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CENTRAL INTELLIGENCE AGENCY

4 January 1949

INTELLIGENCE MEMORANDUM NO. 113

SUBJECT: Consequences of Dutch "police action" in Indonesia.

1. The "police action" launched by the Dutch in Indonesia on 18 December has had far-reaching effects in terms of US security interests. The sudden but calculated Dutch move: (1) has brought the Far Eastern colonial problem sharply into focus; (2) has weakened the prestige of the United Nations; (3) may seriously jeopardize the contribution of both the Netherlands and Indonesia to world political stability and economic recovery; (4) may have precipitated the emergence of a Pan-Asian bloc which may become strongly antagonistic toward the US; and (5) has provided the USSR with a powerful propaganda weapon.

2. Effect on the Colonial Problem.

World War II spurred the development of a fundamental US security problem in the Far East: that of striking an effective balance between support for local nationalist aspirations while at the same time supporting the economic interests of Western colonial powers to which aid has been pledged and from which assistance is needed in Europe. The Indonesian crisis has posed this problem as immediate and urgent. The Dutch action will aggravate an already deteriorating situation rather than control it, and will reduce the effectiveness of the Netherlands as a Western European power. A chaotic situation in Indonesia may enable the USSR to extend more vigorously its expanding influence beyond China to Southeast Asia. The rich resources of Indonesia and the goodwill of its more than 70 million peoples are at stake. The development of conditions favorable to the USSR in Indonesia appears now to require, as a counter-measure, a consistent application of positive and sympathetic US influence.

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**3. Effect on the United Nations.**

Persistent Dutch disregard of SC directives will drastically reduce the prestige and influence of the United Nations because it will demonstrate again that UN resolutions, however mild, stand little chance of obtaining compliance unless backed by effective sanctions. Defiance displayed by such a state as the Netherlands, which enjoys long-established traditions of Western democracy and enlightenment, will have a peculiarly destructive effect on the basic concept of international law and order. Over a long term it will furnish means to the Soviet bloc with which to parry the charge that the USSR and its satellites alone are responsible for the disappointing record of the UN. More immediately, the Dutch example is giving further encouragement to such belligerents as Israel to take unilateral action in disregard of the Security Council.

**4. Effect on Political Stability and Economic Recovery.**

In Indonesia the Dutch action has aimed at a complete liquidation of the Republic as a political entity. It is believed, however, that the Republic has built up enough military strength and political support throughout Indonesia to carry out guerrilla operations for several years. It is known that the Republic has substantial financial resources outside of Indonesia which will be utilized in an attempt both to keep alive external support for the Republic and to strengthen internal resistance. It is not anticipated that the Dutch will be successful in winning the support of a sufficient number of nationalist leaders to undermine the resistance movement. Under present conditions it is expected that widespread sabotage and terrorist activities under Republican leadership will prevent the Dutch from achieving any effective degree of political stability.

In Holland, despite considerable foreign censure, the Indonesian action has initially rallied domestic support for the Dutch Government. However, as military operations drag on, dissatisfaction with the Government's policy and dissension between left and right-wing groups will probably grow. In the long run, therefore, the Indonesian situation can be expected to increase the difficulty of maintaining a stable government in the Netherlands.

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The Dutch action will have important economic consequences for the US and the rest of Western Europe as well as for the Netherlands. Indonesia is an important source of such raw materials as tin, bauxite, rubber, petroleum, and vegetable oils. Many of these commodities play a major role in the US peacetime economy, in its strategic materials stockpiling program, and in its implementation of the European Recovery Program.

In the case of tin and bauxite, the police action may not result in an immediate decrease in production because these materials are located in areas under firm Dutch control. A lack of internal stability over a period of years, however, will inevitably reduce the production of these important commodities.

The rubber production in Indonesia will be seriously affected because much of the rubber is located in sections which will be subject to concentrated sabotage activities. Although the Dutch have captured the important Republican petroleum installations, a serious decline in petroleum output as a result of strikes and sabotage cannot be discounted over the long run.

The fact that Malaya, the only other major source of tin and rubber, may be the scene of continued internal disturbances, increases the seriousness of events in Indonesia.

At a time when such commodities, readily available from Indonesia, are generally in short supply throughout the world, the Dutch action will have unfavorable economic implications for the Western world as a whole.

Upheaval in Indonesia will increase the strain on Dutch finances and add to Holland's difficulties in evolving a viable economy. Dutch earnings from investments in Indonesia were an important item in Holland's balance of payments, especially as a dollar-earning source which offset the unfavorable balance with dollar areas. The Netherlands' economic planning is based on the assumption that Indonesia will eventually resume its role as a major source of dollar credits. This is particularly important because of Holland's present heavy imports from the US and the liquidation of a large part of Dutch

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assets in the US. Under the best of circumstances, it was estimated that Indonesia would not produce a favorable balance of payments before 1950. Further delay in realizing returns on Dutch investments as well as probable loss of some of these assets will prolong the post-war economic dislocation in Holland. This will delay the implementation of the Benelux Customs Union and reduce the contribution of the Netherlands to the European Recovery Program.

The probable necessity of maintaining a large army in Indonesia indefinitely will further strain Holland's finances. At present, 19% of the budget is devoted to military expenditures, of which a major part goes to support armed forces in Indonesia. Effective use of Dutch troops in any Western European defense system, moreover, may be postponed indefinitely as a result of this deployment.

#### 5. Effect on Emerging Pan-Asian Bloc.

Dutch aggression in Indonesia has given Asiatic nations a rallying point for effective expressions of Far Eastern solidarity; has presented India with an opportunity to assert leadership in the area, and may have precipitated the emergence of an Asiatic bloc whose ultimate influence can be unfavorable to the US. India, Pakistan, Ceylon, and Burma imposed immediate sanctions against the Dutch by denying air landing and shipping privileges. Burma's suggestion to India that an all-Asian conference be convened to consider the extension of assistance to the Indonesian Republic is being acted upon. Other measures, including material assistance to the Republic and breaking off diplomatic relations with the Netherlands, have been proposed. India, aspiring for leadership in Asia and realizing that the UN is not yet an exponent of its own principles, has seized this opportunity to test the strength of an independent and potentially powerful bloc. Development of any such bloc will stimulate concerted political action outside the UN. It will also tend to weaken further the remaining bonds between the British Commonwealth and its Asiatic Dominions (India, Ceylon, Pakistan) and Malaya. While not yet the foremost target of this bloc, the US is continuing to be identified in Far Eastern minds as a willing assistant in the Dutch action. If this situation continues, the Pan-Asian group will become an effective Soviet instrument, even though it does not align itself with the USSR.

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**6. Effect on Soviet Propaganda.**

The situation in Indonesia enables the Soviets to espouse vigorously all nationalist aspirations, and gives them an opportunity to identify the United States as a partner of the Dutch. While the Soviets have also condemned the Dutch, it is obvious that they are utilizing this situation to the fullest for world-wide propaganda purposes and consider it an ideal opportunity to discredit the US further in the Far East.

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