

**TRANSITION TO NEW ORDER IN INDONESIA:
A STUDY OF POLITICAL DEVELOPMENTS
(1965-1975)**

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CERTIFICATE

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the Degree of Master of Philosophy, has not been
previously submitted for any other degree of this or any
other University. To the best of our knowledge, this is
a bonafide work.

We recommend that this dissertation be placed
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TO MY PARENTS

P_R_E_F_A_C_E

Political system in Indonesia has been witnessing several changes since the proclamation of independence in 1945. In this sense, the study of political developments assumes paramount importance. This study focusses on the developments beginning with the end of Sukarno's 'Guided Democracy', starting in 1965 following the 1965 coup and ends by analysing the economic disaster faced by Suharto's government in 1975. The emergence of Suharto as the undisputed leader of Indonesia and his 'New Order' was the high mark of this period. The economic development was obviously the top priority of Suharto as was giving the political system a much needed stability. The dissertation also tries to find out the major reasons for the setback in the development plans initiated by Suharto resulting from the Pertamina Crisis.

I am deeply indebted to my esteemed Supervisor Dr B.D. Arora for his constructive suggestions and scholarly guidance. Without his active cooperation this research work would not have been completed. Sometimes, I may have failed to live up to his expectations, but his unflinching patience and constant encouragement helped me at all stages.

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CHAPTER I

INTRODUCTION : FROM GUIDED DEMOCRACY TO NEW ORDER

Since the end of World War II, various newly independent countries and societies have been experimenting with different political systems according to their historical traditions. Their main purpose has been to remove the backlog of poverty and backwardness left over by the European colonialism. Indonesia has been no exception. In the last phase of their struggle for independence which was proclaimed on 17 August 1945, the Indonesian nationalist leaders adopted the 1945 constitution which was characterized by concentration of power in the institution of Presidency. This constitution was shortly replaced by the provisional constitution of 1950 based on parliamentary system of government.

Although this system worked for a period of about seven years, the compulsions of politics, religious and regional rebellions and finally, President Suharto's antagonistic attitude towards the multi-party system did not permit it to remain in operation for long. Since president Sukarno's decree on 5 July 1959, calling for a return to the 1945 constitution, a new political system was born. Sukarno called it 'Guided Democracy'.

Following the September 30- October 1, 1965 coup, this system was also replaced. Although the new system that emerged continued to be based on the 1945 constitution and Presidential form of government, it has assumed different names like 'Pancasila Democracy' or the 'New Order' considering that the Sukarno era was the 'Old Order'. It is this political system that continues to be in operation in Indonesia at present. An important characteristic of the Panca-Sila democracy is that it is dominated by the armed forces led by General Suharto, President of Indonesia since March 1968.

But before going into the study of the transition from 'Guided Democracy' to 'New Order', a geographical study and the geo-strategic importance of Indonesia is very important. The world's largest island complex, the Indonesian archipelago stretches from mainland South-east Asia eastward between Australia and the Philippines. Indian Ocean, Pacific Ocean and South China Sea border this area. The country has an east-west length of some 3,400 miles from 92° to 141° east longitude and a breadth of about 1,000 miles from 6° north to 11° south latitude.¹ It covers a total land area of 741,098 square miles

¹ Ruth T. McVey, ed., Indonesia (New Haven, 1967), p. 1.

and consists of 13,677 islands,² ranging from tiny atolls to huge islands. It possesses rich and varied human and natural resources together with wide cultural diversity. The major islands are Sumatra, Java, Kalimantan, Sulawesi and Irian Jaya. The general climate is tropical with a dry season from June to September and a wet one from October to April.

Economically, Indonesia is one of the most important international suppliers of tropical agricultural products and a major source of the world's tin and other natural resources. Because of these various reasons and its strategic location, Indonesia requires prime attention.

Indonesia as a nation came into existence when it proclaimed independence on 17 August 1945. It was on that day in 1945 - the holy 'Seventeenth of August' - that Sukarno read Indonesia's Declaration of Independence to a crowd of a few hundred people. But it was only on 27 December 1949 that the Dutch colonialism withdrew and the Republic of United States of Indonesia was born.³ However, immediately after the promulgation of the

2 John Paxton, ed., The Statesman's Year Book (London, 1989), p. 700.

3 McVey, n. 1, p. 309.

constitution of 1945, Sukarno and Mohd. Hatta were elected President and Vice-President respectively by the Preparatory Committee for Indonesian Independence. In effect, however, Sukarno was endowed with all powers, both executive and legislative, until the elections in 1955.

Eventually, on 27 December 1949, Indonesia became a sovereign state under a federal constitution but it was replaced by a unitary constitution in May 1950 because the previous one had Dutch colonial imprints in it. Thus, it created a new republic which came into being on 17 August 1950.

The years from 1945 to 1950 had been indeed unforgettable for Indonesia as Sukarno rose to the status of a charismatic personality. He was the leader, the chief source of inspiration and articulated people's hope for the future. Indonesia's constitutional evolution during those years had also been eventful; a constitution was promulgated but never fully implemented in 1945, a second one had been adopted in 1949 but almost immediately proved unsuccessful, and a third one proclaimed in 1950, but, in the event, was to last only until 1959.⁴

4 Donald Wilhelm, Emerging Indonesia (London, 1980), p. 23.

As Sukarno said of the achievement of independence: "Thus ended our period of struggle. And thus began our struggle for survival."⁵ This was not a mere figure of speech because with Indonesia's independence, the process of nation-building had already begun. Certainly, this required a political system suited to the needs of a society with a rich and glorious civilization and a heavy colonial backlog of backwardness.

There were Muslim and other religious parties, secular social democratic parties and the PKI (Communist Party of Indonesia - the second oldest Indonesian political party), which were playing important role in the political arena. Following independence, the number of political parties had grown to "more than 40".⁶ In addition to the parties, there were other principal actors on the Indonesian political stage. The military, particularly the army, was the most important among them.

In the mid-1950s, there was increasing party rivalry. It proved to be an obstacle towards development of the country. After the struggle for independence, the general economy was in a precarious condition and raising

5 Sukarno, Sukarno : An Autobiography as told to Cindy Adams (Jakarta, 1966), p. 264.

6 Donald W. Fryer and James C. Jackson, Indonesia (London, 1977), p. 71.

it up to the people's expectations was very difficult. The Dutch colonial empire had exploited the country's resources to the maximum. Indonesia's general economic situation, the dependence on foreign markets for exports, and the need for foreign capital remained unchanged and a shortage of technical and administrative skills further arrested the development.⁷ Increasingly, Sukarno, 'the mouthpiece of the Indonesian people',⁸ as he called himself, echoed and accentuated the growing dissatisfaction.

Both for geographical and other reasons, Indonesia's body politic was being subjected to severe strains. Rebellions against Sukarno's regime and against the rising power of the PKI, broke out in Sumatra and Sulawesi and in March 1957, Sukarno decreed martial law. This increased the power of the army and its participation in the political process of the country. This was the beginning of the triangular balance of power between Sukarno, the PKI and the army.

There was growing unrest all around by the year 1956. Disillusionment was expressed by a large number of people in various ways. When the growing unrest reached its peak, President Sukarno was developing his ideas of

7 Wilhelm, n. 4, p. 25.

8 Sukarno, n. 5, p. 278.

Guided Democracy. When he spoke of Guided Democracy, he said he had a formula or concept (konsepsi) of his own for establishing it. Unveiling this in February 1957, he called for formation of a cabinet in which all major parties (including the communists) would participate and for the establishment of a National Council (Dewan Nasional), a high advisory body on which various functional groups would be represented and which would operate through consensus rather than voting. Support for the President came from PNI (Partai Nasional Indonesia) and various smaller nationalist groups and quite vociferously from the communists.⁹

Sukarno, in order to consolidate 'Guided Democracy' and through it his own position, needed the help of two forces - the army and the PKI (Communist Party of Indonesia). He tried to balance both the forces by constantly keeping them in check and creating a conflict between them which produced no positive result. Until 1960, the army and Sukarno had mutual understanding but after that there developed a growing conflict between them. When the army consolidated its position, Sukarno, for fear of losing control, sought to strengthen himself. Thus, he turned to PKI which had mass support at the grassroot

9 McVey, n. 1, pp. 319-20.

level. Because of this, the army was clearly regarding PKI as its main opponent.¹⁰ And after the 'Crush Malaysia' issue, the PKI became strong and it became close to the President instead of the army.

In February 1959, Sukarno suggested a return to the constitution of 1945 as providing the best basis for his Guided Democracy. Soon afterwards, he asked the constituent assembly to approve the idea. When the assembly failed to do so, Sukarno dissolved it and reinstated the 1945 constitution by decree.¹¹ Although heralded by Sukarno as being based squarely upon traditional values, Guided Democracy symbolized arbitrary rule. Sukarno manipulated the 1945 constitution in such a way that it gave him unlimited power.

But, both Sukarno and his system of Guided Democracy failed to solve the basic problems of political and ideological division and economic deterioration. Sukarno could not bring political stability. He only forced the political factions to accept his ideas and eliminated those who did not yield. However, the problems remained unsolved. The political scenario represented a continuous power contest between the army and the communists. Sukarno had never become a complete dictator

10 For further details, see Wilhelm, n. 4, p. 28.

11 Ibid., p. 29.

and his powers depended on his success in manipulating this power struggle.¹²

Between 1954 and 1959, the number of PKI followers increased nearly ten times and the PKI had hopes of topping all other parties in the general election scheduled for 1959. Guy J. Pauker remarks: "PKI decided to make the best of a bad thing and began to cultivate President Sukarno in his new role as a dictator."¹³ To compliment this, the PKI was busy infiltrating the armed forces. Aidit, the chairman of PKI, had in 1964 established a secret Special Bureau (Biro Chusus) which reported directly to him.¹⁴ He had also established counterpart Special Bureaus in the provinces for the purpose of managing assigned members of the armed forces there.¹⁵

There were rapid political developments at the end of 1964 and in early 1965. The PKI became Sukarno's main ally, when China and the erstwhile USSR supported Indonesia with military and economic aid. In

12 C.L.M. Penders, The Life and Times of Sukarno (Kuala Lumpur, 1975), p. 163.

13 For details see, Guy J. Pauker, The Rise and Fall of the Communist Party of Indonesia (Santa Monica, 1969).

14 Wilhelm, n. 4, p. 40.

15 Ibid.

It was General Suharto who with his coolness and resourcefulness saved the day. After learning about the coup, Suharto sent message for the rebels to meet him. Eventually they came to see him and after an ultimatum from Suharto, most of the rebels surrendered. On the evening of the same day, with these forces at his disposal, Suharto ordered the capture of the Radio station and the Centre for Telecommunications. Faced with such impressive opposition, the rebels at those key locations surrendered without a shot being fired.¹⁸

After that, Suharto signed a statement in the name of 'The Temporary Army Leadership'. About the rebels, it said that it had become "obvious that they are counter-revolutionaries committing a coup against the President...and having kidnapped several high-ranking army officers". It asked the public to be "calm and watchful".¹⁹ Suharto also asked President Sukarno to leave the Halim Air Base which was to be attacked. By afternoon, the coup was suppressed throughout the capital

18 Nugroho Notosusanto and Ismail Saleh, The Coup Attempt of the September 30 movement in Indonesia (Jakarta, 1968), p. 66.

19 Roeder, n. 17, p. 205.

city though it took longer time in the provinces.²⁰

However, by the end of November 1965, virtually all organized opposition had been crushed throughout the country. Chairman Aidit of the PKI had been caught and finally killed, and most of the other ring-leaders had either been killed in encounters or captured and held for trial.²¹

Sukarno had protected the extreme left from attack by continued denunciations of the evils of NEKOLIM (Colonialism, Imperialism and Neo-colonialism). But the army pressure had forced Sukarno to appoint Suharto as Chief of Staff in place of his earlier nominee.

After Suharto's active involvement in crushing the coup, the politics of Indonesia reached a critical point on 11 March 1966 when President Sukarno was forced to sign a declaration leading to the transfer of executive powers to General Suharto. The document of 11 March endowed Suharto with immense powers. It said clearly that at the present stage of revolution and the national and international political situation, to guarantee order as well as personal security and authority of the

20 Ibid.

21 Wilhelm, n. 4, p. 42.

press, the "Great Leader of Revolution", President Sukarno had ordered General Suharto to take all necessary steps needed to restore "the law and order of the country".²² Another factor which helped Suharto to consolidate his position during this period was the large-scale arrest and execution of the top leaders of the PKI.²³

After taking over authority, Suharto declared the PKI dissolved and began the process of systematic elimination of leftists and 'Old Order' (Orde Lama) forces. Desperate attempts by Sukarno to assert himself failed in the face of large-scale student demonstrations against him. Some of the student organizations like KAMI, an organization of students above the school and KAPPI, an organization of students who were in school actively participated in the anti-Sukarno demonstrations.

Against this background and under pressure from the army and the Majelis Permusyawaratan Rakyat Sementara (MPRS) - People's Congress - a major restructuring of executive authority was finally forced on

22 Provisional Consultative People's Congress of the Republic of Indonesia, Department of Information, Decree No. IX/MPRS/1966, Special Issue No. 001/1966 as given in Wilhelm, n. 4, p. 44.

23 For further details see, Wilhelm, n. 4.

Sukarno. At its meeting in June 1966, the MPRS had confirmed the special powers given to Suharto in March, stripped the President of his titles, and made provisions for Suharto to take over as Acting President, should the President become unable to act. With the formation of Amanat Penderitaan Rakyat (AMPERA) cabinet on 25 July 1966, the President was reduced to a titular role only.²⁴ Effective executive authority rested with General Suharto as the Chief, Adam Malik as Foreign Minister, and the Sultan of Yogyakarta as Minister of Economics and Finance.

The ideological policies pursued by the new cabinet gave a big blow to the 'Old Order' regime. The insistence of the new leaders in continuing the struggle against imperialism was only for public consumption. The new Foreign Minister Adam Malik started peace negotiations with Malaysia. These resulted in a peace agreement between Indonesia and Malaysia on 11 August 1966. Thus, Indonesia's isolationist policy was dropped. This marked the beginning of a new chapter in recent Indonesian history. In a way, it represented an effort on the part of Suharto and Adam Malik to evolve a new regional role for Indonesia.

24 Fryer and Jackson, n. 6, p. 103.

The AMPERA cabinet had seriously adverse affect on the executive powers and position of President Sukarno. In contrast to the 1945 constitution, the People's Congress decisively took a decision that General Suharto was to be permitted to form the cabinet.²⁵

Suharto, in his capacity as chairman of the Cabinet Presidium, gave details of his cabinet programme and it was decided to pursue three-fold plans: (a) creation of psychological conditions needed to achieve political and economic stability; (b) creation of the infra-structural and super-structural conditions needed for stability; and (c) fulfilment of material needs.²⁶

The main scheme was to have phases spanning over a period of six months from the recovery stage to rehabilitation, consolidation and stabilization. In the last stage, the economy would take off. There was stress on economic problems because the country was undergoing a severe economic crisis.

25 Provisional Consultative People's Congress of the Republic of Indonesia, Department of Information, Decree No. IX/MPRS/1966, Special Issue No. 002/1966, as given in Wilhelm, n. 4, p. 46.

26 For details see, Hamish McDonald, Suharto's Indonesia (Victoria, 1980), p. 58.

In the battle between the 'Old Order' and 'New Order', three-line action was pursued by the 'New Order' regime: (a) A gradual uncovering of the evils of the Sukarno era through the trials of persons involved directly or indirectly in the 30th September Movement, (b) Creation of a new political system which would permit the replacement of the President in a systematic manner, and (c) normalization of relations with the non-communist countries with the main aim of overcoming the country's disastrous economic crisis.²⁷

In January 1967, the MPRS, chaired since its resurrection by General Nasution, began discussion of the president's fitness to remain in office, and efforts were also made to persuade the President to resign. The president's refusal led to the MPRS decision of March 1967 which obliged him to accept General Suharto as Acting President so that the 1966 arrangement was reconfirmed. There was a sort of uncertainty flowing from dualism of authority being exercised by Sukarno and General Suharto. It needed to be ended. Thus came the intervention by the MPRS. Sukarno was stripped of power and Suharto was appointed as President in Sukarno's place on 27 March 1968. After virtually being in house-

27 Ibid., p. 43.

arrest, Sukarno died on 21 June 1970 and with it, all references to the name of Sukarno were eliminated.²⁸

In the 'New Order', the army retained the power and it largely influenced the political process. In form, it was similar to the 'Old Order' because the Suharto regime also believed in the idea of 'Pancasila' as the guiding principle of the state policy. But while the Guided Democracy worked on the principle of NASAKOM, in the new system, there was no place for communism or any activity by the PKI. Suharto regime was relatively better in the sense that it solved the Indonesian economic crisis of 1965-66. It was stable in the sense that the power-structure flowed from above with Suharto himself at the top and the army was the dominant force. There was relative economic stability and increased foreign investment. There was also evolving Indonesia's regional role in international relations. Thus, the Indonesian political system was shaping in a new way.

The assumption of power by Suharto government made a drastic shift from emphasis on 'Revolution' to emphasis on 'Development'. 'Guided Democracy' was replaced by new jargons such as 'Stabilisation', 'Rehabilitation', 'Dynamic Stability' and twenty-five

28 Fryer and Jackson, n. 6, p. 105.

years of 'Accelerated Modernisation'. Suharto was also able to give hope of a new era of constitutional government and a disciplined economic management aimed at rapid improvement in general welfare.²⁹

In 1967, there was high rate of inflation and controlling it was the immediate need of the hour. Thus, a new Foreign Capital Investment Law was passed in 1967 guaranteeing freedom from nationalization.³⁰ As a result, foreign companies quickly entered the Indonesian market for investment.

In February 1967, Indonesia held formal meeting with Western and Japanese creditors in Amsterdam. It was at this meeting that the Inter-Governmental Group on Indonesia (IGGI) was set up. It was attended by delegations from Australia, Belgium, France, West Germany, Italy, Japan, the Netherlands, the UK and the USA, with observers from Canada, New Zealand, Norway and Switzerland. International agencies like IMF, IBRD, OECD and ADB were also present. By this, the IGGI agreed to pledge aid to Indonesia. As the economic situation improved, the IGGI aid package shifted its emphasis from unspecified

29 McDonald, n. 26, p. 68.

30 For further details see, Fryer and Jackson, n. 6, p. 108.

'programme' aid or food contributions to funds designated for specific projects.³¹

In 1966, the priorities for economic management were clear-cut. These were to control hyperinflation, overcome the Balance of Payments problems, and restore production, especially in the export industries. To attack inflation, a highly selective credit policy brought the growth of money supply closer to reality, pulling it down from an increase of 764 per cent in 1966 to 132 per cent in 1967.³² Government expenditure was more closely tailored to revenue, while the massive foreign credits provided by the IGGI helped revive domestic production in many sectors. Inflation, which in Jakarta had been 839 per cent in 1966 dropped to a mere 113 per cent in 1967 and to 85 per cent the following year with little increase in prices during the last quarter of 1968.³³ From 1969 onwards, Indonesia entered a period of price stability in which the Jakarta cost of living index rose by only 22 per cent over three years. This occurred even though money supply continued to rise at around

31 McDonald, n. 26, p. 72.

32 Ibid.

33 Ibid., p. 73.

30 per cent a year, indicating that real money stocks were being rapidly increased to regain ground.

Stability in price situation required a stable polity. This needed confirmation of Suharto to another term of Presidentship. And this was what the MPRS did in mid-1968. After that, the Assembly's powers of independent actions became more legal. The New Development Cabinet as it was known, was much smaller than the previous one and contained fewer ministers from the armed forces.³⁴

The new economic pragmatism was also clearly visible as a number of highly competent professional economists who had got training from abroad were appointed in the cabinet and in high positions in the administration. This team of technocrats was mainly responsible for the quick reversal of the economic situation in Indonesia over the following period of the First Five Year Plan (Rencana Pembangunan Lima Tahun I - REPELITA-I) and for the achievement of rapid economic growth in the 1970s. This rapid economic development was comparable to the one in the developed countries of the world, and notably with the country's close neighbours like Singapore and Malaysia.³⁵

34 Fryer and Jackson, n. 6, p. 108.

35 McDonald, n. 26, p. 79.

The Suharto government adopted a policy of relying heavily on imports financed by foreign aid and private capital investment to promote its development programme. This strategy was reinstated early in 1969 when the government introduced the first REPELITA setting up measures to consolidate the economy before other five year plans took the country to higher stages of industrialization. REPELITA-I set a target of rice self-sufficiency by 1973, involving a 47 per cent increase in output over five years.³⁶

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In agriculture, the average of growth had increased from 1.4 per cent in the first half of the 1960s to 3.8 per cent in 1965-70, with the highest in food crops.³⁷ In 1971, rice production had been comfortably over the target. Despite periodic setbacks, Indonesia enjoyed a steady improvement in rice output among all the South Asian countries. In the ten years after 1965, even though the goal of self-sufficiency remained elusive and there occurred a decline in certain other important food crops that substituted for rice.

36 Ibid.

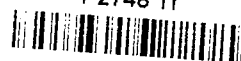
37 Ibid., p. 80.



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After several devaluations and uncertainties due to multiple exchange rate, the rupiah had been successfully fixed from August 1971 at a steady rate to the US dollar.³⁸ From the previous Indonesian stand of a closed economy, it abruptly gained an abundance of foreign exchange. There was for the first time affluence in Indonesia.

Suharto thus demonstrated that Sukarno's move back to 1945 constitution, under a strong and determined President, which Sukarno was not, could produce political stability as well as rapid economic growth. Yet, the political parties nevertheless represented a part of the political spectrum that had been vital in achieving independence and still remained the chief platform for the expression of sectional and regional opinions that were still too powerful to be ignored. Indonesia, despite the accepted importance of the armed forces in political life was not prepared to accept a military regime. Thus, Suharto government in spite of his hatred for the parties had to accept them to keep the country in control.

38 Ibid., p. 82.

CHAPTER II

1971 ELECTIONS AND AFTERMATH

After General Suharto took over power, he tried to keep Indonesia under his firm control. Broadly, Suharto's power was founded on at least six factors: First, his control of the armed forces constantly increased since the coup of October 1965. Secondly, the physical liquidation of the PKI, the Indonesian communist party, was completed during 1968. Thirdly, the acquiescent docility of civilian bureaucracy. Fourthly, there was confusion present in many of the political parties. Fifthly, the obedient traditionalism of many of the lower classes continued and lastly, the government achieved relative success in the economic sphere.¹

In spite of all these advantages, however, Suharto still needed some sort of legitimacy, to consolidate his position. The objective of this legitimacy was based on Suharto's desire to ensure stable environment. He was aware that political stability alone could

1 For further details see, Donald Hindley, "Indonesia 1971 : Pantjasila Democracy and the Second Parliamentary Elections", Asian Survey, vol. 12, no. 1, 1972, p. 56.

not ensure economic development. For this purpose, conducting an election and winning it was very important. By the time of Suharto's takeover, the armed forces were already a far more solidly united force than they had been before. During the period of Guided Democracy, Sukarno had operated by dividing the four branches of the armed forces namely, the army, navy, air force and the police, and promoting the junior services as counters to the armed forces. But Suharto sought to integrate these forces and thereby exerted his total control over the armed forces and through them on the country. But in spite of all this, Suharto knew that legitimacy was essential for the survival of the "New Order" he had established.

In this context, in the session from 20 June to 5 July 1966, the Provisional People's Consultative Assembly (MPRS) passed a resolution² which required that general elections be held by 5 July 1968. The government and all the parties agreed to the limits imposed on the number of electoral competitors and the scope of competition. However, in January 1968, Suharto, by then Acting President declared that the lack of technical

2 Resolution No. 11/MPRS/1966; as given in Masashi Nishihara, Golkar and Indonesian Elections, 1971 (New York, 1972), p. 5.

preparations made it impossible to hold the elections. The fifth session of the MPRS which met from 20 to 27 March that year adopted a resolution,³ setting a new deadline for elections, i.e., 5 July 1971. Suharto had a desire to keep the political tensions to the lowest. His strategy was to remove the tension from political atmosphere by promoting economic development. Actually it was Suharto who took the greatest advantage when the elections were postponed. But it was also evident that Suharto did not want to defer the elections for too long because he also wanted to establish his own political legitimacy.

Two election laws were enacted in December 1969. The first law⁴ concerned the general election of members of representative bodies, and the second law⁵ dealt with the composition and position of MPR, DPR and DPRD. In 1970, a 20-member National Election Committee was formed. It was composed of all the Executive Board members of the General Election Institute plus the members of the Institute's other committee, the Appeals Committee, which was supposed to deal with any

3 Resolution No. 42/MPRS/1968, as in *ibid.*

4 For details see, Nishihara, n. 2, p. 11.

5 *Ibid.*

complaints about administrative procedures in the elections.⁶

The General Election Institute and the National Election Committee were formed on 17 January 1970, and their common leader, Amir Maehmud, then worked out detailed work schedules through the end of 1973 because the Institute was responsible even after the election for establishing the membership of the MPR and collecting data in preparation for the next general elections which were due in 1976. Information and "coaching" activities were among his most important responsibilities as the supervisor of the election process. He prepared three phases of informational activities: dissemination of the idea of Pantja Sila democracy (January to May 1970); dissemination of the five principles of public order called Pantja Krida (July to September 1970); and explanation of technical aspects of the general elections (October 1970 to March 1971).⁷

For a month after 5 July 1970, Electors Registration Committees throughout the Republic conducted house-to-house surveys to produce lists of

6 Article 5, Supplement, Presidential Decree No. 3, 15 January 1970, as in *ibid.*, p. 13.

7 *Ibid.*, p. 15.

eligible voters. These surveys recorded a total of 114,972,428 Indonesian citizens, of whom 57,750,615 or some 50.2 per cent were registered as eligible.⁸

On 23 May 1970, all nine political parties together with the functional groups represented in the DPR-GR were declared eligible for participation in the elections.⁹

In the 1971 elections, the most important political organization to dominate the electoral scene was undoubtedly Sekber Golkar (Sekretariat Bersama Golongan Karya). Historically speaking, the concept of functional groups was not new to Indonesia. But an integration was brought about in different functional groups to fight the PKI and a meeting was held of representatives of all the functional groups and on 20 October 1964, Sekber Golkar was formed.

Sekber Golkar in its early days was quite ineffective but after the 1965 coup, it achieved importance. Suharto's Orde Baru (New Order) was already trying to achieve political stability, and rational,

8 Ibid., p. 16.

9 Presidential Decree no. 43/1970, based on Article 34 of Law no. 15/1969, taken from *ibid.*, p. 16.

pragmatic economic development. Sukarno's revolutionary rhetoric, his slogans such as Political Manifesto (Manipol Usdek) and Nationalism, Religion and Communism (NASAKOM) were thrown aside and he himself was gradually stripped of his powers by Suharto, ending his life under humiliating house arrest in the Presidential Palace in Bogor.¹⁰

The person chosen to reorganize Sekber Golkar was Lt. Gen. Ali Murtopo, who selected persons who were mainly anti-Sukarno in 1966.¹¹ At this time, Sekber Golkar was not a very effective organization. It was only after 1968 that there was an increase in pure (non-affiliated) functional groups which initiated in the eventual formation of a quasi-government party in the DPR.¹² The basic assumption of the supporters of Sekber Golkar to make it victorious in the elections was that it would modernize and simplify Indonesian politics by reducing the role of political parties.

10 D.E. Weatherbee, Ideology in Indonesia : Suharto's Indonesian Revolution (Yale University, 1966).

11 K. Ward, The 1971 Elections in Indonesia : An East Java Case Study, Monash Papers on Southeast Asia, no. 2, 1974.

12 Julian M. Boileau, Golkar : Functional Group Politics in Indonesia (Jakarta, 1983), p. 50.

Ali Murtopo observed:

The aim to be achieved is a recording of political life, a reorganisation of socio-political forces and the political structure and to stimulate and guide the way of thinking and the political mentality of society in such a way that a stable and viable socio-political basis might be obtained to support the development of society. This would avoid sacrificing development for political purposes as had happened in the past. 13

Under the "New Order" rule, the policy of depoliticisation moved to destroy or render politically impotent competing political forces.¹⁴ Moves were then made to integrate them either into the military backed Golkar organization, or other small political groupings, over when control could be exercised.

The election was coming closer. Although everyone knew that election day would fall on or just before 5 July 1971, it was not until 30 March that 3 July was formally confirmed as polling day. The official campaign period began on 27 April. From January to April 26, the government apparatus, especially the department of Home Affairs, Defence and Security, and

13 Ali Murtopo, Some Basic Thoughts on the Acceleration and Modernization of 25 years of Development (Jakarta, 1973).

14 B.B. Hering and G.A. Willis, The Indonesian General Elections of 1971 (Bruxelles, 1973), p. 6.

information made final preparations for conducting the elections.

A more important task undertaken by the government in the first four months of 1971 was the screening and endorsement of candidates nominated by the contesting political parties. Responsibility for screening candidates fell upon Lt. Gen. Sumitro, deputy commander of Kopkamtib.¹⁵

Between 13 January and 13 February 1971, the ten participating organizations submitted their respective lists of candidates for 25 provinces, which implied the 25 ordinary constituencies of the DPR. However, in the province of West Irian different arrangements were followed. After screening by Kopkamtib between 14 and 28 February, the initial list of 18 January showed a total of 3,105 candidates, and announced to the public on 13 March as the provisional list. After further screening, an official list of 3,021 candidates was made public on 20 April. Thus, 768 candidates were disqualified between the initial and official lists.¹⁶

15 Art. 49, Government Ordinance No. 1/1970 and Article 12(3), Government Ordinance No. 2/1970, taken from Nishihara, n. 2, p. 25.

16 Nishihara, n. 2, p. 25.

By comparing the initial list with the official one, it was clear that only 11 Golkar candidates were disqualified. But 164 PNI candidates, 131 Parmusi candidates, 112 PSII candidates and 111 IPKI candidates were disqualified. This big difference clearly showed the true nature of the elections.

The official campaign began on 27 April. It was clear from the very beginning that there was no comparison in terms of resources between Golkar and other parties. It was also no surprise as Golkar was totally backed by the Suharto government both financially and materially. Besides losing out on campaign funds, the other parties also suffered from the restrictions imposed on them.

Golkar put forward a five-point programme in its organ, Suara Karya of 1 May 1971. It summed up what Ali Murtopo and Amir Machmud had previously been advocating: (1) to practice Pantja Sila democracy, (2) to build a new political structure without conflicts of ideology but with the aim of executing the development programme, (3) to administer a honest, competent government, with public servants, who feel a single loyalty, (4) to continue to fight for these causes through five future general elections, and (5) to ensure that the outcome of these struggles benefits the whole

people.¹⁷

In the 1971 election campaign, anything was prohibited that might discredit the Panca Sila and the 1945 constitution. Critical remarks discourteous to the government and the officials as well as to foreign countries and their institutions were not allowed. This and other restrictions such as the requirement of an advance permit from the authorities for all kinds of leaflets, posters, slogans etc. as stipulated by the Government were certainly enough to discourage political parties from criticizing the Suharto government and its policies.¹⁸ Also, before and during the official campaign period, President Suharto and his cabinet ministers were not supposed to participate in the campaigning. In actual practice, however, they intensified their campaign efforts as the election day approached. They often joined their campaigning with official duties. Because of all these malpractices, Golkar came to have a clear edge over other parties in the elections.

On 3 July 1971, almost 55 million people, out of the population of 120 million, went to cast their

17 Nishihara, n. 2, p. 35.

18 Jakarta Times, 23 April 1971.

vote. According to official records more than 2 million people had been deprived of the right to vote.¹⁹ The polling took place to elect 351 representatives for the new national parliament (DPR), 884 representatives for 25 provincial legislative councils (first level DPRD), and 6,432 representatives for second level DPRD. 54,699,509 voters constituting 94.02 per cent of the eligible cast their votes in the elections to the National Parliament.²⁰

Golkar captured over 34 million votes, or 62.8 per cent of the total valid votes; the NU, 10.2 million votes or 18.67 per cent; the PNI, 3.8 million votes, or 6.94 per cent. The rest 6.21 per cent votes were divided among the remaining six parties. The distribution of 351 seats was: Golkar, 227; NU, 58; Parmusi, 24; PNI, 20; PSII, 10; Parkindo, 7; Catholic Party, 3; and Perti, 2. Parties like Murbe and IPKI failed to get even one seat.²¹

19 Oey Hong Lee, "The Emasculation of Political Parties", in Malcolm Caldwell, ed., Ten Years Military Terror in Indonesia (London, 1975).

20 Nishihara, n. 2, p. 42.

21 Ibid.

Thus Golkar won a landslide victory while the major parties - the NU, the PNI and Parmusi - were reduced to the status of minor parties, whereas the minor parties almost lost their identity. In the final outcome, Golkar's total strength in the DPR stood at 336. These included 227 won in the electoral contest, 100 by appointment, and 9 more were elected indirectly in West Irian. A total of 336 seats with the Golkar constituted 73 per cent of the total number of seats in the DPR, i.e. 460. Golkar thus represented more than two-thirds majority in the Lower House.²²

The victory of Golkar was not totally unexpected even though the huge margin might have amazed some people. In fact, Golkar was a party based on the organizational support of the government, bureaucracy, of defence and security. But everything said and done, Golkar did manage to capture the imagination of the people. The perpetual stress on development, not wasting time with politics, harmony and the vision of a just and prosperous

22 Ibid. A decision by a special Parliamentary Commission in 1969 required that there would be appointed quotas in parliamentary bodies at all levels. 100 seats through appointment constituted 22 per cent of the 460-member DPR.

Table 1

Indonesian Parliamentary Elections, July 1971
National Totals

Party	Votes	%	Seats
Parmusi	2,930,746	5.4	24
Nah-datul Ulama (NU)	10,213,650	18.7	58
PSII and Perti	1,689,546	3.1	12
PNI	3,793,266	6.9	20
Christian Parties	1,337,099	2.4	10
PKI	-	-	-
Sekber Golkar	34,348,673	62.8	227
Others	386,529	0.7	0
Total	54,699,509	100.0	351

Source: The 1971 figures in Table 1 were tabulated from the official results appearing in Kompas, 9 August 1971. (See an Indonesian Language daily - Jakarta) Also see Donald Hindley, "Indonesia 1971 : Pantjasila Democracy and the Second Parliamentary Elections", Asian Survey, vol. 1, no. 1, January 1972, p. 58.

society had an overwhelming effect on the masses. Golkar appeared to be a modern and progressive force and traditional parties old and out-dated²³ Golkar's campaign was so convincing that people thought that not voting for Golkar would be tantamount to letting down the government and ignoring the development of the country.

The other parties simply failed in this front. So, throughout the country, people started joining functional groups and organizations affiliated with Golkar and as a result with the army. In effect, it gave an aura of legitimacy to the real power holders, the armed forces.

The surprise loss was to PNI, formerly closely associated with Sukarno. It suffered a serious setback and had to be satisfied with fourth position. It gained only 6.9 per cent of the vote and only 20 seats out of the elected 360. The PNI's intra-party dissensions, attitudes of the PNI leaders and the PNI central leadership policies (or the lack of policies) might explain the reasons for the setback.²⁴

23 Boileau, n. 12, p. 55.

24 Alexander Nadesan, "Role of PNI during the October coup of 1965 and General Election of 1971", Review of Indonesian and Malaysian Affairs, vol. 8, no. 2, July-December 1974, p. 105.

The Parmusi suffered a similar fate like the PNI. It won only 5.4 per cent and 24 seats in the elections. It succumbed to the government manipulation of its leadership selection. Its supporters were restricted in various ways from campaigning actively. So, it became demoralized.²⁵

As against the formidable position of Golkar, the other parties made dismal performance, capturing very little percentage of the votes.

The only party to give a semblance of resistance to the steamrolling strength of Golkar was the Nahdatul Ulama (NU). It captured 18.7 per cent of the total votes and 58 seats. The major reason for NU's success lay in the fact that it had been able to present the elections as a test of faith for Moslem villagers.²⁶

Despite Golkar's success in the elections, its strength and organizational effectiveness were not quite real. It was totally an Armed Forces (ABRI) creation, the result of a long association between the armed forces and the functional group. The election had legitimized ABRI's role, and the parties had been

25 Boileau, n. 12, p. 57.

26 Ibid., p. 56.

effectively removed from the political scene. The parties had thus been proved to be unable to provide a viable alternative in development programmes or a guarantor of maintaining an harmonious and stable society.

The smooth conduct of the elections was an impressive political accomplishment for Suharto. There was not a single report of a major incident on the election day. The successful maintenance of law and order on the election day in such a large archipelago where communications are the greatest problem of national development provided a promising sign of a growing governmental competence and ability which had appeared so uncertain during the last days of Sukarno's presidency. In this sense, the Suharto's regime had established its political legitimacy and thereby enhanced its prestige abroad.

After the elections were over, the adjustments to the Development Cabinet were announced on 9 September 1971 after an unexpectedly brief interval.²⁷ The newly constituted cabinet included among its 25 members four military officers other than President Suharto, twelve

²⁷ For further details see, Indonesia, no. 6, October 1968.

academicians (Ph.Ds), one engineer, one doctor, and two persons with law degrees.²⁸ NU, PNI and Parmusi, each retained one relatively minor cabinet post.

On 20 July 1971, a reorganization of the Central Sekber Golkar was announced.²⁹ The word Sekber was officially dropped and Golkar remained a group of mass and functional organization, still refusing to call itself a political party. Other moves that occurred after the 1971 elections aimed at creating a healthy political life building on the changes brought about by Golkar victory. The simplification of political scenario developed by the New Order was a deliberate effort by the government to separate politics from national development through the promotion of the so-called 'floating-mass concept'.

The 1971 elections created a situation in which a one-party system could emerge. By the 'command system', Golkar could grow into a monolithic party, which would not encourage the initiative and creativity of its membership, and could become even a dictatorial organization

28 Hindley, n. 1, p. 66.

29 For further details, see, Indonesia, Department of Information, "The Function of Golkar in the Framework of Implementing the 1945 constitution", Djakarta, 21 July 1971 (a publication from Foreign Information Directorate).

under a one-party system.³⁰

The new parliament was installed on 28 October 1971. President Suharto expressed his desire that the DPR be a partner of the government, but not a collection of people who would always succumb to pressure.³¹

Undoubtedly the Suharto regime had emerged strong enough from the elections and all the forces that could challenge President Suharto were swept off from the political scene. But much depended on the economic growth. By the end of 1971, the US Senate had raised doubts as to the reliability of American aid. There was also increasing unrest over the taking over, the unequal competition of foreign businesses for the national enterprises. Barring the elite, people were inflicted with problems of population growth and lack of food.

The House of Representatives (DPR) installed after the 1971 elections was divided into four 'groupings': Golkar, ABRI (Armed Forces), the four Moslem parties united in one group, and the five remaining parties of non-Moslem character united in another group. Constant pressure was used to formalize their structure and,

30 Nishihara, n. 2, p. 54.

31 Hindley, n. 1, p. 66.

finally, on 8 January 1973 all Moslem parties were merged into the Development Unity Party (PPP), with Mintaredja as the first general chairman. All other parties such as PNI, the Catholic and the Christian Party were merged on 10 January into the Indonesian Democratic Party (PDI).³²

The other previously existing parties were allowed to maintain their separate identities and were restricted to educational activities only. The 1973 mergers were unwanted and imposed from above. This became evident over the years, particularly in the PDI, which had been plagued by internal rifts. It was also remarkable that the PPP retained in its name no indication of its Islamic orientation.

After the 1971 election results were declared, Suharto government quickly proclaimed it as an affirmation of public confidence in the government policies. But some critics like Reeve observed that Golkar's victory was 'more an end than a beginning' and that Golkar rapidly became an idea that appeared to have 'nowhere to go'.³³

32 Hans Thoolen, ed., Indonesia and the Rule of Law : Twenty Years of 'New Order' Government (London, 1987), p. 48.

33 Hamish McDonald, Suharto's Indonesia (Victoria, 1980), p. 109.

Far from becoming the leader of 'dynamic stabilization' after the elections, Golkar settled down to a passive role rendering blind support to the government and bureaucracy. It helped little in the debate on the country's economic progress and threw a protective screen around the spoils system in which it was an active participant.

All the independent bodies of the Indonesian politics were brought into a captive position, vis-a-vis the army and Suharto who had earlier presented an image of shyness and charm later assumed an aura of authority. All his rivals were crushed. Corruption was writ-large in all departments and the Suharto government proved its inherent inability to act in a decisive way against such corruption. The extension of the parallel military administration had certainly contributed to this phenomenon. So entrenched became this form of capitalism and so intimately was it related to the political system which nurtured and protected it, that the issue had the highest political significance.

The MPR gathered on 1 October 1972 to commence its session to choose a new President and lay down the 'broad outlines of state policy' for the next five years.³⁴

34 For further details, see The Indonesia Quarterly, vol. 1, no. 3, April 1973.

Suharto's election on 22 March 1973 in this session for another five year term was unanimous as was the acclamation for government's 'Broad outlines of State Policy'.

However, the harmony prevalent in the political institutions did not reflect the real situation of Indonesia. A rice crisis had started by an overlong dry season in Java at the end of 1972 and caused widespread poverty in the villages in 1973. Corruption and inefficiency had been exposed in the unpreparedness of the military controlled logistics body, Bulog, which controlled rice markets. The Bandung riots with racial and economic overtones were followed by a more serious political event - a confrontation between the government and the Golkar on the one hand and the Muslim ummat (community) on the other. The cause was the introduction of a new bill on marriage and divorce. In fact, the antagonism behind the dispute went further back into the country's basic ethnic divergence.³⁵

In the 1972-73 MPR session, there was a sort of victory for the mystic group which was becoming a dominant force in the political arena with the insertion

35 McDonald, n. 33, p. 129.

of Wongsonagoro's phrase 'and belief' into the 'Broad Outlines of State Policy' against strong Muslim opposition. Suharto was later to favour the Kebatinam movement in 1973 by opening a congress of the Subu, with a considerable international following, and in 1974 by tending financial and moral support to a second Indonesian Kebatinam conference.³⁶

With the economy beset by mounting inflation sparked by the 1972 rice crisis, evidence had also accumulated of a growing inequality in the distribution of wealth. The Bandung riots of August 1973 were followed by new protest activity that crystallized at a discussion convened by the Students' Council at the University of Indonesia on 24 October 1973. They issued a 'Petition of 24 October' calling on the military government, intellectuals, technocrats and politicians to review inequalities, free the people from corruption and abuses and strengthen representative institutions.

The mounting pressures from all sides reached their zenith when Suharto government faced its worst ever disaster known as the 'Pertamina Crisis'.

36 Ibid., p. 132.

CHAPTER III

PERTAMINA CRISIS

Pertamina Crisis which plunged the country into a financial crisis of great magnitude in 1975-76, shook the political stability which had characterized President Suharto's rule since he had become the President in March 1968. Since taking over the Presidentship, Suharto had always emphasized on political stability and economic development. But the worst economic crisis that the government faced, forced the country's development plans into jeopardy and shook the political stability, a highly marked feature of Suharto's regime.

Although Pertamina (Perusahaan Pertambangan Minyak Dan Gas Bumi Negara - State Oil and Natural Gas Mining Enterprise) Law was passed in 1971, it was established with effect from 1 January 1972. It had something to do with the colonial period when the Dutch had discovered the Royal Dutch Shell oil fields in as early as 1883.¹ The oil fields were turned over to

1 Hamish McDonald, Suharto's Indonesia (Victoria, 1980), p. 146.

the army in 1957, much after Indonesia had proclaimed independence and Ibnu Sutowo was given the charge later.

But, in 1954, a coordinator of the national oil industry was appointed by the Indonesian Oil Company was changed to Tambang Minjak Sumatra Utara Company. After the appointment of Ibnu Sutowo, the new company P.T. Pertamina (P.T. Perusahaan Minjak Nasional) was established on 10 December 1957 .²

After the enactment of Law No. 44 in 1961, three national oil companies - Permina, Pertamina and Permigan - were created. P.T. Pertamina (Perusahaan Negara Pertambangan Minjak dan Gas Bumi Nasional - the National Oil and Gas Mining State Company was created under Law No. 28 in August 1968³ and Ibnu Sutowo was appointed its president-Director. But it was in 1971 that Pertamina Law No. 8 was passed to establish a new corporation called Pertamina. Article 6 of this act defined the functions of Pertamina as follows:

2 Ibid.

3 Robert Fabrikant, Oil Discovery and Technical Change in Southeast Asia (Singapore, 1973), p. 2.

- (a) The enterprise was to operate in the field of oil and natural gas exploitation which covered exploration, exploitation, refining and processing, transportation and marketing;
- (b) With the approval of the President, expansion of the fields of operation might be undertaken in so far as they were still related with the oil and natural gas exploitation and were based on the budget, annual working programme and investment plan.⁴

Beginning in 1968, Pertamina (the National Oil Company) was given the mandate to develop Indonesia's oil natural gas and mining resources. Over a period of time, this company developed into one of the world's largest corporate sectors.⁵ In its early stages of expansion, Pertamina's initial sources of revenue rested upon its control of a fully integrated oil industry earnings from nearly one-quarter of Indonesia's exports, exclusive marketing privileges on the domestic oil market, and sharing in the profits and bonuses of foreign owned oil firms operating in Indonesia.

4 For detailed information, see, Sevino Carlson, Indonesian Oil (Colorado, 1977), p. 14.

5 Gary E. Hansen, "Indonesia 1975 : National Resilience and Continuity of the New Order Struggle", Asian Survey, February 1976, p. 151.

Beginning in the 1970s, however, Pertamina soon began to assume the shape of an "enormous and widespread industrial empire".⁶

Corruption was no doubt a major problem. But this was not the only one that Pertamina's functions had posed for the Indonesian Government. These covered the use of Pertamina's profits for various irregular political and social purposes, and the personal benefit obtained from company activities by various officials from both inside and outside Pertamina. Also there was an effort to integrate Pertamina's operations with national economic development plans.

There were widespread corruption charges against the national oil company. As a result, in 1970, Suharto was forced to appoint the 'Commission of Four' to investigate these charges. The report of this Commission dwelt at length on the company and constituted the first formal inquiry into its activities.⁷ It was also beyond the control of the National Planning Board which was responsible for the Five Year Plans. Ibnu Sutowo was accused of turning the company into

6 Ibid., p. 152.

7 Khong Cho Oon, The Politics of Oil in Indonesia : Foreign Company- Host Government Relations (Cambridge, 1986), p. 165.

a private financial and industrial complex for which he was accountable neither to the parliament nor to the government.⁸

The Commission concluded that the government should exercise more intensive financial control over the National Oil Company. For this purpose, it proposed that a Board of Commissioners be established to supervise the company's Board of Directors and that Pertamina's budget and accounts be subjected to close scrutiny by the Ministry of Finance.⁹ These proposals helped to shape the law on Pertamina passed in September 1971, which set up the Council of Government Commissioners (DKPP) as a supervisory body from which Pertamina was obliged to seek approval for its work programme, budget and annual accounts.¹⁰

The DKPP met infrequently and its lack of technical expertise prevented it from properly evaluating Pertamina's various projects. Effective governmental

8 Brian May, The Indonesian Tragedy (London, 1978), p. 278.

9 Oon, n. 7, p. 165.

10 For details see, Pertamina Law, Art. 7, para (3), of Government Regulation No. 27, year 1968 in Fabrikant, ed., Miscellaneous Source Material, pp. 263-74.

control over Pertamina was not possible, given the informal understanding apparently reached between Ibnu Sutowo and various ministers of the Suharto government. This agreement granted Sutowo independence of action in exchange for providing a source of 'extra-budgetary' funds benefitting the latter. This arrangement worked in a manner which encouraged the President-Director of the National Oil Company to engage in a wide variety of projects which were not directly relevant to the oil industry.¹¹

The peripheral activities which Pertamina under Ibnu Sutowo undertook included development projects specially delegated to Pertamina by President Suharto. And Sutowo proved able to finance and to implement the same. Furthermore, these activities helped in giving benefits to the local communities such as schools, medical clinics, roads and other economic infrastructure. Interestingly, these items had a semi-political purpose in enhancing the image of the ruling regime.

Once Ibnu Sutowo himself claimed that "if we want oil business to increase the state income in a direct way, we must attempt to ensure that services needing exploitation, production, processing, as well

11 Oon, n. 7, p. 166.

as transportation of oil are mostly available in Indonesia".¹²

Sutowo followed the policy of using Indonesia's oil revenues to modernize and develop other high-technology industries. The transfer of technology was considered by some as the major contribution of oil to Indonesia's development. Sutowo's policy was based on the premise that if it was desirable to increase oil revenues to the state, an attempt was to be made to ensure that the money used for development of oil resources is mostly spent in Indonesia".¹³ He felt that this policy would profit Indonesia in several ways. Most of the money for exploration would be spent at home and not abroad. Indonesians would have employment opportunities and also opportunities to learn improved technology and skills, and the foreign companies, a chance to employ Indonesians.

This policy resulted in Pertamina establishing its own tanker fleet, non-tanker fleet, air services, refineries and petro-chemical plants. The construction of two Liquefied Natural Gas (LNG) plants to utilize the

12 Ibnu Sutowo, Prospects of Oil for Our National Prosperity (Jakarta, 1972), p. 17.

13 Ibid.

rich natural gas resources in Indonesia was started. Another ambitious project was initiated to develop Batam Island (twelve miles south of the coast of Singapore) as a logistic and operational base for the exploration of oil and natural gas. Other projects included a new seaport in Semangka Gulf in south Sumatra to serve tankers up to 500,000 dead weight tons (DWT), so that they could by-pass Malacca Straits and to store up to ten million barrels of oil; work included a floating fertilizer plant that could be taken away from one gas field to another as the need warranted.¹⁴

Pertamina also assisted in Indonesia's general development by improving the villages in the neighbourhood of the place where a new project was undertaken. In this way, prosperity was brought to areas outside Java. As the oil industry became the focus of growth for other industrial enterprises, Pertamina, as the national oil company, was obliged to undertake enterprises that were not directly related to the oil industry, such as the Krakatan Steel Mill and the rice estates in southern Sumatra.¹⁵

14 Carlson, n. n. 4, p. 54.

15 Ibid., p. 55.

To finance these wide and varied projects, Pertamina managed to have considerable financial resources at its disposal from its production-sharing contractors, from refining and the domestic marketing of Petroleum, and from its own crude-oil production. But with the growing expansion of the company's activities, these resources proved inadequate to finance the huge investments that were needed. And as Pertamina tended to ignore the government's control, there grew potential scope for misjudgement by its financial management. Coupled with the lack of accountability what aggravated the problem was the extravagant style of implementing the projects "with no regard for their validity or cost effectiveness".¹⁶

Naturally, the disaster did not take much time to come. In December 1971, Indonesia had been promised a huge \$ 670 million in IGGI assistance for 1972. In March itself, it concluded a stand-by agreement with the IMF which required a ceiling on medium-term loans, defined as loans repayable between one and fifteen years. In October that year the government issued a decree requiring state corporations and other bodies to seek

¹⁶ Oon, n. 7, p. 168.

the approval of the Finance Ministry for any such medium term borrowings.

This was what the Pertamina failed to do. Towards the end of 1972, the IMF and the US were reported to have found that during this year Pertamina had borrowed over \$ 350 million, much of it medium and short-term, without officially informing the government. This was estimated to have doubled the corporation's total foreign debt. Both the IMF and the US State Department began applying more pressure on Jakarta. American aid was temporarily suspended and Ibnu Sutowo knew that the finance from United States export-import business on which he was relying so heavily was in jeopardy. The United States authorities canvassed American banks to stop them from making loan offers to Pertamina. In February 1973, Vice-President Spiro Agnew visited Jakarta and raised this issue with President Suharto. But Suharto strongly defended Ibnu Sutowo saying that he himself had personally charged him with important national projects and trusted the oil chief to find his own finance.¹⁷

But the IMF and the US pressure did work, though only partially. The US revoked the temporary

17 McDonald, n. 1, p. 155.

suspension of aid to Indonesia. On its part, though quietly, Pertamina abandoned the medium-term loan strategy, it rather ignored the IMF and the IGGI recommendations that the Pertamina's ministerial level board of commissioners be given more effective control.¹⁸

There were a number of factors responsible for the abnormal rise of Pertamina, the most prominent being the energetic style and the organizing capability of its director, Ibnu Sutowo himself. There were other factors also which must be given due consideration. Most important in this regard was the fact that Sutowo enjoyed the full confidence and support of President Suharto and other members of the ruling army elite. Pertamina assumed the enormous responsibility of financing Indonesia's self-sufficiency in the production of fertilizers, steel and cement. These were considered quite high in President Suharto's scale of priorities and those of his close associates. Their objective seemed to be to seek reduction in Indonesia's "dependence upon imports and the vagaries of the world market".¹⁹

18 Ibid.

19 Hansen, n. 5, p. 152.

Initially, Pertamina had to borrow on an increasing scale in order to undertake diverse projects. In order to implement them, it borrowed five, eight or ten-year loans, mainly from the international banks. It was under pressure from the IMF that the Indonesian Government decreed in 1972 that Pertamina would need governmental approval through the Council of Government of Commissioners (DKPP) for all loans of one to fifteen years duration.²⁰ This regulation only led Pertamina to borrow short-term loans at high-interest rates. Obviously, the strategy was having to seek the approval of governmental agencies. It was definitely a clever move. According to Khong Cho Oon, "repayments on its long-term investments were then met by rolling short-term loans continually, refinancing maturing liabilities through new borrowings".²¹ New short-term lending being highly profitable during the years 1973 and 1974, there was virtually a spurt in competition in foreign lending among western banks, especially among many smaller institutions, to offer these types of loans. These loan givers seemed to believe that the risks involved

20 Oon, n. 7, p. 169.

21 Ibid.

would be lessened by the position that Pertamina and its Director Ibnu Sutowo enjoyed within Indonesia and by the strength of the oil industry in the country generally. On its part, the company had to resort to short-term loans, both to develop oil and to 'handle special assignments'.²²

The foreign bankers on being sure of Pertamina's capabilities and credit-worthiness offered huge sums of money to the company. For this, they even ignored to look at its balance sheet itself. Shrewdly enough, Pertamina was using six separate accounting systems.²³

Pertamina's borrowing tactics and its manner of operation raised eyebrows in and outside Indonesia. It was criticized for being "a state within a state" and for committing large sums of Indonesia's foreign exchange without preparing even preliminary feasibility studies. In spite of these criticisms, however, Pertamina continued to borrow heavily in order to be able to carry on the projects assigned to it. By 1975, rough estimates indicated that Pertamina's project investments realized

22 For details see Fortune (New York), July 1973, p. 154.

23 McDonald, n. 1, p. 156.

or planned, totalled from five to six billion dollars, with much of the financing coming from external borrowings.²⁴

This led to enormous growth in foreign investments resulting from a very low to a very high production of oil. Pertamina seemed to be doing miraculously well for the country, its President and its Director Ibnu Sutowo himself. A massive investment by Caltex enabled its production level to increase to one million barrels a day. From the early 1970s the off-shore platform of the production-sharing contractors were attempting to raise the total national output to nearly 1.5 million barrels a day. By 1975, they had achieved it. The price of Indonesian crude also rose from \$ 1.70 a barrel in October 1970 to \$ 4.75 in mid-1973 when Organisation of Petroleum Exporting Countries (OPEC) set new prices. Then came the war in West Asia. As a result the oil prices rose to \$ 12.60 a barrel in mid-1974.²⁵ From being a country with chronic Balance of Payments (BOP) problem, Indonesia seemed to be emerging as a financially strong and viable state. Gross

24 H.W. Arndt, "Survey of Recent Developments", Bulletin of Indonesian Economic Studies, vol. 11, no. 2, July 1975.

25 McDonald, n. 1, p. 156.

foreign exchange earnings from oil rose from \$ 965 million in 1972-73 to \$ 5,200 million in 1974-75.²⁶ The annual total investment by the foreign companies in Indonesia also rose by five times to nearly \$ 1,000 million in 1975.²⁷ The funds flowed through Pertamina into the Central Bank (Bank of Indonesia).

Nevertheless, towards the end of 1974, the situation in which Pertamina found itself seemed to be highly disturbing. Even Ibnu Sutowo was beginning to lose control of the management of what appeared to be Pertamina empire. The serious push came from recession in the western industrialized countries. Ironically, it was as a result of the oil price surge which came to have a seriously adverse effect on the supply of short-term funds. Pertamina by then had received short-term loans amounting to some \$ 1,500 million. The recession in the western countries made the availability of short-term loans extremely difficult. This made it hard for Pertamina to manage the rolling over of the huge short-term debt that it owed to foreign creditors.²⁸

26 Ibid.

27 Ibid.

28 Ibid., p. 158.

The difficulties in the short-term loans payment became obvious by October 1974. Ibnu Sutowo told President Suharto about Pertamina's inability to transfer to the government the oil revenues needed for the building of the Krakatau Steel Mill in west Java. Suharto expressed serious concern but granted the permission. The government, according to Dan Coggin, actually received \$ 2,600 million in net oil earnings during the 1974-75 fiscal year (55% of all non-aid foreign exchange revenues), excluding \$ 850 million which did not reach the treasury.²⁹

But by now, Pertamina was in a mess and it was not enough to rescue Pertamina. In September 1977, it suffered a financial setback when several banks refused to give repayments which were due. A group of creditors eventually agreed to grant a new loan to protect what was then thought to be a temporary difficulty. Then in February and March 1975, Pertamina failed to pay back two further repayments. An American Bank, The Republic National Bank of Dallas, brought the problem

29 Dan Coggin, "Tethering the Corporate Tiger; Indonesia 75", Far Eastern Economic Review, 7 November 1975, p. 9.

to public notice by threatening action to confiscate some of Pertamina's properties. A technical default was, however, avoided when the Central Bank (Bank of Indonesia) of the country moved in to pay off the two loans and to guarantee all the State Company's short-term debts.

With Indonesia's credit-worthiness in jeopardy, Suharto quickly intervened and it was assured that the government would guarantee payment of Pertamina's international debts.³⁰ Indonesia's allies became aware that the country's entire financial structure was hanging in balance. The US banks had placed a clause in their loan arrangements, whereby if a default occurred in one loan, all other lending could be called in. If such an economic crisis was to occur, the future of President Suharto's government would also be in crisis.³¹

In June 1975, it was announced officially that as of March 1975, Pertamina owed \$ 3.1 billion in foreign loans and overdue oil-revenue payments to the government as well as \$ 113 million overdue to local contractors.³²

30 Ibid.

31 McDonald, n. 1, p. 159.

32 Carlson, n. 4, p. 65.

Derek Davis wrote:

While Sutowo emphasised the importance of spending heavily to build a modern, technologically advanced industry whose skills will filter into other economic sections, the technocrats, most of whom are US educated, have placed greater emphasis on spending available resources on programmes to create rural infra-structure, improve rice and other crop yields and encourage small, labour intensive industry. 33

The revelations of the financial crisis prompted Suharto to issue a number of decrees with the intent of bringing the Pertamina giant under firm government control. The true nature of the Pertamina debt was not even revealed to the officials till after one year when the government frantically tried to avoid the crash. Bank Indonesia had taken over the responsibility for meeting the outstanding obligations, and Pertamina would not roll over any of its short-term loans nor borrow directly from the international market for the foreseeable future.

Central Bank started paying out \$ 207 million in March 1975 alone, and \$ 1,021 million over the next six months.³⁴ Suharto who had responded slowly to the

33 For details see, Far Eastern Economic Review, 30 May 1975.

34 McDonald, n. 1, p. 159.

warning signals that came to notice in late 1974 finally acted decisively, closed down the large non oil projects assigned to Pertamina and handed them over to the technocrats.³⁵

In June 1975, Economics Minister Widjojo Nitisastro, gave the first comprehensive statement on the situation to DPR (Parliament). It was estimated that as of March, Pertamina owed a total of \$ 3,200 million in foreign loans and overdue oil payments to the government plus Rps 47,000 million (\$ 113 million) overdue to local companies. The Pertamina debt included \$ 850 million withheld from the government, \$ 1,000 million in short-term bank loans and soon-to-be liquidated letters of credit, \$ 900 million in medium- and long- term loans, plus \$ 450 million already paid off on Pertamina's behalf by Bank Indonesia in 1975.³⁶

On 6 December 1975, President Suharto issued a decree³⁷ aimed at confining Pertamina's operations to the oil and gas sector and partly or fully removing from its control the non-oil related enterprises. The

35 Ibid., p. 160.

36 Coggin, n. n. 29, p. 10.

37 Presidential Decree No. 44/6 December/1975 in Carlson, n. 4, p. 66.

decree also reduced the size of the Board of Directors and established the new lines of control and a new post of inspector.³⁸ Sutowo was eventually dismissed in March 1976, and replaced by Piet Haryono, a former Director General of the Budget in the Ministry of Finance.

The economic repercussion of the Pertamina crisis led to a temporary slowing down of the domestic development as government funds were siphoned off in the payment of the country's debts. At the international level, however, confidence in Indonesia's future still remained as the country continued to attract a large amount of foreign finance. But more noteworthy than the economic impact of the Pertamina problem were the political implications of the government efforts to exercise more control over the company's affairs. At least for a limited period of time, Pertamina was bound by law as it was subject to scrutiny and control of higher level officials within the government bureaucracy. The change constituted a basic shift in power in favour of the civilian technocrats, many of whom had always resented Pertamina's ability to ignore development plans and investment priorities set up by Central Planning Agency (Bappenas).³⁹

38 Carlson, n. 4, p. 67.

39 Hansen, n. 5, p. 154.

Although Pertamina's abrupt rise had upset the political stability in Indonesia, it was equally clear that development required powerful organizations to give directions to the system. As during the period of 'Guided Democracy', the successors to Sukarno pursued, in essence, a policy of 'recovery at any cost'. In this free-wheeling atmosphere, Pertamina gained the initial momentum which enabled it to become a run-away state enterprise.⁴⁰

Pertamina's financial problems had several consequences. Indonesia's development plans suffered a tremendous setback. The Balance of Payments (BOP) became totally unfavourable. Indonesia's foreign reserves were also considerably decreased. The influence of Indonesia's technocrats had also increased in the restrained political culture of President Suharto's Panca S ila democracy in the transition from 'Guided Democracy' to 'New Order'. This resulted in excessive caution with respect to the development projects.

Arndt commented that Pertamina's "recklessness in financial management finally threatened the whole

40 Robert Fabrikant, "Pertamina : A Legal and Financial Analysis of National Oil Company in a Developing Country", Texas International Law Journal, vol. 10, no. 3, summer 1975.

development strategy of the regime".⁴¹

It is really both ironic and regretful that Ibnu Sutowo, who was such a driving force in the development of Indonesia's economy and oil production as well as in Pertamina, was the cause of such a tremendous setback to all of them, partly from excessive zeal and overconfidence but mainly from the lack of a realistic assessment of the limits of Pertamina's financial and managerial capabilities. But Suharto was equally responsible for the disaster because he thought of hurrying the development process by allowing the diversification process of the Pertamina. He did not have enough foresight of problems that might come up. For this reason, the country's economy suffered a serious setback in the aftermath of Pertamina debacle.

41 H.W. Arndt, Bulletin of Indonesian Economic Studies, vol. 10, no. 2, July 1974, p. 8.

CHAPTER IV

CONCLUSION

Following the proclamation of independence on 17 August 1945, Indonesia's history had been marked by turbulence and upheavals. The obvious choice for Presidentship of the country was Sukarno who had been a father figure in Indonesia. He had taken active part in the nationalist struggle of Indonesia.

It has been a common feature of all the third world countries who had achieved independence immediately after the second world war. Most of them were former colonies and they were struggling with their shattered economies. Indonesia was no exception. Immediately after the proclamation of independence, problems came from all directions.

At that time, at least to offer political stability to the country, Sukarno brought in his own concept known as 'Guided Democracy'. He was also able to have unquestioned authority and enjoyed overpowering influence on the country as well as the people. Sukarno actually had two major forces allied with him with the help of which he was operating. One was the

communist party of Indonesia (PKI) and the other was the army. Sukarno was visibly successful in delicately balancing these two diametrically opposite forces, one against the other, while he himself acted as the balancer.

But in the backdrop of some rapid political developments during 1964-1965, the PKI became the main ally of Sukarno. Sukarno's sudden preference for the PKI was also not unjustified. Sukarno was getting both military and economic aid from China and the erstwhile Soviet Union. Of course, China and the then Soviet Union were more interested in giving aid to Indonesia as they were eager to see the expansion of communism in that part of the world. But Sukarno definitely antagonized the army by tilting more towards the communists, their arch rivals.

However, on the fateful night of September 30-October 1, 1965, a 'coup' took place in Jakarta in which six army generals were killed. The engineers of the coup in fact described it as a 'coup to forestall another coup' as according to them, the army generals were planning to upstage Sukarno's government. But in spite of all this, it was General Suharto who came to the forefront and managed to crush the coup. Till 11 March 1966, the government was run in the name of President Sukarno.

But on that day, all the executive powers came to be vested in Suharto as Sukarno was forced to surrender his powers.

Through a shrewd and skilful manner, by March 1967, Suharto got Sukarno replaced by the MPRS and became the Acting President. It marked the end of the Sukarno era and hence the end of 'Guided Democracy'.

The Suharto era came to be known as the 'New Order'. It was actually no different from the 'Old Order' or the 'Guided Democracy', so vociferously put forward by Sukarno. The 1945 constitution, as reintroduced by Sukarno in July 1959, remained in operation. Thus, the 'New Order' government had a unilinear power structure with the president at its head. The army retained all the powers. The Suharto government also believed in the 'Pancasila' as the guiding principle of the state.

The difference between the two regimes was that while the 'Guided Democracy' of Sukarno worked on the basis of 'NASAKOM', in the 'New Order' there was no place for the PKI or communism which was legally banned. Another difference was that while Sukarno tried to divide the army into four branches, Suharto tried to integrate the army and make it the most dominant force in the country.

The first priority of the 'New Order' government was the emphasis on economic development. At the time of the coup, the country's economy was in shambles and Suharto slowly tried to rebuild it.

Suharto also launched many development plans for the economic betterment of the country as well as for the general masses. The Five-Year Development Plans (REPELITA - I and II) were the right steps in that direction. The isolationist policy of Indonesia was also dropped off as it ended Sukarno's policy of confrontation. A peace treaty with Malaysia was signed. Suharto government also rejoined the United Nations from which Sukarno had withdrawn in January 1965. It was also not well disposed towards China and the erstwhile Soviet Union (particularly with China because of its pro-PKI involvement in Indonesia). On the other hand, Suharto opened up the country towards the West.

Suharto also tried to establish his legitimacy both inside the country as well as outside. So, he declared the general elections to be held in July 1971. The army-backed party Golkar launched a massive campaign in whose comparison the other parties were just mere shadows. The basic thrust of Suharto's election manifesto was a stable political system in the country and effective economic development.

It was small wonder that Golkar won hands down with 227 seats and 9 appointed seats in Irian Jaya. In total, taking into account the appointed 100 seats, the Golkar succeeded in achieving more than 2/3rd of the majority. No other party could give a fitting fight to Golkar. The elections in 1971, the first since the 1965 coup and second since 1955, clearly showed the strong position of Suharto in the political process of Indonesia. Sukarno was already dead and Suharto emerged as the undisputed leader of the country. People may label the elections as rigged or doctored but the fact remained that Suharto was unchallenged in the elections. Through the army backed Golkar, the elections had established the legitimacy of the military dominated 'New Order' government. It also undoubtedly provided political stability; but the wages of stability were quite high. Golkar's 2/3rds victory in the DPR was based on one hundred seats given to it through appointment by the President, according to a decision by a Special Parliamentary Commission in 1969. This way, as the elected lower House was tainted with Presidential appointments, democracy was put under severe restraints.

After proving its worth as an instrument of legitimacy through the electoral verdict it achieved for the Army and its leadership, Golkar merely settled

back to become the slave of the government. Fully convinced that he had enhanced his prestige in the country as well as abroad, Suharto started to concentrate on gaining advantage of his political power for financial aggrandisement. As a result there was widespread corruption in all departments of the Indonesian government. Suharto found himself incapable of doing away with the growing corruption.

The Indonesian economy was also going through a phase of serious difficulties. There was rice crisis in 1972 and mounting inflation. This was immediately followed by protests from various parts of the country and from various sections of the society.

The Suharto government invited the Western and Japanese creditors to invest in Indonesia and they formed the Inter-Governmental Group on Indonesia (IGGI), which became the major source for providing massive foreign aid.

But the worst crisis was still to come. Ibnu Sutowo, who was given the charge of the State Oil Company, Pertamina, sowed the seeds of the disaster in 1975.

Sutowo was taking long-term and medium-term loans from foreign investors to explore the oil in Indonesia. But pressure from the IMF prompted the

Indonesian government to curb Ibnu Sutowo's tendency to seek long-term and medium-term loans. Therefore, Sutowo started taking short-term loans of less than twelve months duration with huge interests and rolled them over to clear the previous loans. Pertamina also initiated a vast diversification of its projects in which many were not related to oil industry. Huge sums of money were also shifted to those projects.

In February-March 1975, Pertamina suffered a huge crunch as it fell short of repaying the loans to US Banks. The situation had come to such a point that the entire economy of Indonesia was under threat as there was no way out.

At least this time, Suharto acted decisively. He stalled all the other projects and Bank of Indonesia had to pay the huge amounts of Pertamina's debts to the foreign banks. The crisis was solved but the Indonesian economy which was flourishing at that time was in a severe crisis. The development of the country got a severe jolt. Pertamina had taken away a large part of the government's resources for years to come.

In conclusion, one could say that the decade between 1965 and 1975 had been tumultuous for Indonesia.

Right from the overthrow of Sukarno in 1965 to the Pertamina Crisis in 1975, had been a long and difficult road for Indonesia. Indonesia did experience the economic boom during the period but due to careless handling and corruption, the development process got a severe setback.

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