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REPERCUSSIONS ON THE NETHERLANDS OF INDONESIAN INDEPENDENCE

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REPERCUSSIONS ON THE NETHERLANDS OF INDONESIAN INDEPENDENCE

SUMMARY

The granting of independence to Indonesia, by freeing the Netherlands from its major military commitments in the archipelago, should enable the Dutch to concentrate on metropolitan defense and contribute more effectively to Western European joint defense efforts. The loss of Indonesia may weaken Dutch support of the colonial position of other European powers. Expansion of Dutch economic relations with other areas, including the Western European countries, is expected to result from the loosening of economic ties with Indonesia, and may lead to more active Dutch participation in the European integration measures which the US favors. Although there is considerable latent Dutch resentment toward the US for its positive role in the negotiations leading to Indonesian independence, this has not seriously impeded Dutch support of other US policies and objectives.

Indonesian independence, achieved in December 1949, has brought numerous problems to the Netherlands. Under the new political relationship—an equal partnership in a commonwealth-type union nominally headed by the Dutch monarchy—some of the earlier friction persists. Another important problem still unsettled is the future status of Netherlands New Guinea, which the Netherlands is reluctant to cede to Indonesia despite the demands of Indonesian leaders. In addition, involvement of Dutch nationals in dissident Indonesian movements will antagonize the Indonesian Government and arouse suspicion of the motives of the Netherlands Government.

On Far Eastern questions, the position of the Netherlands is likely to be dictated primarily by its own interests, though it will not altogether disregard the policies of Indonesia.

Some divergencies have already developed, as illustrated by the Dutch recognition of the Bao Dai regime in Indochina, a regime which Indonesia does not acknowledge, and by Dutch support of the UN in the Korean conflict, concerning which Indonesia proclaimed itself neutral.

Within the Netherlands, criticism of the Government's Indonesian policy is likely to continue. It is unlikely, however, to threaten the stability of the government unless concessions to Indonesia on New Guinea are carried to the point of eliminating Dutch sovereignty in that area.

Before the war, Indonesia was a very important economic asset to the Netherlands. The area gave the Dutch primary access to a rich variety of natural resources. This was of particular importance because of the very limited resources of the metropolitan country. Possession of Indonesia guaranteed to the Netherlands supplies of many essential tropical products, and the sale of these to foreign countries was a source of foreign exchange. The development of Indonesia provided a profitable outlet for Netherlands capital.

As a result of the extensive destruction of property during World War II and the subsequent Netherlands-Indonesian conflict, the postwar economic contribution of Indonesia to the Netherlands was very limited. Although the granting of independence resulted in no immediate economic injury to the Netherlands, the effects are now beginning to be felt, and may be expected to increase in future years. Present Dutch investors in Indonesia will probably supply the necessary capital to repair wartime damage and restore prewar production levels. This will keep capital mov-

Note: The intelligence organizations of the Departments of the Army, the Navy, and the Air Force have concurred in this report; for a dissent by the Intelligence Organization of the Department of State, see Enclosure. This report contains information available to CIA as of 17 November 1950.

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ing from the Netherlands to Indonesia for possibly several years. During this reconstruction period the Netherlands Government will probably continue the extension to Indonesia of such credits as are necessary to maintain financial and commercial relations between the two countries. The return of Dutch civilians and troops from Indonesia is proceeding rather rapidly, and the need for manpower is such that no unemployment is anticipated. There will be a very sharp decline in personal remittances to the Netherlands from Indonesia. The cancellation by the Netherlands of 2 billion guilders of the Indonesian debt will result in another sizable loss of income.

The major long-run economic effect of Indonesian independence will be the loss of an attractive field for the investment of Dutch capital. Discrimination by the Indonesian Gov-

ernment against Dutch investments is forbidden by treaty but an anticipated increase in government controls, higher wages, and continued sporadic lawlessness will make it more and more difficult to attract Dutch capital.

The reduction of Dutch military commitments in the Far East will not immediately increase Dutch military capabilities in Europe, as the latter presently depend more upon the provision of equipment and instruction than upon manpower. The Netherlands Army personnel returned from Indonesia will be utilized largely in reserve units. Comparatively few of the former members of the Netherlands Indies Army and Air Force are likely to enter the Dutch metropolitan forces. Since an over-all reduction in navy personnel has been taking place, repatriation will have little effect on Dutch naval strength.

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REPERCUSSIONS ON THE NETHERLANDS OF INDONESIAN INDEPENDENCE

Introduction.

Dutch political control in Indonesia, as well as the prewar economic benefits derived from it, was never fully restored after World War II. Even if Indonesia had not gained complete independence, the force of the nationalist movement would have reduced Indonesia's prewar economic importance to the Netherlands. Though it is too early to evaluate the effectiveness of the dominion-type of relationship which has replaced colonial control, the large Dutch economic holdings remaining in Indonesia guarantee that the Dutch will continue their efforts to maintain influence in the former colony and to establish close and permanent working relations with it. Nevertheless, the international position of the Netherlands has been considerably altered and its strategic interests in the Far East have been reduced by the granting of independence to Indonesia on 27 December 1949. By relinquishing political, economic, and military control of the archipelago, the Netherlands lost political direction of the exploitation of the resources of Indonesia.

Effects on US Interests.

Although there is considerable latent Dutch resentment toward the US for its positive role in the negotiations leading to Indonesian independence, this has not seriously impeded Dutch support of other US policies and objectives. There is no reason to believe that future Indonesian developments will have an adverse effect on Netherlands-US relations.

With the major Dutch military commitments in Indonesia terminated, the Netherlands will be able to concentrate on metropolitan defense and contribute more effectively to Western European joint defense efforts, thereby utilizing US military aid more efficiently. Loosening of economic ties with Indonesia may be expected to result in expansion of Dutch economic relations with other areas, including the Western European countries.

This would in turn stimulate more active Dutch participation in the integration measures which the US considers essential for a healthy Western European economy.

The drain on the Netherlands economy occasioned by the costly postwar conflict in Indonesia was indirectly eased by US aid through ECA. However, that drain is still being felt during 1950 because of the expense of withdrawing Dutch troops from Indonesia. If Indonesian efforts to achieve economic independence curtail the Dutch role of intermediary in exports from Indonesia to the US, the Netherlands problem of meeting its dollar payments will become more serious.

1. Political Repercussions.

Dutch-Indonesian Political Relations.

The Hague Agreements establishing an independent United States of Indonesia and the Netherlands-Indonesian Union were reluctantly accepted as inevitable by the majority of the Dutch people. Although the Dutch Government has made some progress toward closer cooperation with Indonesia, a number of problems have arisen since early 1950 which have unfavorably affected Netherlands-Indonesian relations. Difficulties in implementing The Hague Agreements have been largely due to the inability of many Dutch to forego the role of colonials and of ultra-nationalistic Indonesians to accept the important economic position of the Dutch in the islands. Support given dissident Ambonese and other Indonesian elements by Dutch nationals has aroused considerable Indonesian antagonism against the Netherlands Government and directed suspicion toward the Netherlanders remaining in Indonesia. The current status of relations between the two countries would indicate that the daily working relationship established between the respective High Commissioners and Governments will be more important in determining good will and cooperation than the formal structure of committees and confer-

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ences between the two governments, at least until Indonesia is firmly oriented toward the West. The Indonesian Government's efforts to minimize the influence of the Union upon its foreign and economic policies probably will continue. Until the new nation has reached such political maturity that it no longer feels the need to prove its independence of action and its equality, and until the Dutch cease to think of Indonesia in terms of its former subordinate position, Indonesian leaders will not place much trust in the efficacy of the Union to solve their problems.

The most serious political problem is the future status of Netherlands New Guinea, which is to remain under Dutch control until the end of 1950. With both Indonesia and the Netherlands unequivocally claiming the right to possession of the area, a resolution of the issue will be difficult to achieve. The two governments are determined, however, to prevent third-party or international intervention in negotiations on the question, at least until serious efforts to reach agreement have been made at a special conference to be held in late 1950. A large minority in the Netherlands, which includes Labor Party members and businessmen with extensive Indonesian holdings, formerly believed that it was best to relinquish New Guinea to Indonesia. The recent outbreak of fighting on Ambon, however, has considerably increased the support of these elements for the Government policy of maintaining Dutch authority in New Guinea. The primary factors put forth in arguments against the present Dutch position are: (1) Indonesian threats of reprisals against Dutch property in Indonesia if New Guinea is not ceded; (2) the damage, perhaps irreparable, to the functioning of the Netherlands-Indonesian Union; and (3) the financial burden to the Netherlands that the development of New Guinea represents. The Government is unlikely to change its present stand in the initial negotiations, however, and if no compromise agreement is forthcoming, will press for the postponement of a final decision and the continuation of Dutch control of the area in the interim. Neither Government favors joint control or any kind of trusteeship for New Guinea. Even if agreement on a solution of

this sort could be reached, some dissatisfaction on both sides would be evident and would, at least for a time, hamper cooperation on other problems.

Dutch International Relations.

Although the new status of Indonesia has had no direct visible effect on Dutch foreign policy as it relates to Europe, it has promoted the increasing Dutch preoccupation with European affairs. The new status of Indonesia may also weaken Dutch support of the colonial policies of other Western European powers, with which Dutch policies had been closely associated. If so, the Dutch attitude would not be dictated so much by bitterness over the loss of Indonesia, as by an increased necessity for maintaining good relations with Indonesia and the Caribbean territories.

With regard to Far Eastern questions generally, the Dutch position will be dictated primarily by the Netherlands' own interests. The Dutch have agreed to consult with the Indonesians on matters of foreign relations, but are not committed to a common policy. The readiness of the Dutch to pursue an independent course was demonstrated by The Hague's recognition of Communist China, prior to Peiping's recognition of Indonesia, and of the Bao Dai regime in Indochina, which Indonesia has not recognized. The Netherlands also gave full support to the UN Security Council resolution on Korea, whereas Indonesia officially adopted a neutral attitude toward the Korean conflict.

Dutch Colonial Relations.

The establishment of Indonesian independence has encouraged the Netherlands Antilles and Surinam (Dutch Guiana) to ask for a greater autonomy within the Kingdom of the Netherlands. The Dutch have already gone part way by providing an interim administration for the West Indies with independence in internal administration and representative assemblies for the various islands, in preparation for an eventual constitutional revision providing Surinam and the Antilles with "equal" status with the Netherlands in the Kingdom. Although these measures have not satisfied the representatives of the Caribbean territories, they open the way to further con-

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cessions. It is possible that the Netherlands will endeavor also to have its Caribbean possessions represented in the Netherlands delegation in The Netherlands-Indonesian Union, although during the Dutch-Indonesian negotiations, Surinam and Curacao expressed opposition to their inclusion within the Union. Besides these political measures, the Netherlands will now show a greater interest in the economic development of the West Indies, particularly if New Guinea is lost.

Dutch Domestic Politics.

The granting of Indonesian independence practically ended political dissension in the Netherlands on that fundamental question, although criticism of the evolution of working relations with Indonesia will continue. The opposition of the rightist parties was revealed recently in parliamentary criticism of the government's passive attitude toward Indonesian moves to replace, with a unitary state, the federal structure established by The Hague Agreements. This criticism indicates the strong stand that may be expected against any concessions on New Guinea. The stability of the government is not likely to be threatened by this question, however, before late 1950, and then only if the governmental parties are unable to agree on a policy regarding New Guinea. Otherwise, the present coalition will probably continue until after the next national elections in 1952.

2. Economic Repercussions.

Importance of Indonesia to the Netherlands.

Through its former control of Indonesia, the Netherlands gained a first claim to access to Indonesia's rich natural resources. These resources provided extensive opportunities for skilled Dutch enterprise as well as an economic frontier into which Dutch capital could move with the assurance of legal protection and the opportunity for realizing large profits. As the Indonesian economy expanded, it constituted an increasingly important market for Netherlands industrial products and for the service of its merchant fleet, as well as providing employment for trained administrators and technicians from the Netherlands. In the Netherlands itself, some manufacturing industries were partly dependent upon Indo-

nesian raw materials. Extensive banking and commercial activities were established or expanded on the basis of the dominant Dutch role in the Indonesian economy. It has been estimated that in prewar years about 15 percent of the Netherlands national income was derived directly or indirectly from possession of Indonesia. Those benefits were of particular importance to the Netherlands because of the very small size and limited resources of the metropolitan country.

Furthermore, the Netherlands was able to meet its payments deficit with other countries with foreign exchange earned by Indonesia. Indonesia had a surplus on current account with other areas but a deficit with the Netherlands. Thus, in prewar years, metropolitan Netherlands and Indonesia taken together were in long-term payments equilibrium with the rest of the world.

Investments.

Before the war, 39 percent, or approximately the equivalent of \$2 billion, of the total Dutch foreign investments were in Indonesia. In the three-year period, 1937 through 1939, about 47 percent of the Netherlands total foreign investment revenues were received annually from Netherlands enterprises operating in Indonesia. It is evident, therefore, that the rate of investments in Indonesia was considerably greater than the rate of return from Netherlands investments in other parts of the world. As a result of destruction and plunder during the Japanese occupation and during the postwar conflict, Dutch properties in Indonesia sustained very serious damage and the delay in reconstruction caused further losses.

The postwar investment losses in Indonesia are even more serious for the Netherlands in view of the simultaneous reduction of income from other areas. As one of the leading creditor countries before World War II, with extensive investments in all parts of the world, the Netherlands suffered losses not only in Indonesia during and after the War, but in other areas as well. In addition to heavy losses in Europe, the Netherlands has found it necessary to liquidate about \$265 million of its dollar assets since 1945 in order to meet cur-

rent dollar payments deficits. Although the Netherlands has retained its international creditor position in the postwar period, total current revenues accruing to the Netherlands from interest, dividends, and profits from abroad are lower than in prewar years, and probably will be reduced further as additional foreign loans are obtained.

Under the provisions of The Hague Agreements, Netherlands investors retained their holdings in Indonesia after independence was granted, and the change in juridical status had, of itself, little immediate effect on the value or earnings of Netherlands investments. Discrimination against Dutch investments is forbidden by treaty. There has been no nationalization of basic industries, although the inter-island airlines have been brought under Government control, and similar controls are anticipated with regard to inter-island shipping. Present conditions in Indonesia are not such as to encourage new Dutch investments. Political uncertainty and continuation of sporadic lawlessness have had an adverse effect on the development of Dutch investment and profits. Moreover, the Indonesian Government in March 1950: (1) reduced liquid assets by 50 percent through a currency conversion; and (2) introduced foreign exchange measures which resulted in tripling the cost of imports for rehabilitation and expansion purposes and in increasing the cost of remitting dividends abroad. At the same time, however, these new regulations stimulated the export of Indonesian raw materials, a large proportion of which are derived from Dutch-owned properties and therefore served to maintain the level of Dutch earnings. No serious reduction in profits is expected to result in the near future from the wage rises granted since independence, because export prices on such essential items as rubber and tin have increased considerably owing to the rearmament needs of the West. The Indonesian Government aims eventually to institute state control of the privately-owned public utilities and transportation systems, and possibly of other vital branches of production and natural resources. These developments will cause future difficulties for Dutch investments.

The Indonesians, however, depend to a great extent upon foreign investment, of which

about 70 percent was Dutch before World War II. This need for foreign capital will certainly continue for many years because of the low level of Indonesian private saving. It is probable, therefore, that a large sector of the economy will be permitted to remain in foreign hands for a considerable period. Netherlands trading and financial interests constitute an integral part of the Indonesian economy, and although there has been some effort on the part of the Indonesian Government to promote the interests of Indonesian traders, it probably would take years for these newcomers to compete effectively. The political and economic uncertainties which Indonesian independence has brought will tend, at least for the present, to discourage Dutch investors from initiating new enterprises, even if capital is available. Investments probably will be confined to existing enterprises to restore normal production.

Dutch Budgetary Expenditures.

Because of expenses assumed as a result of Indonesian independence, the Netherlands 1950 budget deficit, originally 410 million guilders, has been increased by about 160 million guilders. After 1950 there will be reduced expenditures, however, particularly on the training, supplying, and transport of troops to Indonesia, items which entailed large expenses in previous years. (Expenditures for Dutch troops actually in Indonesia were in the past borne largely by the Dutch-controlled Indonesian Government.) If the Netherlands retains control of New Guinea, future capital expenditures for the economic development of the area and the expansion of military installations probably will be increased, offsetting to a certain extent the reduction in expenses for Indonesia. By its cancellation of 2 billion guilders of the Indonesian debt, the Netherlands will sustain an annual loss of roughly 110 to 125 million guilders in interest and amortization, assuming the debt would have been retired over a 25-year period as the Netherlands Government had proposed before this cancellation.

Invisible Payments and the Indonesian Debt.

Postwar earnings from Dutch loans to Indonesia and from investments in the Archipel-

ago have been maintained at a fairly satisfactory level, considering the extensive destruction in Indonesia and the low rate of production. This was accomplished, however, only by the extension of Dutch guilder credits by the Netherlands Government to the Indonesian Government. By the end of 1949, the Indonesian debt to the Netherlands totaled about 3 billion guilders. At the Round Table Conference, the Netherlands agreed to cancel 2 billion guilders of the debt, representing mainly the obligation incurred during and after World War II. The Netherlands Government has agreed to extend a credit of 200 million guilders to Indonesia during 1950, a sum expected to cover about two-thirds of Indonesia's invisible deficit with the Netherlands for the year. The remaining third is to be covered by hard currencies, or through providing the Netherlands with hard currency exports over and above the exports provided for in the Netherlands-Indonesian trade agreements.

The transfer of interest and dividends earned in Indonesia to the Netherlands will constitute a problem for some time. During the next few years credits probably will be needed if the Indonesian Government is to continue to meet its deficit on invisible account with the Netherlands. It appears probable that an arrangement will be made during the next few years similar to that provided for in 1950.

Trade.

Before World War II, the Netherlands had a trade deficit with Indonesia, but had a surplus in its over-all payments account because of a large return from invisible items. Indonesian foreign currency earnings from other areas were utilized by the Netherlands to cover its deficit with other nations. By 1949, the value of Dutch-Indonesian trade was back to its prewar proportion of total Dutch trade (8 percent of total imports and 10 percent of total Dutch exports). The absolute quantity of imports by volume from Indonesia was, however, only 81 percent of the 1938 volume. In the postwar years, a far greater proportion of total Indonesian exports was shipped to the Netherlands than before the War, indicating that the Netherlands was able to revive Dutch-

Indonesian trade only at the expense of Indonesian third-country trade. On the basis of Netherlands-Indonesian trade for the first four months of 1950 and the trade agreement for April-September 1950 inclusive, it appears that the value of Dutch exports to Indonesia during 1950 will be below that of 1949, and that the Netherlands' trade deficit with Indonesia will be greater, although Indonesia still is expected to have its traditional over-all current payments deficit with the Netherlands.

In the postwar period of restricted bilateral trade, Indonesian products have been a useful lever for the Netherlands in obtaining more attractive trade agreements than Dutch goods alone could command. The Round Table Conference agreement provided for Netherlands-Indonesian cooperation in trade policies with European countries at least until 1 October 1950. Indonesian participation in trade agreements with other European countries probably will not be continued after the expiration of current trade agreements. Indonesia, however, probably will strive for greater independence from the Netherlands in its foreign trade policy, particularly now that Western European demand for its raw materials has been increased by rearmament measures.

Indonesia has been and probably will continue to be a fairly important market for Dutch goods. Transit shipments of Indonesian goods through the Netherlands, however, may be expected to decline. The direct sale of Indonesian goods to other countries probably will be brought about only gradually, but in the case of rubber there already has been a perceptible move in this direction.

Indonesian imports have been important to Dutch foreign trade by providing raw materials which, after processing in the Netherlands, are exported as semi-finished or finished products. In the prewar period about 40 percent (by value) of Indonesian imports into the Netherlands, exclusive of petroleum, were re-exported, in comparison with at least 56 percent (exclusive of petroleum) in 1949, or the equivalent of about \$60.3 million. These re-exports made up about 5.7 percent of total Netherlands exports in 1949, a higher proportion than in the prewar period.

Industry.

The fact that more than 99 percent of re-exported Indonesian products were first processed in the Netherlands is in itself an indication that Dutch industry is greatly dependent upon Indonesian raw materials. The rubber and margarine industries are based upon Indonesian imports, and the tin smelter at Arnhem depends entirely upon Indonesian tin ore. Indonesian independence probably will have little effect on sales to the Netherlands for processing and re-export. More serious repercussions on the transit shipment of Indonesian goods through the Netherlands, however, can be expected.

The Dutch in Indonesia.

The number of Dutch nationals employed in Indonesia before and since World War II totalled only about 35-40,000, but their income was substantial and their ties to Indonesia were close. Their earnings in 1938 are estimated to have been approximately 120 million guilders (\$65.9 million), or roughly the equivalent of 2.4 percent of the Netherlands national income for that year. With the transfer of sovereignty at the end of 1949, many Dutchmen expressed a desire to leave Indonesia as soon as possible, and many already have returned to the Netherlands. A total of about 36,000 are expected to return during 1950. About 3,200 Dutch nationals of some 10,000 at present employed by the Indonesian Government will probably remain, but of these only about 1,000 are Europeans, most of them being Indo-Europeans. Many Dutch in private enterprises, however, particularly those whose families have lived in Indonesia for generations, can be expected to try to stay in Indonesia permanently. The Netherlands Government is not encouraging the return of its people from Indonesia, because of overpopulation in the Netherlands.

Another problem will result from the return of the Netherlands troops from Indonesia. The large annual increase (40-45,000) in the Dutch working population is, in itself, a problem for the government, and is aggravated this year by the repatriation of some 70,000 troops, which began in late 1949 and is still incomplete. In order for the Netherlands to

provide for this increment to the population, a large-scale investment and extensive technical training program is required. Through June 1950, unemployment among the returned soldiers was surprisingly small, particularly in view of the fact that many lacked technical training. Because of the plans for an increased military establishment and military production in the Netherlands, it is likely that military or civilian employment will be available for most of the repatriates.

In the years before the War, the Netherlands had a small net gain in the total exchange of population with its overseas territories, of which Indonesia was by far the most important. It is possible that, if the Netherlands had retained Indonesia, this trend would have been reversed as the pressure of overpopulation in the Netherlands increased. The fact remains, however, that Indonesia has never been an area for extensive Dutch settlement, and, with the granting of Indonesian independence, is never likely to be.

3. *Military Repercussions.*

The postwar conflict in Indonesia demanded the full attention of the Dutch armed forces and placed a severe strain on financial and manpower resources. The reduction in Dutch military commitments in the Far East due to the granting of Indonesian independence will not immediately increase the Netherlands' military capabilities in Europe, because the greatest military needs at present are modern equipment and instructors to train soldiers in its use. Nevertheless, Dutch military policy and planning are now undergoing important changes, and the greatest emphasis is being placed on the reconstitution of the metropolitan ground forces in line with the Netherlands commitments to the Western Union and the North Atlantic Treaty Organization. Substantial increases in military expenditures after 1950 will meet opposition from civilian officials, however, on the grounds that the metropolitan defense can be increased by utilizing funds formerly devoted to the forces for Indonesia.

Under The Hague Agreement of November 1949, Dutch military commitments in Indonesia were reduced to: (1) performing naval

patrol, minesweeping, and hydrographic tasks; (2) providing a military mission for at least three years for advising and training the Indonesian armed forces; and (3) assisting in equipping the Indonesian forces, including the transfer of the equipment of the former Royal Netherlands Indies Army (KNIL) and the transfer of 1 destroyer, 4 fleet minesweepers (corvettes), and a number of smaller craft. The agreement provided that personnel of the former Netherlands Armed Forces in Indonesia have the choice of joining the metropolitan Netherlands Armed Forces, the Indonesian Armed Forces, or being discharged in Indonesia.

About 75,000 of the returned soldiers will be assigned to the Netherlands home guard, but probably will not be organized into large combat units or receive field training. The last group of conscripts to be sent to Indonesia, numbering about 30,000, will constitute the organized reserve. It is planned to group them into two brigades with a full complement of weapons and equipment held in storage for them. If funds are available, these active reservists will be called up annually as a mobilization test and to hold field maneuvers. The present lack of equipment and training organization makes it unlikely that these reserves will become an effective force to supplement the standing army within the near future. No more than 5,000 men of the KNIL are expected to enter the Netherlands Army. Although they are battle-experienced men, a period of re-training probably will be necessary before they will be useful in the metropolitan forces. The only Netherlands forces that will remain in the East Indies, in addition to the military mission, are about 1,000 troops in New Guinea, and they may be with-

drawn at the end of 1950 if the Netherlands relinquishes that area to Indonesia.

Only one observation squadron of the Netherlands Army Air Force was stationed in Indonesia where other air personnel belonged to the Netherlands Indies Army Air Force. A majority of the latter probably will choose to remain in Indonesia because many of them have strong family and economic ties there. The number of air force personnel transferred from Indonesia to the Netherlands will be small, but may be expected to raise the level of training and experience of the Army Air Force. A small air mission, numbering less than 200 Dutch officers and men, is remaining in Indonesia to train and advise the Indonesian Air Force. The lack of modern aircraft will continue to be the most important factor limiting the Netherlands Air Force capabilities.

The Royal Netherlands Navy will be withdrawn from Indonesia at the end of 1950, with the exception of the naval section of the military mission, which will continue some minesweeping and hydrographic work in addition to its training duties. The Indonesian Government is meeting the expenses of the Dutch naval forces in Indonesia during 1950, and will pay for the military mission. The progressive release of naval units from Indonesia will build up the fleet available for service in Dutch home waters. Many of the vessels in Indonesia, however, have seen hard service, are over-age, and need repairs; even if some are overhauled, it will be months before they can add appreciably to the navy's limited capabilities. Since an over-all reduction in navy personnel has been taking place, repatriation will have little effect on Dutch naval strength.

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ENCLOSURE

DISSENT OF THE INTELLIGENCE ORGANIZATION

DEPARTMENT OF STATE

The Intelligence Organization of the Department of State agrees with the major conclusions of CIA/RE 6-50. We disagree, however, with two specific statements made in the summary and repeated in the text because they either are not supported by sufficient evidence or risk giving rise to incorrect conclusions.

1. While it is true that the Netherlands makes a conscious effort to avoid disagreement with Indonesia on major foreign policy issues, there is little evidence to date to support the statement that the achievement of

Indonesian independence "may weaken Dutch support of the colonial position of other European powers" to any appreciable degree.

2. Unquestionably Indonesia will be a less "attractive field for the investment of Dutch capital" in the future than it was in the past. The paper states this loss in absolute terms, however, and thereby precludes the possibility that relative to other areas of the world Indonesia may still continue to have considerable appeal to private Dutch investors, as well as to others.

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