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Intelligence Report

Office of East Asian Analysis

24 January 1997

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Indonesia: Instability Indicators

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Social and ethnic tensions rose in [Redacted] 1996, but, with parliamentary elections looming this May, the military and the courts worked with the Soeharto government to weaken the organized political opposition. Economic developments continued to move in a positive direction. [Redacted]

Political Developments

The government appeared unprepared to deal with a proliferation of disturbances arising throughout the archipelago from October to December 1996; local pundits cited religious and ethnic strife, grievances against perceived abuses by local authorities, land disputes, and growing income disparity as the major causes for increasing violence:

- Five people, for example, died in October when Muslims burned or destroyed 24 churches in East Java.
- Two months later, Muslims upset at alleged police mistreatment of Islamic teachers damaged or burned 18 police offices and 12 churches in West Java.
- Clashes between indigenous and immigrant ethnic groups in West Kalimantan in December left several dead and forced some 5,000 people to flee for safety to nearby military bases and towns.

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None of these events were regime threatening. While some military and government leaders blamed the disturbances on unidentified activists, the authorities provided no information to substantiate their assertions; in each instance, the military moved in to restore order. More significant, a crackdown begun last July against political activists in Jakarta continued to sharply limit antiregime activity in the capital. Efforts by

This memorandum was prepared by the [Redacted] Analysis. Comments and queries are welcome and may be directed to the [Redacted]

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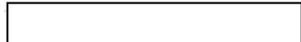
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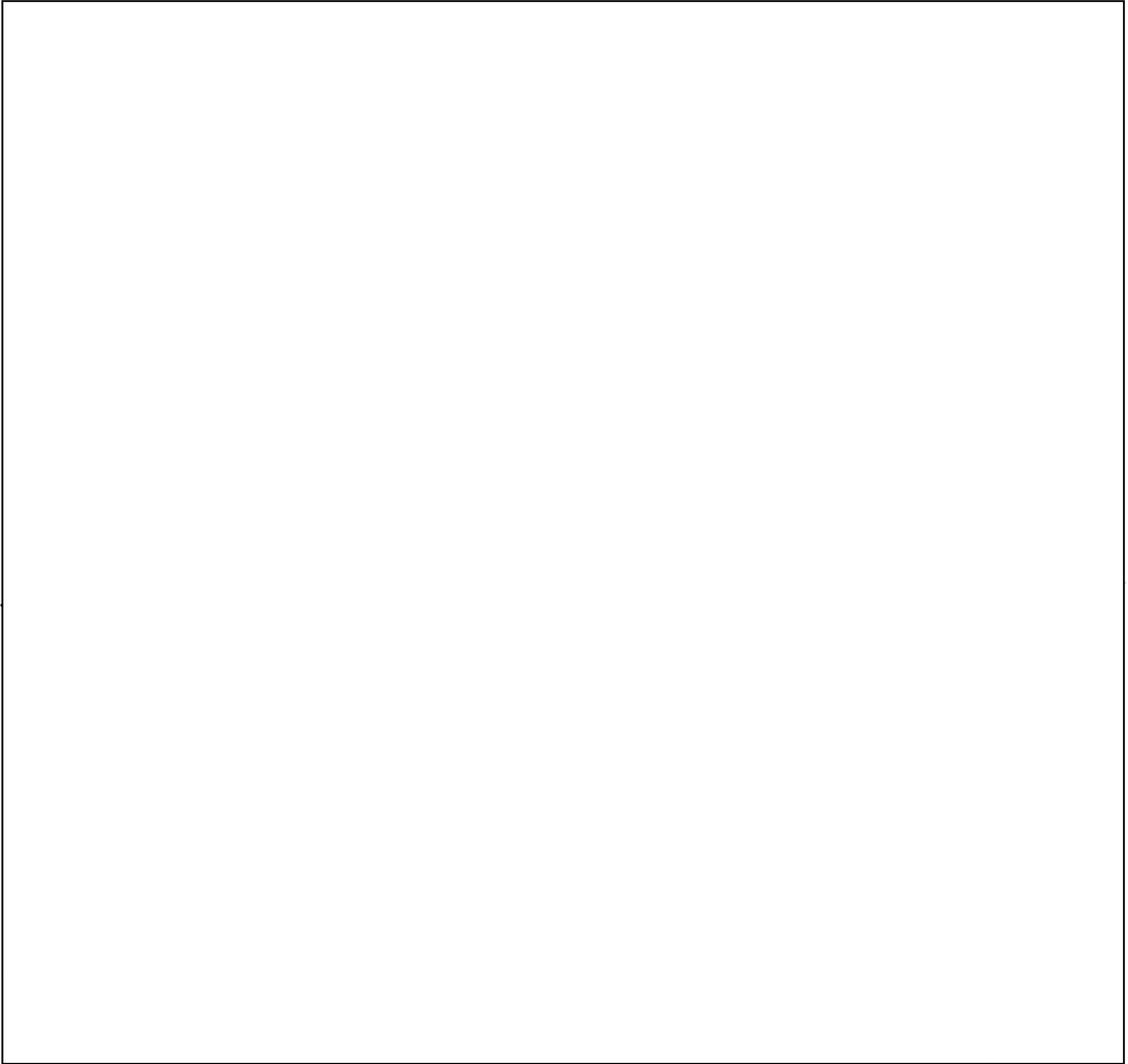
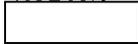


supporters of ousted Indonesia Democracy Party (PDI) leader Megawati Sukarnoputri to organize antigovernment demonstrations on her behalf attracted only small crowds. In an unprecedented ruling, the Supreme Court reversed itself and reinstated a lower court conviction of independent labor leader Muchtar Pakpahan. 

Economic Developments

Most indicators in the last three months of 1996 point toward sustained growth based on continued investor confidence in the government's conservative management of the economy. Monetary restraint helped push the 1996 inflation rate below 7 percent, as compared with a 9-percent price rise in the previous year, although large capital inflows continue to put upward pressure on the exchange rate. Economic growth is projected to slow slightly to about 7.2 percent, down from an estimated 7.6 percent in fiscal year 1996/97. The draft budget for FY 1997/98 projects that government expenditures will grow less than the economy, and contains provisions that should help contain inflation. The current account deficit is forecast to grow to 4 percent of GDP this year, up from 3.4 percent in 1996. Although it remains a major area of government concern, Jakarta's fears may be somewhat exaggerated. Much of the import surge over the past four years represents purchases of equipment and services for new industrial projects. The resulting output should eventually help service foreign debt repayment, as well as improve current trade imbalances. 

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