

The Indonesian Economic Development after 1965: Developmental State, Radical Politics & Regional Cooperation

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Abstract:

This paper discusses the Indonesian economic development after 1965 under the new order administration led by President Suharto. After the collapsed of radical politician under Sukarno, Developmental group under Suharto control Indonesian politics. The co-operation between the capitalist countries in Southeast Asia and American hegemonic power began under Suharto administration. Indonesian economy improved rapidly after 1965. The domestic Indonesian politics, regional co-operation and the role played by the American hegemonic power plays significant role in Indonesian economic development after 1965.

Keywords:

Indonesian Economy; New Order; Developmental State; Suharto; Regional Cooperation; Radical Politics

1. INTRODUCTION

The period after 1965 was important in the Indonesian economic development and the emergence of developmental group in Indonesian government. Radical politician group under Sukarno leadership collapsed after Indonesian Coup September 1965. After that event, creation of a pro-West dominant political group began in Indonesia. The emergence of developmental group under Suharto leadership influenced the Indonesian domestic policy and external economic relations. With support from American hegemonic power, Indonesia played an active role in the creation of new regional economic co-operation after 1965. The economic co-operation with Malaysia improved. The Indonesian developmental group under Suhartos leadership and American hegemonic power influenced the new economic environment and co-operation in Southeast Asian region.

2. LITERATURE REVIEW

There are numerous previous studies has been done on the Indonesian economic development and the related issues during the period before and after 1965. Hartman (1973) argued that military spending

under Sukarno gave great impact to the Indonesian economy. Big percentage for military spending gave negative impact to the Indonesian economy before 1965. Military spending of Indonesia under Sukarno in the early 1960s, spent about 70 percent of the national income on the national defence. At the same period, economic growth was negative; productivity was very weak and very bad social condition. There were no effective economic development policy taken by Indonesian government in improving the social welfare, quality of mass population condition etc., but the government still spent big amount for military and defence expenditure. The big percentage for defence expenditure is normal for the socialist state. Sukarno Indonesian, which had practiced socialist policy, even not a pure socialist state, but had some element of communist-socialist, influenced policy of the big percentage on military spending.

Bertsch (1982) analysed that state leader in radical ideology formulate the national policies (including economic policy) with only decided by a small number of top leaders. The type of decision-making could be practiced because any decision made by the leaders did not influence their political position. Indonesia under Guided Democracy was not practiced democratic general election. The top leaders are not chosen through a free general election. The state policies made by top leaders do not highly consider the mass population because the mass population is not important for their position and political survival. The policies, either agreed or objected by the mass population, are not important for political leaders because their position is not chosen through a free general election.

Preeg (1974) emphasised the important of the regional economic cooperation to individual state. Regional organisations have the potential to stabilise economic and political stability. Regionalism was held to provide security and protection against external economic and political forces over the nation state, acting alone. The organisation of the world economy into regional blocs could provide the basis for a secure and peaceful economic order. In the ASEAN experience, the United States of America played an important role in their success in the 1960s and 1970s (beside the co-operation between the ASEAN members). There also was co-operation and strong support from Japan and Western European countries, Australia and New Zealand. Indonesia achieved positive economic growth in late 1960s and 1970s because of the effective regional cooperation and good support from Western countries.

Mc Grew and Brook (1998) discuss the positive impact to the relationship between the international security and regional development. In the Southeast and East Asian region, ASEAN was an important regional co-operation mechanism. ASEAN, in the Cold War perspective, was not totally an economic and social co-operation, but was also important in the security-military and ideological competition between communist-socialist and democracy-capitalist. Regional security development and communist common enemy in Indo China played the role in making the members states of ASEAN closer and cooperative to each other. International political development gives impact to the internal ASEAN economic development. The United States of America and Japans support can be seen as playing an important role in the ASEAN success, as well as the co-operation spirit among the ASEAN members.

Subramaniam (1996) argued the important of new pro-West leader in economic development. Economic policy under Suharto was different with the economic administration under Sukarno. Suharto economic development can be considered as the new era of Indonesian economic development in the twentieth century. It was different with Sukarno who concentrated more upon nation prestige, improved military facilities and being closer to communist countries in her foreign policy. Under President Suharto, he began to co-operate with the United States and encourage foreign investment into Indonesia. President Suharto turned her external economic relations towards Western countries, invited foreign investment and reconciled economic relations with American and other Western developed countries. The main objectives of the Suharto economic policy were to develop the Indonesian economy and solve the serious economic problems inherited from the Sukarno administration. Under Suhartos administration, economic

issues and problems solutions would receive the highest priority among all Indonesian problems. The sector most significant for national economic development was the priority for the development minded economic policy. The defence expenditure was not the priority for the Suharto administration. Agriculture, industry, mining and energy, communications, trade and co-operative, education, housing, science and technology, housing and commercial investment sector were the priority for the Suharto development economic policy.

Roesnadi (1973) raised the idea that the good cooperation between world hegemonic power and regional strong power become important factor in forming regional cooperation. Indonesia co-operated closely with the capitalist Southeast Asian countries in enhancing the Indonesian economic growth and fostering development. New Order Indonesia played a significant role in the establishment of ASEAN in 1967 and later on became one of the leading factors in successful co-operation among the ASEAN members. The regional stability and close co-operation between the five ASEAN members played and contributed to the economic prosperity and rapid development in Indonesia. The support given by the United States played an important role in pushing ASEAN members to co-operate with each other. In the Southeast Asian situation, the position and role played by Indonesia as the biggest country is a vital factor and foundation for other members to form a strong foundation for economic co-operation. With Indonesian co-operation and joining the free democracy-capitalist group, the new economic sphere in Southeast Asian region could be formed successfully. The failure of ASA, SEAFET and Maphilindo on 1950s and early 1960s because of the less support by the Indonesia. The position and Indonesian role as the biggest country in the Southeast Asian region was an important factor in creating a successful ASEAN regional association.

Mahajani Usha (1967) argued that strong support from Western countries gave positive impact to the Indonesian economy after 1965, especially in the early years of New Order Indonesia. New Order economic policy was strongly supported by the United States and other Western Countries. Most of the foreign investment after 1965 came from Western countries. The good relations with the West responsible to the rapid economic development and positive growth of Indonesian economy after 1965. Without strong support and Indonesian close cooperation with the Western Countries is impossible for Indonesia to achieved rapid economic growth after 1965.

Stein and Lobell (1997) emphasised the ideological factor, harmonious relations and impact to the economic development and political stability. The ideological factors and the relations with the United States also contributed to the harmonious relations between capitalist state in Southeast Asia, especially between Indonesia and Malaysia. The United States influence in Southeast Asia, affected the degree of relations among the capitalist states in the period before and after the formation of regional association in 1967. The influence of the United States cannot be avoided in the political and regional relations during the Cold War period. This factor played a significant role in analysing the political stability and state relations in the Southeast Asian region. The changes in the American super power relations would change the pattern of regional individual state relations. This argument can be seen during the period before 1967, the period from 1967-1989 and the post 1989 period. The above three periods were different in international relations structure in Southeast Asia. The super powers relations with South East Asian countries and the structure of systemic situation directly influenced the economic development and political stability in Southeast Asia. The rapid Indonesian economic development, positive growth and harmonious relations with the ASEAN member state cannot be separated with the ideological struggle and American security strategy.

3. DEVELOPMENTAL STATE, RADICAL POLITICS, REGIONALISM AND HEGEMONIC POWER

Theory of Developmental State is a significant theory in understanding the economic development in a country at the domestic level. The state actor is an important element in understanding economic development process at the domestic level. There are close relationships between the developmental state (internal) and hegemonic power (external element) in understanding the economic development process.

The Developmental State contends that states have a strategic responsibility to take part in taming domestic and international market forces and harnessing them to national desires. It argued that a state is crucial in overcoming market infection and the various bottlenecks of industrialisation. The Developmental state is contrasted to the states in Socialist economic system and Western capitalist economies. The Socialist system seeks to control administrative commands for private entrepreneurship and market mechanism, while in Western capitalist economies the state is mainly regulatory and is expected to play the responsibility of a balanced umpire in the market place. The Developmental State does not endeavour to profit-seeking behaviours in the development process. It will attempt to encourage private business decisions by persuasion, coercion and by manipulating the parameters of private decision-making. The developmental state is a system imitative from the relations of two sub-systems, one public and geared to development replace the market mechanism and private decision making, but neither does it hand over to private objectives and the other private and geared to profit maximization.

The concept of radical state is essential in understanding the development process and the political stability in Indonesia. Radical state is also significant in analysing the development process in bi-polarity international political structure, in the context of the role of the Soviet Union (and Indonesia) and relations with American hegemonic power. Why the group of the state, like Indonesia is slightly slow than the other group of state in the development process, had different economic planning in the domestic level and different economic and political external relations. The group of radical state had close political and economic relations with Soviet Union or China in her economic and external political relations and chill relations with America and other Western powers.

The radical state is contrasted with the state in the Western capitalist economies and developmental state. The higher leader makes the authoritative decision in development planning [1]. Economic development is for the mass population and planning for increasing the standard of living and improving economic growth is not the main objective in a radical state. This characteristic is totally contrasted with the Western capitalist economies countries and developmental state. Defence strategy, authoritative power control and huge defence expenditure are among the main characteristic of a radical state.

Economic development, in terms of economic growth, social welfare and increase productivity etc. are not the priority of a radical state economic development policy. Weapon industry and developing military and defence technology is more important than economic growth, social economic welfare and increase productivity. In Indonesia in the early 1960s, about 70 percentages of the national income was spent on the defence. At the same period, economic growth was negative; productivity was very weak and very bad social condition. There were no effective economic development policy taken by Indonesian government in improving the social welfare, quality of mass population condition etc., but the government still spent big amount for military and defence expenditure [2]. Economic development for the radical politician is not that such important like military and weapon technology.

State leaders of radical politics formulate and implement national economic policies with their authoritative power. Only a small number of elites that have close ties with top leader made the decision, which

do not involve the mass process [3]. The top leaders are not chosen through a free general election. The state policies made by top leaders do not highly consider the mass population because the mass population is not important for their political survival. The policies, either agreed or objected by the mass population, are not important for political leaders because their position is not chosen through a free general election.

Regional co-operation is a way how development could be improved. Regional co-operation also importance for a hegemonic power in maintaining economic achievement and political influences in a regional level. Through regionalism, the hegemonic power could encourage and gives support for the regional economic co-operation and socio-political integration. It was started after World War II. Nation states formed regional alliance or economic blocs in order to advance their interest in protecting them from other nations states. The similar characteristic among the states in certain regions was important in the formation of a regional or economic bloc. During the Cold War era, the ideological factor was one of the most important factors in the formation of any regional organisation. Any regional organisation during the Cold War era had external support from hegemonic powers, either the United States (hegemonic power) or Soviet Union (counter-hegemonic power).

Regional organisations have the potential to stabilise world economic and political relations. Regionalism was held to provide security and protection against external economic and political forces over the nation state, acting alone. The organisation of the world economy into regional blocs could provide the basis for a secure and peaceful economic order [4]. The argument that regionalisation would intensify international economic conflict is not true, when a regionalisation is supported by a hegemonic power. In the ASEAN experience, the American hegemonic power played an important role in their success in the 1960s and 1970s (beside the co-operation between the ASEAN members). There also was co-operation and strong support from Japan and Western European countries, Australia and New Zealand.

In the Southeast and East Asian region, ASEAN was an important regional co-operation mechanism. ASEAN, in the Cold War perspective, was not totally an economic and social co-operation, but was also important in the security-military and ideological competition between communist-socialist and democracy-capitalist. Regional security development played the role in making the members states closer to each other. International political development gives impact to the internal ASEAN development [5]. The American hegemony and Japans support can be seen as playing an important role in the ASEAN success, as well as the co-operation spirit among the ASEAN members.

4. INDONESIAN ECONOMIC DEVELOPMENT AFTER 1965

The Indonesian economic policy under the New Order administration led by President Suharto since early 1966 radically modified the economic situation in Indonesia. The radical politician under Sukarno administration dominated Indonesian economy during the period of 1959-1965. Radical politics economic policy was closer to the communist bloc, especially Soviet Union and China. The policy changed towards the West after the new order or developmental minded group under president Suharto took power in 1966 after the collapse of the radical politician under President Sukarno. The developmental group dominated the Indonesian politics after 1965 and contributed to the changes in Indonesian economic, national planning and development policy. New era in Indonesian economic development began after 1965. Indonesian GDP improved steadily after 1965.

Economic development, welfare policies and improving standard of life became the key issues to Suhartos political goal. The New Order economic strategy sought to improve the performance of the

Table 1. The Indonesian GDP 1965-1975.

Year	Current Prices (in thousand million rupiahs)
1965	24
1966	316
1967	848
1968	1,994
1969	2,718
1970	3,340
1971	3,672
1972	4,564
1973	6,753
1974	10,708
1975	12,643

Source: Mitchell, B.R., (1982), *International Historical Statistics, Africa and Asia*, London & Basingstoke: The Macmillan Press, p. 730 (adapted).

weak Indonesian economy not merely for its own sake, but a means of securing the military elites political objective of socio-economy modernisation with stability and national resilience. The military played a critical role in the formulation and implementation of the new economic policy. The economic achievement and prosperity was also important to convince Indonesian mass population of the new military regime as at the same time the Sukarno influence was still strong. Failure in improving the better economic situation would be dangerous for the future military political survival. The changes and early years of New Order Indonesian development and her economic foreign policy can be seen in the **Table 2**.

5. THE INDONESIAN 'NEW ORDER' ECONOMIC POLICY

Developmental minded or New Order economic policy under Suharto was different with the radical politician administration under Sukarno. New order economic development can be considered as the new era of Indonesian economic development in the twentieth century. It was different with Sukarno who concentrated more upon nation prestige, improved military facilities and being closer to communist countries in her foreign policy [6]. Under new order government, President Suharto began to cooperate with American hegemonic power and encourage foreign investment into Indonesia. President Suharto turned her external economic relations towards Western countries, invited foreign investment and reconciled economic relations with American and other Western developed countries.

The main objectives of the new order economic policy were to develop the Indonesian economy and solve the serious economic problems inherited from the Sukarno administration. Under Suhartos administration, economic issues and problems solutions would receive the highest priority among all Indonesian problems. The sector most significant for national economic development was the priority for the development minded economic policy. The defence expenditure was not the priority for the new order economic expenditure (under Sukarno about 70% of national expenditure was for defence) [7]. Agriculture, industry, mining and energy, communications, trade and co-operative, education, housing, science and technology, housing and commercial investment sector were the priority for the developmental minded economic expenditure. (see **Table 3**).

The period in early 1966, the year when President Suharto took power from Old Order (President Sukarno Regime), the Indonesian economic situation was very awful. In order to solve the economic

Table 2. The Chronology of the Indonesian 'New Order' Administration and Economic Policy after 1965.

18 March 1966	New Indonesian Cabinet under President Suharto was formed with main three lines of actions; first, a gradual disclosure of the Sukarno; second, the creation of a new political system; thirdly, normalisation of international relations with the non-communist world, with the primary objective of overcoming the country's catastrophic economic crisis.
12 April 1966	Sultan Hamengku Buwono, vice Premier for Economic and Financial Affairs, stated his economic and financial policy will be a departure from the trends of the 'old order'.
27 May 1966	Japan offered \$30 million in emergency credit to Indonesia and suggested an international conference for the purpose of creating a consortium to aid Indonesia.
28 May 1966	Sultan Hamengku Buwono announced (in Tokyo) that Indonesia would rejoin the International Monetary Fund.
19 July 1966	The first meeting of Indonesia's non-Communist creditors was held in Tokyo-discussions on the rescheduling of Indonesia's external debts. A Team of economists from the IMF proceed thereafter to draft together with Indonesian economic experts a stabilisation programme.
25 July 1966	The new cabinet was announced. This cabinet has 24 ministers, supervised by five chief ministers who form a presidium: General Suharto, chairman of the presidium and chief minister for Defence and Security; Adam Malik, chief minister for Political Affairs; Sultan Hamengku Buwono, chief minister for Economy and Finance; Sanusi Harjadinata, chief minister for Industry and Development; and Idham Chalid, chief minister for Welfare. General Suharto, Adam Malik and Sultan Hamengku Buwono were close political associates as leaders of the struggle for a 'new order' whereas Sanusi Harjadinata, a prominent member of the Nationalist Party (PNI) and Idham Chalid, a leader of the Moslem Nahdatul Ulama Party represented a link with the past.
19 Sept 1966	Second meeting of the 'Tokyo Club'. Indonesia presented to its creditors a candid picture of the economic situation inherited from the 'old order'.
Mid-October 1966	Foreign Minister, Adam Malik (in Moscow) obtained some rescheduling of debts from the Soviet Union.
17 Nov 1966	The 1967 Budget was presented to Indonesian Parliament, slashing defence expenditures from 70 to 25 % of national expenditure.
15 Dec 1966	Indonesia announced that it would return to their owners all foreign enterprises (especially from Western Countries) taken over in the course of the 'confrontation'
20 Dec 1966	Tokyo Club meeting in Paris, consisting of the United States, Great Britain, France, Germany, Italy, the Netherlands and Japan decided to defer payments on \$357 million past due or due in 1967, and continue effort to help Indonesia.
24 Dec 1966	Indonesian parliament approved a new law creating favourable conditions for private foreign investments, which provided a new framework for the Indonesian economy.

Source: Pauker, Guy, J., 1967, 'Indonesia: The Year of Transition,' *Asian Survey*, vol. vii, no. 2, February 1967, pp. 145-150.

problems inherited from the previous regime, Suharto changed the economic policy from East (Communist-socialist bloc) towards American hegemonic power and his Western alliance. The economic policies in the domestic, regional and international level were geared towards the new policy.

At the regional level, Indonesia co-operated closely with the capitalist Southeast Asian countries in enhancing the Indonesian economic growth and fostering development. New Order Indonesia played a significant role in the establishment of ASEAN in 1967 and later on became one of the leading factors in successful co-operation among the ASEAN members. The regional stability and close co-operation between the five ASEAN members played and contributed to the economic prosperity and rapid development in Indonesia. The support given by the Americans as a hegemonic power in the

Table 3. New Order Development Expenditure 1969-1979.(by sector, in Rupiah billion)

Sector	1969	1974	1979
Agriculture(includes irrigation).	29.8	301.8	508.2
Industry	21.3 (includes expenditure for Mining & Energy)	149.7 (includes expenditure for Mining and En- ergy)	356.3
Mining and Energy			376.4
Communications(includes tourism)	33.3	123.5	465.8
Trade and Cooperative	-	4.2	30.5
Labour and Transmigration	0.2	4.5	162.2
Regions	5.9	135.9	335.8
Religion	1.2	3.0	19.0
Education	8.1	47.2	361.4
Health, social (includes Women's af- fairs & family planning)	5.4 (includes expenditure for Housing)	25.3	142.4
Housing		6.5	117.3
Law		1.9	30.8
Defence	4.6	22.7	330.2
Information		2.7	22.4
Science and Technology		11.2	58.0
State apparatus		23.9	111.5
Commercial Investment		97.8	465.6
Total	118.2	961.8	4,014.2

Source: Hill, Hal, (2000), *The Indonesian Economy* (second Edition), Cambridge: Cambridge University Press, p.58 (adapted).

systemic level, played an important role in pushing ASEAN members to co-operate with each other. In the Southeast Asian situation, the position and role played by Indonesia as the biggest country is a vital factor and foundation for other members to form a strong foundation for economic co-operation. With Indonesian co-operation and joining the free democracy-capitalist group, the new economic sphere in Southeast Asian region could be formed successfully. The failure of ASA, SEAFET and Maphilindo on 1950s and early 1960s supported the above argument [8]. The position and Indonesian role as the biggest country in the Southeast Asian region was an important factor in creating a successful ASEAN regional association.

Having only hegemonic power support is not sufficient in the creation of regional economic organisation and regional political economy stability. A strong regional actor is an another important factor. The developmental groups liberal economic policies and domestic stability were also important in creating a stable regional economic co-operation. The economic sphere of Southeast Asian countries failed to form a regional economic co-operation in 1960s because Indonesian Sukarno refused to join and gave her support to the socio-economic regional association. The Suharto external economic policy contributed to the successful economic co-operation in Southeast Asian region after 1965.

6. THE INDONESIAN 'NEW ORDER' ECONOMIC RELATIONS WITH WESTERN COUNTRIES

With the emergence of a new order developmental group after 1965, Indonesian economic relations with the Western countries and Japan developed rapidly. Most of the foreign investment after 1965 came from Western countries and Japan. Economic relations with the communist bloc decreased instantly after 1965. Conversely, the economic relations, investment, loan and aids from the communist bloc decreased rapidly after 1965.

The emergence of new order Indonesia has brought victory for the Americans economic objective in Indonesia. Indonesian communist was crushed under the weight of the Indonesian army. Army leader under General Suharto required American hegemony assistance in solving their economic problems. Army administration was ready to follow and implement economic policies acceptable to the United States. The way to improve Indonesias economic position was to obtain a rescheduling of existing debt repayment and earn new credit. With new credit from abroad and rescheduling foreign debt, new economic development could go ahead. The co-operation between the new dominant political group and hegemonic power was a vital factor in the Indonesian economic development after 1965.

Previous Indonesian political regime influenced the American decision in the early years after the 1965 Coup. America took more than a year before pledging definite aid to Indonesia. During the early years after the coup 1965, most of aid to Indonesia was sent through Japan and Tokyo Club operated under multilateral aid diplomacy. The U.S. economic policy towards Indonesia slowly changed after the Foreign Minister Adam Malik visited Washington in September 1966.

Japan gave an emergency loan of USD 30 million to Indonesia, as a response to Sultan Buwonos request during his mission to Japan in May 1966 [9]. This immediate loan was for buying Indonesian basic necessities. During Sultan Buwonos mission to Japan in May 1966, he made three requests: first, an immediate credit of USD 40 million for a USD 100 million fund to be sought from all foreign aid sources to buy Indonesian basic necessities; second, deferment of payment obligation incurred by Indonesia during a period of emergency reconstruction from 1966-1969; and thirdly, a fresh Japanese loan of USD 50 million for September-December as part of a USD 200 million credit from all sources [10]. Japan did not give any assurance on the second and third requests of Sultan Buwono. Japan set out to organise a Western consortium of creditors to assist Indonesia. At this period the United States preferred to play a backstage role in the still sensitive and seething Indonesia and chose Japan as a suitable executant of its aid diplomacy [11]. This Western consortium however gained full support and guidance by the Americans. Japans idea of consortium was also in line with the principle of multi-lateralism in Western aid, which the United States had been vigorously promoting to avoid unilateral aid burden. Japan invited Western nations (the United States, Britain, West Germany, Italy, France, the Netherlands, Switzerland, Canada, Australia and New Zealand). Soviet Union and non-aligned creditors like India and Yugoslavia were not invited.

Tokyo Conference started on 19 September 1966 to discuss the Indonesian economic recovery. Before the Tokyo conference commenced Indonesia had sought aid through bilateral diplomacy [12]. During the Tokyo Conference on 19 September 1966, Suharto emphasised that economic problems would receive the highest priority among all national problems. Suharto established a proper link between the domestic and international economy through a realistic exchange rate. Indonesia was willing to link its economy with the Western international economic system. Suharto pleaded for goodwill and co-operation from Western countries and invited the World Bank to draw up a crash programme for transport and agriculture. In the Conference, the Western countries agreed in principle to assist Indonesia to develop her economy and reschedule her debts. The other conference for Indonesian economy was held in Paris in December 1966

and in Amsterdam in February 1967.

The Paris Meeting in December 1966 confirmed that the Tokyo Club agreed to reschedule repayment of Indonesian debts. Repayment of USD 357 million debts due before 1st January 1968 was deferred until 1971-1973. In the Amsterdam meeting in February 1967, the United States pledged to help to ease the balance of payments and gave new credit in 1967. On 14 April 1967 an agreement was signed for a U.S. loan of USD 10,000,000 to import America raw materials and spare parts. On the same day a military aid agreement was signed between Indonesia and U.S. The first military of non-combat military equipment was made in April 1967. In May 1967, the United Nations Development Programme (UNDP) also promised technical assistance worth USD 2,265,000. This was the first UNDP assistance to Indonesia since Indonesia rejoined the United Nations [13].

Before the Tokyo Club Conference was held in Paris in December 1966, Sultan Buwono visited West Germany and obtained offer of DM 50 million in addition to DM 30 million given in June 1966. France mentioned her interest in Indonesian economic development and agreed to buy Indonesian tobacco directly rather than through European markets [14].

The focus of Indonesian Western economic assistance was highly expected from the United States. In September 1966, Adam Malik visited Washington and the United States agreed to give additional emergency supplies of rice, cotton, spare parts and to resume Indonesian training in U.S [15]. The U.S. slowly changed her policy towards Indonesia because the United States was careful with the Indonesia policy to assert international leadership (under Sukarno in 1950s and early 1960s). After Maliks visit in September 1966, the United States obtained a better understanding of Indonesias new policies under Suharto, who influenced the type of United States economic assistance to Indonesia [16]. To secure economic assistance from the U.S., Indonesia needed to go all the way with the United States economic policy. Private investment from America also was discussed between Indonesia and America. On 31 October 1966 a private U.S. company was given concessions for exploration and exploitation of copper ore in West Irian. Foreign private capital was welcomed in exploration and production of oil. The foreign companies that were seized during Sukarnos reign had been returned to the Western owners. A Committee for foreign credit policy was formed in December 1966 to co-ordinate credits from various sources. The Foreign Capital Investment law of 24th December 1966 granted tax concessions and extensive safeguards. Indonesias new economic order marked a changed of spirit of the political new order Indonesia. Indonesian new order encouraged foreign investment and confidence that was very important for the Indonesian development. In order to attract more foreign investment, especially from America, Indonesia signed an investment guarantee agreement with the United States on 7th of January 1967 giving specific guarantees against inconvertibility, nationalization and domestic upheaval [17]. The signing of such investment guarantee agreement was significant in attracting foreign investment foreign, especially from the U.S. to Indonesia.

Trade relations with Western countries increased after 1965. United States, United Kingdom, the Netherlands, Japan and Malaysia became main trading partners under the new order administration. The trend of trade relations (import and exports) with Japan, Malaysia, the Netherlands, United Kingdom and the United States increased after Indonesia ended the confrontation with Malaysia, rejoined United Nations and improved diplomatic relations with most of Western countries. There are relationships with the political, foreign policy and economic relations. (See [Table 4](#)).

The changes in Indonesian economic relations with Western countries were very clear after 1965. The roles played by the new dominant pro-West political group influenced the economic relations towards western countries. The economic support from Western countries to Indonesian political dominant group

Table 4. Imports-Exports with Japan, Malaysia, Netherlands, U.K. and the U.S 1965-1975 (million rupiahs).

Year	Japan		Malaysia		Netherlands		U.K.		U.S.	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1965	1,827	1,128	2.3	56	229	921	273	60	656	1,586
1966	1,415	1,211	13	180	256	941	133	159	492	1,424
1967	1,807	1,945	183	671	474	416	217	245	521	1,133
1968	1,592	1,785	366	1,465	501	529	189	114	1,266	1,231
1969	2,260	2,518	441	1,677	394	494	272	92	1,551	1,196
1970	2,628	3,512	543	2,587	460	629	291	156	1,577	1,479
1971	3,631	5,449	786	1,698	511	694	483	128	1,670	1,989
1972	5,319	9,018	1,031	1,681	668	781	637	235	2,429	2,919
1973	7,122	17,074	1,457	3,810	851	1,009	984	321	4,366	5,029
1974	11,392	39,548	2,602	6,266	1,006	1,414	1,481	237	6,007	15,269
1975	14,774	31,298	3,635	6,971	1,331	1,807	1,647	314	6,700	18,655

Source: Mitchell, B.R., (1982), *International Historical Statistics, Africa and Asia*, London and Basingstoke: The Macmillan Press, p.455

was an essential factor in consolidating the group. The economic support from West in the 1966 and a few years after was vital in strengthen their position. Without economic stability, the creation of a new dominant group would make it difficult. Economic stability was important in getting full support from mass Indonesian population.

7. THE INDONESIAN 'NEW ORDER' AND REGIONAL CO-OPERATION

The Indonesian New Order economic policy under President Suharto benefited from improved the Indonesian political relations with Malaysia. Trade relations with Malaysia increased rapidly after 1967 and Malaysia was one of the important trade partners for Indonesia. With the creation of a dominant leadership and political philosophy in Jakarta, Indonesia played more active roles in the Southeast Asian economic co-operation. The formation of regional economic sphere based on the capitalist economy began after the emergence of a new dominant political group in Indonesia. At the global level the sphere was led by America. In the regional level Indonesia played a more important role and was actively involved in the regional economic relations. The formation of ASEAN in August 1967 had the main purpose of building co-operation in the economy and technology among the members and paved the way to the close co-operation between the two confrontation in 1960s countries, i.e. Indonesia and Malaysia.

The spirit of regionalism and regional co-operation provide an encouraging environment for economic co-operation in the Southeast Asian region after 1967. The formation of ASEAN in 1967 (replaced ASA and then joined by Indonesian) provided a framework for economic co-operation in the region. The effort of the formation of regionalism and economic body for co-operation not only emerged in 1967, but had an earlier effort such as SEAFET, ASA and Maphilindo. All of the earlier efforts were not successful because of absence of full commitment from the most important country in the region, Indonesia. The political and economic philosophy of Indonesian politics influenced the situation. The position of Indonesia as the biggest and most powerful state in the region and Sukarnos style of leadership and his political philosophy was the most important factor in explaining the failure of regional body formation in the Southeast Asian region before 1967.

Indonesia, as the biggest country in the Southeast Asian region, influenced the effectiveness of the

regional association. During the period before 1965 the Indonesian leaders, especially President Sukarno, had another bigger agenda in the international relations. Sukarno planned to put Indonesia as an international leader in the third world countries. His ambition was higher than being a regional leader. To Sukarno, Indonesia should be one of the international political leaders and play a vital role in the non-aligned movement. Indonesia aspired to leadership on a larger stage than a regional level [18]. Indonesian aspiration to be one of the international leaders failed because Indonesia had to face the obstacle with the American hegemonic power. The Indonesian ambition (if successful) would threaten the America economic interest in the third world region. The Indonesian domestic political change in 1965 was an American effort to collapse the Sukarno regime [19]. The new perception towards regional economic co-operation and supportive action started after the fall of Sukarnos regime in 1965. The new perception of Indonesia had changed the power and economic configuration and state-relation among the Southeast Asian states.

The formation of ASEAN played a vital role in stimulating economic co-operation among the five members of ASEAN (Malaysia, Singapore, the Philippines, Indonesia and Thailand). The association emphasised the co-operation in economic, cultural and social co-operation. The co-operation in the political-security was not clearly mentioned in the declaration. ASEAN objective was to accelerate the economic growth, social progress and cultural development in the region through joint endeavours, in order to strengthen the foundation for a prosperous and peaceful community of the Southeast Asian nations. According to the association philosophy, all of the five ASEAN members should co-operate and assist each other in improving economic development.

Malaysia and Indonesia were among the most important members in the ASEAN. The main objective was to end the confrontation and stimulate co-operation between both nations [20]. The formation of ASEAN paved the way for Indonesia, Malaysia and other free countries in Southeast Asia (The Philippines, Thailand and Singapore) into one economic sphere. Such an economic sphere was important for the American economic interests and his activities in both countries. American and other Western powers investment became protected after the Suharto regime came to power in 1965 and the formation of anti-communist regional association in Southeast Asia in 1967.

The new regime of Indonesia (New Order) had improved and become more stable with the formation of regional association in 1967. Comparable economic philosophy and leadership factors played a vital role in the relations and economic co-operation between the capitalist states in Southeast Asia. The ideological factors and the relations with the American hegemony also contributed to the harmony relations between capitalist state in Southeast Asia, especially between Indonesia and Malaysia. The superpower influence in Southeast Asia, affected the degree of relations among the capitalist states in the period before and after the formation of regional association in 1967 [21]. The influence of the superpower cannot be avoided in the political and regional relations during the Cold War period. This factor played a significant role in analysing the state relations in the Southeast Asian region. The changes in the super power relations would change the pattern of regional state relations. This argument can be seen during the period before 1967, the period from 1967-1989 and the post 1989 period. The above three periods were different in international relations structure in Southeast Asia. The super powers relations and the structure of systemic situation directly influenced the economic and political relations in Southeast Asia.

8. CONCLUSION

Indonesian development was slow in the 1950s and early 1960s but changed and improved dramatically after 1965 under new order administration. The year 1966 was indeed a watershed in Indonesian economic development. It is clear that leadership and ideological factors is an important factor in managing and administering effective economic development during the Cold War period. Leaders and state which had conflict and bad relations with the world hegemonic powers seen difficult in developing and improving national economic programme. Sukarnos economic policy and anti-American hegemony foreign policy had destroyed the Indonesian economy in late 1950s and early 1960s. Economic growth and Indonesian development programme under President Sukarno administration was very slow. Rapid economic development and positive growth started after 1965, when the state under the Suharto administration had changed foreign economic policy and played a more active role in managing to develop the Indonesian economy. The changes foreign policy from pro-East to pro-West gave the positive impact to the Indonesian economy. The rapid economic development of Indonesia after 1965 was the direct impact of the role played by the developmental state economic policy and strong support from American hegemonic powers. The United States would not and find difficult to cooperate with the leaders that practised different ideology. The Sukarno administration that had closed relations to East countries influenced economic aids, trade relations and investment from the United States and other Western countries. The active and efficient role-played by the Suharto administration (which had closer policy to the West) and the external support from American and other Western countries, as well as Japan, greatly contributed to the rapid Indonesian economic development after 1965. The rapid Indonesian economic development after 1965, was also the impact of various level factors and inter-related with the domestic stability, regional harmony and systemic factor. The political co-operation at the regional level established strong support for the economic co-operation in the Southeast Asian region. The formation of ASEAN in 1967 formed a strong political and economic base for regional development co-operation.

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