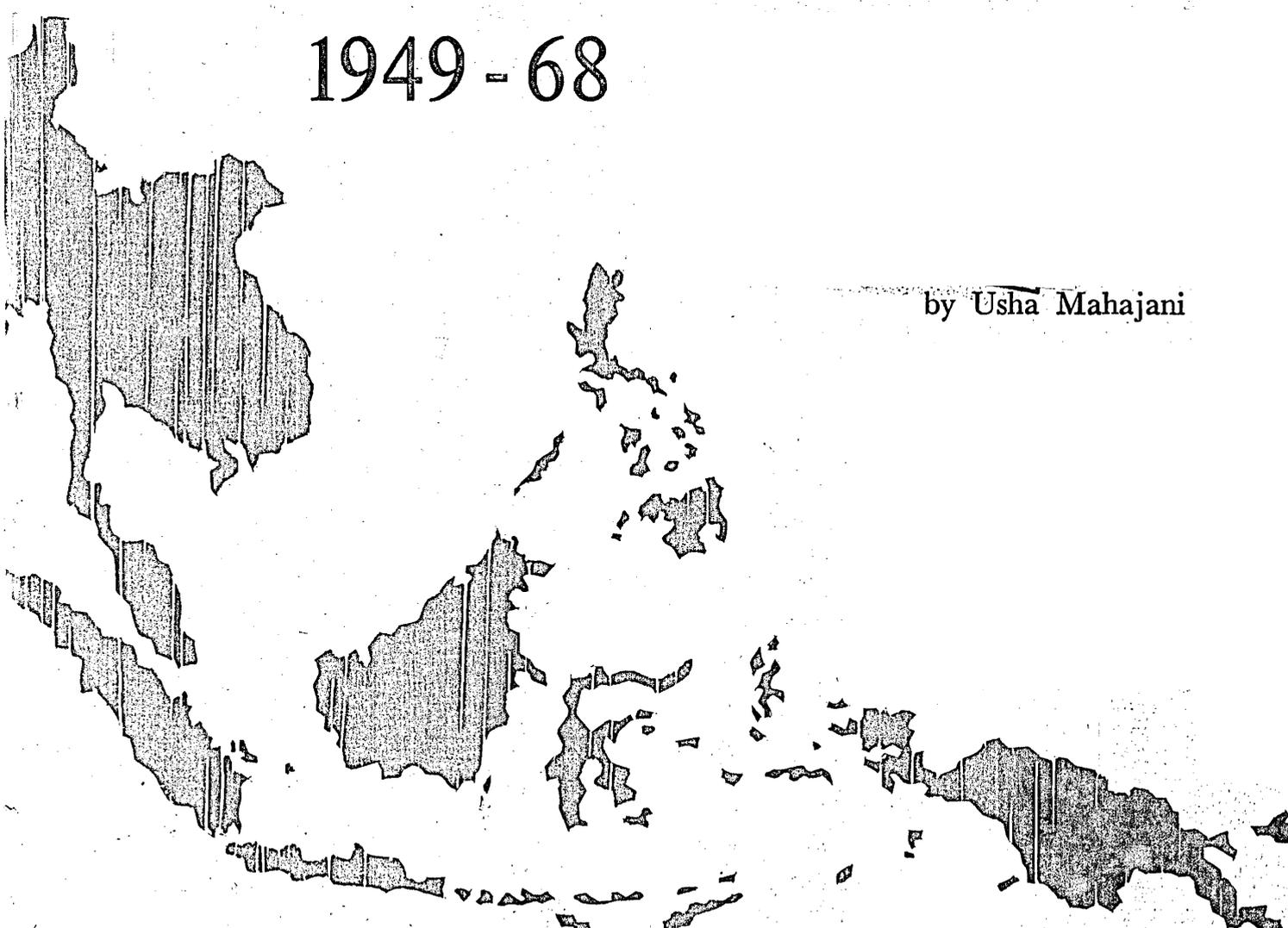


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SOVIET AND AMERICAN AID TO INDONESIA - 1949 - 68

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INTRODUCTION

The first major era in the history of independent Indonesia which ended with the fall of President Sukarno coincided with the cold war between the Soviet Union and the United States. One instrument in the conflict was the diplomacy of foreign aid to developing countries. Indonesia, under President Sukarno's policy of assertive non-alignment, not only was a battleground where the fighting took place, but an active participant in the conflict itself.

Foreign aid was used by the United States and the Soviet Union as the simplest and least expensive instrument of foreign policy in the cold war. The emergence of international politics into one universal international system globalized the national interests of both countries. Even though America and Russia had emerged as "super powers," the use of armed force to settle disputes was discouraged. Economic and military aid seemed the least expensive way of gaining desirable foreign policy objectives. Aid was practicable since it suited the needs of the newly independent countries which were determined to undertake economic development as part of the process of nation-building. For these reasons, the offer and timing of aid and the threat of its withdrawal added another dimension to international relations.

Indonesia became involved in the cold war from the outset. The country's independence in 1949 had been preceded by four years of armed conflict. The United States, interested in keeping the precariously balanced Indonesian government free from local left-wing influence, aimed at calming the Dutch-Indonesian conflict and keeping the Indonesian government aligned with the West. The Soviet Union, impressed by the Indonesian struggle against a colonial power, stoutly supported the Indonesian cause in the United Nations. It viewed U.S. involvement with suspicion and denounced the American-dominated "Good Offices Commission"

under Dr. Graham.¹ The Indonesian Republic was concerned with securing international recognition but nationalist forces became increasingly divided between a right wing looking towards U.S. support and a left wing calling for reliance on the Soviet Union.²

Throughout the period under study, Indonesian politics was characterized by an interplay among many political parties representing a wide range of attitudes and ideologies. The aid policies of the Soviet Union and the United States to Indonesia were greatly affected by the delicate balance of Indonesian political forces. Until "guided democracy" was established in 1957, the Indonesian government was a coalition with a premier drawn either from the Nationalist Party (PNI) led by President Sukarno and supported by the Communist Party (PKI) or from the staunchly anti-Communist Muslim Masjumi. The nuances of Indonesia's policy of non-alignment were dependent upon the party from which the Prime Minister was drawn. From 1949, the PKI was powerful politically. At the same time, the armed forces remained openly anti-Communist. President Sukarno, throughout this time, was a "constant" in Indonesian politics.

The basic pattern of aid rivalry in Indonesia was not different from that in other developing and non-aligned countries. It began with modest U.S. aid programs under Point Four. With a clearer revelation of the dynamics of Indonesian non-alignment, the Soviet Union stepped forward with aid offers as a major instrument in its diplomacy of peaceful coexistence. The rivalry between the two super powers was aggravated by the nature of Indonesian foreign policy which resulted in a refusal to join existing power blocs, an attempt to set up a separate bloc of "the new emerging nations," and an effort to evolve a Southeast Asian insular and peninsular sub-system centered on Indonesia.

¹Ruth McVey, The Soviet View of the Indonesian Revolution, Interim Reports Series, Modern Indonesia Project (Ithaca, N. Y.: Cornell University Press, 1957), pp. 47-53. Hereafter cited as Soviet View.

²Ibid., pp. 45-46.

The material for this study was gathered during 1962-63 in Canberra and Djakarta at a time when the dispute ensuing from the formation of Malaysia threw into disarray previous assessments of foreign aid. Six years later it is possible to put the aid diplomacy regarding Indonesia into clearer historical perspective. This monograph examines the evolution and end of Soviet-American aid rivalry amid changing political events in Indonesia.

My sincere thanks go to the Australian National University for facilities and a generous research grant. I am grateful to Shri Apa B. Pant, India's Ambassador to Indonesia during 1962, and his wife for their kind hospitality and tireless help. The material for this monograph is drawn mainly from written sources but several interviews assisted in clarifying obscure points and greatly added to my understanding. I wish to express my appreciation to Mrs. Naomi Young of the Australian National University and to Central Washington State College for providing typing services and to Professor Paul W. van der Veur, Director of the Southeast Asia Studies Program at Ohio University, for bringing this paper to light.

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ABBREVIATIONS

<u>ASR</u>	<u>Asian Recorder</u>
<u>BIES</u>	<u>Bulletin of Indonesian Economic Studies, Department of Economics, Australian National University</u>
<u>Bulletin</u>	<u>Department of State Bulletin, Washington, D. C.</u>
<u>CDSP</u>	<u>Current Digest of Soviet Press, Praeger, New York</u>
<u>DAFR</u>	<u>Documents on American Foreign Relations, Council on Foreign Relations, New York</u>
DLF	Development Loan Fund
ECA	Economic Cooperation Agency, U.S. Government
FOA	Foreign Operations Agency, U.S. Government
FY	Fiscal Year
ICA	International Cooperation Agency, U.S. Government
IMF	International Monetary Fund
ISDA	International Security and Development Act, 1961
<u>Keesings</u>	<u>Keesings Contemporary Archives, London</u>
<u>NYT</u>	<u>New York Times</u>
OECD	Organization for Economic Cooperation and Development, Paris
<u>Survey</u>	<u>Survey of International Affairs, Chatham House, London</u>
UNDA	United Nations Development Agency
<u>USWA</u>	<u>United States in World Affairs, Council on Foreign Relations, New York</u>

I. UNEASY COEXISTENCE--1949-60

Soviet-American rivalry in Indonesia began in 1948. In February of that year, Dr. Mohammad Hatta became Premier of Indonesia. In May, his anti-Communist government repudiated a recently signed consular agreement with the Soviet Union. As a result, in its first attempt to use aid as an instrument of diplomacy, the Soviet Union proposed a bilateral trade agreement³ which the Hatta government, hoping for U.S. support, declined. The Soviet Union then had no choice but to denounce U.S. eagerness "to gain possession of Indonesia's vast natural wealth."⁴

The Communist revolt during the fall of 1948⁵ provided the next occasion for the exercise of the diplomacy of foreign aid. In December, the United States, impressed by the Indonesian government's suppression of the revolt, condemned the second Dutch "police action" against the Republic and suspended \$11.2 million of foreign aid remaining from the Marshall Plan allocation of \$72.2 million granted to the Dutch for development purposes in Indonesia.⁶ The U.S. Senate delayed approval of the Economic Cooperation Act of 1948 and passed an amendment providing for termination of aid to any country against which the United Nations was taking preventive action.⁷ The Soviet Union supported

³John Coast, Recruit to Revolution (London: Christophers, 1952), pp. 210-15.

⁴"The Struggles of the Colonial Peoples," New Times (No. 32), August 4, 1948, p. 2.

⁵For causes of the revolt, see George McT. Kahin, Nationalism and Revolution in Indonesia (Ithaca, N. Y.: Cornell University Press, 1960), pp. 284, 294, and The Soviet View, p. 70.

⁶Address by U.S. delegate to Security Council, Philip Jessup, December 24, 1948, USWA, 1948-49, p. 319; ECA, The Netherlands: Country Study (European Recovery Program), Washington, 1949, p. 23.

⁷USWA, 1948-49, pp. 318-19.

the Communist revolt as a struggle of the Indonesian people to secure "genuine independence" and bitterly attacked the Hatta government for seeking a U.S. loan and for joining the imperialist camp.⁸

Suppression of the Communist revolt also greatly increased Indonesia's eligibility for U.S. aid.⁹ Soon after independence, in February 1950, Indonesia secured a direct loan of \$100 million from the Export-Import Bank as an emergency measure. Direct American assistance was on a small scale. In October, a Point Four agreement was signed and shortly thereafter, aid of \$13 million for the fiscal year 1951 was announced. Although the American decision to slash world prices of raw materials harmed Indonesian exports, Indonesia accepted U.S. military aid of \$5 million, attended the San Francisco Conference in 1951 to sign the Japanese Peace Treaty, and accepted the General Assembly resolution of an embargo on export of strategic materials to Communist China.¹⁰

After the outbreak of the Korean War, Soviet and American attention to Indonesia turned to raw materials. The Soviet Union had offered to sell manufactured goods to Indonesia in exchange for rubber at 10 per cent higher than the world market price. The Masjumi government, which was then in power, officially rejected the offer because it would have meant loss of American aid, but as late as February 1952, some Indonesian officials continued to examine the Soviet offer. The United States, fearing the possibility of Soviet-Indonesian trade, countered the Soviet offer and agreed to purchase Indonesian tin for three years at relatively high prices. As an expression of its position in international affairs, Indonesia declined a Soviet invitation to the

⁸ G. Afrin, "In Indonesia," New Times (No. 45), November 3, 1948, pp. 30-32; Berezhev, "In Indonesia," ibid., January 1, 1949, pp. 8-9; Steklov, "Imperialist Aggression in Indonesia," ibid., November 16, 1949, p. 6; Pravda, December 26, 1948; quoted in The Soviet View, pp. 71-75.

⁹ Address by U.S. Ambassador to India, Loy Henderson, March 27, 1950, Bulletin, April 10, 1950, p. 565; ibid., February 13, 1950, p. 237.

¹⁰ USWA, 1951, pp. 185, 192, 196, 290, 317; Keesings, June 2-9, 1951, p. 11506.

Moscow Economic Conference in April 1952, accepted U.S. economic aid,¹¹ and announced that it would not seek Soviet aid for the time being.¹² In January 1953, a new agreement for economic aid for an unspecified amount was signed replacing earlier economic and military aid agreements.

During 1953 the Indonesian attitude to the United States and Russia began to change. In July a new coalition government, which depended upon the PKI for a parliamentary majority, was formed under Ali Sastroamidjojo of the PNI. The new government related the deterioration of Indonesia's economy to a fall in rubber prices and placed the blame on the United States.¹³ Consequently, the Sastroamidjojo government did not ratify the Japanese Peace Treaty,¹⁴ refused to join SEATO, and opposed the idea of military alliance.¹⁵ American influence in Indonesia declined even further because its aid was too small, its trade terms unbearable and its attitude towards Indonesia too distrustful to inspire confidence. Indonesia, on the other hand, decided to send an ambassador to Communist China to sign a trade agreement and a dual citizenship treaty. It opened diplomatic relations with the Soviet Union and endorsed a Soviet proposal for a conference concerning Taiwan. During 1954-55, trade and payment agreements were signed with Czechoslovakia, East Germany,¹⁶ Poland and the Soviet Union.

¹¹ Survey, 1952, pp. 443-45. Alexander Shakow, Foreign Aid to Indonesia (unpublished Ph.D. dissertation, London School of Economics, 1961), p. 196.

¹² Bulletin, February 9, 1953, p. 220.

¹³ Survey, 1953, pp. 301-303.

¹⁴ The PNI had looked upon this treaty as an attempt to keep Japan in the Western bloc. Support for that treaty would, therefore, have compromised Indonesian non-alignment.

¹⁵ In September 1954 when the Manila Pact was signed, India and Indonesia issued a joint statement in New Delhi opposing military blocs and affirming Panchsheel (five principles of peaceful coexistence).

¹⁶ Both these nations offered to pay 10 per cent higher prices than the London price for Indonesian goods. Soviet Economic Warfare, pp. 201-203.

In spite of Indonesia's increasing anti-Western alignment, the United States continued to offer foreign aid to Indonesia on a small scale. The United States regarded Indonesia as a key nation in South-east Asia, not to be unnecessarily offended. When the West Irian issue was first debated in the General Assembly in 1954, the United States abstained on the Afro-Asian resolution rather than join the Netherlands in opposing it. The United States' sympathies were with Muslim Masjumi elements which were seeking to topple the Sastroamidjojo government. The United States believed that a Masjumi Cabinet would retrieve Indonesia for the West. Rather than write off Indonesia, it was decided to strengthen the right wing, both politically and militarily. Towards this aim, a modest aid program was kept up. A senior State Department official, Howard Jones, was loaned to the foreign assistance program to take charge of aid administration to Indonesia and to evolve a mutually acceptable definition of aid objectives. As against \$4 million allotted to Indonesia for 1955, \$7 million was provided for 1956.¹⁷

For a while it seemed that American hopes would be vindicated. In July 1955, the Sastroamidjojo Cabinet fell and a new coalition cabinet was formed under Burhanuddin Harahap, a Masjumi leader.¹⁸ Harahap publicly accused the Communist countries of reselling Indonesian raw materials in world markets in competition with Indonesia.¹⁹ This open attack on the value of trade with the Communist bloc was politically motivated. The new government also encouraged Western private investment even though it severed all relations with the Netherlands.²⁰ In March 1956, the United States signed a P.L. 480 agreement with Indonesia totalling \$90 million. Soon after, Secretary of State Dulles visited

¹⁷ Bulletin, September 6, 1954, p. 342; ASR, 1955, p. 96.

¹⁸ ASR, 1955, p. 347; ibid., 1955, p. 491.

¹⁹ Statement to Parliament, October 1955, quoted in Soviet Economic Warfare, pp. 202-203.

²⁰ ASR, 1955, pp. 347 and 569; ibid., 1956, p. 611.

Djakarta and reaffirmed U.S. interest in enhancing Indonesia's national aspirations. He explained that the United States was neutral towards West Irian because it involved two U.S. friends and because of Dutch membership in NATO. He assured Indonesia that U.S. economic aid was not contingent upon membership in a Western defense pact such as SEATO.

Although the United States and Indonesia were seeking amicable relations, a somewhat intangible rift became evident at this time. American courtship of Indonesia was half-hearted. The United States was quite sympathetic to the Netherlands' position on West Irian and it viewed non-alignment as anathema. During 1956 when Vice President Nixon and Secretary of State Dulles criticized the neutrality of non-aligned countries, Premier Sastroamidjojo (who had taken office once again in March 1956) retorted that Indonesia was "not neutral in terms of ideology" because the Pantjasila was the basis of Indonesian foreign policy. Sastroamidjojo called for the transformation of all military alliances into "associations for close economic cooperation and eventual technical assistance."²¹

Hitherto, the Soviet record in the aid diplomacy in Indonesia had been unimpressive. Russia was intensely distrusted by the Muslim Masjumi and was regarded even by the PNI with uneasy skepticism. Soviet-Indonesian cooperation begun in 1953 by the Sastroamidjojo government ended in 1955 with the formation of the Harahap government.

In 1956, the Indonesian attitude towards Russia became more favorable. This was because the Soviet Union, following the visit of John Foster Dulles, had set out to cultivate Indonesian friendship by presenting itself as a disinterested donor who offered a long-term loan without strings. A Soviet mission concluded a large-scale trade agreement with Indonesia in August.²² In September, Indonesia accepted

²¹Statement, July 12, 1956, ASR, 1956, p. 945. Richard M. Nixon, addresses, June 7 and July 4, 1956, DAFR, 1956, Nos. 5 and 134; John Foster Dulles, speech, June 8, 1956, Bulletin, XXXI, June 18, 1956, pp. 499-1004.

²²NYT, August 21 and 26, 1956. Text of trade agreement in ASR, 1956, p. 1094; also Joseph Berliner, Soviet Economic Aid: The New Aid and Trade Policy in Underdeveloped Countries (New York: Praeger, 1958), p. 62.

a long-term, low-interest Soviet loan amounting to \$100 million. It refused a larger loan because it did not want to upset its delicate balance of non-alignment. Not only did Indonesia urgently need Western markets to earn foreign exchange, but strong right-wing opposition to Soviet aid existed and the government was unwilling to risk non-ratification of a larger foreign aid agreement.²³

The new rapprochement with the Soviet bloc was important for Indonesia's economic development. The first Five Year Plan, announced by Indonesia in January 1957, envisaged technical aid from Communist as well as Capitalist countries.²⁴ Thus when Indonesia started planned development, the Soviet Union was an established donor. More important, the Soviet Union gradually emerged as an ideological backdrop for the Sukarno wing in the political crisis which existed throughout 1957 and the first half of 1958. In January 1957, Masjumi's withdrawal of support from the Sastroamidjojo Cabinet prompted President Sukarno to announce his plan for "guided democracy" in which the Cabinet would represent all parties and a National Council would be formed to include members from various groups, including the PKI. In April a new cabinet was named under Premier Djuanda.²⁵

During 1957, Soviet deliveries of goods to Indonesia were ahead of those from the United States. With \$113 million credit pledged, Indonesia had become the fifth largest recipient from the Soviet bloc. During that year, Indonesia also reportedly received \$16 million in Soviet credit. Pleased by Soviet backing, Indonesia chose not to make an issue of reports circulated in early 1957 that Indonesian barter goods were resold by the Soviet bloc in Europe for cash in competition with Indonesian exports.²⁶ This forbearance was in marked contrast to

²³ ASR, 1956, pp. 1086-89; Bulletin, August 20, 1956, pp. 323, 325.

²⁴ ASR, 1957, pp. 1276-77.

²⁵ ASR, 1957, p. 1263; ibid., 1957, p. 1320. The concept of "guided democracy" evolved during President Sukarno's tour of Communist countries in late 1956.

²⁶ NYT, January 6, 1957; Berliner, op. cit., pp. 36, 60, 61.

the earlier attack on the Soviet Union by the Masjumi Premier Harahap in 1955.

American reaction to increasing Soviet influence was reflected in its foreign aid policy to Indonesia. In July 1957, Indonesia sought to purchase some \$600 million of military equipment directly from the United States government or from private firms. The requests were refused, partly, it was claimed, because sales of military equipment could not be justified on grounds of any external threats to Indonesia, and because of the increasing power of the PKI. On a loan of \$15 million granted in 1956, only \$718,000 was paid during 1957. Partly to enhance the prestige of the Masjumi in Sumatra and partly to maintain a link with Indonesia, a small loan from the Export-Import Bank for the building of Sumatran roads and power plants was announced prior to the visit of Soviet President Voroshilov to Indonesia.²⁷ U.S. aid to Indonesia was also increased from \$11.1 million in 1957 to \$21,300,000 in 1958.

U.S. concern over the increasing strength of the PKI resulted in American support for a revolt begun in December 1956 by army leaders in Sumatra. A rebel government was officially proclaimed on February 15, 1958, which sought recognition from Western powers. Mr. Dulles' sympathies were revealed by his statement that Muslims in the Outer Islands were concerned over growing Communist influence in the government in Java and by the fact that their economic resources were being exploited contrary to the best interests of the entire Indonesian people.²⁸

As a precautionary measure, the United States examined the possibility of recognizing the rebels.²⁹ At the annual SEATO conference in

²⁷ ASR, 1957, p. 1439.

²⁸ Bulletin, March 3, 1958, p. 334.

²⁹ J. A. C. Mackie, "Australia and Indonesia," in G. Greenwood and N. Harper, Australia in World Affairs, 1955-60 (University of British Columbia: Publications Centre, 1963), p. 300. Also testimony to the House Committee on Foreign Affairs during hearings on the Mutual Security Act 1958 by Secretary Dulles, February 28, 1968, quoted in USWA, 1958, p. 297.

Manila during March 11-13, a rebel representative appealed for arms aid from SEATO powers. Although SEATO was officially non-committal, the fact that the spokesman of the rebels was given shelter in the Philippines aroused Indonesian concern over possible U.S. intervention through the agency of the Philippines. By April 1958, the feeling was widespread that the United States was "more than just a little favorable" towards the Sumatran rebels.³⁰ It not only continued to refuse military aid to Indonesia but, when the latter reportedly sought Communist arms, denounced Indonesia for seeking arms for possible use in killing those Indonesians who opposed the growing influence of Communism in Indonesia.³¹

Indonesia was greatly annoyed by the American position and again charged that the rebels were buying arms in Singapore marked for Taiwan. The United States disclaimed responsibility for the acts of American soldiers of fortune.³² In May 1958, concrete evidence of U.S. aid to the rebels was received. Many arms of American origin were captured in North Celebes and Halmahera. The capture of Allen Pope after his B-26 bomber was shot down seemed incontrovertible proof of American complicity in the rebellions. Indonesia threatened to go to the United Nations and take other steps if foreign intervention continued.³³ The Soviet bloc, having all along supported Indonesia,

³⁰ Bulletin, April 21, 1958, p. 644.

³¹ State Department, statement, April 7, 1958; Dulles, news conference, April 8, 1958; Keesings, September 20-27, 1958, pp. 16399-402; Bulletin, April 21 and 28, 1958, pp. 644, 645, 684-85.

³² Dulles, news conference, May 1, 1958; Bulletin, May 8, 1958, p. 808.

³³ Roger Hilsman, To Move a Nation (New York: Doubleday, 1967), pp. 372-73. Pope was tried in April 1960 and was sentenced to death but the sentence was not carried out. He was subsequently released during the Kennedy Administration when relations between the two countries improved. For an account of the CIA involvement in the Indonesian revolts, see William Stevenson, Birds Nests in Their Beards (Boston: Houghton Mifflin Co., 1964). For details on Allen Pope and the CIA, see David Wise and Thomas B. Ross, The Invisible Government (New York: Random House, 1964), Chapter 8.

condemned U.S. intervention as an attempt to overthrow the Indonesian government.

The collapse of the rebellion in Sumatra along with Indonesian unwillingness to rely exclusively on the Communist bloc, forced both the United States and Indonesia to reconsider their policies. The United States sought improved relations in the hope of eliminating Communist influence from within the Indonesian government. In February 1958, Howard Jones, a senior American diplomat with previous experience in Indonesia, arrived as United States Ambassador and soon established a personal rapport with President Sukarno. On May 20, Secretary Dulles stated he saw the rebellion in Sumatra as an internal affair and hoped for an early settlement. The following day, the State Department announced a grant of licenses amounting to \$500,000 for the private export of small arms and ammunition to Indonesia. Simultaneously, the United States allowed the sale of 35,000 tons of rice under the terms of a P.L. 480 agreement. In August, light military equipment to be paid for in dollars or rupiahs was sold to Indonesia. The first consignments were flown immediately to Djakarta.³⁴

American aid continued into 1959. In February, the United States agreed to sell Indonesia small arms worth \$10,000,000, payable in Indonesian or U.S. currency. Indonesia agreed to use these arms only for internal security and legitimate self-defense.³⁵ The same month, a loan of \$6 million was authorized from the Development Loan Fund (DLF) for rehabilitation of harbors, followed by another DLF loan for \$3 million in June for rehabilitation of 100 miles of railroad and increased coal production in Sumatra. The United States also extended \$586,000 for a contract with Indiana University to assist Indonesia's management training program.³⁶

³⁴ This equipment was to be used for internal security and legitimate national defense in accordance with the principles of the U.N. Charter. Bulletin, September 8, 1958, p. 384.

³⁵ Keesings, 1959, p. 16669.

³⁶ Bulletin, March 9, 1959, p. 345; ibid., July 13, 1959, p. 57; ibid., July 6, 1959, p. 22.

While the United States may have been improving its relations with Indonesia, the American government continued to have little affinity with the policies followed by Indonesian leaders. In August 1959, President Sukarno proclaimed the aim of building a socialist Indonesian society with a "directed economy and a directed democracy." During 1959, the trend toward state trading increased in momentum. The State Department reported that "monopoly responsibility for importing nine of Indonesia's essential and most important commodities" (newsprint, tin plate, raw cotton, cotton and rayon yarns, textiles, flour, cement, jute bags, and reinforcing steel) was given to government-owned or controlled trading houses.³⁷ To emphasize disagreement with these policies, President Eisenhower did not visit Indonesia on his Asian tour in December 1959, much to the disappointment and anger of prestige-conscious Sukarno.³⁸ During 1959, Russian aid amounted to \$100 million to be used for various projects, including road-building in Sumatra and Borneo.³⁹

Relations between Russia and Indonesia continued primarily on a personal basis. Premier Khrushchev, during his Asian tour early in 1960, remained longer in Indonesia than in any other country. He sympathized with Indonesia's struggle against neo-colonialism, attacked American aid in Sumatra, and claimed the dispassionate nature of Soviet aid to "brother nations." He visited the site of the huge complex of sports facilities with a seating capacity of 100,000 to be built in Djakarta with Soviet aid in time for the Asian games in 1962.⁴⁰ In talking to Indonesian students, he stressed the importance of training scientists and intellectuals. It was to them that he first announced his plan to set up a Friendship University in Moscow for students from

³⁷ Bulletin, May 30, 1960, p. 881.

³⁸ USWA, 1959, pp. 39 and 313.

³⁹ Keesings, 1959, p. 16611.

⁴⁰ President Sukarno claimed that the stadium was a matter of prestige for the Indonesian nation and an attribute to its greatness. Address at construction site, February 19, 1960. N. S. Khrushchev, Happiness and Peace for the People (Moscow: Foreign Languages Publishing Press, 1960), p. 130. Hereafter cited as Happiness and Peace.

Asia, Africa and Latin America.⁴¹ He also donated a library of books to Djogjakarta's Gadjja Mada University and persuaded its rector to praise the Soviet Union as the "greatest country in the world" with numerous firsts in scientific achievements.⁴²

Before his departure, Khrushchev announced a gift of a 200-bed hospital and out-clinic in Djakarta. Subsequently, Russia extended a \$250 million loan at 2 1/2 per cent, repayable in twelve years. The loan was to be used for projects in Indonesia's Five Year Plan and for the peaceful use of atomic energy. It was repayable in Indonesian products or freely convertible currencies in equal annual installments, starting one year after all deliveries had been made. In July 1960, a long-term trade agreement provided for larger Soviet purchases of Indonesian raw materials in exchange for road-building equipment, agricultural machinery, fertilizers, medical supplies and some industrial goods. Subsequently, agreements were signed to establish an atomic reactor in Indonesia and to build an iron and steel mill. In 1962, Sukarno disclosed that the loans extended by Khrushchev during his 1960 visit had really been worth \$700-800 million. The indication was that the amount over \$250 million was a military credit.⁴³

⁴¹Address to Gadjja Mada University, February 21, 1959, ibid., p. 48.

⁴²Addresses, February 18 and 22, 1960, ibid., pp. 121-22, 164-67.

⁴³Guy J. Pauker, "The Soviet Challenge in Indonesia," Foreign Affairs, V, No. 4 (July 1962), p. 3.

II. THE WEST IRIAN CRISIS--1961-62

The dispute over the sovereignty of West Irian (West New Guinea) became the nucleus around which foreign aid diplomacy centered for the ensuing two years. Although anti-Communist in its sympathies, the Indonesian army decided to obtain Soviet military aid after efforts to buy arms from the West had failed. In January 1961, Defense Minister Nasution, along with Dr. Subandrio and Air Force Chief Suryadarma, went to Moscow to purchase arms. An agreement dated the 6th of January granted Soviet credit of \$400 million for the purchase of Soviet bombers, fighters, submarines, torpedo boats, and the training of Indonesian personnel in the Soviet Union. The military agreement, ratified on March 4, was the implementation of the Soviet arms offer made in 1958 during the Sumatran revolt. The offer was not accepted at that time because of the U.S.-Indonesian rapprochement which followed the crushing of the revolt.⁴⁴

A series of other agreements soon followed. The Soviet Union agreed to build two atomic reactors in Indonesia and to train Indonesians to operate them. A scientific cooperation agreement and a one-year trade agreement were signed with East Germany to cover the increase in trade under the earlier agreement. By October 1961, much of the military aid items had arrived in Indonesia, which now became the largest non-Communist recipient of Soviet military aid and the third largest recipient of Communist bloc economic credits (\$484,500,000) after India and the United Arab Republic.⁴⁵ In the spring of 1961, a Friendship Treaty and Cultural Agreement had been signed with Communist China.⁴⁶

⁴⁴ Keesings, February 18-21, 1961, p. 17947; ASR, 1961, pp. 3778 and 3891.

⁴⁵ Keesings, November 4-11, 1961, p. 18404; ASR, 1961, p. 3914; NYT, March 7, 1961.

⁴⁶ CDSP, 1961, XIII, No. 1, pp. 26-27.

The United States, faced with an Indonesia aligned with the Soviet Union and China and in which Communists and anti-Communists were united over the West Irian issue, sought to regain its prestige. The sale to Indonesia of eight large U.S. transport planes early in 1961 appeared as a minor commercial gesture compared to Soviet military aid. However, President Kennedy expressed disapproval of CIA aid to Indonesian rebels and on the advice of Ambassador Howard Jones invited President Sukarno to visit Washington informally in April 1961. The two leaders issued a joint communiqué showing the similarity of their views on many international issues. The United States agreed to send an economic team to Indonesia to report on possible U.S. aid for Indonesia's Eight Year Plan.⁴⁷ The communiqué failed to mention West Irian, guided democracy, and the Indonesian aim to build a socialist economy, omissions which indicated a rift still existed between the two countries in the political and economic spheres.

On the West Irian issue, there was no change in the U.S. policy of neutrality, a policy which Indonesia interpreted as one of opposition. The Indonesian policy of non-alignment assumed an intolerable direction in the eyes of the United States at the Belgrade Conference of non-aligned nations held in September 1961. To the United States, the economic application of guided democracy was distasteful. In May 1961, the Indonesian government declared that it would not renew old concessions to foreign oil companies. It would permit the continued presence of such enterprises only on a new cooperative basis. This caused grave concern in Anglo-American oil circles which controlled most of oil production in Indonesia. Moreover, Indonesia had nationalized all former Dutch enterprises and railways, and would permit foreign investment only on a production-sharing basis.⁴⁸

In spite of these actions, the United States did not want to abandon its efforts to direct Indonesian economic development through the granting

⁴⁷ Bulletin, May 15, 1961, pp. 712-14; ASR, 1961, p. 3962.

⁴⁸ The system provided for eventual transfer of the enterprise into Indonesian hands. ASR, 1961, p. 4011.

of aid. An economic mission led by Professor D. D. Humphrey was sent to Indonesia in April 1961. Large-scale Communist aid to Indonesia appeared so ineffective that the United States decided to concentrate aid on development loans in what was regarded as high priority needs in the Eight Year Plan.⁴⁹ In line with this policy, Indonesia received a loan from the International Monetary Fund of \$41,250,000 in August to help its balance of payments. Indonesia accepted the money because it realized the danger of exclusive reliance on one country. However, the United States was still determined that Indonesia pay indemnities for the nationalization of Dutch property and cancellation of debts. Indonesia was refused a loan from the World Bank on the grounds that it had not paid its external debts to the Netherlands, as was required by the general policy of the Bank.⁵⁰

The implications of Indonesia's arms deal with the Soviet Union became apparent towards the end of 1961. President Sukarno declared that Indonesia would liberate West Irian with the aid of "outside friends of Indonesia." Large-scale Soviet military aid had lent a high degree of credibility to Indonesia's determination. As President Kennedy counselled restraint, China and the Soviet Union pledged support. During December 1961 and January 1962, Soviet-equipped Indonesian naval and air forces began operations off the New Guinea coast. In mid-January, the arrival of four Soviet submarines coincided with an abortive Indonesian attempt to land on West Irian.

The United States, convinced that without a West Irian solution it could not gain Indonesia's friendship, sought to mediate the dispute. It put pressure on the Netherlands to negotiate with Indonesia with fewer conditions.⁵¹ In February, Attorney General Robert Kennedy visited

⁴⁹Frank Coffin, Director of DLF, testimony at Senate Hearings on ISDA, 1961, June 27, 1961, p. 1077. There were many "security deletions" in Dr. Coffin's testimony.

⁵⁰The meeting was allegedly "not so friendly." Mr. Saleh was so enraged that he stated that he would "press" for Indonesia's withdrawal from the World Bank. ASR, 1961, p. 4265.

⁵¹USWA, 1961, pp. 217-19; ibid., 1962, p. 205; Howard Jones, Address to the American-Indonesian Chamber of Commerce, New York, October 17, 1962, Bulletin, November 19, 1962, pp. 768-69.

Djakarta to explain American policy and to gauge the depth of Indonesia's determination regarding West Irian.⁵² He was the highest ranking American official ever sent to Indonesia. The United States accompanied these moves with a Food for Peace Agreement worth \$92.7 million to extend over a period of three years. U.S. officials emphasized to the Indonesians that this was the first time a long-term agreement had been signed between them.⁵³ The Dutch-Indonesian agreement of August 15, 1962 for the transfer of West Irian was hastened somewhat by a move in May to speed up delivery of Soviet arms and guided missiles.⁵⁴

Meanwhile the recommendations made by the Humphrey Mission had become available. The report stated that it was in the U.S. national interest to undertake an expanded aid program because Indonesia was independent of pressures from Communist countries and had the potential to build a strong, self-sufficient economy. It would in the future be a major influence in Southeast Asia and the South Pacific. The Mission praised the Eight Year Plan for emphasizing increased consumption in the first three years as against a stress on heavy industry. It recommended that U.S. aid to Indonesia should be long-term and continuous and be related to the promotion of Indonesian national objectives. The report opposed projects that were too technically advanced for efficient operation and emphasized comprehensive training. The Mission suggested educational and technical aid, supply of transportation equipment, increased production of food and natural resources, research centers, statistical services, and the development of light industries. To accomplish these tasks, the Mission proposed aid of \$325-390 million over a five-year period.⁵⁵

⁵²Interview with Roger Hilsman, December 1968; also Hilsman, op. cit., p. 377.

⁵³ASR, 1962, p. 4492.

⁵⁴See Dean Rusk, statement, May 9, 1962, Bulletin, May 28, 1962, p. 866.

⁵⁵Background information on the Humphrey Report, United States Economic Survey Team to Indonesia, Indonesia: Perspective and Proposals for United States Economic Aid, a report to the President of the United States (New Haven: Yale University Press, 1963); cited hereafter as the Humphrey Report. Also Age (Melbourne), August 3, 1962.

The announcement of the Humphrey Mission's report coincided with a strain in Soviet-Indonesian relations. Indonesians were reportedly dissatisfied with Soviet equipment and the Soviet penchant for detailed surveys. The Soviet Union was also believed to be concerned over the repayment of its credits and discouraged by the completion of many Western aid programs in Indonesia. During June and July of 1962, the Soviet Deputy Foreign Trade Minister, Sergkhiev, and Deputy Premier and Trade Minister, Mikoyan, visited Indonesia to consider these problems.⁵⁶ Neither country, however, was ready to make a political issue of economic relations at this time.

The favorable reception which the Humphrey Mission's report received in Indonesia was short-lived when it was realized that the report was only a recommendation and not an official commitment. This realization led to acute misunderstanding between American and Indonesian authorities and much of the goodwill generated by the Humphrey Report was soon lost.⁵⁷ The U.S. decision to release some of its tin stockpile resulting in a steep decline in world tin prices angered Indonesia, a major tin exporter. In August, Indonesia declared that all future foreign investment would be on a production-sharing basis and that the direction of all enterprises created by foreign investment would be in Indonesian hands. All foreign credits and investments would be regarded as loans with a definite time limit.⁵⁸

The United States was greatly concerned about Indonesia's aversion to foreign investment. Since so rich a source of natural resources could not be abandoned, U.S. authorities found it necessary to engage in a different style of aid diplomacy to dispel American businessmen's prejudice against Indonesia. Ambassador Jones stressed the need to reconcile Indonesian socialism and American free enterprise, to "our mutual

⁵⁶ Age (Melbourne), July 26, 1962.

⁵⁷ Interview with Indonesian and American aid officials, Djakarta, December 1962.

⁵⁸ ASR, 1962, pp. 4743, 4797.

advantage." Socialism evolving from a local heritage was just as suitable to Indonesia as free enterprise was to America. He urged American businessmen to take advantage of Indonesia's production-sharing system since a free and prosperous Indonesia would contribute to stability and peace in the world while one bowed by poverty would be a temptation to aggressors and a threat to world stability.⁵⁹

⁵⁹Address, October 17, 1962, Bulletin, November 19, 1962, pp. 66-69.

III. THE MALAYSIA CONFLICT--1963-65

For the next few years, the Indonesian reaction to the formation of Malaysia became the touchstone of both American and Russian foreign aid. In July 1962, Britain and Malaya agreed to the Federation of Malaysia comprising Malaya, Singapore and the British Borneo Territories. Indonesia became involved in December when a local revolt in Brunei was swiftly crushed by joint Anglo-Malayan forces. Soon afterwards, Indonesia condemned the Malaysia project as a neo-colonialist scheme and announced a policy of "confrontation" to prevent its formation ostensibly to support the nationalist rebels. The new policy led to armed clashes between Indonesian and Anglo-Malaysian forces.⁶⁰

In spite of confrontation, the United States confirmed its foreign aid policy. In March 1963, the American government offered a ten-year \$17 million loan, repayable in dollars,⁶¹ to finance imports of materials urgently needed for the Economic Stabilization Program to be undertaken with guidance of the World Bank and the International Monetary Fund.⁶² Acceptance of the loan did not change Indonesia's attitude toward Malaysia. Late in the month, Indonesia issued an Economic Declaration on a stabilization program. Regulations to implement the Declaration, issued in May, involved a drastic reduction in the distribution of rice and other food items at subsidized prices and steep increases in bus and rail fares and postal and telecommunication rates.

⁶⁰For a detailed study of the Malaysian conflict, see Peter Boyce, Malaysia and Singapore in International Diplomacy (Sydney: Sydney University Press, 1968); Usha Mahajani, "The Malaysia Dispute: Mediation and Intervention," Australian Outlook, XX, No. 2 (August 1966), pp. 177-79; and "Philippine-Indonesian Entente" (a paper read at the Orientalist Congress, Ann Arbor, Michigan, August 1967).

⁶¹NYT, March 8, 1963.

⁶²These U.N. agencies served as instruments of U.S. aid diplomacy. See Richard N. Gardner, In Pursuit of World Order (New York: Praeger, 1964).

U.S. aid policy, meanwhile, came under considerable attack in Congress. One innovation of the Kennedy Administration had been an emphasis on economic aid on ideological grounds. In advocating the eligibility of leading non-aligned nations, such as India and Indonesia, as friends if not allies, President Kennedy had to keep up a constant fight with a reluctant Congress. To undercut Congressional action, he appointed a Committee to strengthen the Security of the Free World with General Lucius Clay, a conservative Republican, as Chairman in early 1963. President Kennedy hoped that the report of the Committee, while criticizing some aspects of his aid policy, would endorse continuation of aid.

The report of the Committee, which was issued in February 1963, was not entirely favorable. Although supporting aid programs in general, it made several restrictions against aid to non-aligned countries.⁶³ Some members of Congress decided to legislate these adverse recommendations into the Foreign Aid Act. Their leader was Congressman William Broomfield who called President Sukarno a "despot," a "bully," a "Hitler," and an "international juvenile delinquent." Broomfield asked for an immediate halt to all economic and military assistance to Indonesia and announced his intention to move an amendment to the Foreign Aid Act, banning aid to any country engaged in hostile action against a recipient of U.S. aid, a category which included Indonesia. The U.S. administration was now placed in the position of having to prevent the incorporation of sanctions into legislation and yet retaining the ability to use sanctions against Indonesia. State Department officials pleaded in vain that the amendment would make the task of the United States with Indonesia much more difficult.

The amendment was debated in mid-1963, when the Malaysia dispute was in a delicate stage of negotiation. Secretary Rusk explained to Congress that if Indonesia were to fall to Communism, there would be somber consequences for the free world and that an independent Indonesia, living in

⁶³ See Usha Mahajani, "Kennedy and the Strategy of Aid: The Clay Report and After," The Western Political Quarterly, XVIII, No. 3 (September 1965), pp. 656-68.

peace with its neighbors, could exercise a beneficial and stabilizing influence in Southeast Asia. Mr. Rusk added that Indonesia was showing serious determination to solve its economic problems by carrying out the first measure of the stabilization program and settling a dispute with U.S. oil companies and that as long as its sound development effort continues "it is in our national interest to be of some help."⁶⁴ President Kennedy also fought against the proposed changes. However, on July 26, the Foreign Affairs Committee overwhelmingly passed the Broomfield Amendment.⁶⁵

Thus restricted by Congress, the Kennedy Administration sought other means to keep Indonesia on the path of stabilization. A financial standby agreement with the International Monetary Fund, signed in August under U.S. initiative, enabled Indonesia to draw up to \$50 million in currencies held by the IMF for the next twelve months to support current stabilization programs.⁶⁶ To reaffirm U.S. official sympathy, the Voice of America declared that the United States wanted Indonesia to be a great nation and was "prepared to help . . . President Sukarno if that is what he truly wants."⁶⁷ This broadcast was intended to reach the peoples of Indonesia, Malaysia and the Philippines, since diplomatic messages are not diffused to a wide audience.

Though not wanting to be bound by legislation to invoke sanctions against Indonesia, the Kennedy Administration was not averse to using sanctions as a pressure tool to help solve delicate problems. It did this in an attempt to dissuade Indonesia from its policy of confrontation towards Malaysia. In 1963, for example, when President Kennedy was considering a tour of Southeast Asia, he declared that he could not visit

⁶⁴ Statement to Senate Foreign Relations Committee, June 11, 1963, Bulletin, July 1, 1963, p. 17.

⁶⁵ According to Hilsman, the amendment seriously damaged whatever marginal influence the United States had in resolving the Malaysia dispute and strengthened "the hand of the hardliners in both the British government and in the Indonesian." Hilsman, op. cit., p. 396.

⁶⁶ ASR, 1963, p. 5379.

⁶⁷ Quoted in George Modelski, "Indonesia and the Malaysia Issue," The Yearbook of World Affairs, XVIII (1964), p. 23.

Indonesia while confrontation existed, adding that the United States would offer \$11 million of rice under P.L. 480 which Indonesia badly needed.⁶⁸

The approach towards foreign aid followed by President Kennedy continued only briefly after the assumption to the Presidency of Lyndon B. Johnson. In January 1964, Johnson sent Attorney-General Robert Kennedy as a special presidential envoy to a cease-fire conference in Bangkok attended by representatives of Malaysia, the Philippines and Indonesia. During the course of the Conference, Kennedy discussed resumption of full U.S. aid with Sukarno, but not as a sanction tactic. Kennedy explained on his return that American aid to Indonesia was not helping confrontation but "probably . . . the economy of Indonesia which is our intention." He was unperturbed about Soviet aid and thought that Sukarno caused the Russians and the Communists generally much more trouble than he did the United States.⁶⁹ Upon Kennedy's return, he was received only once by President Johnson. Thereafter there was no contact with the President nor any solicitation of his findings from the State Department.⁷⁰

United States policy towards Indonesia now hardened. Soon after President Kennedy's death, the Broomfield Amendment was passed by Congress. For economic aid, a special Presidential "determination" was required which stated that Indonesia had given assurances of peaceful intentions and that such aid was in the U.S. national interest. Defense Secretary McNamara at this point was instructed to prepare a detailed list of items which could be used in a military campaign and which were due Indonesia under the remaining aid programs. He prepared the required list and proposed that henceforth he would decide on progressive cuts to bring increasing pressure on Indonesia.

⁶⁸Hilsman, op. cit., pp. 361, 405-407; also interviews with Mr. Hilsman and Mr. Jones.

⁶⁹Interviews with reporters, NYT, January 17 and 25, 1964; February, 1964; The Straits Times (Singapore), January 29, 1964.

⁷⁰Theodore White, The Making of the President, 1964 (New York: Atheneum Press, 1965), p. 261; Hilsman, op. cit., pp. 407-408.

American aid policy towards Indonesia continued to revolve around the settlement of the Malaysian dispute. When British Prime Minister, Sir Alex Douglas-Home, visited Washington in early February 1964, President Johnson offered strong support for Britain in Malaysia in return for firmer British backing for his policy in Vietnam.⁷¹ Henceforth, the Johnson Administration sought to make full use of public threats of aid sanctions. In March, the Administration announced that it would continue only limited established programs of technical assistance, education, and malaria eradication, and that substantial aid would remain barred until such time as Indonesia reached a peaceful settlement with Malaysia.⁷² In May, the threat was made to stop all aid unless confrontation was halted. Indonesia was also warned that further efforts at confrontation would be characterized as aggression.⁷³ The Johnson Administration also dropped an earlier decision to convene a special meeting of the Development Assistance Committee at which several American allies were expected to pledge at least \$250 million in credit to cover Indonesia's balance of payment deficits.⁷⁴

Indonesia had appreciated the distinction between the Kennedy Administration's efforts to reconcile the national interests of the two states and the hostility of the American Congress and public. Under the Johnson Administration, the line of demarcation was erased. The new tactics of aid diplomacy provoked Sukarno to issue a public rejoinder at an official function on March 25, attended by foreign envoys. Citing an American editorial to the effect that Indonesia was collapsing economically and that Indonesia should settle Malaysia or face American aid withdrawal, Sukarno declared that Indonesia would not collapse because it had natural resources and that it appreciated foreign aid, but if there

⁷¹ Joint Communiqué, February 13, 1964, NYT, February 14, 1964.

⁷² Secretary Rusk, statement, March 23, 1964, reported in Age, March 1964.

⁷³ Assistant Secretary of State for Far Eastern Affairs, William Bundy, address, May 5, 1964, in Age, May 7, 1964.

⁷⁴ NYT, September 26, 1964.

were political strings "we will say 'to hell with your aid.'" He warned that U.S. attempts to exert excessive pressure could lead to tension between the two countries. Ambassador Jones, though not a personal target of this attack, sensed the danger of misrepresentation of Sukarno's speech, and secured Sukarno's clarification that Indonesia only wished to receive aid without strings and would repay it.⁷⁵ Sukarno's "to hell with your aid" stand became a prime weapon for every one of the detractors of the American policy of alleged appeasement.⁷⁶

Soviet policy towards Indonesia found itself at the crossroads during the Malaysian dispute. Hitherto, the Soviet Union could easily blend its economic aid for Indonesia's socialist economy with military support for resistance to Western powers. The West Irian issue furnished an ideal occasion to demonstrate Soviet support for national liberation struggles. Economic aid to Indonesia also vindicated the new ideological thesis of peaceful transformation of the non-capitalist (i.e., newly independent and underdeveloped) countries into socialist and Communist economies. Aid for such purposes could also serve as aid against neo-colonialism.⁷⁷

The Malaysia dispute severely tested the Soviet capacity to fit the situation to its ideology. Indonesia's opposition to neo-colonialist Malaysia was logical, but when the Philippines echoed the charge and claimed Sabah, the Soviet Union divined American-inspired machinations to undermine Malaysia.⁷⁸ Without officially condemning the Malaysia

⁷⁵ Age (Melbourne), March 26, April 10, and May 11, 1964. Sukarno did not point a finger nor even look at Jones. Interview with Mr. Jones.

⁷⁶ See, e.g., Arnold Brackman, Southeast Asia's Second Front (New York: Praeger, 1966), pp. 225-26.

⁷⁷ For a discussion of the ideological tenet of Soviet support for national liberation movements, see Nadia Derkach, "The Soviet Policy Towards Indonesia in the West Irian and the Malaysia Dispute," Asian Survey, V, No. 11 (November 1965), pp. 566-72; Usha Mahajani, "Foreign Aid as a Tenet in Communist Ideology," paper read at a conference on The Disintegrating Monolith, at the Australian National University, August 1964.

⁷⁸ Radio Moscow, Indonesian language broadcast to Indonesia, April 26, 1963, cited in Brackman, op. cit., p. 164.

scheme, the Soviet Union indicated its view of Malaysia as neo-colonialist,⁷⁹ but generally avoided a direct attack on the Malaysian government which represented a newly emergent, though anti-Communist, state. An important aim in the Soviet aid diplomacy was to fragment Western allies into non-alignment. The Soviet Union, therefore, merely expressed moral support for the liberation struggle in North Kalimantan and for Indonesia's opposition to neo-colonialist plans in Malaysia and elsewhere. It also called for the withdrawal of Britain from Malaysia.⁸⁰

Throughout 1963, the Soviet Union sought not to become involved in the Malaysian dispute. During September and November, high level Soviet-Indonesian talks took place, but were not widely reported. In October, Premier Khrushchev commended confrontation, but refrained from making any Soviet commitment.⁸¹ The Soviet Union seemed anxious not to undermine U.S. efforts to bring about a settlement, seeking at the same time ways to establish diplomatic contacts with Malaysia. It was only in February 1964, under Indonesian pressures, that the Soviet Ambassador in Indonesia formally disclaimed Soviet interest in such a move.⁸²

The first clear-cut indication of Soviet support for Indonesia came in mid-1964 after the Johnson Administration's hard line toward Indonesia and its support of Britain's Malaysia policy. Anastas Mikoyan, the Soviet Deputy Prime Minister, agreed to defer repayment of some Soviet loans to Indonesia. He also negotiated an agreement on the delivery of Soviet arms. It was announced that General Nasution would

⁷⁹ Boyce, op. cit., p. 251; also editorial in Izvestia, September 26, 1963, quoted in Age, September 28, 1963; an article in Krasnaia Zvezda, quoted in Dawn (Karachi), September 17 and 30, 1963.

⁸⁰ Derkach, op. cit., p. 569.

⁸¹ References to Soviet newspapers, ibid., p. 569.

⁸² In late November 1963, Indonesia claimed that the Soviet Ambassador Mikhailov had reaffirmed support for the confrontation policy. But neither these nor other Indonesian newspaper claims were reported in Moscow. NYT, November 29, 1963; also Derkach, op. cit., p. 570.

visit Moscow but whether the arms supplies were a part of previous arrangements was not clarified. Indonesian sources claimed that the Soviet Union would provide radar and transport aircraft. An announcement concerning a Soviet agreement to give arms for use against Malaysia would be made in a joint communiqué during Dr. Subandrio's visit to Moscow in mid-July.⁸³ High priority was reportedly given to helicopters, to afford guerrillas the same mobility as British and Malaysian forces, and to tactical missiles to overcome the psychological advantages of Britain's proposed Bloodhound missile installations. Though Soviet military aid was important as a means to step up confrontation, it was not expected to include a sufficient number of advanced weapons to give Indonesia a real military advantage over Malaysia.

The danger of an indirect U.S.-Soviet armed confrontation was rather minor because the moves and countermoves of each rival were carefully designed to neutralize and balance the other's influence. The Soviet Union had avoided predicating its aid to Indonesia directly on the Malaysia issue. Ambassador Mikhailov had explained that Soviet support was to be part of an overall effort in helping Afro-Asian peoples attain national independence and economic progress.⁸⁴ U.S. readiness for a military involvement through the ANZUS pact was not countered by any Soviet threat to enter into a war. The United States also took precaution to minimize the dangers of detonation by default. In mid-July, Ambassador Jones visited Moscow to obtain from the U.S. Ambassador in Moscow the latest briefing on the Soviet view.⁸⁵ Anxious not to give the Soviet Union any pretext to act upon its pledges of aid to Indonesia, the United States adopted a novel aid policy: refusal to extend substantial assistance to Malaysia, the notion to which it gave strong diplomatic support and in deference of which it withheld aid from that nation's enemy.

⁸³ Age, July 3, 15, 17, 21 and 25, 1964

⁸⁴ Interview with Antara, ibid., May 8, 1964.

⁸⁵ Ibid., July 18, 1964.

American-Indonesian relations continued to deteriorate during 1965. Indonesia condemned U.S. policies in Vietnam, particularly the bombing of North Vietnam on February 7, 1965. Violent mob demonstrations destroyed American libraries and USIA offices. The United States retaliated by closing its libraries and reading rooms in Indonesia and declared that only a real effort by Indonesia could improve relations. Later, Secretary Rusk clarified the nature of the change in the U.S. aid policy towards Indonesia in the past two years and indicated that no technical assistance would be offered in 1966. The U.S. government, nevertheless, wanted to retain flexibility of its aid authority and successfully quashed a Congressional move to specifically ban further aid to Indonesia.⁸⁶

The Johnson Administration's policies towards Indonesia were fully manifested in withdrawal of aid as a diplomatic instrument. Following a series of talks between special U.S. envoy Ellsworth Bunker and President Sukarno, it was agreed that in light of the fact that policy differences had produced "certain tensions," the U.S. aid program in Indonesia should be continuously revised to ensure its conformity to the desires of the two governments. U.S. technical aid to Indonesian universities was continued but at the request of Indonesia, the Peace Corps was withdrawn.⁸⁷ In July, Indonesia repealed the Foreign Investment Law and barred all private foreign investment except on a production-sharing basis.⁸⁸

⁸⁶ Bulletin, March 29, 1965, p. 447; ibid., April 5, 1965, p. 485; USNA, 1965, p. 238.

⁸⁷ Communiqué, April 15, 1965, Bulletin, May 3, 1965, pp. 654-55.

⁸⁸ Canberra Times, July 16, 1965.

TABLE I
 INDONESIA'S FOREIGN DEBT*
 December 31, 1965

(In US\$ millions)

Country	Medium/ Long Term	Short Term	Total
<u>Communist Countries</u>			
U.S.S.R.	980	10	990
Yugoslavia	108	7	115
Poland	98	2	100
Czechoslovakia	58	19	77
East Germany	70	2	72
Hungary	17	2	19
Rumania	15	1	16
China	13	-	13
Other	2	-	2
Total	1,361	43	1,404
<u>Western Countries</u>			
U.S.A.	172	7	179
West Germany	112	10	122
France	113	2	115
Italy	84	7	91
U.K. (incl. Hong Kong)	40	2	42
Netherlands	12	16	28
Switzerland	-	3	3
Other	6	1	7
Total	539	48	587
<u>Asian Countries</u>			
Japan	168	63	231
Pakistan	-	20	20
India	8	2	10
Total	176	85	261
<u>African Countries</u>			
U.A.R.	3	1	4
<u>International Agencies</u>			
International Monetary Fund	102	-	102
GRAND TOTAL	2,181	177	2,358

*The totals do not include compensation to foreign owners of estates, etc. then under negotiation, nor the \$110 million due to the Shell Oil Company in payment for its assets. BIES, No. 4, June 1966, Department of Economics, R.S.P.S., Australian National University, Canberra, p. 5.

staggering foreign debt, Indonesia confessed that the only alternative was to obtain a rescheduling of existing debt repayments and earn new credits. Missions to individual creditor nations were sent⁹¹ but it soon became apparent that Indonesia's only hope of getting Western aid was through a consortium of Western nations and not through bilateral negotiations.⁹²

After the signing of the accord between Indonesia and Malaysia ending confrontation, the United States chose Japan as a suitable agent of American aid diplomacy.⁹³ Under Japan's leadership, a consortium was formed which included the United States, Britain, West Germany, Italy, France, the Netherlands, Switzerland, Canada, Australia and New Zealand. The group would pursue a multilateral aid policy, a device used by the United States since 1960 to avoid being the sole purveyor of foreign aid and to influence Western aid programs towards American objectives. The consortium, which included the International Monetary Fund, could control Western aid to Indonesia and prevent U.S. allies from channeling aid in different directions.

Indonesia sought to enhance its eligibility for Western aid. It declared that it did not want billions in U.S. aid, but only guided assistance, food and spare parts, a sympathetic understanding for the stabilization program and help in arranging rescheduling or delaying of repayment of debts to the West. Indonesia also indicated a desire to rejoin the World Bank and the International Monetary Fund. The latter was invited to send a mission in late June while Indonesia indicated that it would discontinue low-yielding prestige projects. The new government, although appealing for an end to U.S. bombings of North Vietnam, and regretting French nuclear tests, did not condemn them.⁹⁴

⁹¹ Indonesian Newsletter, 66/19, May 16, 1966; 66/21, May 30, 1966.

⁹² Japanese-Indonesian Joint Communiqué, May 28, 1966, ibid., 66/22, June 14, 1966; Washington Post, June 12, 1966; BIES, No. 4, June 1966, p. 6.

⁹³ In July, Secretary Rusk stated that the United States rated Japanese efforts very highly because Japan had also been trying to promote political and economic stability in Asia. Japan Times, July 7, 1966; The Times (London), July 17, 1966; ASR, 1966, p. 7243.

⁹⁴ Indonesian Newsletter, 66/23, June 20, 1966; 66/24, June 27, 1966, 66/27, July 8, 1966; 66/28, July 18, 1966; Bangkok World, June 19, 1966.

Indonesian leaders were baffled by American aloofness. They had felt confident that the anti-Communist purges, coupled with promises of economic reform, would easily attract U.S. aid. Instead, the United States only indicated a readiness to join a Western consortium without making concrete offers.⁹⁵ A mission to Washington, headed by a relative of Sultan Hamengku Buwono in July, to seek credits to import raw cotton for the idle textile mills was unsuccessful. Senior Indonesian officials fared no better. Ambassador Palar and Colonel Suparto, Deputy Trade Minister, met with Secretary of State Rusk to repeat a request for emergency aid for spare parts. Though sympathetic, Secretary of State Rusk refused to give any assurance. As the only concession, the United States signed an agreement for the sale of 75,000 bales of cotton under a long-term credit arrangement.⁹⁶

The reason behind the no-aid policy was that Indonesia had not announced specific economic measures which under the new U.S. aid policy were required to determine a recipient's eligibility. After Indonesia specified what its economic policies would be, the United States would consult with the consortium members and then give some clear indication on foreign aid to Indonesia.

Indonesia, aware of its weak bargaining position, followed a policy of pro-Western non-alignment and economic conservatism. Under IMF guidance, a new stabilization program was worked out during August and September. Indonesia decided to set up an Economic Stabilization Council and to liberalize its import policy. Sultan Hamengku Buwono led economic missions to Western Europe and India to obtain postponement of repayment of existing debts and earn new credits "without strings and as fair business propositions."⁹⁷ Actually Indonesia had already accepted the "strings" attached to Western aid offers by consenting to

⁹⁵ Secretary of State Rusk's remarks to Japanese Trade Minister, Japan Times, July 7, 1966; and statement by AID Administrator, David Bell, July 15, 1966, Bangkok World, August 6 and 7, 1966.

⁹⁶ Bangkok World, August 6 and 7, 1966.

⁹⁷ Indonesian Newsletter, 66/37, September 12, 1966; 66/38, September 19, 1966.

the consortium proposal and by seeking guidance from the IMF and the World Bank.

The members of the consortium which met in Tokyo considered Indonesia's position favorably. They agreed in principle to a rescheduling of Indonesia's debts but no definite pledges were made. The consortium awaited further assurances of concrete actions, which might come in October when the Indonesian budget for 1967 was presented to Parliament.⁹⁸ Soon after the meeting, Indonesian missions secured modest aid from Germany and France and promises of cooperation from Japan.⁹⁹ Indonesia was allowed to rejoin the IMF with more shares to its credit than it had in 1963 when it withdrew. The IMF gave a dispensation regarding 25 per cent of \$207 million which Indonesia would have had to pay and agreed to receive ten per cent of foreign exchange reserves of Indonesia as a precondition for renewed membership.¹⁰⁰

By the end of September, Indonesia had received total offers of \$450 million in credit. After a month, it had received only \$180 million, mostly for emergency imports. Credits for an equal amount were under discussion. Though this amount was more than the minimum \$150 million prescribed by the IMF for the first year of the stabilization program, it fell short of the \$250 million credits expected by Indonesia to ease its balance of payments problem.¹⁰¹ Food and clothing needs, meanwhile, were somewhat relieved by the receipt of emergency aid from the United States of 50,000 tons of rice and 75,000 bales of cotton.¹⁰² In late September, following Dr. Malik's visit to Washington, the United States agreed to give additional emergency supplies of rice, cotton, and spare parts; to resume training of Indonesians within the United States;

⁹⁸ Tokyo Club Communique, Japan Times, September 26, 1966; Djakarta Times, September 23, 1966.

⁹⁹ Djakarta Times, September 29, 1966; Indonesian Newsletter, 66/40, October 4, 1966; and 66/44, October 31, 1966.

¹⁰⁰ Indonesian Newsletter, 66/41, October 10, 1966.

¹⁰¹ Ibid., 66/39, September 27, 1966; and 66/43, October 24, 1966.

¹⁰² Djakarta Times, September 23, 1966.

and to restore aid programs in 1967. From then on, Indonesia accepted U.S. direction in economic policy.

The abortive 1965 coup severely weakened Soviet prestige in Indonesia. The resultant strain in Indonesian-Soviet relations was evident in the attitudes toward foreign aid. The Soviet Union's initial exclusion from the consortium set up to review foreign aid to Indonesia caused fear of Western political and economic control over the country.¹⁰³

Foreign aid had become a matter of debt deferment. The Soviet Union had long been impatient over Indonesia's debt defaulting, but had made no public statement because of its friendship with the Sukarno regime. There was no reason to forgive the new regime. Soviet leaders severely rebuked Indonesia for default on debt repayment and its refusal to discuss the matter. They declined to attend the second meeting of the consortium to which they had been invited and demanded immediate repayment. In November 1966, after further bargaining, a protocol was signed in which the Soviet Union agreed to stagger repayment of its loans over a period of thirteen years. The protocol did not state when the actual repayment was to start but in early December, it was disclosed that the Soviet Union had agreed for repayment to begin in 1969.¹⁰⁴

A number of reasons led the Soviet Union to agree to deferred repayment of debt. Indonesia no longer depended exclusively on Communist countries for economic aid. It welcomed foreign private investment and Western loans and received a ten-fold increase in local customs receipts after the exchange rate was changed in October 1966 from 10 to 100 rupiahs a dollar. Nor was Soviet aid needed to continue existing projects. Many of these had either been abandoned as inefficient or indefinitely postponed. Indonesia also had slashed military expenditures in its budget from 70 per cent in 1965 to 25 per cent in 1966.¹⁰⁵ Finally,

¹⁰³ Pravda, June 19, 1966; Japan Times, June 20, 1966.

¹⁰⁴ The Times (London), November 7, 1966; NYT, November 8, 1966; Washington Post, November 23, 1966; Age, November 23 and 24, 1966; Indonesian Newsletter, 66/49, November 28, 1966; 66/41, December 12, 1966.

¹⁰⁵ NYT, November 24, 1966.

Indonesia was practically bankrupt. By refusing to grant debt deferment,¹⁰⁶ the Soviet Union would have risked isolation without any hope of recovering its debt.

The second meeting of the consortium took place in Paris in December 1966. The meeting became possible after the Soviet Union had agreed to debt deferment. The meeting confirmed the Tokyo decision to reschedule payment of Indonesia's debt. Repayments of \$357 million in debts due before January 1, 1968, were deferred until 1971-73. The question of interest was not answered. Tentative agreement was reached concerning a multilateral credit package of \$160 million. The consortium members were not yet prepared to place full confidence in Indonesia's good faith. The IMF was asked to appraise Indonesia's economic stability and report to the third meeting scheduled to be held in Amsterdam in February 1967.¹⁰⁶

In January 1967, the United States announced its decision to contribute \$80 million as its share of the multilateral credit and its intention to resume aid programs. Following the Amsterdam meeting, it reaffirmed the pledge to help ease Indonesia's balance of payments and give new credits in 1967. In April, after Indonesia took several measures to curb inflation, a \$10 million loan to import U.S. raw materials and spare parts was authorized. A military aid agreement was also signed and the first delivery of non-combat military equipment was made that same month. In May, the U.N. Development Program (UNDP) also promised technical aid worth \$2,265,000, the first UNDP assistance since Indonesia rejoined the United Nations.¹⁰⁷

Under U.S. direction, the new Intergovernmental Committee (comprising Western creditors, the World Bank, IMF, OECD, Asian Development Bank and UNDA) met at regular intervals. Each time it issued warmer commendations for Indonesian development and recommended increased aid on more favorable terms. Some countries, including the United States, promised more liberal long-term credit with low interest. The chief

¹⁰⁶ ASR, 1967, p. 7529.

¹⁰⁷ Canberra Times, January 6, 1967; the military agreement was disclosed only on May 2; ibid., May 4, 1967.

channel of U.S. aid diplomacy toward Indonesia became the World Bank. The Bank's first resident overseas staff was established in Indonesia to assist in the country's development and Japan was made the agent of the United States and the World Bank for aid policy in Indonesia.

Like the United States in 1965, the Soviet Union has apparently written Indonesia off for the time being. With all Soviet-supported elements destroyed, the Soviet Union knew that it could not possibly guide Indonesia either politically or economically by means of aid nor stem American influence. Foreign policy solidarity which could form a raison-d'être for Soviet aid to Indonesia also no longer existed. Indonesian non-alignment was now more centrist and pro-Western than even that of India. Soviet-Indonesian relations became almost nonexistent, drowned in the swirl of Indonesia's multilateral relations with Western European nations, their Asian allies and pro-Western non-aligned countries.

V. RETROSPECT

After the cold war began and Afro-Asian countries emerged as independent nations, the United States and the Soviet Union sought diametrically opposite objectives. The two powers started to play chess with Indonesian politicians and political parties. The difficulty with this was that the pieces themselves were active players who could foil moves made by rival super players. This was so with Indonesia which by dint of its active political leadership embroiled the super powers in an aid rivalry. What made that rivalry intense and vacillate between extremes was the nature of Indonesia's internal politics. Indonesia from the outset proclaimed a policy of non-alignment which in practice, however, fluctuated considerably. Thus during the period that the multi-party system was in operation, the Masjumi elements, when in power, steered non-alignment into non-friendship with the Soviet Union. Under guided democracy, non-alignment progressively turned into close cooperation with the Soviet Union and was molded into the globalized ideology of a union of progressive forces from all parts of the world. During this metamorphosis, Indonesia emerged as the only leading country to forge an ideological alliance with Communist China, despite only nominal participation of that country in aid diplomacy.

Under such circumstances, cold war diplomacy might have closed if the United States had written off Indonesia. But, while abandoning Indonesia's political leadership, the United States left the door open with the Indonesian army which proved vitally important in 1962 and 1965. In aid diplomacy, the Kennedy policy toward Indonesia was of greater significance than military aid. Hence the years 1961-63 witnessed the only phase in the cold war aid diplomacy with Indonesia when that country maintained friendly relations with both super powers. During the Malaysia crisis, the United States and Russia did not confront each other through arms aid to rival disputants nor allow their global conflict to aggravate what essentially was a regional dispute.

The Malaysia conflict and the escalation of the Vietnam war combined to reduce the Johnson Administration's interest and influence in Indonesia. Moreover, President Johnson did not share his predecessor's vision of an ideological alliance with non-aligned friends nor did he have the patience to "walk on eggshells"¹⁰⁸ in pursuit of subtle diplomacy. He simply reduced U.S.-Indonesian relations to a minimum.

The fall of President Sukarno and the rise of the army to governmental power brought a victory for the U.S. objective of crushing the PKI under the weight of the Indonesian army.¹⁰⁹ This event was brought about exclusively by Indonesian internal developments rather than by American diplomatic or military action. Yet, the United States took over a year to pledge definite aid. In the intervening period, it exerted pressure to direct Indonesia's "new order" into free enterprise. In doing so, it avoided publicity and worked through Japan, the International Monetary Fund, and the World Bank.

Had President Sukarno's ouster occurred at an earlier period, there would have been different repercussions on Soviet and American aid rivalry. In the 1950s, the United States viewed Soviet aid to Indonesia as the thin end of the wedge of Communist imperialism. Under President Kennedy, the need to induce non-aligned nations into a political partnership with the United States was strong enough for the latter to offer aid to Indonesia with purely political motives and to tolerate certain socialist features in its economy. The Johnson Administration viewed aid as an uncomfortable habit acquired over two decades. Foreign aid became a burden which the United States was willing to undertake where possible on a multilateral basis with allies and international financial institutions in which American influence was dominant. If the Soviet Union could share the onus of economic aid, so much the better. The United States, in announcing its intention to resume aid to Indonesia, made the unusual stipulation that the Soviet Union should also come forward

¹⁰⁸ Hilsman, op. cit., p. 395.

¹⁰⁹ Ibid., p. 377.

with aid.¹¹⁰ This was not an absolute condition, but only a means to ensure that U.S. aid funds would not be siphoned off into Soviet coffers through debt repayment.

The Soviet Union had incurred a severe setback when President Sukarno and the PKI were eliminated as power elements in Indonesia. The loss to the Soviet Union was not only financial--over \$1 billion--but also political and psychological because expectations had been so high. Under these circumstances, the Soviet Union was hardly likely to offer aid. If it did, cooperative competition would most probably characterize Soviet and American diplomacy of aid in Indonesia. On the other hand, in the light of Indonesian nationalism, it might have been conceivable that the Soviet Union would seek to change Indonesia's non-alignment into a less pro-Western position.¹¹¹

Indonesia's current aid transactions with the Western bloc countries are an example of smooth economic cooperation in which Western powers, under U.S. leadership, regularly meet and lay down policy guidelines for Indonesia. The diplomacy of economic bargaining inseparable from any debtor-creditor relations persists. But the politics of aid as an instrument of foreign policy in the cold war has been abandoned.

¹¹⁰ Canberra Times, January 6, 1967.

¹¹¹ The Soviet attitude actually has hardened. It has demanded that hard currency be paid for spare parts for military equipment previously supplied. Newsweek, April 6, 1970, p. 19.

PERSONS INTERVIEWED

- Mr. Fox, Head of AID mission, Djakarta, 1962
- Dr. Mohammad Hatta, former Premier and Vice President of Indonesia, 1962.
- Mr. Roger Hilsman, U.S. Assistant Secretary of State for Far Eastern Affairs (1963-64), 1968.
- Mr. Howard Jones, Head of U.S. AID mission (1954-55) and U.S. Ambassador to Indonesia (1958-65), 1968.
- Dr. Johannice Leimena, Deputy First Minister in Indonesia, 1962.
- Mr. Apa B. Pant, Indian Ambassador to Indonesia, 1962.
- Mr. S. J. Paul, Chief of U.S. Bureau of Technical Assistance Operation, Indonesia, 1962.
- Mr. Zacharia Raib, Senior official in Ministry of Trade, 1962.
- Madam Santoso, Head of Prime Minister's Office, 1962.
- Mr. Soejotmoko, Writer and member of editorial staff of Pedoman; currently Indonesia's Ambassador to the United States, 1968.
- Mr. Tan, Ministry of Basic Industry, 1962.
- Mr. Umarjadi, 4th Deputy Minister for Foreign Economic Affairs, 1962.
- Mr. Ushekov, Counselor for Economic Affairs, Soviet Embassy, Indonesia, 1962.
- Dr. Saroso Wirodihardjo, former Director General of Trade and Industry, 1962.