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SPOTLIGHT ON INDONESIA'S ECONOMIC SITUATION

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President Sukarno, three years ago, has raised the question: "If nations who live in a dry and barren desert can solve the problems of their economy, then why can't we?"

Indeed, among the economically under-developed countries, Indonesia has the privilege of vast natural resources, manpower and a favourable climate. There are, on the other hand, some serious obstacles to a smooth development, such as over-population in Java, lack of domestic capital and shortage of skilled labour and experts. But, Indonesia's main economic problems stem from politics. So far, the President of the Republic himself might be in the best position to answer the question why Indonesia wasn't able to solve the problems of her economy.

The last stormy weeks and months in Indonesia cannot be understood without due consideration of the country's shattered economy. The students' demand for the lowering of sky-rocketed prices was most popular in the masses. A further expansion to a full-scale social revolution was well within the scope of possibility. The steps of the Army must be seen as an attempt to channelize the legitimate demands of the people to a peaceful solution.

One of the most encouraging signs of to-day's Indonesia is rising self-criticism and introspection in the economic and socio-economic field. Indonesia's new emerging forces, to use this term, no longer accept the official tales of bright economic progress which contrast sharply with the facts of rising prices of rice and basic commodities. The system of handling economic problems under the guiding principles of nation- and character-building, with a

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sovereign contempt of basic economic laws, has led Indonesia to the brink of collapse, both economically as politically.

The general condition of the economy was deteriorating fast in 1964. At the end of the year, Indonesia could no longer maintain her repayment obligations. Foreign credits from the East and the West had largely been wasted for non-productive show-projects.

Djakarta now is reviewing new re-payment schedules with the foreign governments concerned. The creditors would prefer multi-lateral discussions, whereas Indonesia insists on bi-lateral negotiations.

No official data are available on Indonesia's indebtedness.

Estimates are as follows: Short-time liabilities - about 130 million U. S. dollars;
medium and long-time liabilities - more than 2,000 million dollars;
overdue repayments are said to comprise about 130 million U.S. dollars

This gloomy picture is completed by figures of Indonesia's galloping inflation. True, Indonesians have been living with inflation for the last twenty years. "But the intensity of inflation during the last two years has taken such dimensions, as to threaten to get out of hand." (This sentence is a quotation of a carefully worded statement of the Deputy Prime Minister for economic, financial and development affairs, Sri Sultan Hamengku Buwono IX.)

The index of living went up dramatically. Based on 100 in January 1953 it rose to 2,458 in January 1964, and further to 6,458 in January 1965. - In July 1965 the index was up to 10,141. At this time, the Government stopped index publications. But the rise of the index, of course, could not be brought to a halt by a Presidential Decree. Estimates of the index of living are now more than 20,000. That means that the basic living commodities for the

urban masses are 100 times more expensive now, compared to eight years ago. During the same period, wages and salaries did not follow at the same pace, to the disappointment of the masses who believed for years in the slogans of Indonesia's "just and prosperous society."

A kind of ill-prepared monetary reform on the 13th of December last year could not prevent the inflation from galloping further. Attempts to curb inflation by improving production were also doomed to failure. The capacity of the manufacturing industry is now down to 30%, if not less, due to lack of spareparts, imported raw-materials, transportation etc.

The amount of money in circulation which is another indicator for the shattered Indonesian economy is increasing at a fantastic pace. In millions of Rupiah, old currency, the money in circulation has increased as follows:

end of 1958	29,355
1959	34,884
1960	47,337
1961	57,543
1962	135,398
1963	263,350
1964	675,138
1965	2,200,000 (estimated)

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Additional figures revealing the same gloomy aspects of the Indonesian economy could be added easily. Let's take for instance the exports. According to last data, made available from the Customs and Excise Tax Service, Indonesian exports in 1965 reached 455 million U.S. dollars, that is a mere 76% of the export target of 600 million U.S. \$. In 1964 exports amounted to 457 million U. S. dollars; in 1963 to 428 million; in 1962 to 466 million. The target for 1966 is set at 400 million U.S. dollars, - taking altogether no impressive signs for progress, but for stagnation.

Without any doubt, according to domestic statistics, Indonesia is already bankrupt. If the consequences don't have resulted in a catastrophe, it is because of the economic and demographic structure of the country: Main problems are concentrated in the big towns. The rural areas are even now based on subsistence economy with agriculture and petty business. About 30% of the Indonesian population are living there, not affected critically by the adventurous economic policy of the last years. The modest frugal way of life of the rural population, the art to improvise, the ability to find a way out of serious conditions, - that's what has saved Indonesia from the total collapse, not the solganism of the leaders.

It's refreshing, indeed, to what extent realism is emerging now. Even the *INDONESIAN HERALD*, a moderate, not a radical Djakarta daily, considered to be close to the Ministry of Foreign Affairs, came out on April 4th with the harsh words: "We claim that we incorporate in our way of life the teachings of the French Revolution. Yet the way of life of our top leaders rejects the teaching of equality. We claim to incorporate the teachings of the American Revolution and the principles of the Four Freedoms. But we had freedom only to praise and to idolize. We claim to follow the teachings as incorporated in the Soviet Revolution with its negation of classes and equality of economic enjoyment. But what we see is neo-feudalism to an extent unknown even in the feudal centers of our past history."

So far the Indonesian Herald. - At the same time, official statements are reflecting an equal spirit of austerity and realism, though less emotional, of course. Most important in this context, is the announcement given on April 4th by the Deputy Prime Minister for economic, financial and development affairs, Sultan Hamangku Buwono IX: The supply of rice is getting highest priority quite understandably, since this problem is not only of decisive importance for the masses economically, but as well in its psycho-

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logical and political aspects.

Next in the Sultan's programme are transport and export "The immediate recovery and development of the transport section is pertinent to the whole stabilization programme, especially for the development of the export sector. Our minimum target of the stabilization programme is to restore existing production capacity to its fullest potential, as well as to achieve a notable increase in food production."

Further, the Sultan points to the disorder within the administrative apparatus. He is blaming the application of "irrational ideas" regarding organization and functioning of the administration, combined with mismanagement and having the wrong men in important places. This problem is said to be tackled by complete revision and re-structuring of both organization and personnel of the whole administration.

Emphasis is on rehabilitation, not on big projects. And that's exactly what economic experts are recommending. Professor Dr. Widjojo Nitisastro, noted Dean of the Faculty of Economics, University of Indonesia, has mentioned a three stage method for recovery. The first stage envisaged drastic steps to overcome economic bottlenecks, by among other things filling rice supplies, smoothing harbour operations and improving disorders of the administration. The second stage is to take steps which are based on a programme of an integral economic stabilization. Only after the second stage could the government engage in efforts to develop the nation's economy completely.

The best economic brains in the country seem to co-operate with the government now, or better: they have a chance to give their advise. The economic situation is still very serious, but it is not hopeless. Final success for an economic recovery depends on teamwork in executing a sound, realistic programme without interference of Indonesia's "old established forces."