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FOR HOWARD JONES

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NOTES ON INDONESIAN STABILIZATION 1963

What follows is highly selective and relates primarily to the apparent contest for power or position between Subandrio and Djawanda (first minister) as it overflowed into the arena of the stabilization program. My use of the phrase "stabilization program" is descriptive rather than official, as the Indonesian Government did not use it in 1963.

I was associated with the US activity looking to aid to Indonesian stabilization from late March until September 1963. "Confrontation" following Malaysia day in September, with related events, terminated the possibility of a multi-lateral program of aid to Indonesia for some time to come.

From my vantage point--Washington--it appeared that Djawanda, with the support of Slamet and Khaw Bien Thi, was determined to set Indonesia upon the road of rational economic behavior, i.e., financial stabilization and economic development, with substantial aid and credits from the Western countries, Japan, and the Soviet Union. It appeared also that Subandrio was not, or at least that he did not wish Djawanda to gain the credit from a successful program. Subandrio was supported by Sumarno, who was essentially opposed to large scale foreign credits, or at least Western credits, and expressed preference for "eating rocks" if necessary. As the Economic Measures of May 1963 and the IMF standby arrangement of July 1963 were unfolding, Sumarno agreed only to the exchange rates and the credit ceilings established, but not to the program concept.



Following the discussions in Washington in early March 1963 between Mr. Janow and Mr. Ellis, on the one hand, and the Indonesians on the other (Slamet as I recall), and Indonesian informal talks with IMF staff at the same time, it was understood that an IMF team would proceed to Djakarta by about the first of April for consultations and with the Indonesians work out the basis of a financial stabilization program, including the substance of a letter of intent from the GOI to the IMF. With the IMF team report and the letter of intent in hand, two steps would follow: (1) the DAC members of the Indonesia Working Group --the Western donor-creditor countries and Japan -- would meet in Paris to agree upon a program of grant aid, debt relief, and new credits to cover the Indonesian foreign exchange deficit for a year (a continuing program was implied by the proposed first year

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action) and (2) with the DAC assurance of a covered Indonesian foreign exchange deficit, the IMF would approve a Standby Arrangement with a loan to Indonesia.

The key to a timely conclusion of this sequence of events was the favorable report of the IMF team. The team, however, could not go to Djakarta until invited. The invitation was delayed, and delayed, and delayed, with the result that the IMF team did not arrive in Djakarta until at least the middle of June and even by compressing its work was able to make its report to IMF Washington no earlier than about July 10, 1963. The report was bulky and some of the DAC Governments participating in the Group did not receive and deliver to the officials responsible for aid to Indonesia until a day or two before the July 26 meeting of the Indonesia Working Group. Two and a half months were lost in the delay. The strategy of Subandrio and Sumarno, cooperating, each for his own reasons, appeared to be to generate a sufficient delay in the invitation to the IMF to defeat Djawanda's effort to obtain cover for the Indonesian foreign exchange deficit. I thought then that Subandrio merely wanted Djawanda's job for himself, and that forcing Djawanda up against the budget presentation in July with a huge deficit and no cover would discredit him and open the door for Subandrio to take his job. It now appears that Subandrio may have known in advance of Sukarno's plans for Malaysia Day, and desired to delay the stabilization effort past the beginning of "confrontation", thereby precluding a Djawanda led program. In any event, the delay tactics succeeded in breaking the stabilization program, and all hope of Western credits on a substantial scale, on the rock of "confrontation".

is possible, though I doubt it,

Clues to the machinations involved accumulated gradually in the spring of 1963. In April I understood that the Indonesian Ambassador in Washington thought that the IMF should not become involved until there was a "change in the cabinet" in Djakarta, but that he had reported to his Government that the IMF did not want to become involved until the cabinet changed. ~~I learned upon informal inquiry that the Ambassador appeared to be lined up with Subandrio and was receiving cooperation from the Indonesian representative to the IMF (although I am not at all sure about the latter point--the stance of the representative to the IMF).~~

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Later on--I forget the week--we received word from Embassy Djakarta that a telegram of invitation to the

Wageningen in Djakarta we were bringing persons on the grounds to get the IMF invitation. Finally, Djawanda told me the

Final Mission



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It took more than a week before it was delivered. Djawanda had

IMF had been sent by the Government of Indonesia. At least a week after that it had still not been received by the IMF. The routing would have been through the IMF man at the Indonesian Embassy, -- referred to above -- and presumably Sumarno's man. At this point, I was not sure where the delay was injected, but thought that the Indonesian Embassy in Washington was holding the invitation. Ultimately the invitation was delivered. When Bernie Bell returned to Washington, I learned from him that Djawanda has signed the telegram inviting the IMF team but had sent it through Sumarno as the proper channel for messages to IMF. ~~Djawanda's action was the basis of the Embassy Jakarta report. Thereafter,~~ Sumarno, playing ball with Subandrio, apparently held the message in Jakarta as long as he felt he could.

had serious consequences
~~A word about the consequences of the delay, in terms of the effect on DAC action,~~ is in order. European governments do little conferring during the August holidays. Meetings which cannot be held before the end of July go over to September or October, unless a problem is particularly important from a European point of view. Furthermore, it usually takes at least two meetings, with three to six weeks between, to prepare for and obtain financial commitments in concert by a number of governments. Also, the meeting schedule becomes fairly thick in June and July, and it is not easy to find acceptable dates for convening high officials. It doesn't help if one or more of the governments involved doesn't really want to hold the meetings anyway. For the Indonesia program, the situation called for two meetings before the end of July, which would have put the first one before the end of June 1963. As it was, because of the delay in receipt of the IMF report, the first meeting could not be scheduled before July 26, when it was held, and the second meeting had to be planned for late September or October. All plans for the second meeting were dropped when Indonesia went to war in September against Malaysia.

its confrontation
Another word of explanation is in order about the sequence of events. The IMF approval of a standby arrangement was supposed to follow DAC action--in effect to follow the second meeting of the DAC Group. However, in view of the delays described above, and the decline in Indonesian reserves (I am assuming the second reason), the IMF chose to approve the Standby on July 24, two days before the Paris meeting, relying upon the DAC Group to produce the pledges of aid to Indonesia that would justify the IMF action. This was the wrong way around. To the best of my knowledge the decision to go ahead was strictly that of IMF Management (Mr. Southard would know); I was not expecting any IMF action until after DAC Group resources were pledged, and I never heard that anyone else in the US Government expected IMF to act first. However, when IMF acted on its own initiative, we were cheered by the action and tried hard

