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BRIEFING PACKGAE

27 February 1967

INDONESIA

- I. In Indonesia, the Suharto regime, 17 months after the abortive coup of October 1, 1965, is still preoccupied with the same two major problems: how to deal with President Sukarno, and the effort toward economic stabilization.
- II. In view of Sukarno's continued obstruction, the regime on February 20 forced him to turn over his remaining government power to General Suharto but permitted him to remain titular president.
  - A. An emergency session of congress is scheduled to meet on March 7 which will ratify the power turnover and perhaps take further anti-Sukarno measures.
    1. Anti-Sukarno activists still demand Sukarno's suspension as president and his public trial.
    2. General Suharto apparently wants to avoid a trial fearing it might provoke violence in pro-Sukarno areas, but he may support the removal of Sukarno as president.

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- III. Indonesia has begun to implement the economic stabilization plan which it developed last year with the help of the International Monetary Fund.
- A. Its major efforts to increase government income are new foreign exchange regulations, an intensified drive to collect taxes, and the partial removal of price controls.
1. Other moves toward budget balancing are credit limitations, higher interest rates for government bank loans, and some luxury taxes.
- B. The present regime favors increased participation in the economy by private capital, both foreign and domestic.
1. In December, parliament passed a new law governing foreign investment, and Indonesia has negotiated an investment guarantee agreement with the United States.
- C. Indonesia exported more in 1966 than in 1965, and achieved slight improvement in its balance-of-payments.
- D. Indonesia plans bilateral discussions to obtain assistance to support the stabilization program.

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1. The US has offered \$65 million for calendar year '67 which would consist of loans to finance imports and credits for the purchase of agricultural products.

IV. Since Indonesia is practically bankrupt, all creditors--both Western and bloc--have agreed to reschedule Indonesia's payments on its large foreign debt of about \$2.4 billion.

- A. Both groups of governments have agreed on a grace period. Repayments to the West on part of the Indonesian debt are to begin in 1971 and to be carried out over a period of eight years; repayment to the bloc will begin in 1969 and be over a 13-year period.

V. Indonesia formally ended its three-year undeclared war against Malaysia last August.

- A. Indications are that Djakarta will maintain at least a low-grade campaign of political subversion designed to develop in Malaysia a susceptibility to Indonesian influence.
- B. Djakarta has ordered a stop to paramilitary operations, and is withdrawing the bulk of its "confrontation" forces from the border areas.

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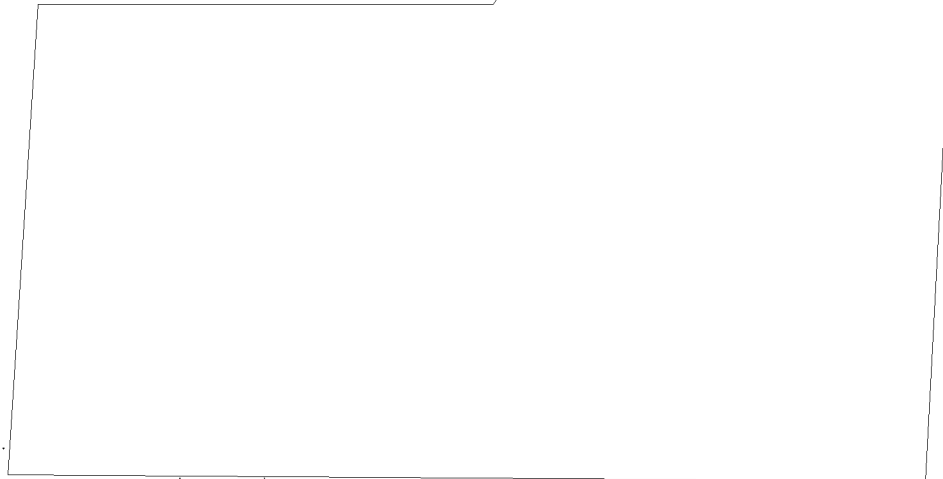
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C. Meanwhile the area of cooperation between Indonesia and Malaysia is steadily enlarging.

1. The two governments have exchanged military liaison teams; the ban on trade has been lifted; visa issuing offices are about to be established.

D. The resumption of diplomatic relations, however, has been deferred;

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VI. Indonesia has recognized Singapore, and the two governments have exchanged "liaison" officers who handle trade and visa matters.

A. Singapore does not plan to establish formal diplomatic relations with Indonesia until Malaysia does.

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VII. Foreign Minister Adam Malik stated publicly in mid-December that Indonesia will hold a plebiscite in West Irian--formerly Netherlands New Guinea and now administered by Indonesia--in 1969 as understood in a Netherlands-Indonesian agreement.

- A. Malik's assurances--whatever their reliability--are part of the continuing effort by the present regime to restore international confidence in Indonesian commitments.
- B. Meanwhile small-scale dissidence, largely censored by Indonesia, is being conducted in West Irian by a small, poorly-armed rebel group that opposes Indonesian administration.

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