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PROBABLE DEVELOPMENTS IN INDONESIA

THE PROBLEM

To estimate the current situation and probable developments in Indonesia.

CONCLUSIONS

1. In Indonesia, the replacement of the provisional regime by a duly elected government is an essential step toward the development of a stable and effective administration. We believe that the government will probably meet its commitment to hold Indonesia's first national elections for a Parliament and for a constituent assembly sometime in 1954. Elections in themselves, however, will not solve the many problems facing the country nor will they necessarily assure a stable government.

2. Even after elections, much will depend on the actions of a few political leaders, whose personal goals and motives are not readily discernible. At present, President Sukarno is the principal national leader. His prestige is based on his early leadership in the struggle for independence, his popularity with the Indonesian people, and his claimed independence of political party. Hence, he provides a focus of loyalty for a variety of political and military factions.

3. The internal security problem is a major obstacle to the development of stable government in Indonesia. Suppression of dissident elements has been hampered by political considerations and by the limited effectiveness of the army.

However, we believe that no dissident group has the capability of overthrowing the government. If a stable government develops, action against dissident groups will probably become increasingly effective.

4. The strength of the Communists in Indonesia derives from: (a) their position as a major bloc in Parliament; (b) their control of the dominant labor federation; and (c) the presence of some Communists and Communist sympathizers in the armed services, the police, and the bureaucracy. The Communists consequently have the capability to cause serious disruption, though not to overthrow the government by direct military action. The extent of Communist capabilities after the elections will depend, for the most part, on the attitude of the government toward international Communism and, in particular, toward the indigenous Indonesian Communists; the effectiveness with which the government acts to improve economic conditions; and the ability of the government to suppress armed groups and to effectively maintain law and order.

5. The Indonesian economy, which depends heavily upon raw material exports,

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is presently depressed because of the fall in world commodity prices. The economic situation will continue to be precarious through 1953. Despite the immediate prospect for a continued deficit balance of payments and a continued low level of internal economic activity, a serious economic crisis does not appear likely in 1953.

6. Indonesian foreign policy is chiefly motivated by a desire to maintain an independent position in the world, and by an attitude of neutrality in the East-West struggle. However, so long as Indonesia's major trade relations remain

with the West, Indonesia will probably continue to be closer to the West than to the Soviet Bloc.

7. At best Indonesia will have only begun to solve her basic economic, political, and internal security problems by the end of 1954. In time, the government may increase its effectiveness, eliminate the remaining dissident groups largely by attrition, and improve its economic situation. However, serious difficulties must be overcome, many of which, if not effectively dealt with, might result in a crisis which would seriously weaken, or even result in the collapse of, the central government.

DISCUSSION

INTRODUCTION

8. Indonesia, which achieved independence from the Netherlands in 1949, is now attempting to deal as an independent state with the basic economic and social problems common to many underdeveloped areas. These problems include low productivity of labor, economic dependence on raw material exports and, in the case of Java, overpopulation. More than 90 percent of Indonesia's population of about 75 million live in rural communities, with over two-thirds of the total population concentrated on the islands of Java and Madura, where there is a population density of over 1,000 persons per square mile. Roughly 80 percent of the population is illiterate, and educational and communication facilities are rudimentary. On the other hand Indonesia possesses certain natural advantages. It has a variety of natural resources, including petroleum, tin, coal, and bauxite, and is so situated as to be almost entirely free at present from the threat of external attack.

9. The Indonesian nationalists, who desired to end Dutch colonial rule and establish an independent Indonesian state, were given their first opportunity under the Japanese occupa-

tion. Through the puppet government which the Japanese permitted them to establish, the Indonesians were able to learn something of administration. Furthermore, the principal leader of the Indonesian nationalist movement, Sukarno, became premier of the puppet government, and thus was in an excellent position to seize the opportunity for independence which was offered by the defeat of Japan. With the support of other nationalist leaders, Sukarno proclaimed an independent republic in August 1945.

10. For the ensuing four years, the Netherlands refused to recognize Indonesian independence, and periods of fighting alternated with periods of negotiation. Independence was finally achieved largely as the result of UN intervention, in which the US played an active part.

11. In the Round Table Agreements of December 1949, the Netherlands formally recognized the independence of the United States of Indonesia. The most important provisions of these agreements were: (a) approval of a provisional Indonesian constitution; (b) creation of a Union in which Indonesia and the Netherlands would be equal partners, joined by symbolic allegiance to the Dutch

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crown; and (c) protection for existing Dutch and other foreign economic interests.

12. The Indonesians then undertook the task of establishing a democratic state. A provisional government was set up in order to carry on normal governmental functions and to establish internal security. Initial steps were taken to rehabilitate the Indonesian economy, damaged during World War II and the struggle for independence, and to adapt it to the new conditions arising from the severance of colonial ties. The provisional Indonesian Government undertook to develop a foreign policy in consonance with the prevailing spirit of nationalism and anti-colonialism. Finally, a program was begun to prepare the Indonesian people, largely illiterate, for the election of a constituent assembly and a legislature.

CURRENT SITUATION IN INDONESIA

Political Situation

13. The provisional government at first was organized as a federation of Indonesian states. In August 1950, this federation was replaced by the present unitary state. This change was brought about by the Republic of Indonesia (the largest state in the federation and the leader of the independence movement) in order to increase its own power and to reduce that of the other member states, most of which were under Dutch influence. A People's Representative Council, generally referred to as the Parliament, was formed. The members of this body were appointed, not elected. No national elections have yet been held.

14. President Sukarno has been a strong force in Indonesian development; his prestige is based on his leadership in the struggle for independence, his popularity with the mass of the Indonesian people, and, to a lesser degree, his claimed independence of party. However, the 1950 provisional constitution gives most executive power to the cabinet rather than the president, and Sukarno has not used his prestige to extend the power of the presidency.

15. At present, the largest representation in Parliament is held by: the Masjumi (the Moslem Party) with 39 of the 213 seats, the Indonesian National Party with 37 seats, the Greater Indonesian Association with 15 seats, the Indonesian Socialist Party with 14 seats, and the Indonesian Communist Party with 16 seats. The remaining representatives are divided among a large number of minor parties and non-political groups. Since 1950, the Masjumi and Nationalist parties have played leading roles in Indonesia's coalition governments. All non-Communist political parties espouse nationalism, democracy, and some form of socialistic economy.

16. The Masjumi is a federation of Islamic religious and social organizations. Its strength derives largely from the fact that the Indonesian population is approximately 90 percent Moslem. The Indonesian National Party draws its support from the small middle class and significant elements of the government bureaucracy. The Greater Indonesian Association is supported largely by civil servants. The Indonesian Socialist Party does not have the popular support enjoyed by the Masjumi and Nationalist parties but it is a well-organized and politically conscious group, and Socialists hold important positions in the administration out of proportion to the party's parliamentary strength.

17. The Indonesian Communists have recently gained considerable political strength, in spite of certain Communist Party actions which at the time aroused considerable popular resentment. For example, in 1948 the Indonesian Communists staged an abortive revolt against the Republic of Indonesia. In 1951, numerous Communist leaders were arrested on charges of plotting against the government but were subsequently released. In 1952, however, the Communists changed their tactics from opposition to avowed cooperation. The united front tactics, along with slogans of "peace and nationalism," were well suited to dispelling some of the public resentment of the Communists.

18. One evidence of Communist political strength is their position as a major bloc in

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Parliament. The Communist Party presently holds 16 seats of its own, controls directly 14 additional seats held by three front groups, and can count on some support from about 8 independent members of Parliament. The Communist Party has also been able to increase its influence indirectly through close cooperation with some of the minor parties and, more recently, with the Nationalist Party. This latter development is viewed with particular alarm by the other non-Communist parties. A second major source of Communist strength lies in its control of SOBSI, the dominant Indonesian labor federation, which has a membership estimated to be about 800,000 (SOBSI claims 3 million). Finally, the Communist political position is enhanced by the presence of some Communists and Communist sympathizers in the administration and by the fairly effective propaganda activities of the Communists.

19. Because none of the major parties has commanded a majority in Parliament, the various Indonesian governments since independence have been coalitions. These coalitions have not included Communist Party representatives. The absence of a clear majority for any party has made successive Indonesian governments, faced with an outspokenly critical Parliament, reluctant to take firm decisions on controversial issues. Moreover, the government has been handicapped in its general administrative and budgetary operations because of the lack of trained personnel and established procedures. Largely for these reasons, no Indonesian administration has yet exercised strong leadership in improving general economic conditions, in increasing production, in carrying out general elections, or in suppressing guerrilla and bandit activity.

20. During the last months of 1952, the lack of strong leadership permitted factionalism and differences in the army over reorganization to expand into a major political crisis. The Defense Minister and leaders in the armed forces headquarters, in an effort to increase the effectiveness of the army, formulated plans to reduce its size, modernize it, and centralize its administration. Other ele-

ments in the army, principally those who would be eliminated under these plans, resisted the program. They were supported by some members of Parliament who also preferred to retain large numbers of already existing guerrilla-type forces. This dispute was magnified by members of Parliament who desired to weaken and discredit the Socialist Party, which allegedly dominated the Ministry of Defense and the armed forces command.

21. The Parliament, after nearly three months discussion, passed a resolution calling for the reorganization of the Defense Ministry and new leadership of the army and the armed forces headquarters. A group of army officers, following a demonstration on 17 October 1952, called upon President Sukarno to dissolve Parliament and hold national elections immediately. Although Sukarno refused these specific requests, he promised that national elections would be held as soon as possible. In the following weeks, subordinate officers in three of the seven territorial commands deposed their commanders and announced their independence of the army high command, but proclaimed their allegiance to President Sukarno. The government later replaced the army chief-of-staff and accepted the resignation of the Minister of Defense. These steps eased tension but were only a partial solution of the problem. Two territorial commands remain under control of the subordinate officers who seized command, and the basic unresolved problem of factionalism in the army continues to constitute a serious threat to the authority of the Indonesian Government.

Internal Security

22. The internal security problem has plagued the Indonesian Government since 1949 when, after three and one-half years of Japanese occupation and four years of fighting the Dutch, there existed a wide variety of guerrilla groups. Indonesia has limited forces with which to deal with this problem.

23. The Indonesian Army, with a total strength of approximately 180,000, organized in battalion units under territorial commands,

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5

is poorly equipped and poorly trained. The National Police Mobile Brigade, which has a total strength of about 18,000, is a better equipped and better trained force, having been supplied largely by US grant aid. Its equipment, however, consists mainly of small arms and personnel carriers. The Indonesian Air Force has a personnel strength of about 7,600 (including 250 pilots) and about 290 aircraft. The Air Force, having only about 25 conventional fighters and 35 light bombers, has a very limited capability for defense of Indonesia's borders. It has operated on occasion in support of army operations against dissident elements, but with limited success. The Indonesian Navy has a total personnel strength of about 7,500 and a number of small former Dutch patrol vessels, including one destroyer. The navy has been primarily concerned with anti-smuggling operations and has performed this mission with fair effectiveness.

24. The effectiveness of the army has been further limited by factionalism. Correction of defects in army organization has been prevented by a disagreement both between army territorial commanders and within the army general staff, which has only nominal control over the territorial commands. Two of the territorial commands are almost completely independent of the Ministry of Defense. The danger to the central government posed by these circumstances is lessened by the apparent continued loyalty of the territorial commanders to President Sukarno, either because of a personal relationship developed during the war of independence, or because of his official position as President. The greatest danger to central governmental authority is not from rebellion but rather from lowered morale and continuing deterioration of the army's effectiveness to cope with the dissident forces.

25. Despite the foregoing limitations on the effectiveness of the armed forces, the government has managed to suppress two armed revolts and to maintain order in most areas of Indonesia. However, there remain many bandit gangs and sizable dissident forces, which total about 130,000 men, approxi-

mately one-half of whom are armed. Guerrilla and bandit groups in South Celebes have an estimated strength of about 4,000. However, the bulk of the dissident forces is in Java. The principal dissident group is the Darul Islam, concentrated largely in the mountainous country of West and Central Java. It has an estimated active strength of 10,000 to 15,000 men, about one-third of whom have guns. Darul Islam advocates a theocratic Moslem state and has considerable popular sympathy, particularly in the Masjumi Party. Masjumi influence in the government has been exercised to prevent military suppression of Darul Islam.

26. Communist overthrow of the Indonesian Government by direct military action is not an immediate possibility. Reports indicate that possibly as many as 4,000 guerrillas may be Communist controlled. The Communist Party has officially denied sponsorship of any guerrilla group, but Communist attempts to influence or infiltrate insurgent bands in general may be assumed. The Communists' control SOBSI, the principal labor federation, and some Communists and Communist sympathizers are in the armed forces, the police, and some government ministries. The government was able during 1952 to settle a series of harbor strikes and a sugar estate strike, but the Communists did not exercise their full capability to spread the strikes to other industries and to commit acts of sabotage and violence. By such means, the Communists probably could disrupt the Indonesian economy seriously.

27. While there have been reports that dissident groups have received aid from outside Indonesia, these reports have not been confirmed.

Economic Situation

28. The economic well-being of Indonesia is dependent upon foreign demand for its agricultural and mineral exports. These consist primarily of rubber, petroleum, copra, tin, tea, tobacco, and palm oil. Not only does the level of exports determine the general level of Indonesian economic activity, but Indonesia depends heavily upon its exports to pay for

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essential imports of rice, textiles, and machinery. The government also normally derives over one-third of its revenue from import and export duties.

29. The principal economic activity in Indonesia is agriculture. Close to 75 percent of the working population is engaged in agriculture, about 75 percent of the national income is derived from agriculture, and agricultural products account for some 70 percent of the value of total exports. Indonesian agriculture is divided between: (a) small-scale native farming, and (b) large-scale estate farming, developed and managed by Europeans on land held on long-term leases from the government, and directed toward production for export.

30. Before the war, the lands leased or rented by the estates represented about 15 percent of the total land under cultivation, and accounted for roughly two-thirds of Indonesia's varied agricultural exports. Foreign investment in estates was estimated at about \$800 million, three-fourths of which was Dutch. However, estate production of all commodities except rubber is now far below prewar. The estates suffered considerable damage during the war and in the period of civil strife which followed, and now account for only one-third of Indonesia's curtailed agricultural exports. Foreign operators have been reluctant to employ funds for rehabilitation of the estates, largely because of domestic unrest and the uncertainty concerning the future status of the estates.

31. The government has not determined upon a long-term policy with respect to foreign-operated estates. The government, recognizing that continued foreign management of the estates is for the time being essential to the economy, has so far refused to yield to demands for nationalization or redistribution of the estate lands. It presently plans, however, to increase its control over the operation of the estates by renegotiating the traditional leasing arrangements as present estate contracts expire. Also, the government during the past two years has redistributed to native farmers much of the unused land held in reserve by the estates.

32. Native farm output has increased somewhat since 1945. However, serious agrarian problems remain as a consequence of the low level of technology in native agriculture and the increasing pressure of population in Java. One result of this situation has been the steady increase in number of landless persons, an important cause of unrest.

33. The Indonesian Government has initiated a series of small-scale programs designed to relieve agricultural unemployment, provide a more adequate system of agricultural credit, and increase the productivity of labor. The government is continuing, though on a very limited scale, the prewar Dutch program of Javanese resettlement in the outer islands. Efforts are being made to develop light industries to provide increased non-agricultural employment opportunities. Finally, the Indonesian Government, with the assistance of US and UN technicians, is attempting to increase the output of food in Indonesia, particularly rice.

34. The present economic situation in Indonesia is not favorable. During the last quarter of 1950 and in 1951, when world prices for Indonesian exports were high, Indonesia had a favorable balance of payments. In the last quarter of 1951 these prices fell, and during 1952 Indonesia suffered from depressed internal economic activity and from balance of payments difficulties. Export earnings in 1952, estimated at \$903 million, were approximately \$350 million less than in 1951. The main cause for the fall in export earnings was the decline of about 50 percent in average export prices for rubber. Concurrently with the decline of exports, imports increased from \$805 million in 1951 to \$915 million in 1952. This increase was caused to a considerable extent by a sharp rise in rice imports.

35. As a result of these changes, Indonesia had a deficit on current account in 1952 of approximately \$200 million, most of which was financed by drawing upon the government's foreign exchange and gold holdings. At the end of 1952, Indonesia's net foreign exchange reserves, mostly in gold and dollars, had declined to approximately \$257 million from a high of almost \$386 million in

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7

the middle of the year. In an effort to deal with this situation, the government tightened exchange controls and further restricted the importation of selected luxury and semi-luxury commodities.

36. The government normally derives over one-third of its revenue from import and export duties. Largely as a result of the decline in trade in 1952, the government had an estimated budgetary deficit of \$400 million. A considerable part of this deficit has been financed through an increase in note issue, which has contributed to inflationary pressure.

Foreign Policy

37. The development of Indonesian foreign policy since independence has been determined largely by a desire to be free of political or economic domination by other countries. Indonesian foreign relations center around (a) completing the process of severing ties with the Netherlands, and (b) keeping Indonesia apart from the East-West struggle.

Netherlands-Indonesian Relations

38. The Indonesians desire to eliminate what remains of the preferred Dutch position, and there have been increasing demands that the Round Table Agreements be abrogated. The first step toward revising the formal relationship between the two countries was taken in March 1953 and resulted in an agreement to terminate, by December 1953, most of the services of the Netherlands Military Mission, which was provided for in the Round Table Agreements.

39. Indonesian hesitancy unilaterally to abrogate the Round Table Agreements may be due to the fact that the Indonesians have made little progress toward their objective of reducing their dependence on Dutch capital and on Dutch technical and managerial experience. The Indonesians lack both the resources and personnel to replace the large established Dutch industrial and commercial firms. Likewise, Indonesia has lacked the trained administrators to enable it to dispense with approximately 5,000 Dutch officials who

remained to serve the Indonesian Government.

40. The major issue left unsettled by the Round Table Agreements was the disposition of Western New Guinea (West Irian). Considerable popular excitement has been generated over this issue. In the Indonesian view, Western New Guinea was included in the former Netherlands East Indies colony and thus was included in the transfer of sovereignty to Indonesia. To the Indonesians, the only issue to be decided is the political status of Western New Guinea within the Republic. The Dutch, on the other hand, hold to the view that they retain sovereignty over the area. Two conferences held at The Hague since 1949 have failed to settle the issue, and the area remains under Dutch control.

Relations with the US

41. Since 1951, the US has replaced the Netherlands as the country with which Indonesia carries on the greatest volume of trade. The US purchases the major share of Indonesia's rubber and tin exports. Moreover, the US has provided Indonesia with economic and technical assistance, equipment for its mobile police force, and an Export-Import Bank line of credit.

42. Indonesia has found it difficult to reconcile its independent foreign policy with its economic ties with the US. In February 1952, the Sukiman government fell because of Parliamentary sentiment against accepting a provision of the US Mutual Security Act which was alleged to involve an abandonment of neutrality. Again, many Indonesian political leaders objected to signing the Japanese peace treaty, and the treaty has not yet been submitted to Parliament for ratification. Objections to the treaty were based on the belief that it would violate Indonesia's independent foreign policy by associating Indonesia with the US bloc. In addition, the Indonesians wanted assurance that their reparation demands would be met and that they would receive satisfactory guarantees against the encroachment of Japanese fishing vessels in Indonesian waters. The government signed the treaty on the understanding that the US

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8

would use its influence in the reparation negotiations to assist the Indonesians in gaining adequate compensation. Indonesian leaders, who might prefer to remain uninfluenced by the US, have nevertheless been forced to recognize both the impact of US power in the Pacific and the importance to Indonesia of US trade.

Relations with other Western Countries

43. Most of Indonesia's external cultural contacts and her most important external economic relations have been with the West. On the other hand, the West is associated with colonialism in Indonesian eyes, so that Western overtures to Indonesia have been received with considerable suspicion. However, this attitude and the desire to remain neutral in the East-West struggle have not prevented Indonesia from accepting US aid, participating in the Colombo Plan, or observing the UN ban on the shipment of strategic materials to China.

Relations with the Soviet Bloc

44. Indonesia's few overtures to the Soviet Bloc seem to have been aimed at creating a counterbalance to the ties Indonesia already has with the West. Despite immediate Soviet recognition of Indonesian independence, Indonesia exchanges diplomatic representatives only with Communist China among the members of the Soviet Bloc. However, Parliament has recently adopted a resolution favoring the establishment of a diplomatic mission in Moscow before the end of 1953. The facts that the first Chinese Communist ambassador to Djakarta had once written articles attacking President Sukarno, and that the large embassy staff is suspected of subversive activities, have limited the effectiveness of the Chinese Communist mission. Indonesian citizens have been permitted to participate in Communist-front meetings abroad and to attend the Moscow Economic Conference in April 1952. Most Indonesians are sympathetic to the cause of the Viet Minh in Indochina, regarding it as primarily an independence movement.

45. Indonesian trade with the Soviet Bloc has been small. During 1952, imports from the

Soviet Bloc (primarily from Communist China and Czechoslovakia) accounted for only .6 percent of total Indonesian imports, and exports to the Soviet Bloc (primarily to Poland), comprised only 1.1 percent of total Indonesian exports. The exact amount of indirect trade is unknown, but is believed to be small. During the past year and a half, Soviet spokesmen have made several well-publicized offers of capital goods and technical aid to Southeast Asia, and Communist China has shown interest in a bilateral trade agreement with Indonesia similar to its arrangement with Ceylon. No specific agreements have resulted. In early 1953 a quantity of rubber was purchased by a private company for shipment to Communist China, but the government refused the export license, purchased the rubber, and thereby avoided a violation of the UN restrictions on shipments to Communist China.

Relations with Non-Communist Asian and Pacific Area Countries

46. Relations with neighboring countries, particularly Burma and India, are friendly. However, in keeping with its independent foreign policy, Indonesia has shown little interest in proposals for bilateral or regional alliances, such as the Filipino-proposed Pacific pact. Indonesia has cooperated closely with the Arab-Asian Bloc in the UN.

47. Relations with Australia have varied according to the party in power in Australia. The Australian Labor Government, which strongly supported the Indonesian cause during the Indonesian-Dutch struggle, was inclined to be more sympathetic to Indonesia than is the Liberal-Country Party coalition now in power, which took a pro-Dutch stand during that period. However, both Australian governments have supported Dutch retention of Western New Guinea, and this has impaired relations between Indonesia and Australia.

48. Although Indonesia has not established diplomatic relations with Japan, consular officials have been exchanged and economic relations are close. In 1951, Japan became Indonesia's third most important trading partner,

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9

and, in July 1952, Indonesia concluded what was generally regarded as an advantageous trade agreement with Japan. In this agreement, Japan agreed to the deferred payment of dollar balances that had accrued under a former agreement; this conciliatory position was probably occasioned by recognition of the importance of the Indonesian market. Normal diplomatic relations with Japan will probably depend on a satisfactory settlement of reparations claims.

PROBABLE DEVELOPMENTS IN INDONESIA

49. Little will be accomplished in 1953 towards resolving Indonesia's basic political, internal security, and economic problems.

50. Election of a constituent assembly and a Parliament is planned for 1954, and is an essential step toward the development of an effective representative government. Elections may provide the psychological sense of contact and rapport between the people and the government which will increase political stability. Members of an elected Parliament, and the government formed by them, might act with greater confidence than have the provisional legislature and cabinet. However, we are unable to predict the outcome of the elections or the policies that will thereafter be followed by any of the major parties. In any case, the elections will not solve the many difficult problems facing the country and political stability will by no means be assured.

51. We believe that the national elections, although complicated and delayed by numerous technical problems, probably will be held sometime during 1954. The government's ability to maintain at least the present degree of internal security is a critical factor in carrying out the election plans. Also, even though the election law has been passed, regulations to implement the basic law must be formulated and acted on, and the generally illiterate population must be educated and otherwise prepared to carry out its franchise. Various groups which sought to delay adoption of the basic elections law probably will raise other difficulties to prevent, or at least delay, the promised elections. In this situation, much

will depend on the actions of a few political leaders, whose personal goals and motives are not readily discernible.

52. If elections are not held as currently planned, or if an effective government is not established following elections, the steady decline of confidence in the government will continue, with a consequent weakening of central authority. In these circumstances, any or all of the following might occur: (a) certain of the major army territorial commands might defect and refuse to recognize the authority of the central government; (b) certain areas might seek to re-establish an Indonesian federation in which they would have autonomy; (c) Parliament might be dissolved and full governmental authority assumed by a small group of national leaders probably headed by President Sukarno.

53. In the period before elections, the Communists in Indonesia will probably retain, and may enhance, their capability to influence government policy through their activities in Parliament, to create economic disorder through their control of the labor movement, and to increase their numbers in the armed services, the police, and the bureaucracy. The extent of Communist capabilities after the elections will depend, for the most part, on the attitude of the government toward international Communism and, in particular, the indigenous Indonesian Communists; the effectiveness with which the government acts to improve economic conditions; and the ability of the government to suppress armed groups (bandits, dissidents or potential dissidents) and to effectively maintain law and order.

54. We believe that none of the existing dissident groups, including the Communists, has the capability of overthrowing the government by force. Moreover, if a stable government develops following parliamentary elections, action against dissident groups will probably become increasingly effective. However, we believe that Masjumi influence will continue to stand in the way of suppressive military action against Darul Islam, and that efforts to eliminate its threat will be by way of negotiation.

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55. The economic situation will continue to be precarious through 1953. An economic crisis could occur if the government proved unable to curtail expenditures, and if world prices for Indonesia's exports continued to decline, thus further worsening the terms of trade for Indonesia. Under these conditions, Indonesia's foreign exchange holdings would be rapidly exhausted, domestic prices would continue to rise, dissatisfaction among factory and estate workers would become widespread, and the Communists, through the unions they dominate, would be able to foment strikes and unrest. However, the government is continuing measures designed to increase the production of food, particularly rice, and of those raw materials which are in continued demand on world markets, and to curtail imports. Accordingly, despite the immediate prospect for a continued deficit balance of payments and a continued low level of internal economic activity, a serious economic crisis does not appear likely in 1953.

56. Indonesia will almost certainly not change its policy of attempting to stand apart from the East-West struggle. Current differences with the Netherlands will probably remain unsettled for some time and will contribute to keeping alive anti-colonialism and Indonesia's concomitant distrust of the "imperialist" West. The Indonesian Government may eventually accede to the formally expressed desire of Parliament to exchange diplomatic representatives with the Soviet Union.

57. However, Indonesia's orientation toward the West will probably continue, so long as trade with the West continues to be essential to the maintenance and growth of Indonesia's

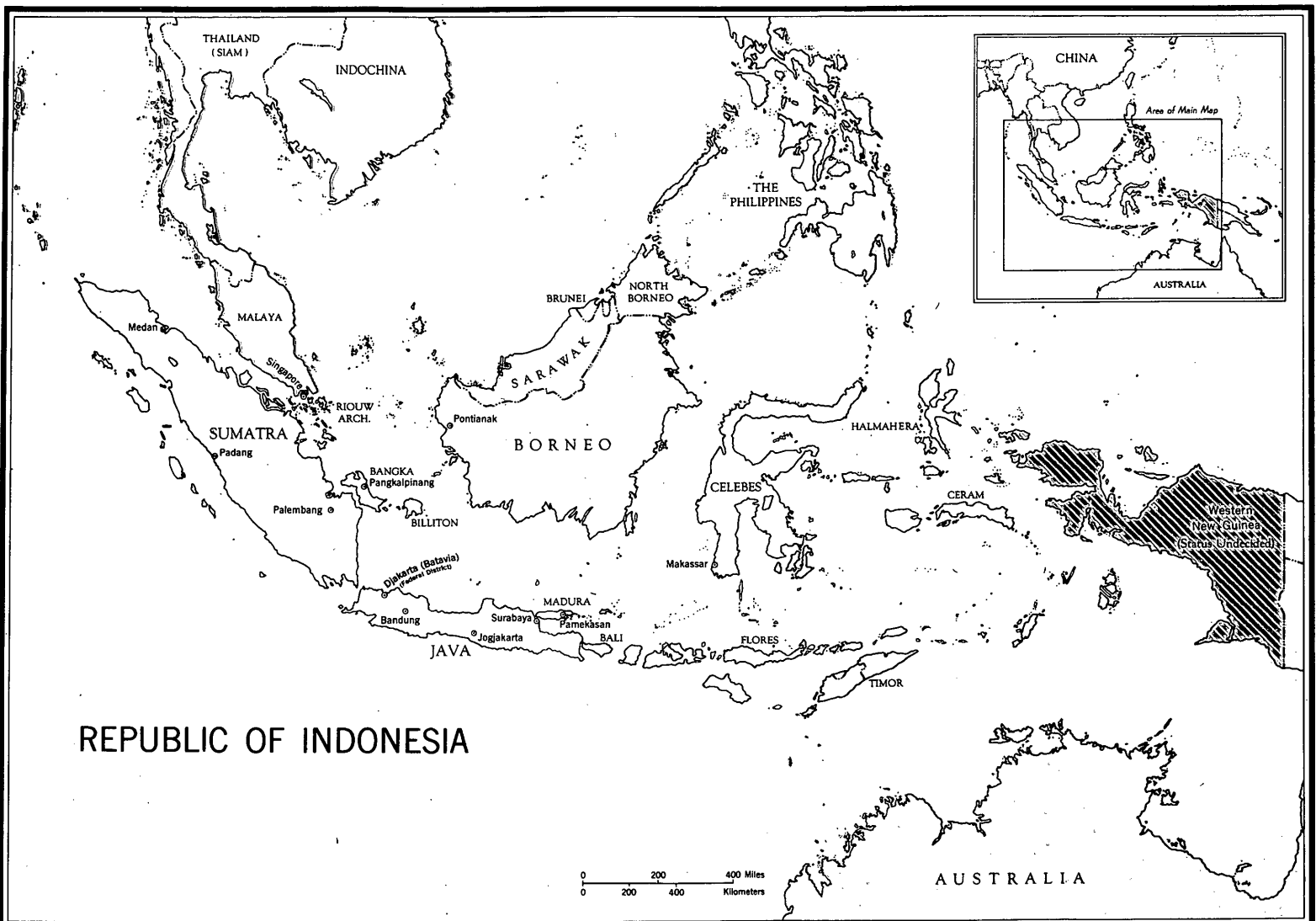
economy. There is considerable public pressure in Indonesia to expand trade with the Soviet Bloc in the belief that Indonesia will thereby gain a better bargaining position. If the demand of the West and that of the US in particular for Indonesian exports should sharply decline, the Indonesians would be even more favorably disposed to trade offers from the Soviet Bloc.

58. Achievement of a truce in Korea would probably enhance the UN's prestige in Indonesia. Indonesia would look for a general peaceful settlement in the Far East as a logical consequence of the truce. In the Indonesian view, peace in Korea would remove the necessity for East-West trade controls. Should Indochina fall to the Communists without overt Chinese Communist participation, it is likely that Indonesia would view the event as primarily a triumph of nationalism. But if open Chinese Communist participation were involved in the fall of any of the Associated States or in aggression elsewhere, Indonesia might be inclined to view the threat of Communist China much more seriously. In any case, if major trade relations remain with the West, Indonesia will probably continue to be closer to the West than to the Soviet Bloc.

59. At best Indonesia will have only begun to solve her basic economic, political, and internal security problems by the end of 1954. In time, the government may increase its effectiveness, eliminate the remaining dissident groups largely by attrition, and improve its economic situation. However, serious difficulties must be overcome, many of which, if not effectively dealt with, might result in a crisis which would seriously weaken, or even result in the collapse of, the central government.

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