

CONFIDENTIAL

29 May 1961

MEMORANDUM FOR THE RECORD

SUBJECT: Briefing by Mr. Jack Lydman on Indonesia

1. Mr. Lydman gave the briefing this morning to the Board of National Estimates. Mr. Lydman is a former State Intelligence Officer who several years ago entered the Foreign Service. For the last five (?) years he has been in Indonesia and is particularly knowledgeable on East Java.

2. According to Mr. Lydman, Indonesia economically is better off than at any time in the past three years. Indonesia is a resilient country. The reason is that Indonesia is a rich country, which is basically self-sufficient. It has enough food to feed itself and will have for the foreseeable future. In addition the urban economy has improved considerably in the last year, for several reasons:

a. The revision of the tax structure, including import duties in early 1960, produced unexpectedly high tax revenues with the result that the budget deficit in 1960 was the lowest in years.

b. Production went up over 1959. Because of poor statistics, the exact rise is not known, but it was probably 10 to 15%. This resulted from a better supply situation, including greater availability of imported parts and equipment and a spurt in textile production.

c. The balance of payment^s situation ~~was~~^{was} good in 1960. Indeed the Indonesian balance^{of} payments situation is basically good.

d. Inflation in 1960 was checked although not stopped.

3. The new Eight Year Plan is a hodge-podge and there has been considerable argument about who would run it. This argument has quieted down and it appears that Djuanda is back

CONFIDENTIAL

~~CONFIDENTIAL~~

in the saddle. This is good because, for all of his weaknesses, he is the best man that we could have. Mr. Lydman believes that the Indonesians are able to fund the Plan and do it rather easily if just a little common sense is used. (He seemed to be referring here to the Foreign Exchange aspects of the Plan.) Some bankers in Washington believe that Indonesia is in too deep, but Mr. Lydman does not think so. Things will not get too sticky until about 1964. The big joker with respect to the Plan concerns what will happen to military expenditures. Large sums may be required internally support the use of Soviet military equipment.

4. The US has been encouraging Djuanda to take on an economic consultant (Bernard Bell) who would be backed up by a Board of Consultants consisting of economists and engineers. Lydman assumes that these would all be Americans but he does not know.

5. Relatively speaking, by Far Eastern standards, Indonesia is a sound country ~~but~~ ^{and} its potential is enormous.

6. There is little correlation between economic ups and downs and the political dynamics. Indonesia has never really been in an economic bind and ~~an~~ ^{the} economic problem is not of the kind which would impel people to change governments. The PKI does not get its support as a result of economic factors. An indirect exception is the presence of half-baked intellectuals who, for economic reasons, have nothing to do. The economic situation will not be an important factor in the future of Sukarno or the PKI. It is true and significant that Sukarno is committed to the Eight Year Plan but he has been adept at jumping off such bandwagons before.

7. The PKI derives much of its strength from identification with nationalism. The real key to their success, however, is their organization which goes down to the village level where they have people who are concerned about people, e.g. about new roads, repairing roofs, recreation areas, etc. The number of dedicated Communists is quite small, but people go along with the PKI because it helps them. The other Parties revolved around themselves and were concerned with looking out after themselves, including the Masjumi, the PNI, and the PSI. There are villagers in East Java who think Sukarno is head of the PKI--example of the successful identification with nationalism.

~~CONFIDENTIAL~~

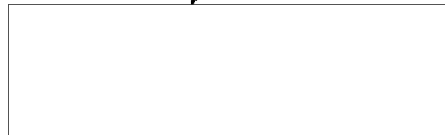
~~CONFIDENTIAL~~

8. Sukarno is quite aware of his weaknesses in not having his own mass organization and in depending on the PKI. His answer is the national front--he wants to envelope the PKI in the national front.

9. Mr. Lydman believes that the drawdown on the ^{Soviet} military credit will be slow. The key to the rate of drawdown is how Sukarno views Indonesia's progress on West Irian. Mr. Lydman believes that we should give West Irian to the Indonesians "of course", for overriding political reasons and not because they deserve it.

10. In the short run, Indonesia would certainly respect the line between West New Guinea and East New Guinea. He also thinks they will do so in the long run. This will depend on many factors.

11. ~~Mr. Lydman believes that Western Guinea is an economic situation.~~ Although the Indonesians might like to have Timor and North Borneo, they would not exert the kind of pressure for these places that they have for West New Guinea.



STAT

~~CONFIDENTIAL~~