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INDONESIA

Conclusions

A. The government headed by General Suharto and supported by the army is in effective control of Indonesia. Over the short term, the most likely sources of opposition are the political activists of the younger generation and the old-line political parties. Though the Indonesian Communist Party is still badly disrupted, it is possible that over the longer term a radical nationalist movement could develop mass support in Indonesia once again. Nevertheless, the army will almost certainly retain power for the next three to five years, presumably under the leadership of General Suharto.

B. The Suharto government has adopted a moderate, pragmatic approach to Indonesia's serious economic problems. The pace of economic progress will almost certainly be slow for the next few years, and even that pace is contingent on deferment of large foreign indebtedness and substantial new foreign aid and investment. The effectiveness of the government will continue to be hampered by administrative inefficiency, inadequate transport and communication facilities, and basic constraints endemic in Indonesian society, notably a paternalistic system of cultural values that inhibits social discipline.

C. Though Indonesia will remain officially nonaligned, there is likely to be a continuation of the present trends toward improved relations with neighboring countries and the free world, cool relations with the USSR, and hostility toward Communist China. Basically, the present government would like to have the US involved somehow in the protection of Southeast Asia against China, yet it would not favor a direct security relationship with the US or any other outside power, lest this cast doubt on Indonesia's nonaligned image or hinder any future effort by Indonesia to assert its primacy among the Malay peoples. In the unlikely event that the present moderate government were replaced by an authoritarian regime bent on diverting attention from domestic problems, Indonesia might revert to an aggressive policy vis-à-vis Malaysia and Singapore.

Discussion

I. Introduction

1. The course of modern Indonesian history has shifted decisively in the three years since the Indonesian Communist Party (PKI) failed in its attempt to eliminate the power of its principal rival, the Indonesian Army. Since the momentous events of October 1965, the army has gradually consolidated its position as the political arbiter in the nation. With caution and deliberation,

General Suharto, the leader of the army, has destroyed the power of the Communists and Sukarno, and has himself assumed the office of President.

2. The "New Order," as the Suharto government styles itself, represents a fundamental change in the direction of Indonesian political life. In place of Sukarno's politics of emotion and policies of adventure, Suharto has adopted a pragmatic approach to Indonesia's problems. In foreign affairs, this means a policy of nonalignment that leans toward the West and nourishes hope that Djakarta may someday assume a more vigorous regional role. It also means that over the next few years the government will be preoccupied with domestic matters--above all, Indonesia's tremendous economic problems.

II. The Internal Scene

A. The Political Situation

3. The Suharto government provides Indonesia with a relatively moderate leadership. Although the army constitutes the power base for the government, Suharto practices the traditional Indonesian style of consensus politics. Thus, he has taken care to associate responsible civilian politicians and intellectuals with his government. Indeed, in the reshuffle of the Cabinet in June 1968, a number of Western-trained civilian economists were given key roles in the formulation of a five-year plan for economic development. These appointments, added to the presence in the Cabinet of such moderates as Foreign Minister Adam Malik, have improved the public image of the government and made it more acceptable to those opposed to military rule. The government's commitment to hold nationwide elections² in 1971 has also contributed toward those ends.

²The nature of these elections is far from clear. Presumably they will choose at least part of the members of the Consultative Congress and the Parliament; the present members of both bodies hold office by virtue of appointment. The elections are not likely to affect the status of Suharto, who was elected by the Consultative Congress in March 1968 to a five year term as President. [Footnote in the source text.]

4. The strengths and weaknesses of the government reflect those of General Suharto himself. During the process of dismantling the "Old Order" of Sukarno, Suharto provided much needed stability and authority. Nevertheless, the slowness of his pace, then and now, has provoked considerable impatience and criticism, even among his principal supporters. The reticence of his own temperament is reinforced by his contempt for the excesses of Sukarno, leading him to disdain any appeal to emotion. His apparent inability to elicit popular enthusiasm may make it hard for his government to deal rapidly enough with the major problems facing the country.

5. In this event, differences and discontent among the military leadership are likely to increase and could eventually impede the effective coordination and implementation of national programs. Nor can we rule out the possibility of political conspiracies among the military or efforts by regional commanders to assert greater independence of Djakarta. There is no evidence of any serious splits within the military leadership or of interest in a coup, but the top

leaders will keep a wary eye on a number of the more militant younger officers.

6. *Overt political opposition* to the Suharto government has not been substantial. Most politically articulate elements have been willing to wait and see what the regime can accomplish. A potentially disruptive force is the younger generation of political activists whose appetite for politics was whetted during the campaign against Sukarno. The government has been fairly responsive to their demands, even granting the student "Action Commands" a measure of participation within the nation's highest formal policymaking body, the Consultative Congress.^{/3/} Thus, they are now relatively quiescent, lacking at least temporarily the leadership, organization, and a compelling issue that could bring them back into the streets. Nevertheless, they are potential collaborators of the more militant army officers, who share their impatience at the slow pace of the Suharto government.

^{/3/}According to the Indonesian Constitution of 1945, the Consultative Congress has the power to determine the broad lines of national policy, to elect the President, and to amend the Constitution. The Parliament, while subordinate to both the President and the Consultative Congress, has responsibility for enacting legislation. Its members are automatically members of the Consultative Congress. [Footnote in the source text.]

7. The legal political parties have also been partially neutralized by their dependence on the government for patronage. Potentially, the most hostile party elements are the left-wing of the Indonesian Nationalist Party (PNI), which has been at least temporarily repressed, and the traditionalist Muslims within the Muslim Scholars' Party (NU) who are unhappy about the secular trend of the present regime and believe that Christians have a disproportionately large role in the government. These parties have little choice but to go along with the government for the time being. They are too weak and divided to marshal much pressure to restore the free-wheeling parliamentary system that proved so debilitating during the 1950's.

8. The government, for its part, has paid lip service to the idea of restructuring the party system, with the dual purpose of providing a political base for itself and of opening constructive channels for such currently disorganized civilian elements as the modernist Muslims and the democratic socialist left. Thus far, little progress has been achieved toward that end. In fact, Suharto's military advisers have apparently persuaded him to block the installation of a new chairman by the Indonesian Muslim Party (PMI), thus causing considerable resentment in moderate and modernist Muslim circles.

9. *The Indonesian Communists* do not currently constitute a serious threat to the government. The PKI was badly shattered after the attempted coup of October 1965, and they have suffered further serious setbacks since then. During the summer of 1968, the army wiped out an incipient Communist insurgency in East Java and killed or captured a major part of the Maoist-oriented PKI leadership. Although the Suharto government is weeding out leftists from the armed forces, and has largely neutralized those within the air force and the police, the

recent exposure of Communists and Sukarnoists within the army itself has demonstrated that the services have not yet been completely purged.

10. A longer term danger lies in the social and economic conditions that enabled the PKI to build a potent force before 1965. These conditions, and the difficulty of changing them, will provide numerous issues to exploit; thus, it would be premature to regard the PKI as an unimportant factor. Moreover, its potential would increase considerably if new leaders emerge and are able to revive the alliance with leftists in the PNI and with other former Sukarnoists. If, over the longer term, the present government's efforts at economic development should seriously falter, a radical nationalist movement could develop mass support in Indonesia once again.

11. There is no force in Indonesia today that can effectively challenge the army's position, notwithstanding the fact that the Suharto government uses a fairly light hand in wielding the instruments of power. Over the next three to five years, it is unlikely that any threat to the internal security of Indonesia will develop that the military cannot contain; the army--presumably led by Suharto--will almost certainly retain control of the government during this period. The leadership will try to keep politics in abeyance and concentrate the government's energies on the country's tremendous economic problems. The next few years will be critical, therefore, in determining whether the Suharto government can govern effectively.

B. Administrative and Social Problems

12. Even given a period of political stability, the effectiveness of the government will be hampered by the shortcomings of Indonesia's vast bureaucracy. No one knows exactly how many civil servants there are; the figure certainly exceeds one million, with another one to two million employed by state enterprises. The extremely low pay scales and the extensive links between the bureaucracy, the political parties, and other narrow interest groups have made graft the principal catalyst for bureaucratic action. Because any far-reaching attempt to rationalize the bureaucracy would threaten the livelihood of so many people, no Indonesian government can easily or quickly change the situation.

13. Suharto has circumvented the problem of the civil bureaucracy in part by placing military officers in key positions throughout the administrative structure. The army is the most cohesive and nationally-oriented institution within Indonesia; hence, it is the best available instrument for the gigantic task of modernization. After more than 20 years of active involvement in civil affairs, the army leadership has a sense of national mission which generally transcends the ethnic, religious, and geographic divisions that have made it so difficult to mold together the Indonesian nation. The officer corps is relatively well educated and, under strong direction, could become an effective force for modernization and reform.

14. There are, however, severe limitations on the ability of the military to administer governmental policies effectively. These limitations are not peculiar to the army itself, but rather are functions of broader cultural and physical facts of Indonesian life.

The basic problem of distance between Djakarta and the outlying provinces is magnified by the woefully inadequate system of transportation and communication. Even if the latter were rehabilitated over the next few years, the central government in Java would still lack the resources and the inclination to meet the needs of the outer islands. As a result, the government's administrative structure, while highly centralized in theory, has considerable de facto regional and local autonomy. Except for the unity and discipline that the army's command structure itself provides, the policies of the central government fail to grip or affect the lives of the plantation worker on the rubber estate in Sumatra, the small Islamic trader at the bazaars in Central Java, or the displaced nobleman-turned-entrepreneur on Bali. The resultant inefficiency serves only to reinforce the prevalent Indonesian tendency to rely on personal relationships to get things done.

15. Although there is, of course, a severe shortage of able administrators in Indonesia, the greatest obstacle to effective government is probably Indonesian culture itself. Among the dominant Javanese in particular, but also among Indonesians generally, cultural values inhibit the imposition of the kinds of social discipline that are characteristic of the economically advanced countries of Asia, Europe, and North America. Even the Western-trained members of the governing elite are generally reluctant to employ modest forms of coercion to prod their own people, or themselves for that matter, to change their ways. The government, as a consequence, asks extraordinarily little of itself or its citizens. There are few obligations either to do things in the common interest or to avoid actions opposed to it. Indeed, the traditional culture is so strong, and the vested interests are so great, that it is extremely difficult to circumvent the existing power structure or to change the established ways of doing things.

16. Indonesian society is based on a complex fabric of personal relationships, patronage, and paternalism known as "bapakism."^{4/} Although to most Westerners "bapakism" may appear to be merely a systematic form of graft, it has useful as well as negative aspects. Men are held responsible for their actions, so that the initiative and effort of the man who "produces" within the system is rewarded. Thus, men of talent and ingenuity are able to rise within the generally stratified, traditionalist society. The problem is that the system gives a decisive role to personal contacts and minimal importance to formal restraints. Few, if any, institutions are disciplined by impersonal rules of behavior. As a result, corruption within Indonesia is less the product of laxity in law enforcement than of a social system that values honesty well below loyalty and resourcefulness. Because of the prevalence and pervasiveness of "bapakism," only a revolutionary regime unconcerned with either stability or humaneness would dare to tackle the problem directly at its roots.

^{4/}"Bapak" means both "father" and "boss." [Footnote in the source text.]

C. Economic Problems

17. A seriously dilapidated economy is the legacy of two decades of mismanagement and neglect: agriculture is inefficient; the industrial sector, though beginning to recover, is still small and backward; and communications and public services are in disarray. The vast majority of Indonesians live in extreme rural poverty and are largely insulated from the fluctuations of the money economy. At present rates of increase, the population of 115 million will double in 20-odd years. Problems of overcrowding and extreme poverty are particularly acute on Java, where about two-thirds of the people live. The standard of living of the average person is probably lower now than it was at the beginning of the Second World War. But it is significant that in recent months the Indonesian economy has begun to show signs of improvement.

18. With aid and guidance from the industrialized nations of the free world, the Suharto government has attacked the corrosive problem of inflation. The current rate of two percent per month is hardly satisfactory, but it is a substantial achievement compared with the runaway inflation of earlier years. The shortage of food, particularly rice, has been a key factor in causing inflation. Western assistance in supplying large quantities of rice and other foodstuffs, and reorganization of the Indonesian Government's rice procurement and distribution system, have played decisive roles in reducing the problem significantly during the ordinarily lean winter months. Over the longer term, Indonesia will require considerably greater use of fertilizers, pesticides and new seed strains, as well as the improvement of irrigation facilities, if food production is to meet the demands of the soaring population. Greater self-sufficiency in rice is essential if inflation is to be curbed.

19. Government spending has also been an important cause of inflation. At the insistence of the International Monetary Fund, Suharto's team of Western-trained economists has tightened administrative controls over the budget. Subsidies on certain consumer items such as kerosene, gasoline, electricity, and public transport have been cut; tax collection has been improved; and the number of employees in at least one state enterprise (Garuda Indonesian Airways) has been cut back. These measures have not been popular, of course, but they have been constructive.

20. A second major economic problem facing Indonesia is the need for investment. There is little private domestic capital in Indonesia, even in comparison with other poor countries. Much that does exist is in the hands of ethnic Chinese who are concentrated in the export-import and wholesale-retail trades. Because of widespread hostility against them, the Chinese are generally not disposed to make new, long term investments, particularly in fields in which they are not already well established.

21. An essential part of the Suharto government's economic program, therefore, has been to welcome foreign capital back to Indonesia. Already about 25 American and European firms have recovered control of mines, estates, and other enterprises nationalized under Sukarno. In addition, liberal legislation has been enacted to attract new private foreign investment. Tax incentives are offered and the rights of managerial control, repatriation of profits, and compensation in the event of expropriation are, in large measure, guaranteed. The prospects

for private foreign investment in extractive industries are fairly good, but it will take several years before survey and exploratory work can pay off in large-scale production, export earnings, and tax revenues. Some of Indonesia's traditional export industries such as rubber, tin, and copra are on the decline because of inadequate maintenance over the years and falling prices on the world market. Nevertheless, there is substantial foreign interest in new investment in relatively untapped resources of nickel, copper, bauxite, and timber. The most promising industry, from the standpoints of both foreign capital and Indonesian economic growth, is oil. Crude production, chiefly from the fields of Caltex/5/ in Central Sumatra, now averages 600,000 barrels per day, and daily output will probably exceed one million barrels within the next three years. On balance, however, Indonesia's export earnings (and, therefore, much needed foreign exchange) will probably grow slowly, not increasing substantially before the mid-1970's.

/5/Caltex, which is jointly owned by the Texas Company and the Standard Oil Company of California, weathered the Sukarno years better than any of its competitors. In 1968, it made the largest new investment of any firm in Indonesia, \$24 million. [Footnote in the source text.]

22. A third major problem is Indonesia's tremendous foreign debt of \$2.7 billion. The related problem of the balance of payments will be compounded if an attempt is made to repay the debt. Indonesia's free-world creditors have deferred and rescheduled the debt to them coming due each year since 1966, and are now undertaking an overall appraisal of Indonesia's capacity to begin repayment in the 1970's. They will probably decide to stretch out further the payment of the more than \$1.5 billion owed to them. Indonesia has already defaulted on some payments due on its debt of about \$1.2 billion to Communist states, and there is strong feeling in some quarters against repaying this debt (which is chiefly for arms and prestige projects from the USSR).

23. A closely related issue is that of new foreign aid. Although much that needs to be done in Indonesia is neither dependent on nor amenable to foreign aid, there is little hope for economic progress without it. The Intergovernmental Group (IGG), led by the US, has granted substantial economic assistance to Indonesia since 1966. Of the roughly \$325 million contributed in 1968 (about \$250 million for imports to stabilize prices and the remaining \$75 million for investment projects), the US and Japan each provided approximately one-third. It will take considerable prodding to get Japan to continue to match the US contribution, although Japan, West Germany, the Netherlands, and Australia can be expected to provide sizable amounts of aid. The Western and Japanese donors insist that their aid not be siphoned off to repay Indonesia's debt to Communist countries and other countries that are not providing offsetting assistance. It is noteworthy that the World Bank has decided to give special priority to Indonesia, having established in Djakarta its first permanent mission to any less-developed country.

24. Over the short term, Communist countries are likely to provide little if any additional aid to Indonesia. Over the past year, the USSR has sent less than a hundred technicians and has sold about \$3 million worth of spare parts on a strictly cash basis to Indonesia. It has

extended no loans or credits to the Suharto government, and the status of unspent portions of Sukarno-era credits has not been resolved.

D. Prospects

25. What is principally at stake in Indonesia over the next few years is whether a pragmatic, forward-looking government such as Suharto's can generate sufficient progress to win enduring support.

26. The pace of economic progress will almost certainly be slow, but this fact will probably prove more frustrating to the moderate leadership elements within Indonesia and their friends abroad than to the great mass of Indonesians. The latter, and particularly the Javanese, are generally passive in the face of authority. Under Sukarno they tolerated years of economic folly and neglect; a few more years of economic hardship will not make much difference to them. Indeed, the vast majority of Indonesians have little notion that any condition other than poverty is possible for them. They will probably be able to subsist even though economic conditions should appreciably worsen.

27. The present leadership will probably be able to cope with the domestic situation for the next two to three years. Inflation will probably be kept within tolerable limits, and some new private foreign investment will be forthcoming. Indonesia's free-world creditors are likely to stretch out the payment of Indonesia's debt to them and also provide substantial foreign aid.^{/6/} In future years, of course, a number of factors quite apart from the situation within Indonesia could affect the ability and willingness of donors to extend such high levels of aid.

^{/6/}Indonesia has requested \$500 million in aid for 1969 but about \$150 million of this is for multi-year projects, so that no more than \$350 million will be available for disbursement in 1969. This is probably about all that Indonesia can absorb. [Footnote in the source text.]

28. Issues such as self-determination for West Irian,^{/7/} food shortages, and blatant corruption will present problems for the government over the next few years, but these should be manageable. However, the slow pace of economic progress may become an issue by 1971, when the government will also face mounting pressure to honor its commitment to hold elections. The old-line parties and other groups will try to find ways to embarrass the government and advance their own ends, and there will probably be occasional instances of civil unrest, particularly in the larger towns and cities. By 1971, it is also possible, although highly unlikely, that the Indonesian Communists could be reorganized sufficiently to mount a sustained campaign of terror or to begin to form a new leftist political coalition.

^{/7/}Indonesia is obligated to carryout an "act of free choice" in West Irian in 1969; i.e., to test--in some unspecified manner--whether the people of that territory wish it to be established as a permanent part of Indonesia. [Footnote in the source text. U.S. officials' discussions in late 1968 with the Indonesians and Dutch about the modalities for the "act of free will," is in National Archives and Records Administration, RG 59, Central Files 1967-69, POL 19 West Irian.]

29. If the domestic situation does deteriorate, the army will almost certainly grow less tolerant of dissent. If the government became alarmed at a real or imagined threat to internal security, it would probably postpone elections once again. Though we do not judge it likely, the moderate leadership might also be set aside and replaced by a more authoritarian government. But in either event, the military will almost certainly be able to maintain its grip on power.

III. Foreign Policy

A. Main Trends

30. The foreign policies of the Suharto government are characterized by pragmatism, caution, and moderation. As a consequence of the fall of Sukarno and the havoc wreaked on the Indonesian Communists, the close ties that used to characterize Indonesian relations with Communist countries have been greatly weakened. Contacts between Djakarta and Moscow have cooled considerably, and relations with Peking have deteriorated to the present state of open antagonism. On the other hand, Indonesia has grown increasingly receptive to the aid and investment of the industrialized countries of the free world. Thus, while maintaining formal nonalignment, Djakarta is in fact drifting closer toward the Western camp.

31. The Suharto government has forsaken Sukarno's conception of Indonesia as the champion of the "new emerging forces" of the underdeveloped world, and taken a more realistic attitude toward Indonesia's international position. Thus, the "New Order" has sought to improve relations with Australia, New Zealand, and Indonesia's neighbors in Southeast Asia. The "confrontation" against Malaysia has given way to cooperation in an attempt to suppress a few hundred Communist insurgents in northwestern Borneo. Then, too, the hostility that persists between Singapore and Indonesia--born of economic dependence and racial animosity--has generally been kept below the surface, though the recent anti-Chinese outbursts in Surabaya have revealed its explosive potential. Moreover, the regime's restrained response to popular demands for retaliation against Singapore was a victory for the moderate leadership of Foreign Minister Malik. Finally, Djakarta has offered to do whatever it can to resolve the dispute between Manila and Kuala Lumpur over Sabah.

B. Indonesia's Role in Southeast Asia

32. The new moderation in Indonesian foreign relations is based on careful calculation of Indonesia's national interests. Indonesians see themselves as potentially the dominant power of the Malay world--and possibly of all Southeast Asia. They seem to have learned, however, that the aggressive policies of Sukarno did more to damage than to promote the kind of leadership that Indonesia seeks. Thus, the Suharto government has chosen to follow the path of regional cooperation instead of conflict. As the prime mover in the formation of the Association of Southeast Asian Nations (ASEAN), Indonesia is actively attempting to improve its economic and cultural relations with its fellow members--Malaysia, the Philippines, Thailand, and Singapore.

33. Although Djakarta is apprehensive about the intentions and the power of Communist China, it foresees no major external threat to its own security over the next few years. It believes that the main threat to itself and other nations of Southeast Asia lies in internal Communist subversion designed to capitalize on their economic and social weaknesses. As a result, Indonesia believes that the major effort of these nations should be devoted to improving the condition of their people and strengthening their internal security organizations. There is little belief in the feasibility of putting military teeth into ASEAN or any other strictly regional grouping under present circumstances.

34. Indonesia hopes that the Western presence in Southeast Asia will be maintained until the nations of the area are capable of assuming a regional security role themselves. Basically, the present government would like to have the US involved somehow in the protection of the area against China, yet it would not favor a direct security relationship with the US or any other outside power, lest this cast doubt on Indonesia's nonaligned image or hinder any future effort by Indonesia to assert its primacy among the Malay peoples. The army would perhaps be more favorably disposed to a US-supported regional security arrangement than would various civilian elements.

35. Indonesia will continue to be particularly reluctant to join any regional grouping which carries a patently anti-Communist label. Leading civilians, including Foreign Minister Malik, apparently assume that eventual Communist success in all of Indonesia is virtually inevitable. They are not particularly apprehensive about such a denouement, however, because they anticipate that it would increase Hanoi's independence of Peking and lead to a greater Soviet role in the region that would counterbalance the power of Communist China. The military, including General Suharto, is less pessimistic about the prospects in Vietnam and the rest of Indochina but far more apprehensive that an enlarged Soviet presence in the region would be used to subvert the Suharto government.

C. Indonesia and the Great Powers

36. Relations between Moscow and Djakarta have been on the downgrade since October 1965. The USSR is increasingly disturbed by the continuing vigor of the government's anticommunism and by Djakarta's growing dependence on the US, Western Europe, and Japan for aid and investment. Moscow would like to woo the beleaguered Indonesian Communists away from the Maoist tactics that they have been following. So long as the present trend toward Indonesian friendship with the free world continues, Moscow will probably continue its criticism of the Suharto government and enlarge its efforts to develop a resurgent leftist threat in Indonesia. Thus, the USSR's present cool but correct, cash-on-the-line economic relations with Indonesia could worsen.

37. For its part, the Suharto government probably does not want its relations with the USSR to deteriorate further. Foreign Minister Malik, in particular, would like to balance Indonesia's increasing reliance on the Western countries and Japan by keeping lines open to Moscow. Malik probably considers that continuing nonalignment is in Indonesia's long-term national interest, for it would hold out the prospect of receiving

aid from both East and West and offer more room for diplomatic maneuver. Though the military probably wants to continue to be able to obtain spare parts from Moscow in order to maintain its equipment, it might be less concerned about offending the USSR. It probably sees a brighter future for Indonesia and itself in building up ties with the free world.

D. Contingencies

38. The Suharto government is not currently inclined toward a bellicose or chauvinistic posture, and it will probably remain fairly moderate in its foreign policies. So long as the domestic situation does not deteriorate and so long as Indonesia can rely on economic assistance from the free world, it will have strong incentives to continue on its present course. Although economic progress, even with substantial foreign aid, will almost certainly be slow, the free world will probably want to continue to give Indonesia support. The key to Indonesian foreign as well as domestic policy, therefore, will be whether the Indonesians themselves maintain confidence in a pragmatic approach to their very serious problems.

39. In the unlikely event that the present moderate leadership of Indonesia were replaced by a less responsible government, the consequences for Indonesian foreign policy might be extremely serious. Sukarno was able to divert the attention of Indonesians of the right as well as the left from problems at home by pursuing an aggressive policy abroad. A pattern of belligerence could emerge once again. It could be fueled by doctrines of a greater pan-Malay nationalism; likely targets would be Singapore and Malaysia. Such a prospect is remote at the moment, but Indonesian ambitions and a latent strain of aggressiveness are factors that should not be lost sight of.