, of course, it may in varying degrees, and more or less consciously, provide a cover for a politics of personal or group interest and ambition".

In sum, ideology gives people a conception of the goals worth attaining and of the means to attain it. Understood this way, there must be an ideology or even several ideologies in any society.

Since long before the New Order, there had been a loosely-knit group of intellectuals promoting a kind of ideology based on "secular values of modernity" such as pragmatism, rationalism and internationalism, in Indonesia. The intellectual antecedents of the ideology can be found in the ideas of the first Westernized Indonesian intellectuals of the early decades of this century, which were much
influenced by European socialist thinking. During the 1950s and early 1960s, these intellectuals were informally assembled around what Feith calls the "administrator"-type of leaders such as Vice-President Mohammad Hatta or Sultan Hamengku Buwono IX, but most important of all were those around the Socialist Party politicians. Many of them might not have been members of the party, but intellectual activities and ideological affinity brought them closer to the socialist circle, due to the fact that the small party was the only place where intellectuals of liberal persuasion were actively engaged in debating and exchanging ideas as well as literature on contemporary issues. The importance of such gatherings was further emphasized by the increasingly authoritarian environment during Guided Democracy.

Among the ideological statements during the 1940s and 1950s that had an important bearing on the early New Order were those by the socialist leader Sutan Sjahrir. To him, the goals for Indonesia should be "an industrialized economy, an egalitarian society, and an activist welfare state founded on democratic principles."8

The instruments he devised to achieve these ultimate goals were based on an elitist and pragmatist outlook. His
elitist ideas predisposed him to believe that.\(^9\)

"(T)he achievement of these objectives . . . would require the establishment of a strong party consisting of 'cadres of convinced socialists' who would be able to thwart the appeals of totalitarian communism, to break down through reeducation the 'feudalistic heritage' of the Indonesian peasantry, and to create an atmosphere of order and pragmatic efficiency in which rational economic planning could take place".

While his pragmatism made him believe that the accomplishment of the goals would also require\(^10\)

"the support of the already industrialized West, with which (despite his basically Marxist understanding of history) he was therefore prepared to cooperate".

In addition, Sjahrir also believed in the benevolent nature of international relations and especially in its "intellectual intercourse" aspect. He argued that\(^11\)

"nations depend on each other for their continued existence. There is a world economy; a world division of labor and of production has developed outside the conscious will of men".

He further asserted that many nations face problems, economic and social, "which can only be solved rationally and on an international basis".\(^12\) Moreover, while rejecting the one espoused by the orthodox Marxists, he believed that\(^13\)

"(I)nternationalism . . . is rational; it is based on dispassionate reason; it is also based on the trends of the actual development of mankind".
The "secular values of modernity" were kept alive among the intellectuals and small group of university students in Jakarta and Bandung through the 1960s, despite the banning of the Socialist Party by the Sukarno regime in 1960. The ideas even got new vigor during the decade due mainly to two developments. The first was the return of some reform-minded intellectuals, with Ph.D. degrees from mostly American universities, who soon joined in and strengthened the anti-communist group. The second was the availability of new social science theories supporting the liberal intellectuals' cause. At least three theories influenced them in the 1960s.

The first was Lipset's hypothesis that political democracy is preceded by economic development. Based on his interpretation of the history of Western democracies, he argues that only nations with a high level of economic development had also achieved a high degree of liberal democracy.

The second was the "end of ideology" argument of Daniel Bell. Basically the argument was that due mainly to technological advances economic development in the West had solved the problems it faced during the Industrial Revolution, and the Western nations now saw ideology-based politics as
a thing of the past. Bell even argued that consensual-politics was now the name of the game. He writes that "(I)n the Western world . . . there is today a rough consensus among intellectuals on political issues". Walter Heller, another proponent of such an argument, also argues that "(W)hen the cost of fulfilling a people's aspirations can be met out of a growing horn of plenty- ideological roadblocks melt away, and consensus replaces conflict". In summary, the argument asserts that the intensity of ideology-based politics decreases with the increase of economic development in modern societies.

As a consequence, the argument suggests that today's problems of modern society had made public policy so complex that people could no longer afford to let the policy-making process be dominated by ideological politicians and that technical experts had to be given a prominent role in the process. In other words, traditional politicians would have to give way to the experts, the technocrats, in modern societies. Although Bell dealt with the Western societies, his ideas influenced many Indonesian intellectuals supporting the New Order.

The third strand was the argument propagated by Samuel Huntington on the dangerous effects of uncontrolled
social mobilization and on the prominence of order for the less developed nations. What was more important for the nations, according to Huntington, was political institutionalization. In order to survive, the governments of the new states had to be able to channel the people's demand for political participation in an orderly way. 18

Thus, by the second half of the 1960s, the intellectuals supporting the New Order already had a solid theoretical ground to propound a new kind of politics conducive to economic development which would be "free from ideological conflict" and based on pragmatism, rationalism, order and practical expertise. Such ideas, understandably, brought them into conflict with the party politicians, who the intellectuals blamed as the source of ideological conflicts that resulted in the decay of Indonesia's polity and economy. Meanwhile, however, there was a similar development among the army officers that made the intellectuals' ideas warmly welcomed by the military.

The ideology of the "dual-function" of the military.
As has been discussed in chapter II, by the end of the 1950s the army leaders already found the formula legitimizing their involvement in non-military affairs, i.e. the system of functional representation and the ideology of what later
during the New Order era was known as the "dual-function" of the military. Since then the army ideologues had seriously developed the ideas, especially in the army's thinktank, the Army Staff and Command College. Among the army leadership emerged some officers who were dedicated to using the military, through the dual-function mechanism, as the motor of the development process. These officers, due to their modern military training, shared the "secular values of modernity" propagated by the liberal intellectuals. In fact, they collaborated with the civilian intellectuals, protected them from assault by the communists, and invited some of them to teach non-military courses in the Staff and Command College. Following the attempted coup of September 30, 1965, the officers made many of the civilian intellectuals advisors to General Suharto. The close cooperation between the army leaders and the liberal intellectuals was more widely demonstrated during the Second Army Seminar in August 1966 and other similar meetings held by the army advanced school.

The contending strategies.

Despite the consensus concerning the necessity to reform or "modernize" the political system, there was a disagreement within the political elite, civilian and
military alike, on how to do it. Two approaches were found. For the sake of convenience they will be labelled "reform-now" and "reform-later" positions. They are summarized below:

<table>
<thead>
<tr>
<th>&quot;Reform-now&quot;</th>
<th>&quot;Reform-later&quot;</th>
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<tr>
<td>- Rapid political reform.</td>
<td>- Gradual political reform.</td>
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<tr>
<td>- Against party oligarchy.</td>
<td>- Compromise with and coopt party oligarchic leadership.</td>
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<tr>
<td>- Military's dual-function</td>
<td>- Military's dual-function emphasizing &quot;kekaryaan&quot; (civic missions) in non-military affairs.</td>
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<tr>
<td>emphasizing &quot;territorial management&quot; and political representation in the MPR.</td>
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The nature of reform. The civilian intellectuals from both positions argued that a new political organization should be created to carry out reform and to prevent the emergence of a militaristic regime in Indonesia. The problem was: how to start the reform?

Some of them believed that the early New Order period was a unique opportunity to reform the Indonesian political system, especially the party system, in the direction of democracy. Having experienced the authoritarian Guided Democracy regime, they considered democratization of Indonesian politics as the *raison d'etre* of the New Order. They also expected that some radical army officers would provide strong support for such reform, because it would
emasculate the party system inherited from the Old Order. Some influential army officers did give the support. Moreover, these intellectuals holding the "reform-now" position, as represented for example by those around Dr. Umar Kayam, the Director-General of Radio, TV and Film of the Department of Information, emphasized the necessity to build a mass-based political organization to compete with the existing political parties.

On the other hand, those intellectuals with "reform-later" position maintained that the strategy proposed by the first approach was not realistic. The second group was aware that many party politicians, especially the nationalist and the Muslim ones, had genuine, strong support bases among the rural population that were not easy to compete against. In addition, the need to get the parties' support for the New Order government economic program predisposed the New Order leaders to let the parties survive, at least for a while. The second approach, represented for example by those intellectuals around Mashuri, an aide to General Suharto and later Minister of Education, considered occupying strategic positions in the bureaucracy as well as in other political organs, such as the parliament, as more important and effective initial steps than going to the village and mobilizing the mass.
On party leadership. In the view of the modernization-minded intellectuals, most of the Indonesian party leaders were infected with three sins. First, they were too ideology-oriented, in contrast to program-oriented. They put too much emphasis on ideological considerations in judging public policies and in their general activities, so much so that they exacerbated conflict potentials among the plural society. Second, they were also accused of being concerned only with preserving their and their close associates' interests and using popular support to protect those interests. Finally, the way they were recruited, mainly through appointment channels controlled by the national leadership and not responsive to the electorate, made the party leaders an oligarchy that was not accountable to their constituents.

Consequently, the modernizers taking the "reform-now" position saw the radical overhaul of the existing party system as a prerequisite of the success of the New Order. The mechanism considered to be the most effective to do such reform was the electoral system based on single-member district representation system, as opposed to the existing proportional one. By introducing the single-member district system, they expected to simplify the number of parties within the parliament and to force the oligarchic party leaders to be more responsive to their parties' rank-and-
Those who take the "reform-later" position initially supported the idea of radically reforming the existing party system through the introduction of the new electoral system. Having experienced strong opposition from the party politicians and having failed to secure the support of General Suharto for such radical reform, they chose to compromise with reality. Consequently, they put more emphasis on the strategy of using every opportunity to coopt the party leaders, in addition to building a new "development-oriented" coalition within the parliament.  

On the role of the military. Meanwhile, within the military elite there was (and still is today) a debate on the proper form of the dual-function of the military. One group of officers, who could be included in the "reform-now" category, argue that the dual-function should be seen primarily as an instrument within the broader strategy of "territorial management". This strategy had led to the establishment of the military's (especially the army's) territorial command chains parallel to the civilian territorial administrative hierarchy. Charged mainly with the tasks of mobilizing mass potential for defense purposes, i.e. territorial warfare or people's total warfare, these
territorial commands also assumed political functions which were oriented primarily toward preserving stability. To secure the military interest in national affairs, these officers argue that the military should be represented in the MPR, but not in the DPR. This was because the officers should not be bothered by day-to-day politics which was the task of the DPR. The officers, however, should be given an opportunity to influence the designing of broad state policy in the MPR.  

Military officers would assume the kekaryaan (civic mission) role, such as occupying civilian bureaucratic positions, only during emergency situations. And those military officers aspiring to political positions should relinquish their military credentials and prerogatives. In short, the "dual-function" of the military should not hinder the development of a more participatory politics.

On the other hand, other groups of officers, especially those closer to General Suharto, take the "dual-function" to mean something much broader than that stipulated by the first position. They insist that the active involvement of the military in political and economic activities is natural and necessary, because (1) it is the only group "having national credentials" and "able to surpass all ideological groups and interests"; (2) it is also the only modern political organization available to General Suharto for mobilizing
support and assuring Presidential control.\textsuperscript{30} In practice, these officers consider the control of the political and economic positions by the military as necessary for securing the success of the New Order. As Major General Ali Murtopo argues, "giving back the positions presently controlled by the military to the civilians would only put the existence of the state at stake and endanger the on-going process of normalization".\textsuperscript{31} Moreover, they consider the involvement of the military officers in the civilian bureaucracy as an assurance of the effectiveness and the responsiveness of the bureaucracy to the top leadership.

The emergence of the official New Order ideology. The dynamics of politics during the early New Order led to the victory of the "reform-later" over the "reform-now" approach. In other words, the dominant power group considered the postponement of the reform-toward-democracy process as a necessary strategy in order to preserve political stability.

By early 1968, it was increasingly clear that the idea of building a new mass-based political organization was dampened for lack of support from the dominant power group.\textsuperscript{32} On the other hand, the second group advocating a more elitist strategy succeeded in creating a new coalition group within
the parliament, named Fraksi Pembangunan (Development Fraction), by February 1968. The new fraction was composed of 20 percent of the parliament members, most of whom were those appointed by General Suharto to replace the radical New Order politicians recalled during the end of 1967.33

The strategy of radical party reform through the introduction of a new electoral system was also defeated by November 1967. Earlier in the year, the government submitted a bill proposing a new electoral system based on a single-member district system, in which the kabupaten or district was taken as the constituency unit. A special committee of the parliament charged with the task of discussing and deliberating the bill failed to reach a decision due to strong opposition from party politicians, who were still dominant in the parliament at that time. The government, then, withdrew the bill and replaced it with another bill favoring a proportional system. The new bill was accepted by the parliament after the government had recalled the radical New Order politicians it appointed in 1966.34

Among most of the military elite, General Nasution's interpretation of the military's "dual-function" as latent or temporary and restricted was not attractive. Many officers were already so deeply involved in various non-military
affairs that it would not be easy for them to withdraw. Badly in need of administrators who were responsive to the top leadership and capable of getting things done, General Suharto preferred to let them stay in their positions. The General's position, in effect, encouraged his fellow officers to involve themselves more deeply in various political and economic activities.

By 1968 the movement to create a more participatory politics was going no where. It was, in fact, in limbo. Most of the radical intellectuals aspiring to make the New Order a democracy lost their influence. They were expelled from government positions and from the parliament. At the same time, their supporters within the army also suffered power losses.

Despite their demise, however, the modernization values they had propagated for so long were kept alive among the New Order elite, especially due to the activities of the intellectuals of the "reform-later" sort who were still in the system. The developmental ideology was further developed especially by those civilian intellectuals around Major General Ali Murtopo, a confidant of Suharto, who, due to the solidification of power of the Suharto group, rose rapidly to an influential position during the early New Order. This
revised developmental ideology still retained the older one's characteristic values such as economic development, rational public policy-making, efficiency, effectiveness and pragmatism. But the new version of the ideology of modernization contained a heavy dose of order. The emphasis on order was found in the political statements of many New Order leaders, but the most blatant version of it was embodied in the writings of Ali Murtopo. And, indeed, the emphasis on the last value was suited to the government economic and political programs. In summary, by the end of the 1960s there developed a kind of ideology among the New Order leaders justifying political sacrifices for the sake of economic development.

Having found that the New Order had devised a developmental ideology, we proceed now to the discussion of the content of the ideology as espoused by prominent New Order officials.

What are the goals of the New Order? The two main objectives of the New Order considered to be the most important by the leaders were economic growth and political order or stability. Despite the contention that the New Order was committed to the establishment of a "just and prosperous society", which was taken to mean that economic growth should
be accompanied by social justice in terms of equal distribution, there was a qualification for this. As Schiller argues

"If there must be a choice between justice and growth there is considerable evidence from elite statements about development (as well as observers of the Indonesian economy) that economic growth has priority. Ali Murtopo writes that: 'The main target is to increase the Gross National Product threefold in twenty-five-years' time'. Mohammad Sadli writes that 'the major preoccupation of the new government became directed to making the national pie bigger, at least as a first priority'. Widjojo Nitisastro argues that 'more equal development requires economic growth so that what is distributed is far larger'. Economic growth may be only an instrumental goal but it is clearly emphasized as a crucial one in elite statements on development".

On the second goal of order and stability and national security, Schiller writes that

"Suharto describes stability, order and security as 'an object of development itself, namely, to make us all feel physically secure and have peace of mind, free from fear of threats from without and free from worrying over disturbance from within'. One of the most important aims of the New Order, he says, is 'to build a new society which feels secure, enjoys the significance of order, (and) pursues progress in an atmosphere of stability'. (Parenthesis added).

Why choose these goals? To justify their cause and to mobilize popular support, the officials tried to expound the
New Order's commitment to development

"(1) as being faithful to the initial values with which the Suharto regime came to power.
(2) as necessary to overcome the rich-poor nation gap.
(3) as being the appropriate goal for this era.
(4) as being essential to Indonesia's security.
(5) as fulfilling the aspirations of independence and
(6) as providing an opportunity for a better life".

On the first point Ali Murtopo argues that the government commitment to an economic development program resulted from the "Three Popular Demands" that ushered in the New Order to power. The third demand, i.e. demand for economic betterment, he believes, requires radical reform of the economic policies and structures adopted by the previous regime.

On the second and third points he writes

"(T)he inequality among nations of the world in which 20 percent of the world population comprising several industrial countries enjoy 80 percent of its income, while 80 percent of the population comprising backward countries shared the remaining 20 percent not only contradicts the principle of justice, but also results in potential tensions that always threaten global as well as regional security. (Therefore, it is the task of) the development planning of the developing countries to control the 'increasing gap' (between rich and poor nations) in the world . . . . (and) to accelerate their process of modernization". (Parentheses added).
On the last three points the general argues that "... strategic evaluation ... and international, regional and national situation force (the New Order government) to carry out the development (program) to improve popular living conditions, because poverty is a latent danger (that could threaten security). A country with a population living in poverty is very vulnerable to disturbances from within and without. Here lies the essence of the doctrine of national resilience. This doctrine sees modernization (and) development through two complementary approaches, i.e. to protect the Indonesian people and their hard-won independence --security approach-- and to enable them to improve their living conditions, the cause of independence --prosperity approach". (Parentheses added).

How are the goals to be achieved? The conditions required for achieving these goals, according to the elite, were an "outward-oriented" economy and an ordered, technocratic politics. First, the government should adopt economic policies which were conducive to rapid growth and able to utilize foreign economic resources. This point has been discussed at length in the last chapter.

Second, the government should maintain "a tightly controlled, orderly economy and society". In fact, national stability and national security are the most valuable things in the New Order elite's view. The creation and maintenance of national stability required the government to adopt these following measures:
(1) Creating a politics which is free from ideological conflict and based on order and consensus. This measure resulted in the government's efforts to eliminate party-based politics, which in turn led to the emasculation of the political parties and the representative bodies, and to impose a "consensual politics". This point will be further discussed later in this chapter.

(2) Limiting pluralistic political participation. Popular participation should be directed primarily toward the implementation of the development programs adopted by the political elite. As Ali Murtopo argues:

"(P)olitical development is an effort to make people participate positively in the national development program. People's awareness of statehood (should be realized) through participation in their own localities, by solving real problems . . . (in) their own occupation and profession". (Parentheses added).

Furthermore, to prevent people from becoming "the victims of the parties' political and ideological interests", they should be freed from party politics. And political parties should not be allowed to penetrate rural areas except during the once-in-five-years election campaigns.

(B) The structures.

(1) A tightly-controlled civilian bureaucracy.

One of the great problems facing a new government committed to radical economic reform such as the New Order
was how to get the government programs effectively implemented throughout the nation without being diverted by its bureaucracy. In order to make the new government work, that is, capable of administering the economic development program, it needed a bureaucracy that was effective and responsive to the top executive.

There was no doubt that the new leaders were eager to use the state, or the bureaucracy, as the primum mobile of the development program. The bureaucracy they inherited from the Sukarno regime, however, was very big, ineffective, underpaid, and corrupt. As has been discussed in chapter II, it was also very politicized. In fact, it became an arena for party politicians to vie with each other for influence. It was logical, therefore, that the New Order government considered reforming the bureaucracy as a top priority.

As has also been described in chapter II, there was a movement to reduce the role of the central government during the 1950s that resulted in the promulgation of the Local Government Law of 1957. This law was designed to give the local governments authority to deal with all matters except those reserved by the central government for itself and also gradually to eliminate the centralized civil service, the pamong praja, and transfer the powers it wielded locally to
the local governments, which were to be popularly elected. With the reenactment of the 1945 Constitution by Presidential Decree of July 1959, however, the movement toward the devolution of power to the regions was dampened. In fact, the Guided Democracy regime, supported by the army, was committed to the centralization of power in Jakarta. In 1965, it enacted laws designed to terminate the decentralization process and to promote centralization.

The New Order leaders, in a sense, simply continued the process. For them, the bureaucratic reform should be directed toward: first, shifting administrative authority to the upper-level of the bureaucratic hierarchy, i.e. centralizing the public policy-making process; second, making the bureaucracy effective and responsive to the central leadership; and third, expanding the new government authority beyond the center and consolidating its control over the regions.

The first measure resulted in the centralization of all major public policy-making processes. First of all, the central government prepares the Garis Besar Haluan Negara (the State's Basic Policy Guidelines) or GBHN, which is revised every five years, toward which all government policies must conform. Then, there is the Repelita (the Five
Year Development Plan) which is also revised every five years. Implementing the Repelita is the annual government budget, which specifies in more detail the policies pursued by the government during the year. In effect, the policy guidelines and statements serve as the mechanism "to centralize the nation's resource mobilization and allocation system". And the central government has been so strict in enforcing the mechanism that there is no room left for local governments to maneuver.

The second strategy led to the massive infusion of military officers and civilian technocrats into government departments and agencies. Due to the policy reforms it set to pursue, the New Order government needed, more than its predecessor, a bureaucracy responsive to the top executive and capable of effecting change. The short-cut way to achieve this was to put the reform-minded technocrats and officers, who could be controlled by the top leadership, in the bureaucratic positions. Especially since the establishment of the first Development Cabinet in 1968, the majority of governmental departments and agencies have been headed either by military officers or by the civilian technocrats. So have been the positions of Inspectors General, Secretaries General and Directors General. A few minor posts were given to party politicians.
The third measure set into motion the process of installing Jakarta-controlled men in regional government positions, as provincial governors or bupatis (district-heads). And those men the central government trusted most were generally military officers. While in 1960 only several provincial governors were military men, 68 percent of all governorship positions were taken by military officers in 1968, and the number was up to 92 percent in the early 1970s. Of all bupati posts in 1968, 59 percent were held by military officers. In East Java alone, the figure was 84 percent in the early 1970s.

In addition, the measures described above were supported by the creation of a web of intelligence-cum-security-enforcement apparatus placed in every major bureaucratic area and in every regional capital. Such a mechanism was deemed necessary by the top leadership to guarantee the proper implementation of government programs.

(2) Integrated armed services.
Another problem facing the new government was how to control the factional conflicts among the army officers and the inter-service rivalry between the army and other branches of the armed forces. As has been noted in chapter II, these conflicts were used by President Sukarno to gain control
over the military. General Suharto, however, considered the
goal of controlling the whole armed services required the
elimination of such conflicts and the integration of the
services.

Attempts had been taken during the second half of the
1950s to unite the army, especially by removing civilian
control. But President Sukarno was always able to prevent
unification. The most frustrating setback came in 1962. In
that year the President succeeded in dividing the army
leadership by making General Nasution the Chief of Staff of
the Armed Forces, and appointing General Ahmad Yani to
replace him as the leader of the army. More importantly, he
took the armed services away from Nasution's control by
making each of the top leaders of the services, the army,
the navy, airforce, and police, Panglima (Commander-in-Chief)
with operational authority independent of the Chief of
Staff's control. The turbulent situation in the 1960s that
erupted in the September 30, 1965 attempted coup and
continued several years later can in part be explained by
the ability of President Sukarno to play the armed forces
against each other.

According to Ann Gregory, during the early New Order
there were several factions within the army, the most
important of which were: the Suharto faction, the Panglima se-Jawa (Java commanders) faction, the Nasution faction, and the Sukarno faction.\(^{54}\) (Although the other services were not free from factional problems, their nature of factional conflicts were not as politically important as those within the army). General Suharto gradually managed to build cohesion within the army and eventually the whole armed forces by using these methods:\(^{55}\)

"(1) purging those considered leftists and those unwilling to transfer their loyalties from Sukarno to Suharto; (2) transferring those who were leaders of antagonistic factions to distant regions or outside the country or to unimportant positions in the central military staff or the civil service; (3) using institutions within the military through which criticism and advice could be channelled; (4) favoring factions of political groups which were favorable to the Suharto faction; (5) changing the organizational structure of the military".

By 1969, General Suharto had solidly established his power basis in the army, following his success in removing his opponents from the most important branch of the military.\(^{56}\) The first he dealt with was the Sukarno supporters within the military. Having purged the Sukarnoists officer in the army, he then forced the other services, including the police, to get rid themselves of the Old Order supporters.\(^{57}\)
The next turn was for the radical officers within the army who helped him create the New Order government. They were especially represented by the Panglima se-Jawa faction, the more "modernized" officers. In fact, these officers were those who collaborated with the modernization-minded civilian intellectuals of the "reform-now" position. The first issue separating them from the Suharto group was that concerning the army's stand vis-a-vis President Sukarno. They wanted the army to take tougher action against the President, especially because they believed that he was involved in the 1965 attempted coup. General Suharto, on the other hand, was not convinced that tougher measures against the charismatic leader would settle the problem. He was even afraid, realistically enough, that such measure would only spark a civil war, for which the army was not ready.

Then, there was the issue of political reform. As we noted in the first section of this chapter, the radical officers intended to drastically reform the party system and emasculate the party oligarchies. Frustrated with the fact that the party politicians did not accept the proposed party reform, one of the radical officers, General Dharsono, sponsored the establishment of a two-party system in West Java, during 1968 and early 1969, disregarding the existing
parties' resistance. Having reached a deal with the parties concerning the electoral system in mid-1967, General Suharto saw it necessary to rescue the parties from elimination and therefore annulled the radical actions. The radical general himself was removed from his position as the commander of the Siliwangi division and sent abroad as an ambassador.

Meanwhile, the influence of the Nasution faction was never significant during the New Order, especially after the General was elected as the chairman of the MPRS in 1966 and kept away from internal army affairs. He was even left by his followers during the early stage of the New Order. This faction's weakness facilitated General Suharto's success in unifying the army under his leadership.

The attempts to build cohesion within the army was accompanied by similar efforts aimed at the whole armed services. It started with the integration of hitherto separated cadet schools of the four services into the AKABRI (the Indonesian Armed Forces Academy) in December 1966. Then, in August 1967, by a Presidential decision General Suharto abolished the separate ministries of the army, navy, air force, and police, and stripped the service commanders of their cabinet status. At the same time he also announced the broad guidelines for integrating the four services.
The integration was completed in October 1969, when the government introduced several changes as reported by Sundhaussen below:

"First, all service commanders were further downgraded to chiefs-of-staff, which was not only a loss of status but also signified a reduction of power and functions. Second, all operational responsibilities were taken from them and delegated to HANKAM (the Department of Defence), as a result of which, for all practical purposes, they lost control over their respective combat troops. Third, the service headquarters lost all their political functions, and the sections involved in politics were eliminated . . . . What was left with the headquarters of each service was the responsibility for combat intelligence, recruitment and training, personnel management, and planning. Thus, in effect, former service commands had been reduced to purely administrative units, with no power base of their own and unable to dictate national or defence policies".

Such changes certainly gave General Suharto, as the Minister of Defence and Security and the Indonesian Armed Forces Commander-in-Chief, complete control over the whole armed services.

An important innovation brought about by the changes was the creation of KOWILHANs (the Defense Region Commands). There were six of them in 1969, but another reorganization in 1973 reduced the number to only four. Each KOWILHAN was jointly staffed by the army, navy, and air force and given
operational control over the three services. And under each KOWILHAN there were several regional, provincial military divisions.

Meanwhile, the army still kept its twin structures: the combat units and the territorial organization. The second structure was charged with the task of maintaining combat readiness of the population and of preserving political stability. Coinciding with the civilian administrative territorial hierarchy, the territorial commands were set up for every provinces, districts, sub-districts and villages. All of which reserved the rights to supervise the civilian bureaucracy.

(3) More "responsive" legislatures.

Since President Sukarno dissolved the popularly-elected Constituent Assembly and the Parliament in the early Guided Democracy period (see chapter II) there had been no independent and critical legislative bodies in Indonesia. Moreover, when he succeeded in creating a new parliament, the DPR-GR, and an MPRS, whose members he appointed, the President established a new tradition in which the executive branch directly controlled legislative politics. The result was a parliament which was generally responsive to executive orders and carried out the orders dutifully, at the expense
of a careful deliberation process.

The practice was repeated when General Suharto, following the transfer of power on March 11, 1966, got rid of communist and other Old Order legislators and appointed his own supporters to replace them. This time, however, the situation was very different from the Sukarno period. General Suharto now had to face a parliament whose members, especially the Muslim politicians and the New Order intellectuals among the newly appointed, considered the decline of Sukarno's power and the elimination of the communists as commencing a new process of making the parliament more active and independent of the executive. This kind of expectation was natural given the psychological condition of the society during the early New Order (see chapter II).

The members of the parliament, indeed, attempted to make it independent from the executive. The best case in point was when they discussed three bills submitted by the government in early 1967 designed to reform the political party, electoral systems and legislative politics. Realizing that their parties' existence was at stake, the party politicians fiercely opposed the bills, especially those concerning party reform. Their actions paralyzed the
special committee charged with deliberating the bills. The committee met 53 times in six months, but nothing was agreed upon by its members. In July 1967 General Suharto took the initiative, bypassing the parliament's special committee, and reached a deal with the party leaders on the following matters: (1) the election would be held using the proportional and list system as demanded by the party politicians; (2) the membership of the parliament was enlarged from 347 to 460 members; (3) the government reserved the right to appoint 100 of the members of parliament (75 of whom would represent the military and 25 non-party civilian interests) and one-third of the MPR membership; (4) members of the armed forces would relinquish their right to vote in general elections.65

The deal was acceptable to the party politicians probably because of their optimism, especially among the Muslims and the nationalists, that in the coming elections they would easily outmaneuver the inexperienced non-party politicians. It, however, created resentment among the New Order appointees within the parliament. And their outspoken criticisms and independent stands prompted General Suharto's action to remove them from the legislative body during the end of 1967 and early 1968.66
From then on General Suharto tried hard to make sure that there would be no more such independent politicians in the parliament. Following the deal with the political parties he had the parliament let him arrange the appointment of the new members of parliament, by which he removed all of the independent politicians from his own group and forced the party leadership to do likewise with their ranks. Furthermore, he reorganized the membership of the MPR by making it grow from fewer than 600 to 920 members. All of these new members were picked from a list prepared by his own men. The result was the establishment of a pro-government fraction, Fraksi Karya Pembangunan (the Development Functional Group Fraction) within the MPRS, which was much larger than the other fractions.

On February 28, 1968 the reorganized parliament issued a resolution demanding that the MPRS convene as soon as possible. Included in the schedule for the fifth session were the election of General Suharto as full President, the postponement of the general election scheduled for July 1968, the endorsement of a new GBHN (the State Basic Policy Guidelines) replacing the old one authored by Sukarno, and the endorsement of the Repelita (the Five Year Development Plan).
When the Fifth Session of the MPRS convened on March 21-27, 1968, it was surrounded by a tense, emergency environment. The Jakarta military commander reportedly said that 30 battalions of army troops were prepared to guard the MPRS session. Many armored cars were stationed surrounding the building where the session was held. Many radical leaders of the action fronts were arrested. Military officers were specially assigned as "lobbyists" during the session, which resulted in many reported "behind-the-screen" coercive dealings. All of these were more intensified with the worsening condition of the economy during the end of 1967 and early 1968.

All in all, the New Order government was successful in making both legislatures responsive to the will of the executive. On the evening of March 27, 1968 the MPRS elected General Suharto as the second President of the Republic in its 23-year history. And with this formal authority he left the following morning for Japan to seek economic emergency assistance.

What happened to both legislative bodies during the critical period of 1967-68 set a pattern of legislative politics for the rest of the New Order era. One of the most important characteristics of the pattern was the institution
of a "recall" mechanism. This disciplinary method enables the central party leadership to withdraw its representative from the parliament for not observing party guidance. In practice, it was the government who through the central party leadership abused this rule to control the legislator's behavior. And the mechanism has served the government very well in limiting the diversity of opinion in legislative politics. Nothing has significantly changed since then. The general elections in 1971, 1977 and 1982 only legitimized the controlled parliamentary politics.

(4) Simplified party politics.

The problems with the Indonesian political parties, according to the New Order elite, were that they were mostly ideology-oriented, not program-oriented, and that there were too many of them. Hence, the government could not count on them for support for the development effort. But the MPRS, ostensibly the highest political body, had decided that a general election would be held in 1968. And due to his commitment to use the constitutional framework in reforming Indonesian politics, General Suharto had to take the decision seriously. His concern now was how to do it without sacrificing the government economic program. In other words, the general election had to give the mandate to govern to the group that was most committed to the development effort,
As noted earlier in this chapter, there was a debate among the New Order coalition members concerning what the government should do with the existing party system. To make sure that the parties would not be able to win the general election, the "reform-now" group proposed an electoral system based on the Single-Member District method. Since most of the parties were Java-based, forcing them to accept the electoral system would result in their underrepresentation in many parts of the Outer Islands, which in turn would eliminate their dominating position in the parliament. The proposed electoral system was endorsed by the radical army officers during the Second Army Seminar in 1966. The Suharto faction, however, was not ready to frustrate the parties so soon. Given their real influence over the rural population, at least in Java, it would be better to compromise with the parties for the time being. Hence, the most important army group endorsed the "reform-later" position.

The Suharto group, then, came up with its own strategies of: (a) building a new political grouping in the parliament consisting of the non-party politicians committed to the government development program; (b) encouraging a kind of corporatist interest-representation;
and (c) simplifying the political parties by regrouping them.

The reorganization of the SEKBER GOLKAR. As has been discussed in chapter II, during the Guided Democracy period the army leadership had established a big, heterogenous coalition of functional groups within the parliament, which was, since October 20, 1964, coordinated by the SEKBER GOLKAR (the Joint Secretariat of the Functional Groups). Given the dominance of the military officers in the SEKBER GOLKAR, it seemed logical for General Suharto to use it as his electoral vehicle in the coming general election.

The process of considering it, however, was not so straightforward. The people around the General were initially reluctant to use it for two reasons. First, the organization was very heterogenous. By 1967 it had more than 250 independent organizations enlisted as members. Moreover, its membership consisted of three clusters: (1) those interest groups affiliated with the military; (2) those affiliated with the parties; and (3) those that were not affiliated. The second and the third groups were not under the military's control. While the second was controlled by the parties, the third cluster consisted of many independent politicians and intellectuals who many times proved to be too independent. These facts made it hard for General Suharto's advisors,
such as Ali Murtopo, to be convinced that SEKBER GOLKAR could be made responsive to the government and effective as electoral vehicle. Second, although those affiliated with the military were dominant in the SEKBER GOLKAR and, in fact, its leadership was dominated by army officers, these officers were mostly from the Sukarnoist camp, such as Brigadier General Djuhartono (the general chairman until November 1967), Major General Djamin Ginting, and Major General General Isman.

In the end, the compelling requirement of having a representative group within the parliament and an electoral machine (both needed in order to play the constitutional game), predisposed the New Order leadership to coopt SEKBER GOLKAR and to install its own men into the leadership positions within the organization. The decision to adopt the SEKBER GOLKAR was facilitated by the agreement reached with the parties on the postponement of the general election until 1971. This agreement gave the officers more time to reorganize the loosely-knitted federation.

The first significant step in that direction was probably the meeting between the SEKBER GOLKAR leaders and a HANKAM officer in charge of social and political affair, held on January 22, 1969, in the Department of Defence.
This four-man meeting commenced the long and hard process of reorganization. The result of the process was the restructuring of SEKBER GOLKAR, in October 1969, into seven KINOs or main groups: KOSGORO (a military-oriented cooperative organization), MKGR (a military-sponsored "mutual help" association), SOKSI (a military-created "labor union"), Ormas HANKAM (mass organizations within the Department of Defense, such as veterans' association, the officers' wives association, etc.), GAKARI (a cluster of civil service associations), Karya Profesi (professional associations, such as the lawyers association, the physicians association, etc.), and Karya Pembangunan (the development-oriented group). The last one was a new organization housing the modernized, reform-minded New Order intellectuals and politicians.

It was the KINO Karya Pembangunan that was used by Ali Murtopo to provide a forum for the intellectuals and politicians from the "reform-later" position such as Sumiskum (chairman of the KINO Karya Pembangunan), Moerdopo, Lim Bian Kie, Lim Bian Koen, Cosmas Batubara, David Napitupulu, and others. And these civilians were charged with the task of leading the Karya Pembangunan fraction within the parliament toward supporting the government development program.
Moreover, aided by these civilian allies, the skillful intelligence officer established an electoral machine within SEKBER GOLKAR called Badan Pengendali Pemilihan Umum (Body for Managing the General Election) or BAPILU.\textsuperscript{80} This special task-force proved to be very effective in extending the influence of the organization throughout the nation. The success was due primarily to its accessibility to bureaucratic facilities. The first was the facility provided by the OPSUS (Special Operation) intelligence networks controlled by Ali Murtopo. The second was the Department of Home Affairs' regulations banning civil servants from joining any political parties and stipulating that they could only have "monoloyalty", i.e. to the government.\textsuperscript{81} In effect, these regulations encouraged the government employees to leave their political parties and join the SEKBER GOLKAR. Finally, the assignment of military officers as the organizers of SEKBER GOLKAR's local branches throughout the nation was very instrumental in building the organization's effectiveness.

A complicated process of change was going on within the organization between 1969-71. And since it has been documented elsewhere,\textsuperscript{82} it will not be repeated here. Suffice it to say that by 1971 the organization was better coordinated, had clearer ideas on what its goals were, i.e.
development, and most importantly had a committed leadership backed by the bureaucratic apparatus. The fruit of the reorganization was its victory in the 1971 General Election. It won 62.8 percent of the votes, 227 of the 351 parliamentary seats contested. These figures were far above those for the Muslim NU (18.6 percent and 58 seats), the modernist Muslim Parmusi (7.3 percent and 24 seats), and the nationalist PNI (6.9 percent and 20 seats). With the 100 seats held by government appointees and 9 more seats for the West Irian province given to GOLKAR's members, in addition to the 227 won directly, the government-sponsored organization controlled a large majority (73 percent) of the 460-member parliament. It was a remarkable reward for Suharto's constitutional approach and opened the door to a constitutional but closely controlled politics.

Corporatist interest representation? The strategy of creating a government-sponsored "political party" was accompanied by that of encouraging the establishment of corporatist interest groups, which were to be incorporated into the GOLKAR network. This attempt to deprive the political parties of their mass organizations was not new, as we noted in chapter II. The difference was that this time the government had a freer hand, especially because it had to deal with fewer and weaker parties. Of the two stronger
parties, the NU and the PNI, only the former could effectively challenge the government, while the latter had been in disarray since the mid-1960s.

The main objective of the corporatization was to control group interest-representation in such a way as to prevent it from creating social conflict or threatening governmental power. And complementing the government strategy of controlling the bureaucracy and eliminating the political parties' influence in it, the first object of corporatization during the New Order was the association representing government employees. In late 1966 the Department of Home Affairs abolished the existing union created in its department during the previous regime and established a new one called KOKARMINDAGRI (the Department of Home Affairs' Employee Corps). Supported by governmental regulations, it developed a monopoly in representing the interest of the large corps of pamong praja. The effectiveness of this corporatist organization in mobilizing its members during the campaign for the 1971 General Election led to the establishment, soon after the election, of a larger corporatist interest group comprising all government "white-collar" employees from all government departments, agencies and state companies. This new organization, called KORPRI (the Corps of Civil Servants of the Republic of Indonesia),
was and still is the only sanctioned association for government employees, whose membership is mandatory. According to Emmerson:

"KORPRI's structure could hardly be more top-down. Its executive council comprises the minister of home affairs as chairman and as members all the departmental secretaries general and the state secretary; as the chairman, the state secretary, and nearly all the secretaries general are generals, army control is guaranteed. The governor is automatically KORPRI chairman in his province, the bupati in his district, and so on, and KORPRI leadership at each level must be approved by the leadership one level higher. Of KORPRI's five objectives, only the last one mentions the welfare of the civil servant and his or her family; the others stress patriotism, discipline, and devotion to duty."

Since its establishment KORPRI has been generally effective in mobilizing the government employees and their families to vote for the government during the elections and in driving them away from party activities. It has been so because failure to observe KORPRI's guidance could result in the loss of their jobs. And in an economy that could not provide enough jobs, the loss of even low-paid government employment could bring misery.

The second target of the corporatization was organized labor. As noted earlier in chapter II, since the 1950s Indonesian political parties generally maintained their own
mass organizations, including labor unions, so that there were as many labor unions as the political parties competing with each other. But this did not mean that there was no attempt to coordinate and integrate them.\textsuperscript{88} When the army started to build alliances with various interest groups through the BKS (Cooperative Body) mechanism in 1956 a BKS-BUMIL (Cooperative Body for the workers and the military) was also established. Meanwhile, in those companies nationalized by the government and managed by army officers the military also sponsored the creation of a labor union, SOKSI, specifically to counter the communist influence. As might be expected, SOKSI was very willing to join the army-sponsored BKS-BUMIL. The organizers of the BKS-BUMIL then tried to unify party-related labor movements but to no avail. In 1959 there was another similar attempt, now by the government, that also failed due to the opposition from the strong communist labor union, SOBSI. Again, in December 1961 a Joint Secretariat of Labor Unions was established. This very loose organization was political in nature, i.e. part of the campaign to free West Irian from the Dutch, and ineffective. After the communist party was banned, once again the labor activists tried to build a federation in November 1969. The result was the establishment of MPBI (the Indonesian Labor Consultative Assembly). But it was not effective either as an organization. The unions were still
very independent and controlled by their parties.

The moment for effective integration finally came in 1973 when the nine political parties were reorganized by the government into two new ones. As a result, the labor unions lost their bosses. And sponsored by military officers close to President Suharto, some labor activists on February 20, 1973 formed another federation of labor unions called FBSI (the All-Indonesian Labor Federation). The new organization claimed to be independent, non-political in its activities, and based its membership on industry and occupation. On March 11, 1974 the government recognized it as the only sanctioned labor union in Indonesia and encouraged companies to have FBSI locals established. With this government support, FBSI grew steadily, although slowly, during the 1970s. Although not all companies welcome its presence in their premises, generally they tolerate it especially because the government guarantees the industrial peace by banning strikes.

On this matter, that is the right of the workers to strike, the FBSI's position was very different from the previous unions. Its predecessor, the MPBI, set its tasks as protecting the rights of the workers, including the right to strike. FBSI, on the other hand, tended to avoid such
provisions by creating, under the direction of the government, a new labor theory called *Hubungan Perburuhan Pancasila* (*Pancasila* Labor Relations). This kind of labor relation emphasizes industrial peace as the single most important objective, as the *Pancasila* ideology itself promotes family-like social relations among the population.

The main principles of the *Pancasila* Labor Relations theory can be summarized as follows. First, the principle of partnership between workers and management, that is, as "partners in production" (i.e. labor has the obligation to increase production), as "partners in profit" (i.e. the capital owner has the obligation to share the profit with the workers in the form of the workers' social security and welfare), and as "partners in responsibility" (i.e. both labor and management share the responsibility concerning the life of the enterprise). Second, the principle of *mawas diri* (self control), that is, both labor and management should observe the agreed proper behavior so as to prevent conflict. And finally, the principle of "balance" and "harmony", that is, there has to be a harmonious balance between efforts promoting the workers' interest and those protecting the management's interest.
Such peaceful labor relations are guaranteed by a "tripartite consultative forum" (comprising labor, management and the government) at the national and regional levels and "bipartite" institutions (comprising labor and management) in each industry as the forum for bargaining, by collective labor agreements, by the use of a special labor court, and by labor laws.

Convinced that the Pancasila labor relation mechanism had great potential for eliminating the causes of labor conflicts, the FBSI functionaries and the government argued that the right of the workers to strike and of the management to "lock out" were not relevant any more. These two rights were the products of a "confrontative" and class-based labor-management relations philosophy, whereas the Pancasila Labor Relations theory promotes a peaceful, family-like labor-management relations. Furthermore, so the argument goes, as a nation still struggling to develop its economy, Indonesia could not afford the occurrence of strikes and "lock outs". Such unnecessary obstructions had to be avoided, because they were harmful to everybody.
On the problem of strikes President Suharto argued that

"if it (the Pancasila Labor Relation) could be fully implemented, the strike, which is considered to be the workers' most effective weapon to fight for their fate, would not only be unnecessary but also unsuitable to the labor relation based on the Pancasila philosophy". (Parenthesis added).

And on the problem of "lock out" he said that

"the management should also respond accordingly. For (the workers' and the management's own) common interest and the interest of the whole society, lockouts should be avoided. With the spirit of familily-likeness and with musyawarah (deliberation to reach consensus) between all parties, there must be a way to reach a fair settlement". (Parentheses added).

At the bottom of the Pancasila Labor Relation was the denial of class differences in such relations. And the creation of this corporatist organization, the FBSI, was, indeed, to suppress class conflict.

Recognizing that such a mechanism would not be attractive to the traditionally politically active labor unions, the government set up a control mechanism. Indirectly, the government controlled FBSI by including it in the GOLKAR framework. Directly, according to King, the government could impose control in three ways:

"(F)irst, advance copies of all public speeches given by members of the executive board are routinely sent to KOPKAMTIB (the military's operational command for security and order)."
Second, KOPKAMTIB screens all leadership appointments in advance; . . . Finally, the executive board meets periodically with the President and other security chiefs (KOPKAMTIB, BAKIN, HANKAM) to report on FBSI activities and to 'request guidance concerning workers' participation'.

In addition, the government also assigned military officers as FBSI functionaries in the top leadership as well as in the regions.97

The third important target of the corporatization was the business sector. This process started during the Sukarno regime, when the government initiated the establishment of the inclusive and compulsory Organisasi Perusahaan Sejenis (Association for Similar Businesses) or OPS in every type of industry and commerce.98 These OPSs were coordinated by higher-level organizations, the Gabungan Perusahaan Sejenis (Cluster of OPSs), or GPS, which in turn were nationally governed by the Dewan Niaga dan Industri Nasional (National Trade and Industry Council).

The government, as part of a short-lived policy of decontrolling the economy (see chapter III) formally abolished the OPS networks. But in 1971 it established the Kamar Dagang dan Industri (Chamber of Commerce and Industry) or KADIN, a peak organization for coordinating the various business associations and mediating between them and the
government. Always headed by a military officer, KADIN was supposed to be the single representative of business interests.

Despite the efforts by some governmental departments to encourage businesses to be members of their respective business associations, and these associations to join KADIN, however, the responses of the businessmen were initially meager. Many entrepreneurs, especially the big ones, still believed that without becoming involved in KADIN's associational networks they could still do their business well enough.

The lack of progress in the corporatization of the business sector probably stemmed from the ambiguous position of the government on the matter. On the one hand, the government wanted to regulate and control the interest-representation of the business community. Considering the fact that the government controlled the majority of job contracts, as a consequence of the dominance of government development program in the economy, the government could have forced the businesses to join the government-sponsored corporatist arrangement. On the other hand, however, the government was afraid that such an authoritarian measure would disrupt the favorable business climate it had created
All in all, the government corporatization policy in the business sector was very different from that in the labor sector. While the government emphasized the use of "stick" in corporatizing the organized labor, to the entrepreneurs it provided more "carrots" in the form of bureaucratic facilities. This situation fit the model of "segmentary" state-corporatization as described by O'Donnell. The government tended to "statize" or conquer the organized labor and to "privatize" or open some of its institutions to the representation of the big business interests.

Compared to the process of corporatizing the government employees and the general labor, the progress in corporatizing the business sector has been much slower. Until today, the KADIN still has to prove itself as the only effective medium between the government and the business community interests.

Apart from the three areas of government employees, general workers, and business, state-corporatization also took place in many walks of life, either as the continuation of the previous regime's effort, such as the case of PWI (Indonesian Press Association), Majelis Ulama
(Muslim Scholars' Assembly), or as the creation of new ones, such as KNPI (Indonesian Youth National Committee), HKTI (All-Indonesian Peasant Association), HNSI (All-Indonesian Fishermen's Association), KOWANI (Indonesian Women's Congress), and several others. All of them were supposed to be the single channel of interest-representation for their respective areas. But, in reality, they were not very effective. Many youth organizations, for example, still refused to join the KNPI. And this kind of problem has also been faced by most of the corporatist organizations.

Regrouping the parties. This last strategy of controlling Indonesian party politics was also a continuation of the previous regime's policy. By 1960 President Sukarno reduced the number of parties from about 25 to 10 representing the ideologies of nationalism (PNI, PARTINDO, IPKI), Islam (NU, PSII, Perti), Christianity (PARKINDO and Catholic Party), and Marxism (PKI and Murba). Following the March 11, 1966 transfer of power, PKI was banned and PARTINDO was suppressed, and a new Muslim party (PARMUSI) was formed in 1968. These nine parties participated in the 1971 General Election.

The first step toward simplifying the parties was taken when the MPRS issued Decision No. 22/1966 on political restructuring. Then on February 27, 1970 President Suharto
met with the party leaders to discuss the government plan to reduce the number of parties by reorganizing them into two groups. The meeting resulted in the formation of two coalition groups within the parliament in March 1970. They were the *Kelompok Demokrasi Pembangunan* (Development Democracy Group) comprising PNI, IPKI, Murba, PARKINDO and the Catholic Party; and the *Kelompok Persatuan Pembangunan* (Development Unity Group) consisting of NU, PARMUSI, PSII and Perti. Thus, a pattern was set up for the further simplification of the party system.

The final step came after the 1971 General Election. Having been dealt severe blows by the election results and the persistent government pressure, the nine parties agreed to merge into two parties. On January 5, 1973, the all-Muslim *Kelompok Persatuan Pembangunan* became *Partai Persatuan Pembangunan* (Development Unity Party) or PPP, and on January 10, 1973, the *Kelompok Demokrasi Pembangunan* became *Partai Demokrasi Indonesia* (Indonesian Democracy Party) or PDI. And since then Indonesia has had a three-party system: GOLKAR, PPP and PDI.

This system was maintained by the government through various methods of control. One of them was the "recall" mechanism whereby the party leadership can take disciplinary
measures against its members in the parliament at any time at the suggestion of the government (see the section on parliament above). Another method was controlling leadership selection. This included the requirement that any party member aspiring to hold a leadership position had to get a "clearance" from the government. Also an effective method was the intervention of the government into party congresses in order to prevent uncooperative leaders from leading the parties. Still another method was preventing the parties from recruiting members from among government employees (see the section on corporatization). And finally the government also prevented the parties from organizing and conducting party activities in rural areas, or outside the district capital, except during the once-in-five-years election campaigns.103

(5) The Office of the Presidency as the core.

At the center of the state-building process during the New Order was the strengthening of the Presidential office. As has been argued earlier, there was a genuine need on the part of the New Order leadership to build a government that worked. Given the great challenges he faced in his first years in power, the ineffectiveness of the existing bureaucracy, and the policy of rapid economic transformation he adopted to deal with the challenges, General Suharto
needed a small and tightly-knitted group upon which he could rely for making policies and having them implemented effectively. The process of building such a mechanism whereby the top executive could control and, if necessary, by-pass his bureaucracy was made possible by Suharto's ability, first, to utilize the special enforcement authority he got from the previous President, and second, to build his own financial resources for patronage purposes.

**Two emergency powers.** One of the conditions making him able to establish his powerful position was prepared when he managed to have President Sukarno give him the authority to "restore security and order" following the September 30, 1965 attempted coup. Sukarno, after apparently bitter bargaining session, appointed him as the Commander of the specifically-created KOPKAMTIB (Command for the Restoration of Security and Order) on October 2, 1965. The more important condition was set when he, again, after a hard bargaining, got the almost mystical Surat Perintah (Letter of Order) of March 11, 1966 from President Sukarno, a letter that transferred the *de facto* state power to General Suharto (see chapter II).

Granted such extraordinary, emergency powers, General Suharto was able to deal with his opponents from a favorable
position. His drastic actions starting with the elimination of the communist PKI and other Old Order supporters and continuing with other measures already noted were made possible largely by his holding of these emergency powers.

**Building the Presidential office.** One of the most important measures that led to the emergence of Suharto's strong executive office was taken in mid-1966. It was the move of small political machine from the army's headquarters to General Suharto's own circle. The political machine was the "Social and Political Committee" formed in early October 1965 to devise actions against the PKI. Under the leadership of Major General Basuki Rachmat as the chairman and Major General Sutjipto as the secretary, the small committee was very cautious in its undertakings in order not to be accused of creating a military junta. As the army's "political kitchen", the committee was "democratic" in that decisions were made through a process of deliberation among several senior officers. It was also related to the bigger "kitchen" or thinktank in the Army Staff and Command College.

As Basuki Rachmat and Sutjipto were appointed ministers in charge of home affairs and agriculture respectively in
in the Ampera Cabinet formed in the end of July 1966, nobody was active in the committee and it faded away. And when Suharto formed his own "kitchen cabinet", the SPRI (Personal Staff), and charged it with functions similar to those of the old one, he, in effect, took the functions out of the army headquarters' jurisdiction and put them under his own.

Formed soon after the creation of the Ampera Cabinet, the SPRI consisted of six army officers from Suharto's own faction and two teams of civilian advisors in charge of political and economic affairs. In its later development the SPRI recruited six more officers. And these twelve army officers were charged with tasks in various fields such as finance, politics, intelligence, general elections affairs, etc.

Practically, during the early years of his leadership, General Suharto relied on his SPRI and a few other generals for making policies at the expense of the ministerial cabinet. The way he deprived his cabinet of policy-making functions and his reliance on the SPRI created resentment among New Order supporters. Due in part to the criticism, he dissolved the SPRI in June 1968 but did not dismiss the functionaries altogether. The economists were reassigned as ministers in charge of economic affairs in the new cabinet.
formed in the same month by Suharto as full President. General Alamsyah, the coordinator of the SPRI, was charged with building the State Secretariat for managing the Presidential office. Yoga Sugama was made the head of BAKIN (the State Intelligence Body). And replacing the old SPRI, President Suharto formed a smaller one called ASPRI (Personal Assistants), whose members were Suryo, Sudjono Humardani, and Ali Murtopo.  

Ali Murtopo, backed by the OPSUS intelligence networks, a civilian think tank, and his own political skill, proved to be an indispensable aide for Suharto. For a long time the President relied on him to get many things done. By early 1974, however, President Suharto seemed to consider the ASPRI a liability. Following the big demonstrations during 1973 and early 1974, triggered by issues of anti-corruption, anti-foreign capital domination, economic growth which had no impact on poverty, etc., the President abolished the ASPRI. Since then, Suharto has increasingly turned to the State Secretariat. This change might stem from two facts. The first was that by the early 1970s Ali Murtopo was able to mobilize his own power resources that could undermine Suharto's position. The second was the fact that underlying the political crisis of January 1974 was Ali Murtopo's rivalry with the HANKAM-based General Sumitro for winning the
Meanwhile, the State Secretariat had been under Major General Sudharmono since 1971. An officer loyal to Suharto and without a power basis of his own, Sudharmono established himself as another able aide of Suharto's. Under his leadership the Presidential office was reorganized in such a way that it functioned like a governmental department and he got a ministerial status. In addition to coordinating the secretarial functions for the President, the office was also charged with administering more politically important tasks, some of which will be discussed below.

Building the resources for patronage. Generally, there were two ways employed by the President to build resource bases: (1) collecting tributes, and (2) controlling government spending for special programs.

Adopting the method of collecting tributes for uses by Presidential office was not unique to the New Order leader. President Sukarno did it through various revolutionary fund-raising mechanisms. General Suharto himself inherited from the previous army leadership a big source of tributes: the state oil company PERTAMINA. For long this company was so autonomous that it never made a
proper report about its business to the ministers of mining or finance. Furthermore, nobody was able to get its bookkeeping scrutinized by the government. General Suharto let its Director, General Ibnu Sutowo, manage it independently because of his proven ability to build the company and more importantly because of his generous financial support for the New Order leadership.\textsuperscript{115}

Another source of funds was the BULOG (National Logistics Board). This military-dominated agency was formed under a different name in 1966 and originally charged with purchasing rice for government employees who were partly paid in kind. By Presidential Decision No.11/1969 BULOG was made an instrument for stabilizing food prices.\textsuperscript{116} Since then BULOG has been responsible for various lucrative businesses, such as the distribution of rice, sugar, wheat flour, etc.; the sole importer of sugar and wheat grain; the administration of foreign food aid; and several other functions. In addition, BULOG's operations were not financed by government budget but by Central Bank credits at a special rate, which was guaranteed by the Department of Finance. Finally, it was placed directly under the President's authority. Although it several times failed to perform its official price-stabilization's function, BULOG provided the President with plenty of resources.
Also important were the funds raised from private sources through various *sumbangan wajib* (compulsory contributions) managed by the Presidential office. Such contributions were collected, as extra levies in addition to the principal taxes, from various export activities such as timber, copra, rubber, coffee, and many others. It was also collected from Muslims aspiring to do pilgrimage to Mecca. These kinds of compulsory contributions provided the Presidential office a large amount of resources, although there was no accurate information about it.\(^{117}\)

However, the more politically important source of tributes, probably, were those businessmen granted monopoly rights. Through the arrangements by President Suharto's aides, the government granted monopoly rights to a selected group of entrepreneurs.\(^{118}\) Designed purposefully to build a patron-client network, the provision of licenses was controlled directly by the Presidential office. It decided who would be granted the privileges, and who would not. In return, the license grantees were required to contribute to the special funds managed by the Presidential office. Covering the highly-profitable businesses such as clove imports, gold imports, timber cutting, flour milling, and many others, the contributions must have provided a large pool of financial resources.\(^{119}\)
The Presidential office used the funds especially for programs designed to build a constituency among nongovernmental political forces. One of the most well-known was the BANPRES (Presidential Assistance) program. Directly controlled by the President, the BANPRES was an important non-budgetary-funded scheme for the purpose of enhancing government influence among the populace, especially among those potential opponents. For example, it was used to buy support from the Muslim community by building many mosques and supporting Islamic schools during the election campaign of 1971. It was also used to provide grants for the political parties, in the form of cars, office materials, etc. Practically, the program could be used for anything deemed necessary to buy legitimacy for the government.¹²⁰

In addition to collecting tributes from various sources, the Presidential office also controlled a significant part of government spending. This control took the form of (1) Bagian Anggaran XVI (Budget Item XVI), and (2) INPRES (Presidential Instruction) program. Both of these budgetary allotments were important source of patronage.

Budget Item XVI consisted of various non-departmental and non-agency budgetary resources, the allocation of which
was controlled by the President. According to Dorodjatun Kuntjorojakti, 121

"President Suharto allocated Anggaran XVI funds according to his discretion, channelling them outside the traditional departmental and agency networks. In so doing, the Office of the President --represented by the State Secretariat/ Cabinet Secretariat-- was able to cut across the bureaucracy and to gain direct access to all branches and levels of the government, thus creating its own network of clients . . . . In contrast to the stringent control over the development budget at the earliest planning stage, through the Project Proposals and Project Feasibility Studies of BAPPENAS (the National Planning Agency), the project details of the Anggaran XVI were left to the discretion of (the State Secretariat)". (Parentheses added).

The INPRES program originated in an experimental rural labor-intensive program in 1969. 122 Realizing its potential for easing the unemployment problem as well as for creating popular support, the government seriously developed it as a major instrument for channeling development funds to the regions. Starting with the Bantuan Pembangunan Desa (Rural Development Assistance) from 1969, it grew rapidly to cover seven other main projects, all dealing with rural, labor-intensive works. (These programs will be discussed in detail in the last section of this chapter).

Given the nature of the INPRES program, it provided the top executive extensive opportunities to build patronage
in rural areas. And for that reason the President, aided by
the Department of Home Affairs, controlled the administration
of the program, especially its budget allocations, through
an extraordinary procedure that by-passed the usual
bureaucratic procedures. The INPRES projects, although a
part of the Repelita (Five Year Development Plan), were
different from the Pelita projects (those administered by
the governmental departments and agencies included in the
Repelita) in that the former was not bothered by the long
difficult bureaucratic procedures of project proposal and
feasibility studies as demanded from the latter by the
BAPPENAS. (This will also be discussed in detail in the
next section).

All that has been said in this last section was to
argue that in the process of building an effective government
President Suharto has created a personally-controlled office
which, due mainly to the fruits of development policy, was
able to create its own resources. This, in turn, enabled
the President to build the patronage that enhanced his
superior position vis-a-vis his bureaucracy as well as his
extra-bureaucratic opponents.
(C) The process of governing.

Having described the political structures and the ideas underlying them, I will deal in this last part with the policy-making process. From the discussion above we know already the locus of the process. The executive branch always takes the central position in the process of making policies, while the legislature's role is mostly peripheral. In other words, the process is mostly bureaucratic. In the following pages I will try to describe how policies are generally made by the New Order government. This task of describing the actual policy-making process is, indeed, a very difficult one because most of the process was very sensitive and difficult to trace. Based on the information gathered from written sources and some interviews, and without depth case studies to support it, the picture depicted below will only be sketchy at best.

My rather simplified argument is that the policy-making process during the New Order is characterized by three styles of policy-making, i.e., technocratic, political, and clientelistic. To further explicate the argument I will discuss, in general, three examples of policies, each of which is dominated by one of the three policy-making styles. The first two examples concern the government development budget, that is, how the government spends its money on
development programs. Such a topic is justified by the fact that the government budget has been the main instrument in the development process. Given the central role of the state, the public budget has been the biggest source of development investment. So that, how, how much, where, and through whom the government spends the money matters a great deal politically. The two examples represent the two different methods of allocating development funds, i.e. through the Pelita program and through the INPRES scheme, on which I will argue that the first method is more technocratic, the second more political in nature. The third example, dealing with the business community, is also justified considering the prominent position of the big entrepreneurs in the development process and their role in supporting the government. The argument here is that government policy in this area is more characterized by a clientelistic style of policy-making.

The Pelita program and technocratic-bureaucratic policy-making. In accordance with the strategy of using the state as the main "agent of modernization", there was a serious administrative reform during the early New Order. The architects of the reform were the technocrats dominating the economic policy-making agencies, who were convinced that
the success of the development plans was contingent to a large extent upon the administrative factors. One aspect of the bureaucratic streamlining efforts was in the area of budgeting.

With the commencement of the development program in April 1969, the government introduced a new, rationalized budgetary process, which runs from April to March. At the national level the Finance Minister and the chairman of the BAPPENAS acted as the "Guardian of the Public Treasury" and the other departments and agencies as the "Spending Advocates". The process can be summarized as following:

1) The process starts when every single unit within the government prepares a *Daftar Usulan Proyek* (Project Proposal) or DUP that must be done between June-August every year. The DUP is sent to the "guardians" to be evaluated.

2) During the September-October period, the "guardians" evaluate the project-proposals and meet with officers from the respective departments. In these meetings the non-departmental agencies are represented by the State Secretariat. Included in the evaluation are considerations of each year's investment priority as stipulated in the *Repelita* and the estimation of revenue.
3) With the projected development investment, the government begins its aid diplomacy with the IGGI. Based on the IGGI members' commitment and the estimated government savings and revenues, the Finance Minister and the chairman of BAPPENAS set the budget ceiling and have the departments and agencies prepare their budgets according to the ceiling set for each of them.

4) On January 5, the President submits the proposed budget as a bill to the parliament which is usually accepted without significant changes. Then, the President signs the accepted bill and it becomes a law. With this comes the stage of budget implementation.

5) The stage of spending the development budget starts with the submission of the *Daftar Isian Proyek* (Specified Working Program) or DIP by the departments and agencies to the "guardians" on the basis of the accepted DUP. The acceptance of the DIP by the "guardians" represents the government's commitment to invest its money in the projects through the departments and agencies.

6) Finally, the departments through competitive bidding employ contractors for doing the jobs. These contractors could be government-owned.
companies or private ones.

The policy-making process is predominantly technocratic-bureaucratic in nature. It is bureaucratic, because it always originated in and is implemented by the bureaucracy. The parliament, most of the time, only ratifies it. It is technocratic, because the main criterion used in the process is technocratic values such as rationality and efficiency. And the economists ardently impose such criteria in evaluating the project-proposals and in doing feasibility studies.

The standard operating procedure has generally worked well and become routinized since its adoption. The standard operating procedure has generally worked well and become routinized since its adoption. Two reasons may explain this accomplishment. First, the top leadership’s commitment to the development program. As we noted before, General Suharto is seriously committed to the success of the Repelita as he considers his legitimacy depends on it. Consequently, it has led him to support the bureaucratic streamlining sponsored by the technocrats. Second, the dominant role of foreign credits. The fact that more than 60 percent of the development expenditure during the first Repelita was financed by foreign credits (see Table 15) must have predisposed the government to stick to the streamlining of the bureaucratic process as required by the
IGGI.

The technocratic-bureaucratic style of the policy-making process, however, did not eliminate political bargaining that was still taking place somewhere along the line. First, there was reportedly always a "wheeling and dealing" process when the "guardians" met with the "spending advocates" discussing the project evaluations. But usually they agreed that the technocratic criterion should be emphasized. Such tradition was positively supported when the Department of Defense voluntarily reduced its share of the government budget during the early development efforts. Second, there were also many reports on the deviation of the technocratic criterion in deciding who will carry out the government projects. Despite the requirement that there must be an open and fair bidding for the government-financed jobs, many of them were given to contractors through special arrangements violating the technocratic direction.

A serious deviation to the established disciplined budgetary procedure occurred when the oil price hike in 1974 brought an unexpected flow of new financial resources into the government treasury. The additional revenues positively gave the top leadership more leeway to implement the development program, in a way that could be directed toward
constituency-building. Consequently, the top executive tended to favor the adoption of policies susceptible to such goal.

The INPRES program and the political style of policy-making. The policy-making procedure that enabled the President to have a greater say in it and to bypass his bureaucracy was provided by the INPRES mechanism. There have been two types of INPRES development-assistance, each of which consists of several programs, as described below.132

A) General development-assistance:

1. to the villages (since 1969/70 fiscal year)
2. to the districts (since 1970/71 f.y.)
3. to the provinces (since 1974/75 f.y.).

In this kind of programs, the grantees, i.e., the regional governments, have a relatively free hand in deciding the kind of projects to be financed by the program.

B) Specific development-assistance:

1. for primary school projects (since 1973/74 f.y.)
2. for community health center projects (since 1974/75 f.y.)
3. for reforestation projects (since 1976/77 f.y.)
4. for marketplace rehabilitation/construction (since 1976/77 f.y.)
5. for rural roads (since 1979/80 f.y.)

All of these projects are popular among the rural population and therefore instrumental in creating a constituency among them. But not all of these are equally susceptible to Presidential intervention. The allocation of the funds for some projects, such as the villages, the districts, the primary schools and the health centers projects, are fixed according to an agreed criterion. While some others, such as the province and the rural road projects, are more susceptible to Presidential discretion. The provincial development-assistance, for example, has no fixed criterion of funds allocation. Its main objective is to alleviate regional imbalances by rescuing those lagging behind. Or in the words of T.A. Salim, an official in charge of administering the INPRES program in the BAPPENAS, it is "directed toward maintaining a harmonious and balanced rate of growth among the regions".

Generally, the process of allocating the INPRES, development funds is simpler than that of the Pelita. 1Based on the information routinely gathered by the departments involved in the INPRES scheme, BAPPENAS prepares the budget allocation for INPRES projects for a certain year. For the projects
with a fixed allocation criterion, the task is rather straightforward. On the village assistance projects, for example, it sets the amount of money allotted to each village equally nationwide. The district program is based on population size. But for those programs with no fixed allocation criterion intervention by the Presidential office, through its Inspectorate General for Development, is very important in determining how much funds to be allocated to which regions and to what kind of projects.

2) Following the submission of the budget proposal by the President to the Parliament, the central government, through the Department of Home Affairs, informs the regional administrations about the funds allotted to them for the coming fiscal year and has them prepare their implementation.

3) At the time of spending, the funds are directly distributed to the regions, by-passing the respective departments, through a state-owned bank that has extensive networks involving rural areas.

4) The implementation of the INPRES projects is directly controlled by the Presidential office through the Inspectorate General for Development.
This special procedure of allocating development funds to the regions is favored by the President as a way of establishing the government's and especially his own legitimacy. And it is justified by the INPRES program's effectiveness in creating labor-intensive jobs and, therefore, in easing the problem of rural unemployment; and, more importantly, by its clearly visible results in the form of new public health centers, market-places, irrigation systems, small bridges, schools, rehabilitated roads, and various others. In short, it shows to the rural population the fruits of development in a visible way.

The expansion of the INPRES program, however, did not start until after 1973/74 when two things happened. First, the political crisis of 1973/74 resulting from the popular resentment about the effect of the urban-biased, outward-oriented development program. Second, the availability of new resources brought about by the quadrupling of the oil price. Starting with a simple program of distributing a small amount of money directly to every village in the 1969/70 fiscal year, in order to stimulate people at the grass-roots to rehabilitate their own rural infrastructure using mostly the traditional "mutual-help" mechanism, it was followed by its duplication in the district program in the 1970/71 fiscal year and in the program for building new
primary schools in 1973/74. But these programs were still very limited as an instrument of constituency-building. Only after the government found a new source of development finance in 1974 did the program, under the direct guidance of the President, expand to include the eight fields listed above.

The way the INPRES program was designed, i.e., to respond to the urban-based critics and, beyond that, to buy support among people in the regions and the rural areas, highlighted the political nature of the policy.

The business "giants" and clientelistic policy-making. Several intensive studies have been done on the development of Indonesian big business during the New Order. Their argument, in general, can be restated in these points.

1) The New Order government economic policies have led to the creation of some big conglomerates that tend to dominate the Indonesian economy.

2) All of the conglomerates are state-related. They are either state companies or companies that flourish due mostly to government preferential treatment.

3) Most of them are controlled by those businessmen who have special relations with the government,
especially the Presidential office, i.e., the bureaucratic- and client-businessmen, as well as the Chinese ones.

The most important of the conglomerates are PERTAMINA and BULOG (state companies); Tri Usaha Bhakti, Waringin Kencana, Dharmaputra and KOSGORO (all companies created as appendages of the bureaucracy); and Salim Economic Development Corporation or SEDC and ASTRA (private companies).

As state companies, PERTAMINA and BULOG have secured a strategic position. PERTAMINA controls all businesses dealing with oil, natural gas and their products. By special law, it was made a monopoly in this area of business. Furthermore, through the creation of subsidiaries and in conjunction with many private companies owned by PERTAMINA's officials, the state company has developed various other businesses such as steel mills, a duty free production zone on Batam island, civil aviation, a shipping line, ship yard, hotels, banking and many others. The magnitude of the PERTAMINA group's business is shown by the fact that just before the oil boom, in 1972, its gross revenue reached about US$600 million, or about 42.6 percent of the 1972/73 Indonesia's national government budget.137
As we noted earlier, BULOG controls the distribution of rice, sugar, wheat flour and other important foodstuffs, and has been charged with the management of foreign food aid as well as cotton imports. In effect, it has become a monopoly in the foodstuff business. And with that monopoly position, BULOG has developed joint-ventures with several private companies in such business areas as food trade, cattle ranches, cotton plantations, banking, shipping, and many other profitable businesses.\textsuperscript{138}

The following four groups, Tri Usaha Bhakti, Dharmaputera, KOSGORO and Waringin Kencana originated from the various "welfare foundations" created by the army leadership to search for alternative financial sources to supplement the government budget allocations. Thus, like PERTAMINA and BULOG, these companies were also run by the "bureaucratic-businessmen". But later on, they conducted their business just like other private enterprises, although they still enjoy the special treatments provided by the government in the form of bank credit through the Domestic Investment or PMDN scheme, the government development projects, licensing and other privileges.

Among the various private companies, the SEDC and the ASTRA group are the most important. The SEDC group controls
many economic activities from trade (including sharing of the clove import monopoly with Mercu Buana, a company owned by President Suharto's brother), manufacturing (including the biggest flour milling in Indonesia, textile, rubber, cement and many others), service (including banking, insurance and shipping) and property development (construction works and real estates). The ASTRA group is involved mostly in the automotive- and machinery-related businesses (including automotive assembling and imports, spare parts manufacturing), although it also has an interest in real estate business.

These groups of private companies were run by either the "client-businessmen", the Chinese ones, or joint-ventures between them. And as is the case with the companies described above, they have also enjoyed the privileges of the PMDN credit scheme, government protection through various import-substituting industry regulations (especially ASTRA in the case of the automotive industry), the provision of monopoly rights (especially the SEDC in the case of flour milling in Java and in the shipment of PL 480 merchandise) and other preferential treatment.

The more interesting fact about these business groups is that many of them are related to each other in various
joint venture. For example, SEDC and BULOG are in the flour business, SEDC and Dharmaputera groups are in banking (Bank Windu Kencana) and SEDC with the Waringin Kencana group in clove imports and many more. Cooperation among these business giants only intensifies their control over the Indonesian economy. In fact, the companies listed above have controlled most business activities in the country and forced other smaller businesses to stay in the periphery.

Most importantly, most of the existing big businesses in Indonesia have maintained special relations with the government. Tri Usaha Bhakti, Dharmaputera, Waringin Kencana and KOSGORO are related to the Department of Defense. BULOG, Waringin Kencana, SEDC, and ASTRA are all related to the Presidential circle. The fact that these and other state-related businesses have been given preferential treatment, while other, mostly lesser, companies have not, supports the argument that the New Order government policymaking in this area is dominated by clientelistic considerations.
CHAPTER V

THE POLITICS OF ECONOMIC DEVELOPMENT

The answers to the main questions stated in chapter I should by now be clear. This study started by rejecting the cultural arguments explaining New Order authoritarianism in terms of traditional cultural continuity and structural theories explaining it in terms of the superior organizational and managerial quality of the dominant power group vis-à-vis other groups in the society. I then came up with an alternative conceptual framework designed to deal with the interactions between domestic and international factors and between political and economic factors. Using such a framework, this study has attempted to explain the resurgence of authoritarian politics in New Order Indonesia in terms of structural necessities as perceived by a new ruling elite facing certain challenges and opportunities. Following is a review of the arguments.

Why did authoritarianism reemerge in the New Order? Could it have been otherwise? Or, was really there a possibility for a more participatory politics during
the early New Order period? If there was, why did it fail to develop?

Answering the first question, I have tried to show in chapter II the two legacies of the Old Order that had important bearing on the New Order political system. First, the political structures that were conducive to the resurgence of an executive-dominated politics, i.e., the "centrifugal" and ineffective party politics, weak legislature, strong patrimonial Presidency, politically and economically influential army, and the increasingly centralized bureaucracy. Second, the political and economic crises that were inherited from the previous regime and that erupted during the turbulent period of 1965-1966.

The political and economic crises were real and, combined with the persistent challenge from the Old Order supporters, posed a menacing threat to the new ruling elite. The new leadership's response to such challenge, however, was constrained by two conditions. The first was General Suharto's concern over the legitimacy of the New Order's action against the Old Order forces, especially because President Sukarno was still influential and commanded a large number of followers, especially in the navy and air force as well as in the political parties. The second was the
General's insistence on devising strategies to defeat the Old Order supporters without risking a civil war. Such considerations led him to rely on more indirect methods. One of these methods was buying popular legitimacy through his economic development program. By providing some "material satisfaction" to the population as soon as possible, the new leadership expected to win popular support. The other was the strategy of political restructuring.

I have argued in chapter III that the nature of the New Order inner coalition members and the need for a "quick-yielding" economic program made it impossible for the New Order leaders to adopt an economic strategy that emphasized radical socio-economic structural reform. Such a strategy was considered too costly in terms of preserving the core coalition members, i.e., the army, the civilian intellectuals and the state-related businessmen. Therefore, they preferred to choose the strategy of economic stabilization and development that gave private enterprises an active role to play in a guided market economy and that could mobilize international support.

Within the context of capitalist-style economic stabilization and development strategy, there were still
two possible approaches. The first was the "outward-oriented" approach, i.e., stabilizing and developing the economy as fast as possible using mostly foreign resources. And the second was the "inward-oriented" approach, i.e., economic stabilization and development should be conducted in a gradual way and accompanied by serious efforts to strengthen the indigenous business community, while foreign resources (aids, credits, and investments) should be used in a very cautious way in order not to destroy the indigenous businesses.

The graveness of the economic breakdown, the need to respond to the popular demand for basic necessities as soon as possible, the need to get foreign assistance at a time when Western donors were reluctant to give it as well as the nature of the New Order inner coalition predisposed the New Order leadership to choose the "outward-oriented" strategy of stabilizing and developing the economy. Such a position, in effect, brought Indonesia's economy back into the world capitalist network.

As it turned out, the strategy was a success in terms of stabilizing the economy. It was able to attract enough foreign assistance to enable the government to drastically reduce the budget deficits and, in turn, to
control the inflation rates from more than 600 percent by the end of 1966 to only 15 percent two years later. The "outward-oriented" economic strategy, however, necessitated very severe adjustments among the population. The drastic stabilization program (i.e., budget-balancing, credit squeeze, price adjustments etc.) resulted in steep price rises for almost every type of goods and services and in the stagnation of the productive sectors during the 1967-1968 period. The use of imported goods in the stabilization program drove out the domestically-produced goods from the market and, in turn, resulted in many bankruptcies in the indigenous business community. And finally, all of these further worsened the problem of unemployment.

Consequently, only a year after its commencement the economic program created resentment among the groups who helped establish the New Order in 1966, especially the youth and the anti-communist party politicians. And the discontent developed into open demonstrations against the government program from the end of 1967 through 1968 and created another political and economic crisis. In sum, the strategy of "opening" the Indonesian economy to foreign capitalist penetration, which was considered necessary by the government, had resulted in another crisis that threatened the integrity of the New
Order coalition.

In chapter IV I further developed the argument by saying that the choice of the "outward-oriented" economic strategy and the crisis it created during the last quarter of the 1960s (and continued in the 1970s), had an important impact on the government strategy of political restructuring. Encountering the problem of its supporters' desertion, there were two options for General Suharto to rebuild the consensus: first, by building a coalition with a political party, with the possible effect of creating a more participatory politics; or second, by imposing a new consensus through constitutional reforms.

The economic strategic imperative, however, prevented the New Order leader from choosing the first strategy. Building a coalition with a political party and letting participatory politics work would only give more openings for the critics of the government economic program to undermine it and create more disorder. Therefore, the second choice was more feasible.

Meanwhile, within the context of an imposed consensus strategy there was still a debate on the speed and nature of structural change (was it to be rapid political
structural reform aimed at destroying the political parties, or was it to be gradual and to compromise with the oligarchic party leadership?), and the non-military role of the military officers (was it to be restricted to territorial management and to political representation in the MPR, therefore avoiding day-to-day politics in the DPR, or were the officers to be given the right to intervene in all political, economic and social affairs deemed necessary to maintain the regime's existence?).

Here, again, the urgent need to create order and not to disrupt the government's economic program prevented the new leadership from taking the "reform-now" position and drastically eliminating the political parties, however oligarchic and unrepresentative their leadership was. Instead, the new ruling elite preferred to coopt and compromise with some of the party politicians in the parliament, and gradually reform the constitutional framework in such a way as to assure executive control over the political system. On the non-military role of the officers, the New Order leadership preferred to let them intervene in practically all political, economic and social fields. This policy served the new ruling elite in two ways: (1) it made the "dual-function" of the military an instrument for distributing rewards to officers loyal to the
top leadership by assigning them to influential political and economic positions; and (2) the assignment of military officers to important bureaucratic and political positions also assured the government of the maintenance of ordered and controlled politics. In practice, the government's strategy of constitutional reforms resulted in the creation of various structures and practices that supported the centralization of power in the executive branch, the imposition of order, and the emasculation of pluralistic, participatory politics, or in other words, the establishment of an authoritarian political system.

Given the structural necessity of creating an ordered and controlled politics to assure the success of the economic program, could it have been otherwise? Was participatory politics a real possibility? I tend to answer affirmatively for the following reasons. If the government had not taken the "outward-oriented" economic strategy the sacrifices demanded from the population would have been much less severe and, therefore, there would have been less resistance. In turn, there would have been no need to impose the ordered and controlled politics as the government had done since 1967-1968 period. Also, if the government had chosen the "inward-oriented" economic strategy, it would have been easier for the ruling elite to mobilize popular
support through a coalition with the anti-communist party politicians and, by so doing, open the possibility of reforming the political system in a more democratic way.

During the early New Order period, it was not unrealistic to expect such a participatory politics. As we noted before, there was a widespread, genuine democratic aspiration among all of the New Order supporters, as a consequence of their experience with Sukarno's Guided Democracy regime. But this aspiration was ignored when the government was confronted with the critical conditions which resulted mostly from the "outward-oriented" economic strategy.

What is the nature of authoritarianism in New Order Indonesia? Is it a bureaucratic-authoritarian regime? How corporatist is its interest representation?

This study shows that the structural characteristics of New Order politics resemble those of the "bureaucratic-authoritarian" and the "state corporatist" models, but with some qualifications. Before specifying the characteristics of the New Order political system, I should first review the main characteristics of the "bureaucratic-authoritarian" model as stipulated by Guillermo O'Donnell and the
"state-corporatist" framework by Philippe Schmitter and Richard Gunther.

As we noted in chapter I, a "bureaucratic-authoritarian" regime has these characteristics:

(1) the government is led by the military as an institution, in collaboration with civilian "technocrats";
(2) it is supported by oligopolistic "entrepreneurs", who together with the state collaborate with the international business community;
(3) its policy-making process is dominated by a technocratic-bureaucratic approach, therefore, avoiding the long process of bargaining among various interest-groups;
(4) the mass is demobilized;
(5) the government uses repressive measures to control opposition.

The "state-corporatist interest-representation system" is defined as a system of interest-representation in which the constituent units have the following characteristics:

(a) limited number,
(b) singular,
(c) compulsory,
(d) noncompetitive,
(e) hierarchically ordered,
(f) functionally differentiated,
(g) granted a representational monopoly within their respective categories,
(h) recognized or licensed or created by the state,
(i) their leadership selection and demand- and support-articulation are controlled by the state;

and which is designed to suppress class and interest-group conflicts and to instill harmony, solidarity, and cooperation in the relation between the state and society.
Furthermore, O'Donnell also shows that in the less-developed capitalist countries state-corporatism is characterized by the exclusion of lower-class interest and the inclusion of upper-class interest.

I should remind the readers of this dissertation, however, that what I take from O'Donnell's work is his model depicting the form of a "bureaucratic-authoritarian" regime, not his hypothesis about the origins of such a regime. As I have argued in chapter I, O'Donnell's conceptualization of the emergence of "bureaucratic-authoritarian regimes in Latin America, which is associated with the "deepening" (or vertical integration) stage of economic development, is irrelevant to this study of Indonesian politics. As will be shown in the following pages, the New Order's political format resembles to some extent the form of a "bureaucratic-authoritarian" regime as characterized by O'Donnell, although its economy is still far from achieving such an advanced level of industrialization. As a consequence, I have detached myself from his rather economic-deterministic standpoint in explaining the emergence of "bureaucratic-authoritarian" regimes in the Third World.
The New Order regime is led by the military as an institution in collaboration with civilian "technocrats".

This study has indicated that during the period under study, 1966 to 1971, the New Order regime was led by the army, as the core of the military institution. Until mid-1970s, the Department of Defense had a dominating and decisive role in the political process. Since then, however, there has been an ambiguity concerning the role of the Department of Defense as the dominant political force. It still maintains the territorial command chains, intervenes in the civilian bureaucratic apparatus, and controls the government-sponsored GOLKAR and other political parties as well as other organized interests. In addition, until today General Suharto still uses it as a kind of "central committee" in which major policies are made. The growing power of the Office of the Presidency, however, seems to have undermined much of the military institution's authority. (This point will be further discussed below).
Meanwhile, the alliance between the military officers and the civilian "technocrats" is still effective, although the latter's authority over the economic, technical affairs has been increasingly limited. (See the discussion on policy-making process in chapter IV and in point 3 below).

(2) Some big businesses that have special relations with the state and international capitalists dominate the Indonesian economy.

As we noted in the last part of chapter III, the New Order government has allowed some big businessmen (the bureaucratic-, the client- as well as the Chinese one) to dominate the Indonesian economy during the New Order. Facilitated by government special privileges these entrepreneurs control every major sector of the economy. Their special relation with the state, moreover, has made them very attractive to foreign investors doing business in Indonesia and has enabled them to easily establish a collaboration with international capitalists in the form of joint-venture projects. And gradually, the triangle relationship of "the state - international capital - domestic bourgeoisie" has taken shape in Indonesia.¹
(3) Technocratic-bureaucratic policy-making

with some qualifications.

The policy-making process during New Order Indonesia has always been highly bureaucratized. Almost all of the policy initiations and the bills debated in the parliament have originated within the bureaucracy and the parliament has not been able to monitor effectively the implementation of government policies. Furthermore, the government has most of the time been able to avoid the long process of bargaining among various actors.

This does not mean, however, that the policy-making process has always been technocratic. As we noted in chapter IV, three styles characterize the New Order government policy-making process, i.e., technocratic-bureaucratic, political and clientelistic. During the early New Order, when the government mostly relied on the civilian "technocrats" to bail out the economy from further breakdown and to get foreign assistance, the technocratic-bureaucratic approach dominated the budgetary policy-making process. Later on, after the government had found other sources of funds independent of the foreign creditors and beyond the "technocrats'' control, it tended to loosen its budgetary discipline and to ignore the technocratic approach. Consequently, the number of budgetary decisions processed
through the efficiency-based procedure declined and was limited to only those concerning the development funds acquired from foreign aid and credits. And the political and the clientelistic approaches have in turn been increasingly attractive to the government.

(4) **The mass is demobilized.**

The New Order ruling elite seems to have no interest in mobilizing mass support but instead to be willing to work within a framework of apathetic acceptance of the regime by the mass. In chapter IV, I have discussed the various methods employed by the government to demobilize and deactivate the hitherto active and militant political parties and other organized interests. In addition to the methods of controlling the political parties, the government has also tried to simplify the organized interest-group representation by creating various corporatist organizations, which conform to Schmitter's model of state-corporatism.

Confirming the arguments of Schmitter and Gunther, the creation of the state-corporatist organizations was designed to enforce "social peace" by repressing and excluding the autonomous articulation of lower-class demands and by suppressing class-based conflict. Moreover, this study also confirms O'Donnell's hypothesis concerning
the "segmentary" nature of state-corporatism in the less-developed capitalist countries. The New Order government tends to "statize" or subdue the organized labor interest-representation and to "privatize" or open its institutions to the representation of the dominant upper-class interests.

The effectiveness of the corporatist policy, however, varies from one area of interest to another. The policy has been very successful in "statizing" organized labor, i.e., through the creation of the organized labor federation FBSI and the organization for government employees, KORPRI. These two organizations have all the corporatist properties as stipulated by Schmitter and have been designed to eliminate class-based conflict and instill harmony.

The success in corporatizing the labor sector, however, has not been accompanied by the same achievement in other sectors. KADIN, which is supposed to represent the business interest, has not been as effective as the labor organizations. It has still to prove itself as the only channel for businessmen dealing with the government. Moreover, the policy has generally been less successful in corporatizing other organized interests, especially the youth. (For further discussion, see chapter IV).
(5) The New Order regime uses repressive measures to control opposition.

As we have discussed at the end of chapter III, the New Order government repeatedly used repressive measures against those criticizing its policies. For that purpose, the government equipped itself with various emergency power instruments as well as legal means, i.e., the creation of extensive intelligence and security networks and of the anti-subversion law.

These five characteristics nicely fit those specified by O'Donnell's model of "bureaucratic-authoritarianism". But, there is one more characteristic of the New Order regime that is not stipulated in the model, i.e., the independent role of the Presidential Office.

(6) The autonomous Office of the Presidency.

Originating from the idea of building a small "kitchen cabinet" controlled directly by the President, the Presidential Office developed into an influential and autonomous bureaucracy. In effect, the State Secretariat as the core of the Office has become a super-bureaucracy.
As we noted in chapter IV, the growth of the Office of the Presidency has been facilitated by the progress of the economic development program. Since the main actors in the development venture, i.e. the foreign investors and the state-related domestic businessmen, are under the guidance of the state, it is easy for the Presidential Office to mobilize financial support from among the businessmen for its own power building. And the more enterprising and aggressive the development process, the more opportunities are made available for the Office to utilize. In fact, during the early stage of economic development, the Presidential Office was the first to enjoy the results in the form of power building.

Is the New Order regime a viable polity? Is there any possibility of change? If there is, what is its nature and what direction will it take? Will it be a radical reorientation toward a more democratic political system? Or just a small adjustment without necessarily abandoning the general framework of "bureaucratic-authoritarianism"?

On the dynamics and the prospect of a "bureaucratic-authoritarian" regime, O'Donnell argues that
"the BA (bureaucratic-authoritarian) state is subject to tensions—contradictions, dilemmas, and perils— which reflect the extraordinary difficulties of consolidating a system of domination that can conceal neither the fact that it is founded on coercion nor the fact that its most crucial supporters represent a spectrum of society far more narrow than the entire nation which BA claims to be serving. Its domination is particularly severe because, by the nature of its founding, this state entails an anticipated rejection of the basis for its own legitimation. BA arises from an overwhelming political defeat of the popular sector and its allies, which was imposed at the extremely high cost of making it impossible for BA to legitimate itself". (Parenthesis added).

Such a condition of domination results in the severance of the relations between the state and society, so that the only form of mediations between them are a "tacit consensus" (i.e., depoliticization, apathy, and a retreat into a completely privatized daily existence) and fear. Such an alienation, in turn, will create a situation of

"a state that, from the apex of its institutions, loudly proclaims the importance of the tasks it is performing and announces a future of greatness, and yet does not receive in return even the echo of its voice. This discourse is lost in the silence of the excluded and coerced sectors, and in the surreptitious tactics employed to penetrate the institutions of BA by those who originally supported its implantation. That such discourse is merely monologue suggests to the rulers the depth of the mystery regarding what is in fact occuring behind the silence of civil society". 
As a consequence, such a regime will be "permanently haunted by the specter of an explosive negation". In solving the problem, O'Donnell argues, the ruling elite will be forced to reestablish the state-society linkage through some kind of democratization.

The development of the New Order regime seems to substantiate O'Donnell's argument. The regime has been increasingly shrunken and alienated from the mass. More and more of its original supporters withdrew their support. Coercive measures have become the main method employed by the government to deal with the opposition. The only form of mediation between the state and the society is the encouragement of passive participation in the implementation of the development program and during the controlled general elections. Moreover, there has been a widespread cynicism, especially among the urban population, concerning government intentions. In other words, the New Order regime has been confronted with many serious problems that can threaten its viability.

The response of the ruling elite to the problems, however, is different from that suggested by O'Donnell. The response is influenced by the nature of change undergone by the regime during the second half of the 1970s.
As we noted in chapter IV, since the mid-1970s the Presidential Office, as represented by the State Secretariat, has developed into an autonomous bureaucracy and become a very important political actor. Directly controlled by President Suharto, the Office has rivalled the Department of Defense in power building. In fact, since 1980 the State Secretariat has been charged with another important task of controlling government purchases. This function is extremely important because it gives the Presidential Office a means to control the rest of the huge bureaucracy, including the Department of Defense. Combined with General Suharto's ability to keep the military institution under his own men's leadership, the giving of more power to the State Secretariat in effect further concentrates power in the hands of the President. In other words, the New Order regime has changed from a military-as-institution dominance to a Presidential Office dominance. This kind of development is not mentioned in the O'Donnell's model of "bureaucratic-authoritarianism".

Meanwhile, the influx of oil money during the second half of the 1970s has provided the President with new resources to finance the development program in his own way autonomous of the technocrats' interference. This, in turn, has resulted in
the decreasing role of the "technocrats". The role of the managers of the big state companies and other state-related businessmen, however, is still important. Considering their positions as monopolists, the role they play in the economy is more important now than before 1970.

These changes have made it possible for the regime to respond to the popular demands, expressed bitterly during the violent demonstrations in the early 1970s, by somewhat compromising its economic strategy and adopting some "inward-oriented" policies and by focusing more attention to the development of rural areas.

Only a week after the outbreak of the violent protest in January 1974, President Suharto made a statement that represented the first step in the campaign for "indigenization" of the economy. It was a statement concerning the "equalization of rights and opportunities in private investment". Since then, the government has created various regulations designed to alleviate the problem of indigenous business' insolvencies caused by unfair competition with the foreign and the non-indigenous capitalists. The regulations covered the following matters.

- The transfer of capital from foreigners to Indonesian citizens:
At least 51 percent of the total investment in a joint-venture project must be shared by the national partner. The transfer must be completed within 10 years after the promulgation of the regulation. In addition, non-indigenous Indonesian citizens are only allowed to participate in a new joint-venture project with foreign investors if they collaborate with indigenous Indonesian businessmen.

- The transfer of management and technical skills to Indonesians:
  The foreign companies are required to reduce the proportion of non-Indonesian citizens in their employment and to increase the hiring and training of Indonesian managers and employees.

- The limitation of foreign company's operations:
  In addition to prohibiting foreign companies from domestic trade and distribution sector, as stipulated by the Domestic Investment Law of 1968, the government in 1977 further prevented foreign and non-indigenous capital from doing business in certain sectors reserved for the indigenous entrepreneurs.
- On the government-job contracts:
  In 1980, the government set another rule that the indigenous entrepreneurs should be given first priority in getting government job contracts or purchases worth less than Rp.200 million (or about $330,000).

- The redirection of the Repelita program:
  The reorientation of the government economic strategy that has the most important symbolic meaning is Repelita III (1979/80-1983/84). This latest five-year development scheme specifically promises an evenly-distributed development activities and results. One of its primary objectives is the creation of a stronger business sector.

  In addition, this reorientation toward economic nationalism has also been accompanied by special programs designed to bring development activities and fruits to the rural areas, i.e. the INPRES development program. (See ch.IV).

  The reorientation of the economic strategy, however, has not been followed by a similar change in the political strategy. There has been no relaxation in the government repressive position. The political system is still a authoritarian as ever.
The ability of the government to adjust its economic strategy to satisfy the proponents of the "inward-oriented" policies without abandoning the authoritarian political framework can in part be explained by the sudden increases in government revenues during the second half of the 1970s due primarily to oil exports. Since then this export sector has become a big source of funds that is directly controlled by the state and, therefore, independent of the international creditors and investors as well as the technocrats and other domestic political forces. As a consequence, the regime has since been able to implement various "inward-oriented" economic policies that it could not do before, due to the lack of resources, without being dependent on the domestic businessmen. Moreover, the availability of oil revenues has also enabled the regime to coopt various urban groups who would otherwise become part of the opposition and to continue the strategy of buying legitimacy among the rural population by giving them some "material satisfaction". In summary, my argument is that if the financial resources were not there, the New Order government since the mid-1970s would not have been able to respond positively to the economic nationalist demands without having to yield to the democratic appeals.
Concluding this study, it would not be far from the reality if I argue that the viability of the New Order regime is very much dependent on, among a few other things, the availability of a large pool of financial resources to fuel the economic development and to coopt the opposition. As long as the resources are there, there will be no serious problem. The regime will still be able to buy legitimacy among the rural population as well as the urban poor and to confine the opposition to small urban groups. If the resources are not there, or not that much, however, the regime will have to rely on the use of repression. Relying solely on coercive methods and lacking the resources to coopt the opposition, the regime will be "permanently haunted by the specter of an explosive negation". And the present decline of the oil export business certainly has a damaging impact on the availability of financial resources for the New Order government.
NOTES TO CHAPTER I


3 Ibid., p. 453.

4 Ibid., p. 454.


7 For the comparable phenomena see Herbert Feith, "Repressive-Developmentalist Regimes in Asia". Unpublished paper, 1978.


19 Jackson, op.cit., p.3.

20 See chapter II for Sukarno's presidency and chapter IV for Suharto's.

21 O'Donnell bluntly argues that "political authoritarianism—not political democracy—is the more likely concomitant of the highest levels of modernization". O'Donnell, 1973, op.cit., p.8.

As O'Donnell conceives it, economic modernization takes place at several stages. Each stage tends to be associated with a new dominant coalition of power and a distinct type of authoritarian regime. Each such coalition is "encapsulated", is responsible only to its members, and excludes the interests of non-members. O'Donnell, 1973, *op.cit.*, chapter II.

O'Donnell in *ibid.*, p.106 and in "Reflections . . ", especially pp.16-17.


"The social basis of Bureaucratic-Authoritarianism in the upper-bourgeoisie, their ostensible support of BA, and their 'bridgehead' in the institutional system of the state in the form of the economic technocrats intersect directly and visibly with the armed forces. The upper-bourgeoisie and the technocrats have a strongly transnational orientation, both in their beliefs and their economic behavior. For them, the political boundaries of the nation are basically useless constraint on the movement of the factors of production, on the free circulation of capital, and on consideration of efficiency at the transnational level. They also interfere with the efforts to reintegrate these economies into the world market in the aftermath of the pre-BA crisis". O'Donnell, in Collier (Ed.), 1979, *op.cit.*, p.300.

O'Donnell writes that one of the most important criteria of the BA regime is "whether or not governmental action is geared to exclude the already activated urban popular sector (working class and segments of lower-middle-class) from the national political arena. Such exclusion means consistent governmental refusal to meet the political demands made by the leaders of this sector. It also means denying this sector and its leaders access to positions of political power from where they can have direct influence on national policy decisions. This political exclusion can be achieved by direct coercion and/or by closing the electoral channels of political access . . . . The exclusion
of political actors involves an intentional decision to reduce the number of persons who have a significant voice in determining what goes on at the national political level". O'Donnell, 1973, op.cit., p.51-52.

"... it is necessary to stress... the crucial importance of governmental coercion for BA 'success' in excluding and deactivating the popular sector, as well as for enforcing decisions tending to facilitate economic concentration in the more 'dynamic' or 'efficient' sectors, and for repressing the opposition of intellectuals and university students". Ibid., p.96.

In this study, repression is defined as "(1) The use of governmental sanctions to deny basic human freedoms, such as the right to live; to have access to the basic necessities of life; to hold, discuss, and propagate opinions; and to associate with others to achieve social, economic, and political objectives. (2) The use of inhuman sanctions such as torture for any objective whatsoever". See Michael Randle, "Military and Repression", Alternatives, VII, 1 (Summer 1981).

Philippe C. Schmitter, op.cit., p.93-94.


Ibid., p.108.


Schmitter, op.cit., p.118-120.


An argument similar to this one is also suggested by Collier when he argues about the existence of "(O)ther supplementary, or possibly rival, explanations of BA-ism (which) are political rather than economic. (Such as) the varied legacy from the populist period of activation of the popular sector". See David Collier, "Industrial Modernization and Political Change: A Latin American Perspective", World Politics, 30, 4 (July 1978), p.607.
I owe this point to Professor R. William Liddle's discussion of BA-ism in his Spring 1980 lectures.


NOTES TO CHAPTER II


2On the discussion of these ideologies in Indonesia, see Ruth T. McVey's introduction to Sukarno, Nationalism, Islam and Marxism, translated by Karel H. Warouw and Peter Weldon (Ithaca: Cornell Modern Indonesia Project, 1969).

3For an excellent account of the elections, see Herbert Feith, The Indonesian Elections of 1955 (Ithaca: Cornell Modern Indonesia Project, 1957).


7Ibid., p.578.

8Ruslan Abdul Gani, Nationalism, Revolution, and Guided Democracy in Indonesia (Clayton: Monash University, Centre of Southeast Asian Studies, 1973), p.43.


10Ruslan Abdul Gani, op.cit., p.47.

11Lev, op.cit., p.206f.


Quoted in *ibid.*, p.15-16.


Sundhaussen, *op.cit.*, p.89.

It seems that most of the youth group activists approached by the army were those who were active in the Tentara Pelajar (the student army group) during the revolutionary war and then demobilized by early 1950s. This fact explains the ease with which the army leadership built such collaboration. See Imam Pratignyo, *Lahirnya Sekretariat Bersama Golongan Karya Menjadi Kekuatan Sosial-Politik*, Dissertation draft, n.p., 1974).


Indonesian political parties generally maintain their own mass-organizations for youth, student, boy scout, labor, peasant, women, and other professional interests.


There is, however, a counterargument saying that due to the lack of its own economic strategy the holding of the companies by the army did not give it any benefit. Given the fact that many officers appointed to the lucrative managerial positions were those whose loyalty to the central army leadership was doubtful, so the argument goes, their appointment could be interpreted as a disciplinary measures against them, or, at least, as a way to remove them from the army leadership affairs. See K.D. Thomas, "Political and Economic Stability: The Gestapu and Its Aftermath", in T.K. Tand (Ed.), *Sukarno's Guided Economy*
(Brisbane: Jacaranda Press, 1967), p.116. For this author, however, the point is that the officers' appointment to the positions facilitated the army's search for extra-budgetary resources, which proved to be crucial for the army's later activities.


26President Suharto's State Address, August 16, 1968.


28Feith, "Indonesia", p.243-44.


31Mortimer, ibid., pp.79, 86-88 for the discussion of the relationships of PKI and Sukarno, and pp.102-17 of PKI and the army; while that of the army and Sukarno is discussed in Crouch, op.cit., pp.49-54. For the army's concern of legitimacy, see Lev, *The Transition* ..., p.191.


36 BIES, 4 (June 1966), p.15.

37 BIES, 1 (June 1965), p.8-10.


39 BIES, 3 (February 1966), p.15.


41 Mortimer, op.cit., chapter 7.


43 See Hasil Akhir Pra-Seminar HANKAM (Jakarta: Dispen. HANKAM, 1967).

44 Crouch, op.cit., p.139.

45 Sundhaussen, op.cit., p.125.


48 Ibid., p.42.

49 For a balanced account of this event, see Crouch, op.cit., chapter 7.
Ibid., p.214.

Ibid., pp.198-201 and 208-210.

NOTES TO CHAPTER III:


2 Emil Salim, "Politik dan Ekonomi Pancasila", in ibid., p.115.


6 Indonesia, the Army, Amanat/Pidato Pra-Saran dalam Seminar AD ke II/1966 (Jakarta: 1966).

7 This summary of their view is derived from Widjojo Nitisastro (Ed.), op.cit., pp.7-11, 28-50, 103-110, and 134-135; KAMI, op.cit.


10 Dr. Widjojo Nitisastro worked for the National Planning Council for several years and was involved in the making of the 1963 stabilization program.

11 Statemen-statemen . . . footnote 4.


16 Panglaykim and Thomas, "The New Order . . . .", p.85.

17 University of Indonesia, Proceedings on the Symposium held on May 6-9, 1966. The foreign policy section.

18 John Sullivan, "The United States and the New Order in Indonesia". PhD dissertation, the American University, 1969.

19 This point was argued by Soedjatmoko in a speech at the Army Staff College in Bandung, on May 25, 1967 as reported by K.D. Thomas and J. Panglaykim, Indonesia: the Effects of Past Policies and President Suharto's Plans for the Future (Canberra: CEDA, 1973), p.141-143.


22 Jamie Mackie in his comments on Mohtar Mas' oed's dissertation prospectus, April 1, 1982.

23 Thomas and Panglaykim, Indonesia . . . p.142.

24 Statemen-statement . . . . footnote 4.

26 FEER, June 16, 1966, p. 519.

27 On the dynamic process of the peaceful settlement, see Franklin B. Weinstein, Indonesia Abandons Confrontation (Ithaca: Cornell Modern Indonesia Project, 1969).


30 Antara News Agency, op.cit., p.100.


32 FEER 1967 Year Book, p.222.

33 FEER, March 9, 1967, p.460.

34 Sullivan, op.cit., p.309.


37 FEER, September 15, 1966, p.472.


39 FEER 1967 Year Book, p.222.


41 Sullivan, op.cit., p.357.

42 FEER 1967 Year Book, p.216-17.


44 Sullivan, op.cit., p.504.


47. FEER, March 9, 1967, p.459.

48. FEER, October 6, 1966, p.11.


54. Gold, op.cit., p.40-44.

55. Payer, op.cit., p.33.


62 Tomasson, op.cit., p.50.


64 Embassy of Indonesia, op.cit., p.1; Panglaykim and Thomas, "New Order . . .", p.116-17.

65 Embassy of Indonesia, ibid., p.2; Hong Lan Oei, "Implications of Indonesia's New Foreign Investment Policy for Economic Development", Indonesia, 7 (April 1969), p.44.

66 Embassy of Indonesia, ibid., p.3.

67 Hong Lan Oei, "Implications . . ", p.43-44.

68 Ibid., p.45.


70 See footnote 8.


72 Panglaykim and Thomas, "The New Order . . ", p.92-94.


74 FEER 1968 Year Book, p.199.

75 Interview in Jakarta, June 22, 1982.

76 Diaz-Alejandro, op.cit., p.139.

77 Interview with Sarbini Sumawinata, in Jakarta, June 22, 1982; Sarbini Sumawinata, "Economic Situation . . "; Interview with Suryo Sediana, former head of the Foreign Investment Board, in Jakarta, September 6, 1982; Sjafrudin
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78 Tomasson, op.cit., p.49.

79 Sarbini Sumawinata, "Economic Situation ..", p.66.


83 Robison, ibid., p.133.

84 Interview with Suryo Sediana, Jakarta, September 6, 1982.


86 Weinstein, Indonesian Foreign Policy .., p.239.

For this purpose the government assigned the Minister of Manpower Dr. Awaludin Djamin, also a Police General, to form a special task-force for studying and putting into order the already mushroomed state companies. The result of the team's work was a decision by the Chairman of the Cabinet Presidium to simplify and reduce the number of the companies owned by the central as well as regional governments. The corporations were classified into three types: Perusahaan Jawatan (Departmental Agency), Perusahaan Umum (Public Corporation), and Perusahaan Perseroan (Public Company). Perusahaan Jawatan is totally owned by the government and treated as a part of government's agency, and operates in sectors where the government has a monopoly and which is not considered profitable, such as state railways and pawnshops. Perusahaan Umum is also owned by the government, but operates for making profits in sectors such as public utilities, telecommunication and the like. And Perusahaan Perseroan is the semi-state company. It is a state-corporation whose shares are sold to private investors. Among the 125 corporations converted into this type were Garuda Indonesian Airways, many agricultural estates, the fertilizer companies, PELNI Shipping Lines, and many more. See Soewarno Handayaningrat, Administrasi Pemerintahan dalam Pembangunan Nasional (Jakarta: Gunung Agung, 1982), pp.237-242; 251-255 and 262-267.

According to Suryo Sediana, it was Dr. Awaludin Djamin and several army officers that, opposing the technocrats' intention, prevented state-companies, such as sugar millings, from being converted into private ones. Interview, Jakarta, September 20, 1982.

For the discussion of some big state companies, see Dorodjatun Kuntjorojakti, op.cit.

Suryo Sediana, interview, op.cit.

Given the centralizing tendency of the central bureaucracy and the military, as discussed in previous chapter, the passing of the MPRS decision on the regional autonomy was a victory for the proponents of decentralization. And it was only possible because of the changing environment of the DPR and the MPRS. Soon after obtaining the March 11, 1966 Letter of Order from President Sukarno, General Suharto quickly removed the Old Order's supporters from the parliamentary bodies and put in their place the New Order politicians and intellectuals. These new members, however, took their membership very seriously and saw it as a good opportunity to develop the parliament to be a democratic institution. Consequently, they develop a position independent of the government and helped create a lively, democratic environment in the parliament. It was this environment that was responsible for the passing of the decision. The environment, however, did not last long. The government removed most of the New Order "radicals" before the 1968 MPRS session. (This point will be developed further in the next chapter). Information on the situation of the parliamentary politics during the early New Order is obtained from interviews with: former chairman of the MPRS, 1966-1972, General Nasution (Jakarta, September 4, 1982); former general secretary of the MPRS during the same period, General Abdul Kadir Besar (Jakarta, May 15, 1982); former member of the parliament, who was one of those recalled in 1968, Dahlan Ranuwihardja (Jakarta, July 10, 1982). The MPRS Decision No.XXI is in Ketetapan-ketetapan .. footnote 5.


See footnote 98.


Posthumus, op.cit., p.15-16.


107 Indonesia, Department of People's Welfare, quoted in FEER 1967 Year Book, p. 219; Department of Manpower, quoted in FEER 1968 Year Book, p. 197; and FEER 1970 Year Book, p. 152.

108 Two economists writing on the problem of unemployment in Indonesia writes that "(F)or both males and females, the rate of unemployment increases with education. The highest unemployment for males is that of migrants with senior high school diploma. . . . The highest rate of unemployment for females is the junior high school diploma holders. . . . followed by the academy or university graduates. . . ." Bisrat Aklilu and John R. Harris, "Migration, Employment, and Earnings", in Gustav F. Papanek (Ed.), The Indonesian Economy (New York: Praeger, 1980), p. 135.


112 Palmer, ibid., p. 115.

113 Robison, op. cit., p. 135-36.


117 FEER 1968 Year Book, p.203.
118 FEER, February 13, 1969, p.283.
121 Robison developed four categories of Indonesian entrepreneurs: the indigenous, the Chinese, the "client-businessmen" and the "bureaucrat-capitalist". Robison, op. cit. Since the word "capitalist" has a bad connotation in Indonesia, I rename the last category "bureaucrat-businessmen". For another discussion of the these two last categories of entrepreneurs, see Yahya Muhaimin, "Indonesian Economic Policy, 1950-1980: The Politics of Client- Businessmen". Ph.D. dissertation, MIT, 1982.
122 Yahya Muhaimin, ibid., p.2
123 For detailed analysis of this type of businessmen see Robison, op.cit.
125 Ibid., p.283.
129 For an account of this affair see Harold Crouch, "The '15th January Affair' in Indonesia", Dyason House Paper, 1 (August 1974).
NOTES TO CHAPTER IV

1 Santri is a Javanese word meaning a Muslim who faithfully observes pure Islamic teachings.

2 Abangan is a nominal Muslim who believes in a mixture of Hindu, Buddhist and Javanese animistic religious traditions, in addition to the Islamic one. Culturally, an abangan Muslim is very different from the santri one. Politically, these two cultural identities were mainly represented by two different groups of political parties; the abangan by the nationalist PNI and the communist PKI, and the santri by the Muslim parties NU and Masyumi.

3 The late Subchan Z.E. was an able politician leading a small radical group within NU. As a young and modernized leader, Subchan was a controversial figure. While involved in a traditional, Islamic party, he was too liberal. For example he set his own loose standard of morality concerning gambling, alcohol drinking, dancing in Western-style night clubs, etc. He was more concerned with political morality such as corruption or the manipulation of the rule of law. He was also serious in his campaign for democratic political system and economic development.

His personality made it easy for him to build a collaboration across party and ideological lines. He cooperated with some nationalists and the military against the communists during the Guided Democracy period. Soon after the September 30, 1965 attempted coup, he made a coalition with a Chinese leading the Catholic Party to mobilize popular support, together with the army, against the communist PKI. His position also made him very independent. He many times criticized his own colleagues within NU leadership for their conservative policies. And while collaborating with the army in his struggle against the communists, he also sharply criticized the army's involvement in non-military affairs.

Hardi was a leader of the only faction that had a large non-Javanese members within the Javanese-dominated PNI. While his anti-communist stand brought him and his faction into conflict with President Sukarno during Guided Democracy, his critical position against the military's dual-function resulted in the faction's alienation from the New Order government. On Hardi, see ibid., pp.569-570.


5Ibid., p.177.

6Ibid., p.178-79.


8Liddle, "Modernizing ...", p.179.

9Ibid., p.179.

10Ibid., p.179.


12Ibid., p.234.

13Ibid., p.235.

14Interview with Dr. Umar Kayam, Yogyakarta, July 3, 1982. He was one of the intellectuals returned before 1965 who joined the anti-communist group.

15Seymour M. Lipset, Political Man (New York: Anchor, 1963), chapter 2.


18 Samuel P. Huntington, "Political Development and Political Decay", World Politics, 17,3 (April 1965). These theories or hypotheses strongly influenced the Indonesian intellectuals' thinking during the early New Order.


20 In early July 1967 all-Java conference of military commanders provided the support for the non-party politicians against the Old Order. See Herbert Feith, "Suharto's Search for Political Format", Indonesia, 6 (October 1968), p.93. See also Harold Crouch, "The Army, the Parties and the Elections", Indonesia, 11 (April 1971).

21 Information on Umar Kayam group was gathered from Feith, ibid.; Liddle, op.cit.; interviews with Umar Kayam, op.cit.; with Arief Budiman, former student-activist, Salatiga, May 14, 1982; with Gunawan Mohamad, Jakarta, May 4, 1982. The last interviewee is a poet, the editor-in-chief of Tempo magazine, who was in the Umar Kayam group during the early New Order.

22 Ibid.


24 The electoral laws in Indonesia provided for proportional representation (PR) combined with the list system. In PR system, each party is given a number of seats in the parliament in proportion to the number of votes it wins in the elections. Prior to the elections, each party's central leadership prepared a rank-ordering list of candidates equal to the number of seats contested in the multi-member districts. The number of candidates elected from the list depends on the number of votes the party won in the elections.

Despite its potential for representing various interests, its critics argue that the PR system, combined with multiparty system (MPS), had created instability in Indonesia during the Liberal Democracy. The pluralistic nature of Indonesian society was brought up to surface and transformed into actual political conflicts by the PR-plus-MPS.
Believing in the impact of electoral system on the number of political parties, the Indonesian intellectuals proposed the adoption of the single-member district system (SMD). In this system, according to Sri Sumantri,

"a. The territory of the state is divided into electoral districts whose numbers is identical with the number of seats to be contested in Parliament.

b. Each electoral district chooses only one member of parliament.

c. A candidate is elected if he obtains a plurality of the votes, i.e., more votes than any other candidate.

d. There is no run-off election.

e. The remainder of the vote in an electoral district can not be combined with votes in another district. This means that the votes that did not constitute a majority in a district simply disappear". (Quoted in Liddle, "Modernizing:...", p.190).

The SMD system, thus, was expected to simplify the number of parties and to weaken the oligarchic party leadership by eliminating the list system and by decentralizing the process of selecting party candidates.

25 See footnote 18.


27 Interview with General Nasution, the architect of the army's development and later chairman of the MPRS. Jakarta, September 4, 1982; and with General Abdul Kadir Besar, former Secretary of the MPRS, Jakarta, April 24, 1982.

28 A.H. Nasution, Kekarvaan ABRI (Jakarta: Seruling Masa, 1971), p.121. For similar interpretation of the dual-function as latent in nature, see "TNI dan Dwifungsinya", a pamphlet written by several retired generals critical to the present regime, published in Forum Komunikasi dan Studi Purna Yudha, Prajurit TNI sebagai Sapta-Margais (Jakarta: 1979?).


30 Ibid., 111-2.
Interview with Umar Kayam, op.cit; with Gunawan Mohamad, op.cit. The more extreme movement applying a dual-party system sponsored by Let.Gen.H.R.Dharsono in West Java was also defeated in 1967. See Liddle, "Modernizing . . "; Feith, "Suharto's . . ", op.cit.

See Liddle "Modernizing . . ", op.cit.; and Feith, "Suharto's . . ", op.cit.

Interview with Dahlan Ranuwihardja. Jakarta: July 10, 1982. He was one of the radical members of parliament who were recalled in late 1967.


Among the civilian were Umar Kayam, who lost his position as a director-general, Adnan Buyung Nasution, Dahlan Ranumihardja, and Ismail Sunni, who were expelled from the parliament, Sarbini Sumawinata, who was fired from the SPRI and many other. Among the army officers supporting the reformers who lost their influential power were Generals Nasution, H.R.Dharsono, Kemal Idris, Sarwo Edhi, and several others.


Ibid., p.95.


48 The Law no.18/1965 on Regional Government, and the Law no.19/1965 on Regional Autonomy.


51 This tradition of appointing military officers as territorial administrative heads has a "trickle-down" effect in rural areas with the election of lower officers as village headmen.


53 There are three main agencies dealing with intelligence and internal security watch: the KOPKAMTIB (Command for the Restoration of Security and Order), the OPSUS (the Special Operation), and the BINEG (State Intelligence Agency) or also known under his old name BAKIN. Although the last one is supposed to be responsible for political intelligence outside the defense and security field, in reality their functions overlapped each other. See Ulf Sundhaussen, "The Military: Structure, Procedures, and Effects on Indonesian society", in Jackson and Pye, *op.cit.*, p.70-71.

54 The Suharto faction, the most important one, was based upon the Diponegoro division of the Central Java. The Panglima Se-Jawa faction was led by officers from the Siliwangi division of the West Java. The Nasution faction was smaller in number and had no divisional base. The last faction consisted of those officers closed and remained loyal to President Sukarno. See Ann Gregory, "Recruitment

Ibid., p.531.


Those Sukarnoists removed were, for example, Generals Pranoto, Mursjid, Rukman, Ibrahim Adjie, Mokoginta from the army; General Hartono, Admiral Muljadi and Commodore Puguh from the Navy/Marine; Air Marshalls Omar Dhani, Sri Muljono Herlambang and several hundred more officers from the Air Force; and General Sawarno Tjokrodiningrat and 35 other officers from the Police. See Crouch, ibid., p.237-40.

The most prominent of them were Generals Suwarto (died in 1967), H.R.Dharsono, Kemal Idris, Sarwo Edhi, and Ischak Djuarsa.


See Liddle, "Modernizing . .", op.cit.

Gregory, "Recruitment . .", op.cit., p.521.


Ibid., p.57-58.

Interview with Dahlan Ranuwihardja, op.cit.


See footnote 33.

Interviews with Dahlan Ranuwihardja, op.cit.; with Nasution, op.cit.; with Abdul Kadir Besar, op.cit. See also Samsuddin, op.cit.


Ibid., p.76.

See chapter III.
The Second Army Seminar of 1966 concluded that "Pancasila forces must be victorious in the General Election". Crouch, *The Army*, p.248. What the officers meant was that the Old Order supporters and the political parties must be defeated.

It has been suggested that General Suharto might have devised a plan to build a coalition with the nationalist PNI before adhering to these three strategies. See Ken Ward, *The 1971 Election in Indonesia* (Clayton: Monash Paper on Southeast Asia, No.2, 1974), p.10.


Interview with Dahlan Ranuwihardja, *op.cit.*

Those "recalled" in 1967 and 1968 were mostly from this category. *Ibid.*


See footnote 65.


See *Peraturan Menteri No.12/1969* and *Peraturan Pemerintah No.6/1970*. The former was also directed toward excluding those affiliated with the parties from SEKBER GOLKAR representation in regional parliaments. The latter banned certain categories of civil servants from joining political parties.


Soon after 1971 election, another reorganization further coordinated the organization and changed the name to only GOLKAR. Suryadinata, *op.cit.*, p.38.
The government keep arguing that GOLKAR is not a political party.

See footnote 78.

Emmerson, op.cit., p.107.


This was in contrast to the previous labor unions which mostly were based on ideology. By the end of 1970, there were 21 labor unions based on industry. Sukarno, ibid., p.35; also King, ibid., p.383.

In 1977 the government proclaimed the FBSI's birthday, February 20, as Indonesian Labor Day. Sukarno, ibid., p.13.

Sukarno, ibid., p.53-73; and King, "Social Mobilization . . ", p.383.

The terms of the bargaining was generally defined by the government. For example, "the Economic Stabilization Council and BAPPENAS through a complex and thoroughly 'technocratized' process . . . determined wage level intervals, employment benefits for which management can be held responsible and the conditions under which labor waives its claims". Dwight Y. King, "Defensive Modernization", in Gloria Davis, What Is Modern Indonesian Culture? (Athens, Oh: Center for International Studies, Ohio University, 1979), p.192.

Sukarno, op.cit., p.83.

Speech at the opening of the Seminar on the Pancasila Labor Relation, December 4, 1974. Quoted in ibid, p.84.

Ibid., p.85.

King, "Social Mobilization . .", p.387.

Ibid, p.388.
For example, King noted that "the Minister of Industry has decided that business interests in his administration should be channeled through twenty specialty associations". Ibid., p.403.

See chapter I.

Ali Murtopo, Strategi . ., p.74-76.

Ibid., p.77.

On these methods, see Ward, op.cit.

Soon after the army Commander-in-Chief Yani was captured by the rebels, the army leadership in accordance to the army hierarchy fell to Maj.Gen.Suharto. President Sukarno, however, wanted his own man, Maj.Gen.Pranoto, to take the position. Compromise was reached on October 2, 1965 whereby Pranoto was given the leadership position and Suharto was made the Commander of the new KOPKAMTIB (Command for the Restoration of Security and Order). Later in the month, Pranoto was found involved in the coup attempt and removed from the army leadership position. And Suharto regained the top position and retained the KOPKAMTIB commandship. See A.H. Nasution, Dari Kup 1 Oktober 1965 ke Sidang Istimewa MPRS 1967 (Jakarta: 1974), p.10,14 and 19.

General Suharto was so convinced about the legality of the Surat Perintah that he several times threatened to use it against any body trying to ruin his government program. And it usually works.

Interview with General Nasution, op.cit.

He was the Third Deputy of the Army Commander-in-Chief, whose responsibility covered social and political affairs.

In the economic team there were Dr.Widjojo Nitisastro, Sadli, Ali Wardhana, Emil Salim and Subroto; while in the political team were Sarbini Sumawinata, Dr. Fuad Hassan, Dr. Deliar Noer, and several others. Interview with Fuad Hassan. Jakarta, August 21, 1982. See also Crouch, The Army . ., p.242.

The 12 army officers were Maj.Gen.Alamsjah (coordinator); Brig.Gen.Sudjono Humardani (economy);

110 Ibid., p.243, and 307-08.

111 Ali Murtopo's list of successful "special operations" includes the peaceful settlement of the confrontation with Malaysia, the campaign to win over West Irian population during the "Act of Free Choice" in 1969, and the GOLKAR victory in the 1971 General Election.


113 See footnote 106.

114 See Keputusan President No.30/1972 and No.15/1973, which were later revised by that of No.8/1978. For the organizational structure of the Presidential office, see Soewarno Handayaningrat, Administrasi Pemerintahan dalam Pembangunan Nasional (Jakarta: Gunung Agung, 1982), pp. 33-37.


117 On the estimated amount of the funds see Dorodjatun Kuntjorojakti, op.cit., p.312-14.

For more information about the funds, see Dorodjatun Kuntjorojakti, *op.cit.*, p.312-14.

Suryo Sediana, *op.cit.*; also Dorodjatun Kuntjorojakti, *ibid.*, p.315-316.

Dorodjatun Kuntjorojakti, *ibid.*, p.310-311. The significance of this special budgets is shown by the fact that 56 percent of the total national development budget in 1975/76 and 48.8 percent in 1976/77 were allocated through this unusual procedure. *Ibid.*, p.311.


Policy-making process is "technocratic" if it is based principally on technocratic values such as rationality and efficiency. It is "political" if it is based on an institutional interest of building constituency or alliance, or if it involves bargaining among several competing political actors. And it is "clientelistic" if the policy-making process is directed building personal power. I appreciate Dr. Gunther for his clarification of these types of policy-making process.

These terms are from Aron Wildavsky, *Budgeting* (Boston: Little, Brown, 1978).

The information used in this section is from: Interview with Dr. Suhadi Mangkusuwondo, the Director General of Foreign Trade, the Department of Trade, Jakarta, July 15, 1982; interview with T.A. Salim, *op.cit.*; and Suwarno Handayaningrat, *Administrasi Pemerintahan dalam Pembangunan Nasional* (Jakarta: Gunung Agung, 1982), pp.184-192.

The IGGI meets in April and December every year.

The State Secretariat coordinates all of the non-departmental agencies' budget in the Anggaran XVI. See the last section.

The IGGI meets in April and December every year.
In April it evaluates the on-going program and in December it plans for the coming fiscal year. See chapter III.

128 Interview with Suhadi Mangkusuwondo, op.cit.

129 Ibid.

130 This "anomaly" can be explained by the existence of the military's extrabudgetary resources. See chapter II and the last section of this chapter.

131 Indonesia is a member of the oil cartel OPEC. During the New Order it is increasingly dependent on oil export revenue, which by 1970s constitutes about 60 percent of the total export earnings. See also Table 13 for data before the oil boom.


133 Each year the villages receive a fixed amount of subsidy. It started at Rp.100,000 (US$300) per village per year in 1969/70 and increased to Rp.1 million ($1,500) in 1981/82. The subsidy for the districts is determined by their population size. It started at Rp.50 ($0.15) per person per year in 1970/71 and raised to Rp.450 ($0.75) in 1977/78. But, there was a minimum of Rp.5 million (about $15,000) per district in 1970 and increased to Rp.40 million (about $70,000) in 1977/78.

The subsidy for primary school program was determined by the number of children aged 7 to 12 in the region. And the health center program was directed toward establishing one community health center for each sub-district with more than 30,000 population. All these figures are from ibid.

134 T.A.Salim, Administrasi . . ., p.12.

135 Ibid., p.14; Interview with T.A.Salim, op.cit.; Suwarno Handayaningrat, op.cit., p.37.

136 The best of them are Robison, op.cit.; Dorodjatun Kuntjorojakti, op.cit. This section is based mostly on these two works.
143 For BULOG, see the last section; also *ibid.*, p.278a. For ASTRA, see Robison, *op.cit.*, p.342.
NOTES TO CHAPTER V

On the argument on the triangular relationship of the state, the multinational corporations and the domestic entrepreneurs, see Peter Evans, *Dependent Development: the Alliance of Multinational, State and Local Capital in Brazil* (Princeton: Princeton University Press, 1979).

On the definition of "repression" see footnote 30 in chapter I.

This law was originally a Presidential Decree issued in 1963 and made a law in 1969.


Ibid., p.296.

Ibid., p.311.

Ibid., p.309.

Ibid., p.313-18.

Table 1: Government Revenue and Expenditure, 1955-1971/72.
(in million new Rupiah).

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Deficit/Surplus</th>
<th>Deficit as percentage of revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>14</td>
<td>16</td>
<td>-2</td>
<td>14%</td>
</tr>
<tr>
<td>1956</td>
<td>18</td>
<td>21</td>
<td>-3</td>
<td>17%</td>
</tr>
<tr>
<td>1957</td>
<td>21</td>
<td>26</td>
<td>-5</td>
<td>24%</td>
</tr>
<tr>
<td>1958</td>
<td>23</td>
<td>35</td>
<td>-12</td>
<td>52%</td>
</tr>
<tr>
<td>1959</td>
<td>30</td>
<td>44</td>
<td>-14</td>
<td>47%</td>
</tr>
<tr>
<td>1960</td>
<td>50</td>
<td>58</td>
<td>-8</td>
<td>16%</td>
</tr>
<tr>
<td>1961</td>
<td>62</td>
<td>88</td>
<td>-26</td>
<td>42%</td>
</tr>
<tr>
<td>1962</td>
<td>75</td>
<td>122</td>
<td>-47</td>
<td>60%</td>
</tr>
<tr>
<td>1963</td>
<td>162</td>
<td>330</td>
<td>-168</td>
<td>104%</td>
</tr>
<tr>
<td>1964</td>
<td>283</td>
<td>681</td>
<td>-398</td>
<td>141%</td>
</tr>
<tr>
<td>1965</td>
<td>923</td>
<td>2,526</td>
<td>-1,603</td>
<td>174%</td>
</tr>
<tr>
<td>1966</td>
<td>13,142</td>
<td>29,433</td>
<td>-16,291</td>
<td>124%</td>
</tr>
<tr>
<td>1967</td>
<td>84,900</td>
<td>87,555</td>
<td>-2,655</td>
<td>3%</td>
</tr>
<tr>
<td>1968</td>
<td>185,283</td>
<td>185,283</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1969/70</td>
<td>334,762</td>
<td>334,671</td>
<td>+91</td>
<td>-</td>
</tr>
<tr>
<td>1970/71</td>
<td>465,137</td>
<td>457,929</td>
<td>+7,208</td>
<td>-</td>
</tr>
<tr>
<td>1971/72</td>
<td>563,548</td>
<td>544,995</td>
<td>+18,553</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: BIES, 6 (February 1967), p.7; Biro Pusat Statistik, Statistical Pocketbook of Indonesia, various years.
Table 2. Indonesian Export Value, 1956-1965 (million dollar).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rubber Estates</th>
<th>Small-holders.</th>
<th>Oil &amp; Its Products</th>
<th>Other</th>
<th>Total Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>154.4</td>
<td>206.2</td>
<td>255.2</td>
<td>308.6</td>
<td>924.4</td>
</tr>
<tr>
<td>1958</td>
<td>108.7</td>
<td>153.2</td>
<td>315.1</td>
<td>213.7</td>
<td>790.7</td>
</tr>
<tr>
<td>1960</td>
<td>133.9</td>
<td>243.2</td>
<td>220.7</td>
<td>242.2</td>
<td>840.7</td>
</tr>
<tr>
<td>1962</td>
<td>101.6</td>
<td>196.9</td>
<td>215.8</td>
<td>167.3</td>
<td>681.6</td>
</tr>
<tr>
<td>1964</td>
<td>98.6</td>
<td>137.2</td>
<td>267.3</td>
<td>221.1</td>
<td>724.2</td>
</tr>
<tr>
<td>1965</td>
<td>87.6</td>
<td>135.3</td>
<td>270.6</td>
<td>212.4</td>
<td>705.9</td>
</tr>
</tbody>
</table>

Source: Biro Pusat Statistik, Statistical Pocketbook of Indonesia, various years.

<table>
<thead>
<tr>
<th>End of Year</th>
<th>Total Rupiah (Old) Billion</th>
<th>Percentage Change</th>
<th>Real Value * 1954=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>11</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1955</td>
<td>12</td>
<td>10%</td>
<td>-</td>
</tr>
<tr>
<td>1956</td>
<td>13</td>
<td>9%</td>
<td>-</td>
</tr>
<tr>
<td>1957</td>
<td>19</td>
<td>46%</td>
<td>-</td>
</tr>
<tr>
<td>1958</td>
<td>29</td>
<td>52%</td>
<td>-</td>
</tr>
<tr>
<td>1959</td>
<td>35</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>48</td>
<td>37%</td>
<td>-</td>
</tr>
<tr>
<td>1961</td>
<td>29</td>
<td>42%</td>
<td>-</td>
</tr>
<tr>
<td>1962</td>
<td>131</td>
<td>93%</td>
<td>-</td>
</tr>
<tr>
<td>1963</td>
<td>263</td>
<td>101%</td>
<td>63</td>
</tr>
<tr>
<td>1964</td>
<td>675</td>
<td>157%</td>
<td>71</td>
</tr>
<tr>
<td>1965</td>
<td>2,580</td>
<td>282%</td>
<td>41</td>
</tr>
<tr>
<td>1966</td>
<td>20,550</td>
<td>696%</td>
<td>29</td>
</tr>
</tbody>
</table>

*Money in circulation deflated by cost of living index.
Source: BIES, 4 (June 1966), p.20 and 9 (February 1968), p.3
Table 4. Cost of Living Index: Jakarta, 1953-1971

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
<th>Percentage Increases^</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953 - 1958^b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>106</td>
<td>6%</td>
</tr>
<tr>
<td>1955</td>
<td>141</td>
<td>33%</td>
</tr>
<tr>
<td>1956</td>
<td>161</td>
<td>14%</td>
</tr>
<tr>
<td>1957</td>
<td>177</td>
<td>10%</td>
</tr>
<tr>
<td>1958</td>
<td>258</td>
<td>46%</td>
</tr>
<tr>
<td>1959 - 1966^c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>166</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>215</td>
<td>29%</td>
</tr>
<tr>
<td>1961</td>
<td>380</td>
<td>77%</td>
</tr>
<tr>
<td>1962</td>
<td>976</td>
<td>157%</td>
</tr>
<tr>
<td>1963</td>
<td>2,226</td>
<td>128%</td>
</tr>
<tr>
<td>1964</td>
<td>5,234</td>
<td>135%</td>
</tr>
<tr>
<td>1965</td>
<td>36,347</td>
<td>594%</td>
</tr>
<tr>
<td>1966</td>
<td>267,279</td>
<td>635%</td>
</tr>
<tr>
<td>1967 1971^d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>283</td>
<td>183%</td>
</tr>
<tr>
<td>1968</td>
<td>523</td>
<td>84%</td>
</tr>
<tr>
<td>1969</td>
<td>604</td>
<td>15%</td>
</tr>
<tr>
<td>1970</td>
<td>626</td>
<td>3.6%</td>
</tr>
<tr>
<td>1971</td>
<td>641</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

^Compared to previous year.
^bFor 19 foodstuffs; 1953=100.
^cFor 62 items (food, housing, clothing & others); March 1957-February 1958=100.
^dSeptember 1966=100.
Source: Statistical Pocketbook of Indonesia, various years.
(billion rupiah, at constant 1960 prices).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rupiah</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>389.6</td>
<td>-</td>
</tr>
<tr>
<td>1959</td>
<td>391.4</td>
<td>0.4%</td>
</tr>
<tr>
<td>1960</td>
<td>390.2</td>
<td>-0.3%</td>
</tr>
<tr>
<td>1961</td>
<td>412.6</td>
<td>5.7%</td>
</tr>
<tr>
<td>1962</td>
<td>420.2</td>
<td>1.8%</td>
</tr>
<tr>
<td>1963</td>
<td>410.8</td>
<td>-2.2%</td>
</tr>
<tr>
<td>1964</td>
<td>425.3</td>
<td>3.5%</td>
</tr>
<tr>
<td>1965</td>
<td>429.9</td>
<td>0.9%</td>
</tr>
<tr>
<td>1966</td>
<td>441.9</td>
<td>2.9%</td>
</tr>
<tr>
<td>1967</td>
<td>448.0</td>
<td>1.4%</td>
</tr>
<tr>
<td>1968</td>
<td>469.9</td>
<td>4.8%</td>
</tr>
<tr>
<td>1969</td>
<td>530.8</td>
<td>12.9%</td>
</tr>
<tr>
<td>1970</td>
<td>570.9</td>
<td>7.5%</td>
</tr>
<tr>
<td>1971</td>
<td>608.9</td>
<td>6.6%</td>
</tr>
<tr>
<td>1972</td>
<td>650.8</td>
<td>6.8%</td>
</tr>
<tr>
<td>1973</td>
<td>706.9</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Source: Statistical Pocketbook of Indonesia, various years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports f.o.b.</td>
<td>881</td>
<td>766</td>
<td>711</td>
<td>616</td>
<td>632</td>
<td>634</td>
<td>714</td>
</tr>
<tr>
<td>Imports f.o.b.</td>
<td>-749</td>
<td>-1,058</td>
<td>-737</td>
<td>-562</td>
<td>-590</td>
<td>-610</td>
<td>-596</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>+132</td>
<td>-292</td>
<td>-26</td>
<td>+54</td>
<td>+42</td>
<td>+24</td>
<td>+118</td>
</tr>
<tr>
<td>Services (net)</td>
<td>-216</td>
<td>-231</td>
<td>-222</td>
<td>-282</td>
<td>-272</td>
<td>-272</td>
<td>-241</td>
</tr>
<tr>
<td>Bal. of Payment</td>
<td>-84</td>
<td>-523</td>
<td>-248</td>
<td>-228</td>
<td>-230</td>
<td>-248</td>
<td>-123</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BIES, 11 (October 1968), p.117.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports f.o.b.</td>
<td>770</td>
<td>872</td>
<td>975</td>
<td>1,039</td>
<td>1,204</td>
<td>1,364</td>
</tr>
<tr>
<td>Imports f.o.b</td>
<td>-805</td>
<td>-831</td>
<td>-961</td>
<td>-1,071</td>
<td>-1,318</td>
<td>-1,499</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>-35</td>
<td>+41</td>
<td>+14</td>
<td>-32</td>
<td>-114</td>
<td>-135</td>
</tr>
<tr>
<td>Services (net)</td>
<td>-263</td>
<td>-305</td>
<td>-372</td>
<td>-417</td>
<td>-125</td>
<td>-158</td>
</tr>
<tr>
<td>Debt Services</td>
<td>-54</td>
<td>-75</td>
<td>-59</td>
<td>-44</td>
<td>-197</td>
<td>-258</td>
</tr>
<tr>
<td>Balance of Payment on Current Account</td>
<td>-352</td>
<td>-339</td>
<td>-417</td>
<td>-493</td>
<td>-436</td>
<td>-578</td>
</tr>
</tbody>
</table>

Note: Beginning from 1969, the fiscal year runs from April to March.

### Table 7. Indonesia's Foreign Debt as of December 31, 1965 (million dollar)

<table>
<thead>
<tr>
<th>Debtor</th>
<th>Medium/Long-term</th>
<th>Short-term</th>
<th>Total</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Communist Countries</strong></td>
<td>(1,361)</td>
<td>(43)</td>
<td>(1,404)</td>
<td>(59.5%)</td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>980</td>
<td>10</td>
<td>990</td>
<td>41.9%</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>108</td>
<td>7</td>
<td>115</td>
<td>4.8%</td>
</tr>
<tr>
<td>Others *</td>
<td>228</td>
<td>26</td>
<td>299</td>
<td>12.6%</td>
</tr>
<tr>
<td><strong>Western Countries</strong></td>
<td>(539)</td>
<td>(48)</td>
<td>(587)</td>
<td>(24.8%)</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>172</td>
<td>7</td>
<td>179</td>
<td>7.5%</td>
</tr>
<tr>
<td>West Germany</td>
<td>112</td>
<td>10</td>
<td>122</td>
<td>5.1%</td>
</tr>
<tr>
<td>France</td>
<td>113</td>
<td>2</td>
<td>115</td>
<td>4.8%</td>
</tr>
<tr>
<td>Others **</td>
<td>142</td>
<td>29</td>
<td>171</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>Asian Countries</strong></td>
<td>(176)</td>
<td>(85)</td>
<td>(261)</td>
<td>(11.0%)</td>
</tr>
<tr>
<td>Japan</td>
<td>168</td>
<td>63</td>
<td>231</td>
<td>9.7%</td>
</tr>
<tr>
<td>Others ***</td>
<td>8</td>
<td>22</td>
<td>30</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>African Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>International Agencies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I.M.F.</td>
<td>102</td>
<td>-</td>
<td>102</td>
<td>4.3%</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>2,181</td>
<td>177</td>
<td>2,358</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Note: The totals do not include compensation to foreign owners of estates etc., nor the the $100 million due to Shell Oil Company in payment for its assets.

*Poland, Czechoslovakia, East Germany, Hungary, China, others.
**Italy, U.K., the Netherlands, Switzerland, and others.
***Pakistan and India.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government receipts</td>
<td>84.9</td>
<td>185.3</td>
<td>334.8</td>
<td>465.2</td>
<td>563.5</td>
<td>748.4</td>
<td>1,171.7</td>
</tr>
<tr>
<td>Tax receipts</td>
<td>58.9</td>
<td>145.0</td>
<td>240.5</td>
<td>331.5</td>
<td>400.5</td>
<td>556.0</td>
<td>918.0</td>
</tr>
<tr>
<td>Non-tax receipts</td>
<td>1.3</td>
<td>4.7</td>
<td>3.2</td>
<td>13.1</td>
<td>27.5</td>
<td>34.6</td>
<td>49.7</td>
</tr>
<tr>
<td>Foreign loan and</td>
<td>24.7</td>
<td>35.6</td>
<td>91.1</td>
<td>120.6</td>
<td>135.5</td>
<td>157.8</td>
<td>204.0</td>
</tr>
<tr>
<td>credits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt. expenditures</td>
<td>87.5</td>
<td>185.3</td>
<td>334.7</td>
<td>457.9</td>
<td>545.0</td>
<td>736.3</td>
<td>1,164.3</td>
</tr>
<tr>
<td>Routine</td>
<td>70.0</td>
<td>149.7</td>
<td>216.5</td>
<td>288.1</td>
<td>349.0</td>
<td>438.1</td>
<td>713.3</td>
</tr>
<tr>
<td>Development</td>
<td>17.5</td>
<td>35.6</td>
<td>118.2</td>
<td>169.8</td>
<td>196.0</td>
<td>298.2</td>
<td>451.0</td>
</tr>
<tr>
<td>Surplus(+) or</td>
<td>-2.6</td>
<td>--</td>
<td>+0.1</td>
<td>+7.3</td>
<td>+18.5</td>
<td>+12.1</td>
<td>+7.4</td>
</tr>
<tr>
<td>deficit(-)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Foreign loan and credits as % of:
- all expenditures    | 28%  | 19%  | 27%    | 26%    | 25%    | 21%    | 18%    |
- development expdtrs.| 77%  | 71%  | 69%    | 53%    | 45%    |        |        |

Source: Adapted from Bruce Glassburner, "Indonesia's New Economic Policy and Its Sociopolitical Implications", in K.D. Jackson & L.W. Pye (Eds.), Political Power and Communication in Indonesia (Berkeley: Univ. California Press, 1978), p.139; and Nota Keuangan Pemerintah 1977/78 Table IV-1a and Table IV-1b, p.74-75.
### Table 9. IGGI Aid Commitments and Disbursements, Calendar Year 1968-1972

(million dollar).

<table>
<thead>
<tr>
<th>Type of Aid / Year of Commitment</th>
<th>1968</th>
<th>1969</th>
<th>1970</th>
<th>1971</th>
<th>1972</th>
<th>Total</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Aid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CY 1968</td>
<td>23.1</td>
<td>1.1</td>
<td>5.0</td>
<td>11.9</td>
<td>2.9</td>
<td>1.9</td>
<td>22.8</td>
</tr>
<tr>
<td>1969</td>
<td>146.8</td>
<td>-</td>
<td>6.8</td>
<td>30.3</td>
<td>32.2</td>
<td>23.9</td>
<td>93.2</td>
</tr>
<tr>
<td>1970</td>
<td>207.4</td>
<td>-</td>
<td>-</td>
<td>6.1</td>
<td>28.0</td>
<td>38.3</td>
<td>72.5</td>
</tr>
<tr>
<td>1971</td>
<td>242.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.3</td>
<td>32.8</td>
<td>36.1</td>
</tr>
<tr>
<td>1972</td>
<td>235.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10.8</td>
<td>10.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>854.9</td>
<td>1.1</td>
<td>11.8</td>
<td>48.4</td>
<td>66.4</td>
<td>107.7</td>
<td>235.4</td>
</tr>
<tr>
<td><strong>Total Food Aid</strong></td>
<td>750.5</td>
<td>76.3</td>
<td>119.3</td>
<td>170.8</td>
<td>123.5</td>
<td>55.1</td>
<td>546.0</td>
</tr>
<tr>
<td><strong>Total Other Program Aid</strong></td>
<td>748.2</td>
<td>70.9</td>
<td>99.7</td>
<td>152.1</td>
<td>149.0</td>
<td>151.8</td>
<td>622.5</td>
</tr>
<tr>
<td><strong>TOTAL AID</strong></td>
<td>2,353.6</td>
<td>148.3</td>
<td>230.8</td>
<td>371.3</td>
<td>338.9</td>
<td>314.6</td>
<td>1,403.9</td>
</tr>
</tbody>
</table>

Table 10. Foreign Investment Projects in Indonesia,*
1967 - 1972 (million dollar)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Approved Projects</th>
<th>Implemented Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>83.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Forestry</td>
<td>419.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Fishery</td>
<td>27.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Mining</td>
<td>953.7</td>
<td>38.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>768.9</td>
<td>30.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>91.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Textile</td>
<td>307.1</td>
<td>12.3</td>
</tr>
<tr>
<td>Timber</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Paper</td>
<td>13.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Chemical</td>
<td>124.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Metal</td>
<td>143.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Others</td>
<td>86.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Construction</td>
<td>34.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Hotel &amp; Trade</td>
<td>99.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>18.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Other services</td>
<td>83.6</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,488.4</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


*Excluding oil and banking sectors.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>100</td>
<td>167</td>
<td>208</td>
<td>258</td>
<td>309</td>
<td>380</td>
</tr>
<tr>
<td></td>
<td>(23%)</td>
<td>(35%)</td>
<td>(40%)</td>
<td>(44%)</td>
<td>(39%)</td>
<td>(41%)</td>
</tr>
<tr>
<td>Timber</td>
<td>100</td>
<td>175</td>
<td>347</td>
<td>722</td>
<td>2,791</td>
<td>4,678</td>
</tr>
<tr>
<td></td>
<td>(0.6%)</td>
<td>(0.9%)</td>
<td>(2%)</td>
<td>(3%)</td>
<td>(9%)</td>
<td>(13%)</td>
</tr>
<tr>
<td>Rubber</td>
<td>100</td>
<td>80</td>
<td>74</td>
<td>93</td>
<td>110</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>(39%)</td>
<td>(28%)</td>
<td>(23%)</td>
<td>(26%)</td>
<td>(23%)</td>
<td>(17%)</td>
</tr>
<tr>
<td>Others</td>
<td>100</td>
<td>106</td>
<td>117</td>
<td>97</td>
<td>139</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td>(37%)</td>
<td>(0.3%)</td>
<td>(35%)</td>
<td>(12%)</td>
<td>(28%)</td>
<td>(29%)</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>111</td>
<td>123</td>
<td>137</td>
<td>184</td>
<td>216</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

Note: -Upper row is index of increases (1966=100)
-Lower row is percentage of total export.
Source: Computed from BIES, 8, 2 (July 1972), p.3.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Unit</th>
<th>1969/70</th>
<th>1973/74</th>
<th>Percentage increase</th>
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<tr>
<td>AGRICULTURE</td>
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<td></td>
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<tr>
<td>Rice</td>
<td>million tons</td>
<td>10.52</td>
<td>15.42</td>
<td>46.5%</td>
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<tr>
<td>palm oil (export)</td>
<td>1000 tons</td>
<td>172</td>
<td>275</td>
<td>59.8%</td>
</tr>
<tr>
<td>sugar</td>
<td>1000 tons</td>
<td>677</td>
<td>907</td>
<td>33.9%</td>
</tr>
<tr>
<td>logs (export)</td>
<td>1000 cu.metres</td>
<td>2,900</td>
<td>7,900</td>
<td>172.4%</td>
</tr>
<tr>
<td>MINING</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>petroleum</td>
<td>million barrels</td>
<td>293</td>
<td>440</td>
<td>50.1%</td>
</tr>
<tr>
<td>tin</td>
<td>metric tons</td>
<td>16.16</td>
<td>19.4</td>
<td>19.9%</td>
</tr>
<tr>
<td>bauxite</td>
<td>1000 tons</td>
<td>1,000</td>
<td>1,200</td>
<td>20.0%</td>
</tr>
<tr>
<td>INDUSTRY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>textiles</td>
<td>million metres</td>
<td>450</td>
<td>900</td>
<td>100.0%</td>
</tr>
<tr>
<td>fertilizer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>nitrogen</td>
<td>1000 tons</td>
<td>46.5</td>
<td>403.5</td>
<td>767.0%</td>
</tr>
<tr>
<td>phosphate</td>
<td>1000 tons</td>
<td>18 (1971)</td>
<td>168</td>
<td>833.0%</td>
</tr>
<tr>
<td>cement</td>
<td>1000 tons</td>
<td>600</td>
<td>1,650</td>
<td>175.0%</td>
</tr>
<tr>
<td>paper</td>
<td>1000 tons</td>
<td>16</td>
<td>166.5</td>
<td>940.6%</td>
</tr>
<tr>
<td>ELECTRIC POWER</td>
<td>1000 KW</td>
<td>659</td>
<td>1,084</td>
<td>64.4%</td>
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</table>

Table 13. The Performance of the Repelita I: Gross Domestic Product at 1976 Prices (billion rupiah and percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3,571</td>
<td>3,757</td>
<td>3,986</td>
<td>4,036</td>
<td>4,435</td>
<td>39.8 34.5 5.6</td>
<td>1969 1973</td>
<td>100.0 100.0 9.4</td>
</tr>
<tr>
<td>Forestry</td>
<td>271</td>
<td>349</td>
<td>457</td>
<td>588</td>
<td>3.0  4.6 21.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>1,408</td>
<td>1,637</td>
<td>1,696</td>
<td>2,074</td>
<td>2,557</td>
<td>15.7 19.9 16.1</td>
<td>15.5 16.4 11.0</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>678</td>
<td>743</td>
<td>766</td>
<td>882</td>
<td>1,016</td>
<td>7.6  7.9 10.6</td>
<td>2.8  4.3 21.4</td>
<td></td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>41</td>
<td>48</td>
<td>53</td>
<td>56</td>
<td>64</td>
<td>0.5  0.5 11.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>255</td>
<td>320</td>
<td>361</td>
<td>469</td>
<td>554</td>
<td>2.8  4.3 21.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commerce, Hotels, etc.</td>
<td>1,393</td>
<td>1,572</td>
<td>*</td>
<td>1,942</td>
<td>2,112</td>
<td>15.5 16.4 11.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>292</td>
<td>308</td>
<td>405</td>
<td>443</td>
<td>497</td>
<td>3.3  3.9 14.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking, etc.</td>
<td>70</td>
<td>92</td>
<td>132</td>
<td>146</td>
<td>0.8  1.1 20.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership of dwelling</td>
<td>148</td>
<td>159</td>
<td>3,138</td>
<td>185</td>
<td>218</td>
<td>1.6  1.7 10.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Administration &amp; Defence</td>
<td>651</td>
<td>668</td>
<td>709</td>
<td>731</td>
<td>7.3  5.7 29.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other services</td>
<td>456</td>
<td>468</td>
<td>ug</td>
<td>508</td>
<td>5.1  3.4 2.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Gross Domestic Product: 8,963 9,771 10,405 11,419 12,837 100.0 100.0 9.4

*Included with services.

Note: Totals do not add due to rounding.
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