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1967 opened with the political turmoil precipitated by the attempted Communist coup in late 1965 still unresolved. Sukarno, though much reduced in power, was still maneuvering for hegemony. 1966 had been occupied primarily with the destruction of the Communist Party, the diminution of Sukarno's political grip, and the first steps toward sounder economic policy.

1967 was marked by the removal of Sukarno from the scene early in the year, the consolidation of the new government's power and the achievement of political stability, and the turning of Indonesian energies full force onto the economic plight of the country. In the international sphere, relations were restored with Indonesia's neighbors, the last remnants of the confrontation era were eliminated, foreign enterprises were restored to their owners and new foreign investment encouraged, steps were taken in a multilateral context with western creditors and aid donors to face up to Indonesia's economic problems, and a new regional organization for mutual cooperation was launched. The year also saw Indonesia's return to international respectability marked by high-level visitors from abroad, climaxing with Vice President Humphrey in November. Closer relations with South Korea and the Republic of China were explored while, on the other hand, relations with Peking rapidly deteriorated to the point where they were formally "suspended" at the end of October.

A brief outline of the more significant events noted above follows:

A. Internal

1. The Removal of Sukarno - The increasing dualism which had existed in the Indonesian Government since 1965, and which had prevented the "New Order" from moving forward dynamically to launch new programs, was finally ended in March 1967 when the Consultative Assembly removed Sukarno from the office of the president. No Objection To Declassification in Full 2010/08/30 : HIA-R JONES HOWARD P



2. Governmental Stabilization - From that point, Sukarno's power into virtual No Objection To Declassification in Full 2010/08/30 : HIA-R JONES HOWARD P
As the year v-2E-68-271-9he once large Nationalist Party founded by Sukarno, which remained the only major repository of leftist political expression and Sukarno worship in the society, went into progressive decline, due both to its own increasing disunity and lack of purpose, and to pressures and harrassment by youth groups, political opponents, and the Army. In the new climate, however, the way was opened for the creation of new political parties which could once again enfranchise large segments of the electorate who had been left without a political vehicle following Sukarno's successive banning of several of the most important non-Communist political parties. Although no new party has reached the stage of formal launching, considerable groundwork has been laid this year for this positive evolution of political forces.

3. Economic Stabilization - Fully backed by General Suharto, Indonesia's ablest economists, with the assistance of IMF advice, have launched the country on a stringent stabilization program aimed at halting Indonesia's skyrocketing inflation. It is now estimated that inflation in 1967 was held to less than one-tenth of inflation in 1966, which had reached a phenomenal 800% in one year. Further improvement is expected in 1968.

4. Economic Liberalization - Parallel with and related to the stabilization effort, the Indonesian Government in July instituted a sweeping liberalization of trade and foreign exchange controls aimed at reducing bureaucracy and freeing market forces. This followed important steps earlier in the year which removed government subsidies from many formerly protected sectors of the economy. These steps represent a complete reversal of Indonesia's former anti-foreign and socialist economic philosophy and gross mismanagement of resources.

B. External

1. Regional Cooperation - The last vestiges of Indonesia's former policy of hostile confrontation against neighboring Malaysia and Singapore were eliminated in 1967, and in August Indonesia joined with Malaysia, the Philippines, Thailand, and Singapore to launch the Association of Southeast Asian Nations (ASEAN) as a new



and construction of mutual cooperation and restoration respectively. No Objection To Declassification in Full 2010/08/30 : HIA-R JONES HOWARD P
August and September also marked the resumption of diplomatic relations with Malaysia and Singapore, respectively. 2E-68-271-9

2. China - Indonesia's relations with Communist China, which had developed into a warm embrace under Sukarno, deteriorated rapidly during 1967. In January the Chinese Communist Naval Attaché was declared persona non grata, the first time in history the Indonesian Government had formally expelled any foreign diplomat. By mid-summer Indonesia was trying to extricate its last remaining diplomats from its Embassy in Peking, which had been wrecked by Red Guards. Student demonstrations against the Chinese Embassy in Djakarta followed, and on October 31 formal relations between the two countries were "suspended" and the last remaining diplomats exchanged.

3. Relations with Seoul and Taipei - Having cut itself off for several years from any contact with South Korea or the Republic of China, Indonesia in 1967 sought to restore contact short of actual diplomatic recognition. Consular relations were established with Korea and parliamentary visits were exchanged. Trade relations were restored with Taiwan and a trade delegation received.

4. High-Level Visits - Symbolic of Indonesia's return to international respectability from a period of chauvinistic posturing on the world scene were the visitors who came to Indonesian shores in 1967. Chief among these were Japanese Prime Minister Sato in October and Vice President Humphrey in November. The Foreign Ministers of Singapore, India, and Australia also visited Djakarta to emphasize the newly cordial relations between Indonesia and their countries.

5. Naval Visits - Naval visits were made by ships of the United States', Belgian, Australian and Pakistani fleets. Except for Pakistan, these were the first such visits in many years.

6. Economic Cooperation - The new government in Indonesia, in contrast with the old, has fully welcomed foreign private investment, and in January a liberal new foreign investment law was signed. CoNo Objection To Declassification in Full 2010/08/30 : HIA-R JONES HOWARD P
prizes seized-2E-68-271-9the latter days of the Sukarno era were



returned to those foreign currencies in 1967 and negotiations are under way for those return-2E-68-271-9 major Goodyear and Uniroyal investments in the rubber field.

Indonesia has sought the advice of the International Monetary Fund and the International Bank in carrying out its economic stabilization and development plan, and has also cooperated fully with a multilateral group of nations including the United States which has combined to reschedule Indonesia's burdensome debts on a non-discriminatory basis and provide new assistance to enable Indonesia to put its house in order and launch development of its potentially rich economy. This multilateral framework and cooperation is fully supported by the Indonesian Government and in its uniqueness may offer a fruitful model for other LDC's.

C. Conclusion

1967 in Indonesia has thus seen the consolidation of the New Order and the firm launching of policies of sound economic reconstruction and international cooperation. The fuller development of sound political institutions and the realization of the results of present stringent economic measures are still to come. Steps down these roads should mark the major events of 1968. No major changes of direction are foreseen in the coming year, and we anticipate that Indonesia will continue to build on the solid foundations which have now been laid.

A brief outline of the more significant events of 1967 follows:

A. Internal

1. The Success of Suharto - The increasing dualism which had existed in the Indonesian Government since 1965, and which had prevented the "New Order" from moving forward dynamically to build new programs, was finally ended in March 1967 when the Government decisively rejected Sukarno from the office of the presidency and moved General Suharto to the President's

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