

THE INDONESIA-MALAYSIA CONFRONTATION AND ITS IMPACT ON PENANG PORT, 1963–1966

(Konfrontasi Indonesia-Malaysia dan Kesannya terhadap Pelabuhan Pulau Pinang, 1963–1966)

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To cite this article (*Rujukan artikel ini*): Navamani Pariasamy & Khairi Ariffin. (2024). The Indonesia-Malaysia confrontation and its impact on Penang Port, 1963–1966. *Melayu: Jurnal Antarabangsa Dunia Melayu*, 17(1), 149–164. [https://doi.org/10.37052/jm.17\(1\)no7](https://doi.org/10.37052/jm.17(1)no7)

Peroleh: <i>Received:</i>	14/9/2023	Semakan: <i>Revised</i>	6/12/2023	Terima: <i>Accepted:</i>	13/12/2023	Terbit dalam talian: <i>Published online:</i>	2/1/2024
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Abstract

The relationship between Malaysia and Indonesia had already shown conflict since before the confrontation, or *konfrontasi*. However, after the proposal for the formation of Malaysia was first announced by Tunku Abdul Rahman, the then-Chief Minister of the Federation of Malaya, the relationship between the two countries experienced a period of significant and prominent conflict. This study discusses the Indonesia-Malaysia confrontation and its impact on Penang Port from 1963 to 1966. This study was conducted using qualitative method, specifically the analysis of documents and manuscripts. The references used are primary sources comprising British records and Malaysian official records, while the secondary sources comprise journals, articles, scholarly books, newspapers, and magazines. The economic relationship between Malaysia and Indonesia was severely damaged

during the confrontation. The number of imports and exports involving Indonesia at the Penang Port decreased drastically, but did not stop during the confrontation. Nonetheless, upon comparing the overall growth value of trade at Penang Port during the confrontation, the decrease in the amount of trade that occurred between Indonesia and Penang Port was not very significant. Also, this decrease was not mainly caused by the confrontation, but by the sudden drop in iron ore exports. In conclusion, the slight decrease in the total trade at Penang Port during the confrontation was not solely caused by the confrontation itself and the impact on the whole trade performance at Penang Port in the said period was not that significant.

Keywords: Confrontation, Federation of Malaya, Malaysia, Indonesia, trade, Penang Port

Abstrak

Hubungan antara Malaysia dengan Indonesia telah menunjukkan konflik sejak sebelum berlakunya konfrontasi. Walau bagaimanapun, selepas cadangan Pembentukan Malaysia pertama kali diumumkan oleh Tunku Abdul Rahman, Perdana Menteri Malaysia, hubungan antara Malaysia dengan Indonesia mengalami tempoh konflik yang signifikan. Kajian ini membincangkan tentang tempoh masa konfrontasi Indonesia-Malaysia dan impaknya terhadap Pelabuhan Pulau Pinang yang dikaji dari tahun 1963 hingga 1966. Kajian ini dijalankan menggunakan kaedah kualitatif yang menekankan analisis dokumen dan manuskrip. Sumber rujukan yang digunakan ialah sumber primer yang terdiri daripada rekod British dan rekod rasmi Malaysia, manakala sumber sekunder yang digunakan termasuklah jurnal, artikel, buku ilmiah, akhbar, dan majalah. Hubungan ekonomi antara Malaysia dan Indonesia terjejas secara serius semasa era konfrontasi. Bilangan import dan eksport yang melibatkan Indonesia dan Pelabuhan Pulau Pinang mengalami penurunan drastik tetapi tidak berhenti sepenuhnya semasa konfrontasi. Namun begitu, jika dibandingkan dengan nilai pertumbuhan keseluruhan perdagangan di Pelabuhan Pulau Pinang semasa konfrontasi, penurunan jumlah perdagangan antara Indonesia dengan Pelabuhan Pulau Pinang tidak begitu signifikan, dan penurunan ini bukanlah disebabkan oleh konfrontasi semata-mata tetapi disebabkan oleh penurunan mendadak dalam eksport bijih besi. Kesimpulannya, penurunan sederhana dalam jumlah perdagangan keseluruhan di Pelabuhan Pulau Pinang semasa konfrontasi bukan sepenuhnya disebabkan oleh konfrontasi Indonesia-Malaysia sahaja, dan kesan terhadap perdagangan secara keseluruhan tidak begitu signifikan.

Kata kunci: Konfrontasi, Tanah Melayu, Malaysia, Indonesia, perdagangan, Pelabuhan Pulau Pinang

INTRODUCTION

Malaysia and Indonesia have a traditional relationship that is based on geopolitical principles such as cultural uniformity and ethnic and religious unity¹. From the very beginning, the relationship between the two countries was clearly visible, especially in the socioeconomic aspect. After Malaysia's independence, this diplomatic relationship continued to strengthen. Although the then-President of Indonesia, Sukarno, welcomed Malaysia's independence, there were several issues that reflected the differences in opinion and ideology between the two countries, such as the West Irian issue and the political ideologies between the then-Chief Minister of the Federation of Malaya, Tunku Abdul Rahman, and Sukarno. The relationship between the two countries began to strain after the proposal for a Federation of Malaysia was opposed by President Sukarno on the grounds that it was a form of neo-colonialism. The proposal sought to merge the Federation of Malaya, Singapore as well as other British colonies in Borneo, namely Sabah, Sarawak, and Brunei. Initially, Indonesia did not raise any objection with the proposal for the Federation of Malaysia. However, its opposition to the proposal arose after the Brunei revolt outbreak in 1962. This situation worsened until the launch of a confrontation by Indonesia against Malaysia in 1963. According to the Britannica Dictionary (n.d.), "confrontation" refers to "a situation in which people, groups, etc., fight, oppose, or challenge each other in an angry way"². Before this confrontation, entrepot trade at Penang Port reached an encouraging level. However, the launch of Indonesia's confrontation with Malaysia brought negative impact for both Penang Port and Indonesia, especially in trade between the two countries.³ The Penang Port, which is the oldest and the main port in Malaysia, was not exempted from the effects of this confrontation that took place from 1963 to 1966. Economic recovery between Indonesia and Malaysia began after the Peace Agreement was signed by the two countries on August 11, 1966, following which began a new phase in Malaysia's relationship with Indonesia after the confrontation.⁴

This study will analyse the relationship between Malaysia and Indonesia during the period of confrontation and its impact on the Penang Port. This study specifically focuses on Indonesia's trade relationship with the Penang Port before, during and after the Indonesia-Malaysia confrontation and identifies the relationship between Indonesia's actions during the confrontation and its impact on the trade activity that involved Penang Port, as well as its overall trade activity at the Penang Port from 1963 to 1966.

RESEARCH PROBLEMS

The Penang Port plays an important role in trade activities involving import and export with Indonesia, especially in the Sumatra region. President Sukarno launched a political, military, and economic confrontation against Malaysia due to dissatisfaction with the Malaysian idea. With the announcement of the launch of the confrontation by the then-Indonesian Foreign Minister, Dr. Subandrio,⁵ Malaysia's relationship with Indonesia in all aspects became strained. This situation was worsened by the concept of "Ganyang Malaysia", which was launched by President Sukarno during the confrontation. "Ganyang Malaysia", which is more likely a "Crush Malaysia" campaign, involved military raids across the border as well as a cessation of all the political and economic connections with Malaysia in order to destroy the formation of Malaysia. Thus, the Indonesian side prohibited its citizens from conducting trade activities with Malaysia as a measure to protest the establishment of Malaysia. President Sukarno also withdrew Indonesia from the United Nations in protest of Malaysia's admission as a member state. At the same time, Penang Port played an important role as a port that actively conducted import and export trade activities to and from Indonesia, especially Sumatra. In addition, "Ganyang Malaysia" was also said to have an impact on Indonesia's economy. This is because the Penang Port was not only a port that imported goods from Sumatra but also a place that processed raw materials from Indonesia before exporting them to other places. This situation showed the high dependency of Indonesia on Penang Port in trade matters.

METHODOLOGY

This study applies qualitative methods to obtain data by using document and manuscript analysis protocols. Primary and secondary sources are the main reference materials for the study. The primary sources consist of Indonesian records in the National University of Australia as well as official Malaysian and British records in the National Archives and Penang Archives. Among the main materials referred to are the Penang Port Annual Administration Report and Accounts from the Penang Port Commission, agreement documents and departmental files. The secondary sources consist of books about Indonesian and Malaysian politics as well as theses, journals, articles, newspapers, and magazines related to the confrontation and economic recovery in Malaysia and Indonesia.

LITERATURE REVIEW

Several previous studies related to the impact of the confrontation on the economy of Malaysia and Indonesia became a reference in producing this study. Among them,

Mackie (1974) produced the earliest study on the confrontation. He emphasised on the early stage of the confrontation and focused significantly on Indonesia's role in creating and complicating the situation during this period. This study also focused on the establishment of the Federation of Malaysia, the challenges of implementing it, and its impact on the politics over the economy of the involved countries.

The study by Mohamad Akmal (2020) explored the essence of the Basic Trade and Economic Agreement between Malaysia and Indonesia and described its impact on both countries during the post-confrontation period. The impact on Penang Port is only briefly mentioned in the post-confrontation timeframe. In addition, Kunaseelan's (1996) study discussed in general the pre- and post-confrontation effects on Malaysia and Indonesia in political, economic, and social aspects. In this study, the impact on the Penang Port is not fully emphasised and the main focus is related to the political relationship between the two countries.

Rohani's (2003) study focused more on political relations than economic relations, and highlighted the economic effects of both countries as a whole. The references are mainly related to the statistics involving the entire trade of Malaysia and Indonesia. However, in this study, the political impact of the confrontation is more emphasised than the economic impact. Similarly, the study conducted by Abdul Jabar (1995) examined the economy during the confrontation. However, this study mainly focused on the concept and reason behind the confrontation and its impact on Indonesia's economy.

In general, the present study of the Indonesia-Malaysia confrontation and its impact on the Penang Port from 1963 to 1966 is aimed at exploring the research gap left by previous researchers, which is the impact of the confrontation on trade activities at Penang Port. The Penang Port is the hub of Indonesian trade and up until the present time, there has been no specific study related to the impact of the Indonesia-Malaysia confrontation on the Penang Port. In addition, there has been a decrease in the total amount of trading activity at Penang Port after 1963, hence the researchers intend to examine to what extent this was caused by the Indonesia-Malaysia confrontation.

FINDINGS AND DISCUSSION

The Indonesia-Malaysia Confrontation Period

The Indonesia-Malaysia confrontation, which is also known as the Borneo Confrontation, was launched by Indonesia towards Malaysia in 1963. The confrontation took place for approximately three and a half years, from January 20, 1963, to August 11, 1966.⁶ It was launched due to the different position of Indonesia

in general and President Sukarno in particular concerning the formation of the Federation of Malaysia, which would merge the Federation of Malaya, Singapore, Brunei, Sabah, and Sarawak. In the beginning, the Indonesian government did not object to the proposed idea on the formation of Malaysia when Tunku Abdul Rahman announced it during the luncheon with the Foreign Journalist Association on May 12, 1961, at Adelphi Hotel in Singapore.⁷ However, the cordial relationship between these two countries was affected by their ideological conflict. Malaysia practiced pro-Western and anti-communist policies, while Indonesia adhered to a more pro-communist nationalist ideology.⁸ Indonesia started to oppose the idea of the Federation of Malaysia after the outbreak of the 1962 Brunei revolt.⁹ In the opinion of President Sukarno, this idea was a British ploy to strengthen their colonial power in the Borneo Islands after giving independence to those states. This situation caused the idea of the Federation of Malaysia to be seen in two different perspectives by Malaysia and Indonesia. For Malaysia, this idea would strengthen national security, which in turn would guarantee the eradication of the spread of communism in those involved states. In addition, it would also bring the racial imbalance between “bumiputera”¹⁰ and “non-bumiputera”. Moreover, the Federation of Malaysia would also help to improve the socioeconomic status of its less developed states. However, in Indonesia’s perspective, the Federation of Malaysia is a form of neo-colonialism, which refers to a policy or practice carried out by a country to expand its influence over another country as well as the expansion of political influence by another independent country, mainly through economic pressure.¹¹ This neo-colonial status is contrary to that of revolutionary Indonesia, especially since the British would likely continue to have military bases in Malaya and Singapore. Thus, it was not surprising that Indonesia considered the Federation of Malaysia to be a hidden agenda of the British. Indonesia also claimed that the formation of the Federation of Malaysia was against the will or mandate of the majority of the people in those states. Moreover, President Sukarno also believed that the possibility of such a Federation would threaten Indonesia’s independence.

On January 20, 1963, the then-Indonesian Foreign Minister, Dr. Subandrio, announced the launch of the confrontation against Malaysia.¹² This happened after Brunei faced a revolt by the North Kalimantan National Army, which was pushing for the independence of Brunei instead of joining the federation. This revolt was crushed by the British army within days and it was towards the end of the revolt that Indonesia began to share harsh statements about Malaysia. At the initial stage, tension between Indonesia and Malaysia was seen in their political relations, but over time it also affected their military and economic relations. After a meeting of the Supreme

Command of Operations (KOTOE) held on September 21, 1963, President Sukarno severed trade relations with Malaysia and revived activities at Indonesian Ports.¹³

*... dalam hal 'Malaysia' kami tak bisa menerima kompromi, apalagi kompromi yang tidak manis terhadap kita ini ...*¹⁴

(... when it is related to “Malaysia, we usually never compromise, what more when it is not favourable to us...)

Based on President Sukarno’s quote above, it became clear that his hatred towards Malaysia was so deep that he took an adamant stance to launch an economic blockade against Malaysia, even though this had a negative impact on Indonesia’s own economy.

The Impact of the Indonesia-Malaysia Confrontation on the Penang Port

Economic relations between Malaysia and Indonesia have existed as early as the Srivijaya Empire. This relationship has always depended on the cooperation between the two countries. Penang Port became an important trading centre for Indonesia as it is situated in the Straits of Malacca. Barter trade between the Penang Port and Sumatra progressed, and this progress led to the Malayan government opening a Consulate Office in Medan, North Sumatra. The purpose of this consulate was to upgrade trade between the two areas. Indonesia became the second largest country to export goods to Malaya. Among the main items exported were rubber, tin, black pepper, palm oil, coffee, and tobacco.

Indonesia’s exports to Malaysia through Penang Port from 1930 to 1940 amounted to USD20 million, while it was as much as USD35 million from 1950 to 1960.¹⁵ This statistic shows an increase of 75% in trade value, which is USD15 million in ten years. Therefore, it can be concluded that Indonesia benefitted from trade activities with the Penang Port. Indonesia preferred to export and process their goods at the Penang Port for several reasons, including time, energy, and cost effectiveness as well as a lack of facilities in Indonesia. Geographical location was another important reason because Penang is geographically close to Sumatra, which increased barter trade between the two places.

Although the Penang Port was an important transshipment centre for Southern Thailand, Southern Burma and Sumatra, its role as a trade centre port decreased after 1963, especially with Sumatra.¹⁶ Moreover, the good trade relations between Indonesia and Malaysia changed after the launch of the Indonesian confrontation with Malaysia.¹⁷ The economic impact of Indonesia’s confrontation in particular caused Indonesia’s barter trade at the Penang Port to undergo a drastic decline.

Trade activities between Indonesia and Malaysia at the Penang Port

Table 1 Indonesian barter trade at the Penang Port (\$'000 Malaysia).

Year	Import	Export	Total Trade
1961	117,669	36,321	153,990
1962	151,438	21,310	172,748
1963	103,818	2,937	106,215
1964	3,283	28	3,311
1965	611	71	682
1966	547	359	906
1967	8741	2001	10,742

Source: Modified from Economic Office, Penang, Customs Office statistics.

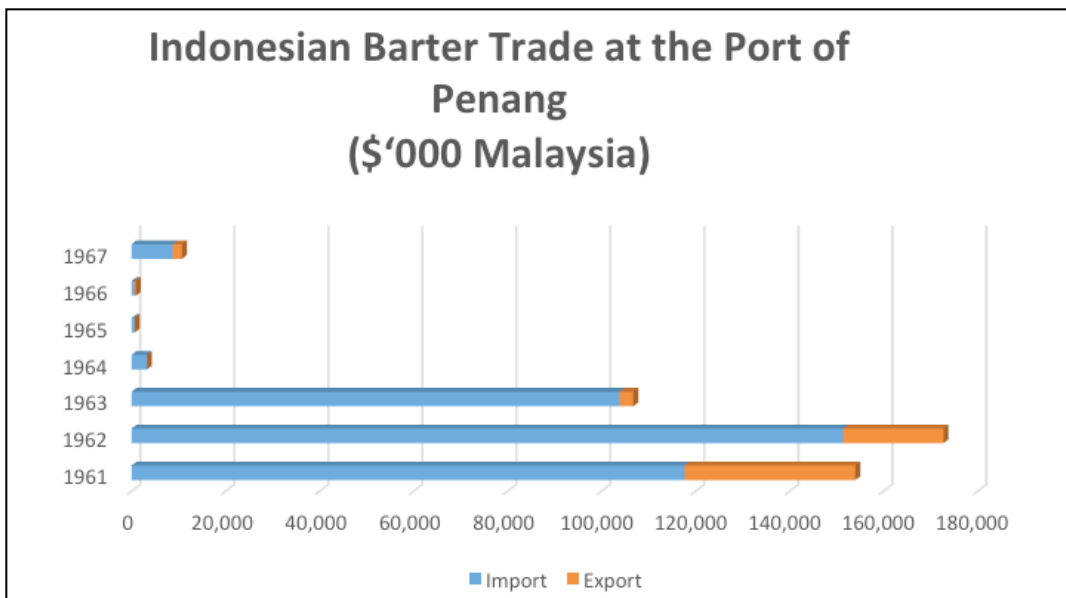


Figure 1 Indonesian barter trade at the Penang Port (\$'000 Malaysia).

Table 1 shows the trade value of the Penang Port and Indonesia from 1961 to 1967. Based on Table 1, the graph produced in Figure 1 clearly shows that the value of imports from Indonesia to the Penang Port was higher compared to the value of exports from the Penang Port to Indonesia. Indonesia’s total trade at Penang Port was \$153,990 million in 1961 and \$172,748 million in 1962. This figure shows

an increase of \$18,758 million from 1961 to 1962. However, after the launch of Indonesia's confrontation with Malaysia, its value of trade at the Penang Port experienced a significant decrease in 1963. The decrease of \$66,533 million, from \$172,748 million to \$106,215 million, was a decrease of 38.5% compared to the previous year. This decline in the value of trade involving Indonesia at the Penang Port continued until 1966.

The value of Indonesian trade at the Penang Port in 1964 was \$3311 million, which shows a decrease of \$106,215 million compared to the previous year. This indicates a great drop in trade activity between Indonesia and Penang Port, as the percentage of total trade declined by more than 98% compared to 1962. In addition, the confrontation created a lack of trade in general cargo, vegetable oil, and dried coconut between Sumatra and the Penang Port.¹⁸ In 1965, the value of trade still showed a decrease of \$2,629 million, from \$3,311 million to \$682 million. Nevertheless, the value of trade involving Indonesia at the Penang Port began to show a slight increase in 1966 and a significant increase in 1967. In 1966, the total value of Indonesian imports and exports at the Penang Port was \$906 million, which was an increase of \$224 million, while in 1967, it increased by \$9,836 million, from \$906 million to \$10,742 million. The slight increase in the value of trade in 1966 was due to the end of Indonesia's confrontation with Malaysia on May 28, 1966. This situation started the recovery of economic activity between the two countries, though at a very slow rate due to the prior economic restrictions imposed by Indonesia. However, this situation began to change after 1967, where the number of exports and imports involving Indonesia at the Penang Port began to show an increase.

In addition, in the early 1960s, Indonesia was the main exporter of tin to Penang. In Penang, tin was produced by the Straits Trading Company before being sent to other countries. By January 1962, Indonesia sent all tin ore products to Penang for processing. However, after 1964, Indonesia stopped sending tin ore to Penang as an initial step in the implementation of economic sanctions against Malaysia.¹⁹ Instead, Indonesia made an agreement with Netherlands—which was signed by Brigadier General Rudy Pirngadie on behalf of Indonesia and A.V. Roon on behalf of Netherlands—to process tin ore.²⁰

Furthermore, during the Indonesia-Malaysia confrontation, the smuggling of goods between both countries became widespread as a result of the economic restrictions imposed by Indonesia.²¹ While Table 1 indicates that the economic restrictions were not fully implemented as trade activities were recorded in both places, both countries remained negatively impacted. At the same time, Penang Port incurred losses in the amount of tax that should have been collected for these smuggled goods. As one of the efforts to restore the economy between Indonesia

and Malaysia, the Basic Agreement on Trade and Economic Relations was signed by the then-Minister of Trade and Industry of Malaysia, Lim Swee Aun, and the then-Minister of Trade of Indonesia, Major General Achmad Jusuf, on May 28, 1968.²²

Impact of the Confrontation on the Overall Trade Activity at the Penang Port

As the oldest established port in Malaysia, Penang Port serves as a crucial primary gateway to the northern region of Malaysia and southern Thailand. It also serves as the basins of the Straits of Malacca and Gulf of Bengal. This port drew merchants and traders from as far as Northern Europe, North America, and even South, Southeast and East Asia. Thus, even though the amount of trade involving Indonesia at the Penang Port decreased during the confrontation, when looking at the overall trade activity at the Penang Port, it can be said that the Indonesia-Malaysia confrontation did not leave a significant impact on the trade carried out at the Penang Port as a whole. Table 2 evidently shows the total amount of imports and exports at the Penang Port during the confrontation.

Table 2 Total tonnage handled at the Penang Port (thousand tons).

Year	Import	Export	Total Trade
1961	-	-	4169.7
1962	1913.3	2005.2	3918.5
1963	1960.6	1377.2	3337.8
1964	1982.3	1230.9	3213.2
1965	1810.2	1531.0	3341.2
1966	1833.5	1249.4	3082.3
1967	1883.4	1231.1	3114.5

Source: Seventh Annual Statement of Administration and Accounts, Penang Port Commission, 1962.

1. Eighth Annual Statement of Administration and Accounts, Penang Port Commission, 1963.
2. Ninth Annual Statement of Administration and Accounts, Penang Port Commission, 1964
3. Tenth Annual Statement of Administration and Accounts of the Penang Port Commission, 1965.

4. Eleventh Annual Statement of Administration and Accounts, Penang Port Commission, 1966.
5. Thirteenth Annual Statement of Administration and Accounts, Penang Port Commission, 1968.

According to Table 2, the total tonnage handled at Penang Port in 1962 was 3918.5 thousand tonne. The total trade in 1963 was 3337.8 thousand tons, which is a decrease of 508.7 thousand tons, or 15%, compared to the previous year. This figure showed a slight decrease in the following year, which amounted to 3213.2 thousand tons. However, in 1965, the amount of trade at the Penang Port was 3341.2 thousand tons, which showed an increase of 128 thousand tons, or four percent, in total trade from the previous year. In 1966, the amount of tonnage handled at the Penang Port experienced a slight decline by 258.3 thousand tons compared to the previous year.

The shift illustrated in Figure 2 shows that the amount of tonnage handled at Penang Port did not experience a significant and drastic increase or decrease during the Indonesia- Malaysia confrontation, as was the case for trade activities between Indonesia and Penang Port during the same period. When looking at the entire trade activity at the Penang Port, the impact of the confrontation on the economic growth of the port was neither significant nor alarming. Other than that, the decline in total exports at the Penang Port was largely due to the decline in iron ore exports,²³ as presented in Table 3.

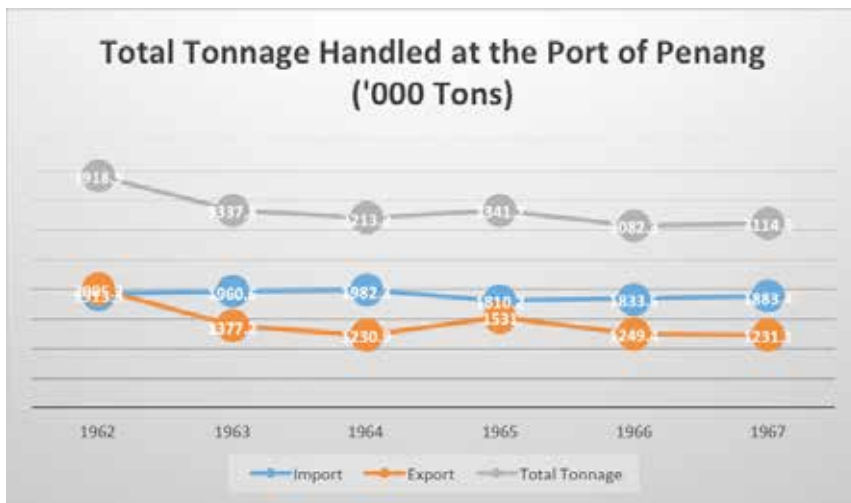


Figure 2 Total tonnage handled at the Penang Port (thousand tons).

Table 3 Export of Iron Ore at Penang Port, 1961–1967 (thousand tons).

Year	1961	1962	1963	1964	1965	1966	1967
Iron Ore	1619.2	1204.2	551.5	486.6	724.6	434.0	276.0

Source: Penang Port Annual Report, 1968.

Figure 3 illustrates the drop in iron ore export from Penang Port during the 1960s, which can be attributed to several interconnected factors. These include the lack of productivity in the 1960s due to the lack of supply that occurred as a consequence of large-scale production in the previous years. Malaysia’s iron ore production in the 1960s was heavily dependent on high-grade iron ore deposits, which were finite in quantity. As these high-quality reserves were depleted over time, it became increasingly challenging to maintain the same level of production and export. Iron ore export started to steadily decline from the early 1960s, except in 1965 where there was an increase by 49% from the previous year. Penang Port’s total trade amount in 1965 (Table 2) also slightly increased as well compared to the previous year.

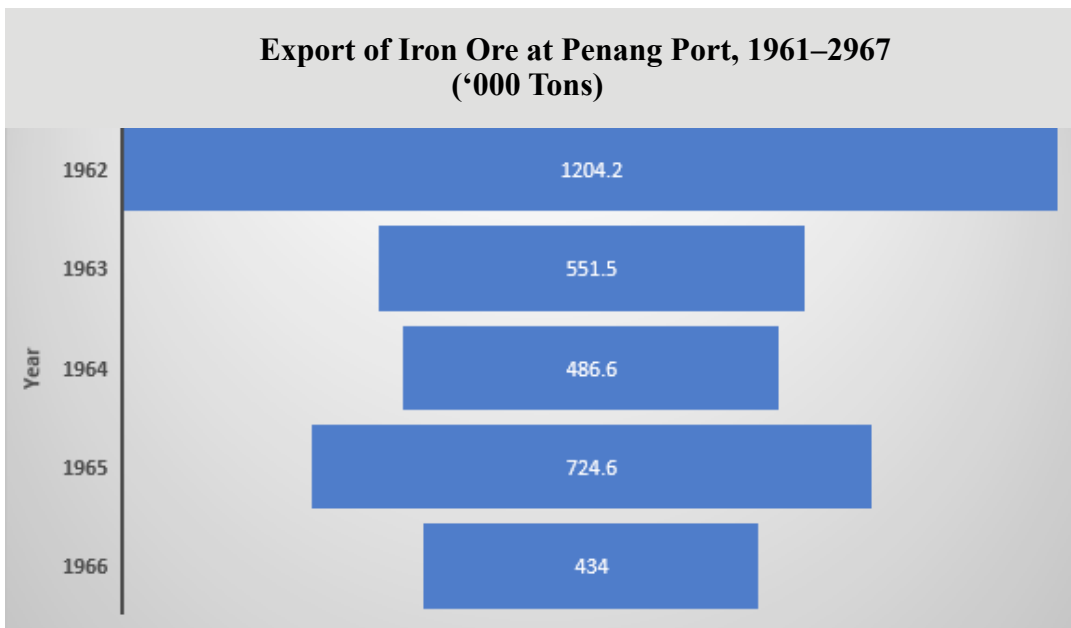


Figure 3 Export of Iron Ore at Penang Port, 1961-1967 (thousand tons).

CONCLUSION

It can be concluded that the Indonesia-Malaysia confrontation had a negative impact on trade involving Indonesia at the Penang Port, as evident in its sudden drop in trade during this period. Although the value of trade of Indonesia at Penang Port decreased drastically from 1963 to 1966, it did not completely stop. This proves that the economic restrictions announced by President Sukarno were not implemented comprehensively and there were still trade deals between Indonesia and Malaysia in general and with the Penang Port in particular. Besides, the economic dependence between Sumatra and Penang Port resulted in the smuggling of goods that occurred throughout the confrontation, which not only brought losses to Penang Port but also to the economy of Indonesia.

However, this study has also found that the Indonesia-Malaysia confrontation had no significant impact on the overall performance and trade activity at the Penang Port. This is evident in that fact that the percentage of drop at Penang Port was not drastic and even showed an increase in 1965, which was during the confrontation. Other than that, the percentage of decrease during the confrontation is within 15 percent only. This shows that there was no drastic fall in the total trade activities at Penang Port during the confrontation. Moreover, the decrease in the amount of trade was not only caused by the confrontation, but other key factors, mainly the decrease in iron ore exports from Penang Port in the 1960s. The confrontation also resulted in an increase of the smuggling of goods, which negatively impacted both countries. Other than that, Indonesia incurred great losses when its products were not exported to be processed at Penang Port before exported to other countries. This resulted in the disposal of large amounts of raw materials at the port in Sumatra during the confrontation.

In conclusion, the trade between Indonesia and Penang Port showed a great decline as an impact of the Indonesia-Malaysia confrontation between 1961 and 1967. Even though the overall performance of Penang Port was not greatly impacted by this incident, Indonesia, as the country that launched the confrontation, suffered a great loss due to its heavy dependence on the Penang Port to process its raw materials for further export.

NOTES

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- 9 Jones, M. (2001). *Conflict and confrontation in South East Asia 1961-1965*. Cambridge University Press. p. 119.
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ACKNOWLEDGMENT

This research received no specific grant from any funding agency.

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