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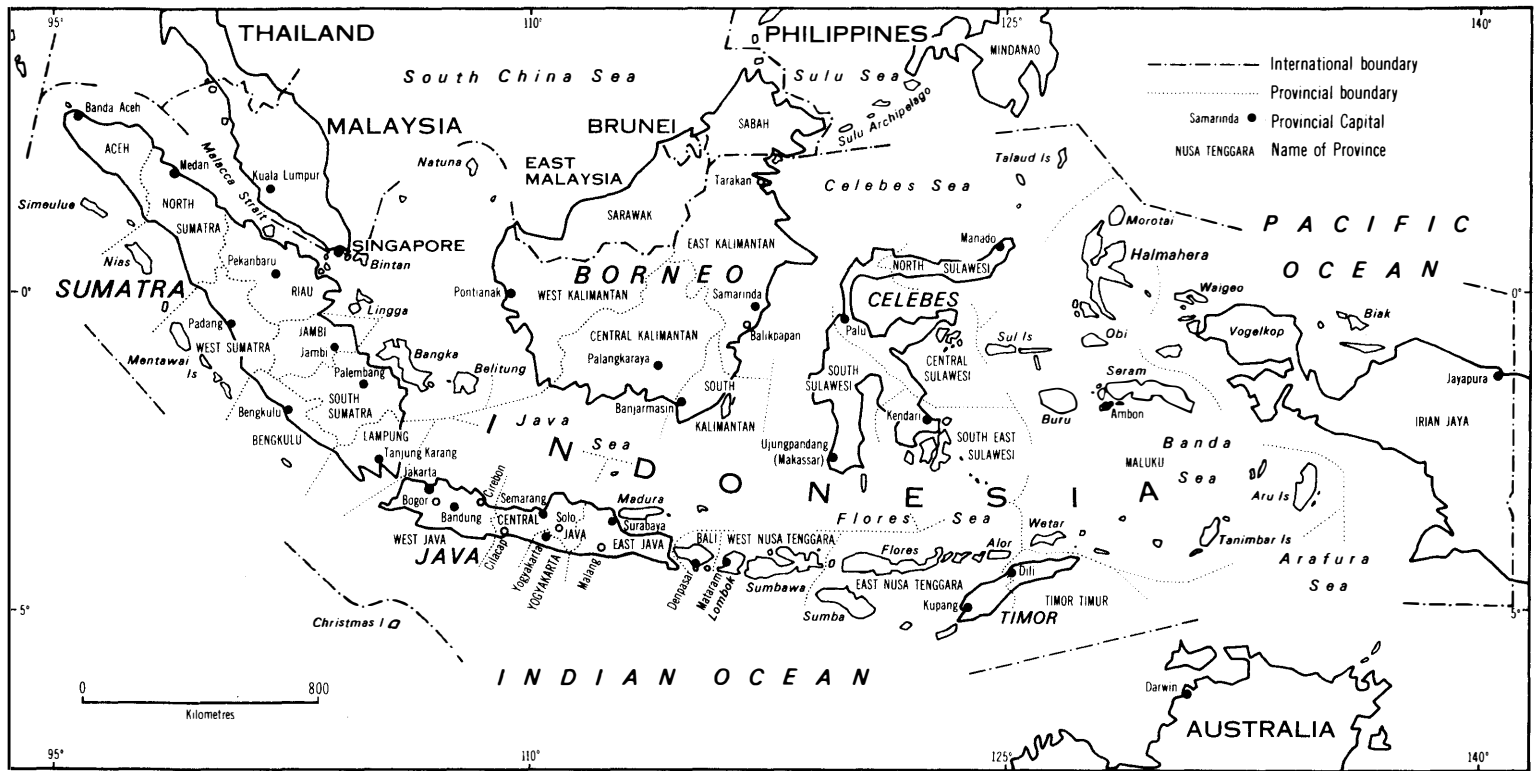
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# Indonesia and Australia: the politics of aid and development since 1966

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# Indonesia and Australia



Map Indonesia

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Monograph no. 18

**Indonesia and  
Australia:**  
the politics of aid  
and development  
since 1966

**Philip J. Eldridge**

Editor R.T. Shand  
Series editor G.W. Jones

**The Australian National University**  
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## Summary

A study of Australian aid policy and individual projects in Indonesia indicated that these are subordinate to overall diplomatic goals of promoting friendly relations with the Suharto government. As part of this objective, successive Australian governments have given general support to Indonesia's developmental strategy. Despite some clashes of interest, the private sector has reinforced this approach. As a result heavy emphasis has been placed in Australian aid, trade and investment policies on promotion of the modern industrial sector. These policies have been opposed in various quarters within Australia, notably by more radical voluntary agencies, whose alternative approach to development is analysed through a study of their programs in Indonesia. Within Indonesia, there has also been some significant questioning of developmental goals, which have provided a focus for mounting political opposition. Official goals stated in Indonesia's Second Five Year Plan (1974-79) have stressed the need to redistribute wealth, increase employment opportunities and create a more equal balance between rural and urban sectors and between regions. The trend, however, has been in the opposite direction and this is even more evident in the direction of international aid.

The work concludes with recommendations for reforms of aid policy in a more redistributive, employment-oriented direction with more stress on research and evaluation. Such reforms should be linked to a more general reappraisal of diplomatic priorities in Australia-Indonesia relations.



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## Preface

This work is intended to contribute in the long term towards the promotion of friendly relations between Indonesia and Australia. By studying development issues in a series of operational contexts a basis can be established for challenging conventional diplomatic doctrines as to what such friendship might entail and for understanding a little better the values of two very different societies. Little assessment has been made of Australia's role in the general literature on aid and development and it is hoped that this study will help to fill that gap.

Research for this book began in late 1970. Although it has taken longer to complete than originally anticipated, in the end the study will probably prove more effective since it has been possible to review a period of over a decade since General Suharto's accession to power in 1966, while important changes have occurred since 1973-74.

Fieldwork was concentrated between 1971 and 1976, including a total period of almost one year in Indonesia. Coverage of the most recent period is a little more uneven. An extensive range of interviews was conducted in both Indonesia and Australia with diplomats, aid administrators and other government officials, businessmen, personnel of voluntary agencies and many other interested groups and individuals. The lively interest shown in these issues by virtually all parties concerned is warmly remembered, irrespective of any critical comment that may appear in the text.

Sponsorship is gratefully acknowledged by the University of Indonesia (UI), Jakarta, the Gadjah Mada University (GMU), Yogyakarta, and the National Science Institute (LIPI). At UI thanks are especially due to Dr S.B. Joedono and the staff of the Institute for Social and Economic Research and at GMU to the Rektor, Professor Sukaji, to Dr Mubyarto and the staff of the Economic Research Institute, Faculty of Economics, and to Drs Sumarno Kadarusman for his very effective work as research assistant in 1973. The co-operation

of the Christian Foundation of Public Health (YAKKUM), Solo, which assisted me in visiting many village projects, deserves special acknowledgment.

Thanks are due to the Economics and International Relations Departments, Research School of Pacific Studies, Australian National University, and the Centre of South East Asian Studies, Monash University, for providing a working base at various stages of research. I thank Professor H.W. Arndt, Professor W.A. Townsley and Sir John Crawford for encouragement and interest during the early stages.

Financial assistance is acknowledged from the Social Science Research Council of Australia and the Australian Research Grants Committee in addition to essential support facilities provided by the University of Tasmania. Research assistance by Diane Fowler, Karl Priest and Hong Muy Lim is gratefully acknowledged. Thanks are also due to a succession of typists in the Political Science Department and Arts Faculty of this University who have done battle with the manuscript, most especially to Jane Bell and Patricia Lovadola.

Many colleagues have commented on the manuscript at different stages. I am specially indebted to Dr David Penny, Dr Herbert Feith, Professor John Legge, Dr Peter McCawley, Mr Andrew Gunawan and Mr Lester Levinson, whose advice and criticism have been invaluable. I am also deeply grateful to my wife, Margaret, for many hours of proof-reading as well as every other type of support. Nevertheless, responsibility for all defects is entirely my own.

Philip Eldridge

University of Tasmania  
December 1978

### Note on Indonesian spelling

Since approximately 1971-72 Indonesian spelling has changed with respect to certain consonants. The most notable examples are the substitution of 'c' for 'tj', 'y' for 'j' and 'j' for 'dj'. Spelling employed in the text varies according to the source and date, though normally the modern form is used, e.g. 'Cilacap' rather than 'Tjilatjap'.

Since 1945 there has been a trend for the Dutch spelling 'oe' to be replaced by 'u', but in the case of many personal names the Dutch form is still retained. The modern Indonesian form is used unless the source indicates otherwise.

### Note on currency

From August 1971 the Indonesian rupiah was tied to the US dollar at a standard rate of Rp415 = \$1 until November 1978 when it was devalued by one-third to Rp625 = \$1.

Dollars in tables and elsewhere are Australian dollars unless otherwise indicated.



## Abbreviations

AAUCS	Australian Asian Universities Co-operation Scheme
ACC	Australian Council of Churches
ACFOA	Australian Council for Overseas Aid
ACI	Australian Consolidated Industries
ADAA	Australian Development Assistance Agency
ADAB	Australian Development Assistance Bureau
AFTN	Aeronautical Fixed Telecommunications Network
AIAS	Australian Institute for Agricultural Science
AIBCC	Australian-Indonesia Business Co-operation Committee
AIIA	Australian Institute of International Affairs
AIMTO	Australia-Indonesia Manufacturing and Trading Organisation Pty Ltd
ALP	Australian Labor Party
ANU	Australian National University (Canberra)
ASEAN	Association of South East Asian Nations
ATM	Australian Telecommunications Mission
AVA	Australian Volunteers Abroad
AVCC	Australian Vice-Chancellors' Committee
BE/DK	Bonus Export-Devisa Kredit (Foreign Exchange Credit)
<i>BIES</i>	<i>Bulletin of Indonesian Economic Studies</i>
CAA	Community Aid Abroad
CCPD	Commission on the Churches' Participation in Development
CIA	Central Intelligence Agency (USA)
CIC	Committee on Institutional Cooperation
CRA	Conzinc Rio Tinto Australia Pty Ltd

CSIRO	(Australian) Commonwealth Scientific and Industrial Research Organisation
CSIS	Centre for Strategic and International Studies (Jakarta)
CSR	Colonial Sugar Refining Pty Ltd
EFIC	Export Finance Insurance Corporation
EPIC	Export Payments Insurance Corporation
FAO	Food and Agriculture Organisation (United Nations)
FFH/AD	Freedom from Hunger/Action for Development
GMH	General Motors-Holden
GNP	Gross National Product
IABCC	Indonesia-Australia Business Co-operation Committee
IBRD	International Bank for Reconstruction and Develop- ment (World Bank)
IDA	International Development Action
IGGI	Inter-Governmental Group for Indonesia
ILO	International Labour Organisation
INCO	International Nickel Company
ITT	International Telephone and Telegraph Corporation
IRRI	International Rice Research Institute
JIO	Joint Intelligence Organisation
LPCW	Light Powder and Construction Works
MUCIA	Mid-west Universities Consortium for International Activities
NGO	Non-government Organization
NIEO	New International Economic Order
ODA	Overseas Development Assistance
OXFAM	Oxford Committee for Famine Relief
PBEC	Pacific Basin Economic Council
PIBA	Pacific Indonesian Business Association
PICA	Private Investment Company for Asia
PMG	(Australian) Postmaster-General's Department

RSL	(Australian) Returned Servicemen's League
RwG	Redistribution with Growth
SMEC	Snowy Mountains Engineering Corporation
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
WAY	World Assembly of Youth
WCC	World Council of Churches
WUS	World University Service
WV	World Vision

Indonesian abbreviations and acronyms

Aspri	Assisten-Assisten Presiden Republik Indonesia (Presidential Assistants)
Askrindo	Assuransi Kredit Indonesia (Indonesian Credit Insurance Corporation)
BAKIN	Badan Koordinasi Intelijen Negara (National Body for Intelligence Co-ordination)
Bappemda	Badan Perencanaan Pembangunan Daerah (Provincial Planning Body)
Bappemka	Badan Perencanaan Pembangunan Kabupaten (Kabupaten Planning Body)
Bappenas	Badan Pembangunan Nasional (National Planning Commission)
BIMAS	Bimbingan Massal (Mass Guidance Program for Agriculture)
BIPIK	Proyek Bimbingan dan Pengembangan Industri Kecil (Project for Guidance and Development of Small Industry)
BKPM	Badan Koordinasi Penanaman Modal (Capital Investment Co-ordinating Board)
BPEN	Badan Pengembangan Ekspor Nasional (National Export Development Institute)



BUTSI	Badan Usaha Tenaga Kerja Sukarela (Indonesian Voluntary Labour Association)
DEPSOS	Departemen Sosial (Department of Social Affairs)
DGI	Dewan Gereja-Gereja Indonesia (Indonesian Council of Churches)
DKSPIA	Dewan Kerja Sama Pengusaha Indonesia-Australia (Indonesia-Australia Business Co-operation Committee)
DPR	Dewan Perwakilan Ra'ayat (People's Representative Assembly)
INPRES	Instruksi Presiden (Special Presidential Development Program)
IPB	Institut Pertanian Bogor (Bogor Agricultural Institute)
IPM	Institut Pengembangan Masyarakat (Institute for Social Development, Malang)
ITB	Institut Teknologi Bandung
Jabotabek	Conurbation planned to link Jakarta, Bogor, Tangerang and Bekasi
KALBAR	Kalimantan Barat (West Kalimantan)
KNPI	Kesatuan Nasional Pemuda Indonesia (Indonesian National Youth Committee)
KOSTRAD	Komando Cadangan Strategis Angkatan Darat (Strategic Army Command)
LIPI	Lembaga Ilmu Pengetahuan Indonesia (Indonesian National Science Institute)
LPEN	Lembaga Pembangunan Expor Nasional (National Institute for Export Growth)
LPPH	Lembaga Penelitian Penyakit Hewan (Animal Diseases Research Institute, Bogor)
LSD	Lembaga Sosial Desa (Village Development Institute)
LPP	Lembaga Penelitian Peternakan (Institute for Animal Research, Bogor)
LPTK	Lembaga Pembangunan Tenaga Kerja (Institute for Labour Development)

LVK	Lembaga Virologi Kehewan (Animal Virus Diseases Institute, Surabaya)
Malari	15 January Affair, 1974
MPR	Majelis Permusjawaratan Rakyat (Supreme Representative Council)
PERHEPI	Perhimpunan Ekonomi Pertanian Indonesia (Indonesian Association for Agricultural Economics)
Pertamina	Pertambangan Minyak dan Gas Bumi Nasional (National Oil and Gas Corporation)
Perumtel	Perusahaan Umum Telekomunikasi (National Telecommunications Authority)
PJKA	Perusahaan Jawatan Kereta Api (National Railways Authority)
PPPP	Pusat Penelitian Pengembangan Peternakan (Research Centre for Animal Development, Ciawi, near Bogor)
PRAMUKA	Praja Muda Karana (Boy Scouts Association)
P.T.	Perseroan Terbatas (limited company)
Puksesmas	Pusat Kesehatan Masyarakat (People's Health Centre - Kabupaten level)
PUTL	Pekerjaan Umum dan Tenaga Listrik (Department of Public Works and Electric Power)
RAPBN	Rancangan Anggaran Pendapatan dan Belanja Negara (National Estimates of Income and Expenditure)
Repelita	Rencana Pembangunan Lima Tahun (Five Year Plan)
R.I.	Republik Indonesia (Republic of Indonesia)
Sekber Golkar	Secretariat for Functional Groups
Tapol	Tahanan Politik (political prisoners)
GMU	Gajah Mada University, Yogyakarta
UI	Universitas Indonesia (University of Indonesia, Jakarta)

- YIS            Yayasan Indonesia Sejahtera  
                  (Prosperous Indonesia Foundation, Solo)
- YAKKUM        Yayasan Keristen untuk Kesehatan Umum  
                  (Christian Institute for Public Health, Solo)

## Introduction

The aim of this study is to examine aid and development programs in the context of diplomatic relations between Australia and Indonesia since the advent of the Suharto New Order government in 1966. Australian government aid programs and the activities of private sector and voluntary agencies are assessed in terms of their political significance, raising questions as to what type of development strategies are appropriate to a poor country such as Indonesia. These issues have generated a good deal of political heat in both countries and the final chapter is devoted to assessing their impact on Indonesia's internal politics.

This account focuses on bilateral relations between Indonesia and Australia, in the belief that these have been relatively neglected in favour of more broad-ranging global and regional overviews and that positive methodological advantages can be gained from emphasizing bilateral aspects. In this way it is possible to identify continuing features of Australia-Indonesia relations. So far as aid is concerned, concentration on a single donor and recipient country avoids the difficulty implicit in many comparative studies whereby the policies and interests of the donor country tend to become the common factor. There is an inbuilt conflict of interest between foreign governments and investors concerned with achieving overall balance between their activities over a whole range of countries, and aid-receiving countries, who face the task of matching a diverse range of external and internal resources and reconciling conflicting pressures in terms of some coherent strategy of development. A bilateral emphasis also enables closer attention to be paid to domestic political aspects, while case studies of projects can draw out policy issues in greater detail.

It is not intended, however, to view Australia and Indonesia in isolation from the surrounding region. Account is taken of the ASEAN countries, especially in relation to issues of regional stability and trade, though for reasons of length important issues such as the strategic interests of the super-powers and the impact of Indo-China on the

balance of power in Southeast Asia are not discussed. Basic knowledge of the regional and international context must accordingly be assumed.

Since 1966, political support for the Suharto government has played a key role in western strategy for maintaining stability in Southeast Asia, closely linked to a policy of promoting economic growth and modernization in Indonesia. These aims have received solid bipartisan political support within Australia and especially from the private sector. Official aid programs have been subordinated to diplomatic objectives of promoting friendly relations with Indonesia. As a result, the emphasis placed on conflict avoidance has had a profound influence on the shape of the aid program, its style and ethos and the way in which projects are selected. This is not to say that aid programs have no autonomy but that persistent, though often latent conflict between diplomatic and developmental criteria remains unresolved. Though characteristic of all countries' aid programs, this conflict has proved especially sensitive in the case of Australian aid to Indonesia. It is argued in the Conclusion that the problem is only resolvable if a more relaxed style of diplomatic relations can be established between the two countries.

While developmental themes have featured prominently in official rhetoric, these centre overwhelmingly on promotion of the modern sector - namely industry, mining, and commercial agriculture, plus a supporting infrastructure of capital works programs, communications, commercial institutions, education research and technology. Health, social welfare, rural development and more qualitative or 'consciousness raising' aspects are mostly ignored. Above all, the fierce debate which has dominated the development literature for many years as to whether promotion of economic growth is compatible with a reasonably just distribution of wealth, together with adequate provision of employment and services to the poor majority, has barely touched the surface of official consciousness. Since the riots in Jakarta in January 1974, the Indonesian government has attempted to reconcile these goals with some token support from Australia, though the practical impact of such efforts has been slight.

As a subsidiary theme, it is argued that Australian government and private sector activities are characterized by a pervasive ignorance of Indonesian culture and institutions.

This is a good deal less true in the case of non-government organizations, which by virtue of their small scale of operation have established a broader pattern of social contact and provided a continuing focus of opposition within Australia to official policies. Emphasis on conflict avoidance has resulted in lack of detailed concern by diplomats as to how aid projects will fit into the local environment. The ethnocentrism of most aid and business personnel has prevented them from achieving any close professional rapport with Indonesian counterparts or looking imaginatively at ways of using local skills and resources.

Many of the causes for this state of affairs lie deep, and beyond the scope of this study. Usually, Australian public opinion is not much concerned with Indonesia. Relations are mostly conducted at government-to-government level. While interested groups, such as business companies, voluntary agencies, political activists and academic specialists maintain contact in various ways and while knowledge and interest about Indonesia has grown slowly via the education system, tourism and so forth, this remains patchy and confined to a minority.

Periodically, wider sections of the Australian public can be aroused by the media highlighting some crisis issue in Indonesia's internal politics or some major disagreement between the two countries, such as the Timor issue in 1975-76 and the West Irian and Malaysian Confrontation issues a decade earlier. Lack of continuous exposure in the media to Indonesia's internal politics makes it hard for Australians to place such issues in context. Grounds certainly exist for criticism of Australian media coverage of Indonesia and indeed of Southeast Asia generally, especially the lack of specialized background of most journalists, the absence of permanent correspondents and the failure to give even a minimally adequate picture of Indonesia's villages, towns and regions.

Nevertheless, cultural adaptation is not a one-sided affair and conforming with Indonesian culture would involve some definite loss of political liberty by Australians, in the sense that Javanese culture places special emphasis on avoiding conflict and loss of face. By contrast Australia's style of domestic politics is more openly confrontationalist. As a result, diplomats expend much effort soothing Indonesian sensitivities in the face of criticism from

within Australia. However, Indonesian leaders have learned to exploit this situation in order to place the Australian government at a disadvantage, so that 'friendly relations' tend to be defined according to norms laid down by Indonesia.

Some brief comment is necessary on the use of the terms 'aid' and 'development'. It has by now become a commonplace that these are normative terms, in the sense that ends cannot be divorced from the means used to attain them. Development is a broad term which may be used as a convenient shorthand to cover any given plan, program or ideology designed to raise living standards or improve welfare in poor countries. Aid normally refers to external assistance and can be used in equally open-ended ways. This is taken for granted from the outset so that attention can be concentrated on identifying which specific goals of development are being assisted by whom and by what means. It should also be made clear that the criteria employed in evaluating development programs are primarily political rather than technical or economic.

In relating this study to the general literature on aid and development it is not intended to pose the choices facing Indonesian and Australian policy-makers in terms of rigidly defined alternative models. While various theories of development are used to draw out key issues, the primary concern is with specific policies, institutions and actors. My own values and preferences will emerge from the way in which issues are presented and are made more explicit in the Conclusion. It can be said at the outset that the emphasis on questions of distributive justice, provision of employment and basic needs and adaptation to local institutions gives this study more a flavour of Myrdal than of Marx. However, it is hoped to present a sufficient range of data and arguments to enable readers to reach their own conclusions.

The debate over development in Indonesia and appropriate attitudes to be adopted by foreigners has been dominated to a considerable extent by a clash between ideological giants advocating either wholehearted support for Indonesia's New Order or its total rejection as a tool of imperialism. While such issues cannot be avoided, it is hoped to add some new perspectives by means of more detailed analysis. Development studies tend to concentrate either on macro-level analysis or on micro-level investigations of villages. There is a lack of middle-range analysis. Methodologically, the study

of aid programs can provide useful insights in that aid provides an unobtrusive though often strategic link between a complex pattern of interests, values and institutional structures.

Despite the evident modesty of these objectives, the diversity of scenes and actors encountered during the course of this work at times resembles a Tolstoy novel - or perhaps more appropriately the *wayang*, a form of puppet drama popular among the Javanese, based on the epics of the Ramayana. It is certainly easier to draw out the dramatic qualities of the situation than to establish any systematic explanatory framework. In the *wayang*, good always prevails over evil, though specific outcomes seem inconclusive and roles obscure. This is an instructive thought for developmental theorists and activists who are constantly driven to making judgments based on uncertain evidence, and is especially true in the case of two such sharply differing societies as those of Indonesia and Australia.



## Chapter 1

### Australia-Indonesia relations under Suharto

This chapter establishes the political and diplomatic framework within which Australian aid and private sector activities operate in Indonesia. It is argued that, despite some growth in domestic opposition to official policies in the more recent period and temporary disruptions caused by the East Timor dispute, promotion of friendly relations has remained an overriding goal of Australian diplomacy throughout the period since 1966, dominating every specific field of policy relating to Indonesia. The negative consequences in the aid field become apparent in later chapters, justifying a substantial rethinking of overall policy priorities.

The shift of power in 1965-66 from Sukarno to Suharto and the drastic ideological shift which accompanied it created a significantly changed climate for Australia-Indonesia relations. The general tone of public opinion at the time was well summed up by Professor Arndt's comment:

The Australian Government, supported by the great majority of the Australian public, made no secret of its relief and delight at the turn of events in Indonesia which followed the October 1965 coup attempt. There was relief at the sudden end to Confrontation and to the drift of Indonesia towards Communism, and there was delight at the increasing evidence from 1966 onwards that Indonesia had at last again a government that addressed itself pragmatically to the country's appalling economic problems (Arndt, 1970:129).

Arndt qualified this view by observing that

As the full measure of the legacy of Sukarno was gradually revealed, a wave of public sympathy and emotional desire to help found expression in the Australian press and in Government

pronouncements, although it is only fair to add that there was also horror over the 1965-66 massacres in Java and Bali, concern over the emergence of what looked like a military dictatorship and much scepticism about the capacity and determination of the new regime to deal effectively with the huge task confronting it (ibid.).

Both strains of thought have influenced Australian thinking during the decade since Suharto came to power, though the former has clearly dominated official thinking.

Initial Australian government reaction was more restrained, since the shift in political direction within Indonesia took several stages to complete. However, the strain on diplomats in explaining to Australian politicians and public the need to adopt a tolerant long-term outlook towards Indonesia, despite immediate differences, could now be relieved.<sup>1</sup> Once assured that the Suharto government was firmly in control, Australia moved quickly to a position of wholehearted, even uncritical support.

The extreme reversal of Australian attitudes after the fall of Sukarno may have damaged long-term prospects for any deeper understanding of Indonesian society. To take just one example, the strong anti-communist leanings of the Suharto government are based on philosophical and social foundations diametrically opposed to those which prevail in Australia. The official Indonesian ideology based on Pantja Sila,<sup>2</sup> the five principles of belief in one God, national

<sup>1</sup>A useful survey of shifts in official opinion plus press reaction during the transition from Sukarno to Suharto is provided by McGovern (1975), especially Ch.2. The best source for Australian press coverage of the late Sukarno years is Viviani (1973).

<sup>2</sup>Numerous references to Pantja Sila are available. Kahin (1952:122-7) provides a lucid summary of Sukarno's original statement of Pantja Sila in his speech before the (Japanese sponsored) Investigating Committee for the Preparation of Independence on 1 June 1945. Other sources include Legge (1972) and Abdulgani (1973). The role of Pantja Sila in the New Order's official ideology is indicated in *The Guidelines of State Policy of the Republic of Indonesia* (Decree of The People's Consultative Assembly of the Republic of Indonesia No.IV/MPR/1973 on The Guidelines of State Policy), Jakarta, Department of Information, R.I.

sovereignty, humanitarianism (internationalism), representation of the people 'guided by wise leadership' and social justice, is opposed to communism primarily because of Marxist emphasis on class conflict. However, liberal individualism is also opposed strongly by most Indonesian leaders. It is certainly possible, in European terms, to interpret Pantja Sila as inherently fascist, owing to its emphasis on the family corporate nature of the state. However, in practice consensus is found in terms of mildly religious socialistic and co-operative values which set the formal tone, at least, of public life in Indonesia. The fact that Indonesians often do not live up to their vaguely stated ideals any more than do Americans, for example, in relation to the statement of fundamental liberties in the US Constitution, does not invalidate their importance in terms of Indonesian historical experience and as representing deeply felt aspirations. The problem here for Australians is that while it is possible to find bases of mutual accommodation so far as business interests and official policies are concerned, the cultural reality of Indonesia remains largely unknown.

Sukarno's ideological pronouncements and attempts at cultural synthesis represented genuine and sophisticated attempts to come to grips with persistent features of Indonesian society and culture. The political system of 'guided democracy' which he established has been retained in most essential features, despite very different styles of interpretation. Nevertheless, with his removal, many outsiders assumed that Indonesia's progress towards western-style modernization would now proceed unimpeded - in a word, that she would 'settle down', become 'stable' and 'pragmatic'. This has left many Australians and others unprepared for the return of nationalist ideology in a new 'developmental' guise in the 1970s. The equation of western-style development with 'stability' and the fostering of both as fundamental goals of Australian policy towards Indonesia and Southeast Asia generally has caused serious misunderstanding of the whole debate about developmental priorities. However, the discovery in both countries of the politically contentious nature inherent in the concept of 'development' has rendered this type of approach increasingly unviable. Since 1966, maintaining the stability of the Suharto government has been seen as essential to Australia's national interest. As a result, the priority accorded to maintaining close and cordial relations with Indonesia often makes the developmental impact of particular programs appear of secondary importance, placing

constraints on the manner in which projects are selected, administered and assessed. Difficult questions about the objectives of aid programs and the means for their achievement are not pressed beyond very narrow limits, while little official explanation is offered as to why particular projects are selected or how they operate.

In general, government spokesmen have developed a tone of extreme blandness in dealing with all types of criticism from within Australia, whether of the aid program, Indonesian domestic politics or economic strategy, military aid, Timor or any other contentious matter. The crucial nature of Australia-Indonesia friendship is asserted as overriding the merits of any particular case. The problem here is that the Indonesian government, which tolerates little dissent internally, is acutely sensitive to outside criticism. While diplomatic assurances that such criticism in no way reflects the views of the Australian government are accepted, unofficially they are seen as evidence of some underlying unfriendliness within Australian society. Sharp swings have occurred in Australian attitudes towards Indonesia. Being far less able than their Indonesian counterparts to control public opinion, Australian diplomats have tried, so far as possible, to ignore it and persuade Jakarta to do the same. Since negative popular attitudes are accompanied by a considerable measure of apathy, this approach has generally proved successful from the Department of Foreign Affairs' viewpoint, at least until the most recent period.

### Bipartisan nature of Australian policy

Until around 1975, official policies received fairly solid bipartisan support, despite some differences of emphasis between the major political parties. In the case of the Liberal and Country parties, ideological anti-communism has played a prominent part in shaping attitudes towards Indonesia. Soon after the coup attempt of 30 September 1965, Paul Hasluck, then Minister for Foreign Affairs, was pointing with approval to the anti-communist nature of demonstrations in Jakarta.<sup>3</sup> In April 1966 Hasluck expressed approval of Indonesia's severing ties with Peking, the removal of the PKI as an effective alternative political force and Suharto's expressed intention to place more emphasis on economic

<sup>3</sup> *Current Notes on International Affairs* (Canberra), vol.36, no.11, Nov. 1965, p.15.

policy.<sup>4</sup> Prime Minister Holt was still more ideologically explicit at a press conference during the same month in stating: 'if judged merely on the number of people of communist sympathies who have been disposed of violently in Indonesia, there is undoubtedly a strength of anti-communism which, when the disorders can be finally suppressed, do[es] open up some prospect of collaboration with the free world'.<sup>5</sup> Although their approach has become more sophisticated in recent years, fears of Indonesia lurching back to the left retain a strong influence in the thinking of the coalition parties. In this context, it seems that recent dissent within the Liberal Party over Australian policy on East Timor has been based in part on fears of Indonesian expansionism similar to more widely expressed fears during the pre-1965 period.

Mr Gough Whitlam, then Deputy Leader of the Opposition, stated after a visit to Indonesia in August 1966 that:

[Australia] should have as many civil social workers in South Vietnam as soldiers. Australian experts could help in timber-growing, fisheries, cattle and fruit growing. If events had gone the other way during coups and counter-coups in Jakarta last year, Australia would be spending an extra one hundred million on defence this year. We should now be spending this amount on aid in Indonesia, concentrating on roads and road transport.<sup>6</sup>

This statement represents a striking endorsement of the 'cold war' view that 'aid is defence'. It also represents an orthodox western attitude towards aid and development, while apparently endorsing the Suharto government's role as political saviour of Indonesia and the Southeast Asia region, including Australia, from communism.

Mr Frank Crean, MHR, argued that 'if Australians feel that they can sleep more soundly with Suharto than Sukarno, they should also realise that political stability will be

<sup>4</sup>Ibid., vol.37, no.4, April 1966.

<sup>5</sup>Ibid.

<sup>6</sup>*Indonesian Herald*, 19 Aug. 1966.

maintained only if economic growth is attained as well'.<sup>7</sup> Crean argued further that the real need was to shift skills and resources from military to economic development. 'Whatever the mistakes made by America in Vietnam, at least in Indonesia America is doing proportionately more; but the measure of peaceable assistance is in millions as against billions for war.'<sup>8</sup>

While strong backbench criticism was expressed over issues such as East Timor and political prisoners, by all accounts no discussion of overall policy towards Indonesia ever took place at Cabinet level during the 1972-75 Whitlam administration. Whitlam himself had formed very definite ideas about foreign and defence policy in the region during his years as Opposition Leader, which he implemented in a highly personalized fashion as Prime Minister. Both countries indicated their commitment to strengthen regional co-operation following Australia's December 1972 election.<sup>9</sup> The new government signalled the priority to be accorded Indonesia as 'our nearest and largest neighbour', by a Prime Ministerial visit within three months of taking office. Whitlam himself had earlier stated, with characteristic hyperbole, that 'our relations with Indonesia, the degree to which we can live cooperatively with Indonesia represent incomparably the most important task for Australian statesmanship for the next century'.<sup>10</sup>

Since the fall of the Labor government in late 1975 and mainly as a result of the East Timor conflict, a harder line is in evidence within the party. For example, in 1977 the ALP Federal Conference, against Whitlam's advice, adopted a resolution to cut off military aid unless Indonesia withdrew her troops from East Timor.<sup>11</sup> Although this policy may never be implemented and would in any case have little more than symbolic importance, it could aggravate tensions with Indonesia and lead to more serious internal party divisions facing a future Labor government. However, at this stage there is no substantial evidence to suggest that major changes in policy towards Indonesia would be introduced.

<sup>7</sup> Letter to the *Age* (Melbourne), 12 March 1968.

<sup>8</sup> *Ibid.*

<sup>9</sup> *Jakarta Times*, 4 Dec. 1972 (see also Editorial).

<sup>10</sup> Speech at a Parliamentary Luncheon in Canberra to welcome President Suharto: *Jakarta Times*, 9 Feb. 1972.

<sup>11</sup> *Canberra Times*, 7 July 1977, p.7.

Political foundations for Australian business activity in Indonesia

Indonesia was now slow to exploit Australia's ideological preoccupations in order to obtain aid. For example, Frans Seda, Minister for Finance, visiting Australia in October 1967, requested more aid and investment, stressing that Communist China was organizing subversion and that 'communists don't stop fighting until either death or victory'.<sup>12</sup> Political leaders and parliamentary delegations, representing both Federal and State governments, visited Indonesia with increasing regularity, creating a favourable atmosphere for the expansion of economic, military, tourist, educational and cultural activities plus a growing exchange of specialized personnel in many fields.

Business activities have been promoted by a continuous flow of Federal and State government sponsored trade missions, supported by many official statements and political speeches about the need to foster trade and investment. Equally, Indonesian leaders visiting Australia spend a large proportion of their time with Australian business groups. Close-knit relationships have been fostered by the Australia-Indonesia Business Cooperation Committee which has links with top political and military leaders in both countries (see pp.109-11).

Indonesia's policy of opening her doors to foreign capital was a major factor in the reversal of earlier Australian attitudes. An especially favourable climate was created by the passing in January 1967 of the Foreign Investment Law, which gave important guarantees and incentives to foreign investment (cf. note 13 to Ch.4). The return of nationalized enterprises to their former owners also impressed the Australian government as a sign of favourable intentions towards the private sector.<sup>13</sup> In early 1967, Mr Hasluck visited Indonesia with Sir Charles McGrath, Chairman of the Export Promotions Council, and representatives of the Department of Trade and the Export Promotion Insurance

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<sup>12</sup> *Age*, 11 Oct. 1967.

<sup>13</sup> *Canberra Times*, 27 Jan. 1967. In a symbolic gesture NASPRO Pty Ltd, the sole Australian company in Indonesia prior to 1965 and nationalized for a few months under Sukarno, was handed back several days before Hasluck's visit.

Corporation (EPIC).<sup>14</sup> Subsequently, a conference was held in Jakarta in August 1967, sponsored by the newly-formed Pacific Indonesian Business Association (PIBA), at which Australia was strongly represented with sixty companies out of a total of some 180 attending.<sup>15</sup>

Political support has helped to promote a number of Australian trade and business ventures. For instance, Mr Anthony, then Minister for Trade, attended the opening of P.T. Indomilk in Jakarta by President Suharto in July 1969.<sup>16</sup> This is one of several plants in Southeast Asia making condensed milk from Australian milk powder. The West Australian government gave strong support to a consortium of mining and industrial interests in that state seeking to promote an industrial estate at Cilacap, the only deep-water harbour on the south coast of Java, and to strengthening shipping links with Fremantle.<sup>17</sup> Mr McMahon laid the foundation stone at the official opening by President Suharto for the new glass factory at Bekasi, near Jakarta, of P.T. Kangar Consolidated, in which ACI Limited has a 35½ per cent shareholding together with American and Singapore interests.<sup>18</sup> Mr Whitlam visited the factory in February 1973 and claimed that it was a model venture in terms of following Indonesian guidelines for foreign investment.<sup>19</sup>

Australian business operations in Indonesia will be examined in more detail in a later chapter, but at this stage it is sufficient to note that, since 1966, a high political priority has been accorded to promoting a favourable environment for Australian trade and investment in Indonesia. Nevertheless, this objective has taken second place to the basic policy of maintaining both the stability and the goodwill of the Suharto government.

<sup>14</sup> *Jakarta Times*, 2 Feb. 1967.

<sup>15</sup> *Age*, 14 Aug. 1967 and 12 July 1967; Arndt, 1970; *Stanford Research Institute International*, no.3, 1967. The Sydney branch of SRI played an active role in promoting the Jakarta conference.

<sup>16</sup> *Jakarta Times*, 2 July 1969; *Age*, 7 July 1969.

<sup>17</sup> *Age*, 2 April 1970.

<sup>18</sup> *Jakarta Times*, 8 June 1972. See also p.107.

<sup>19</sup> Reports of Whitlam's three-day visit from 21 to 23 February 1973 are available in the Australian and Indonesian press. This speech was broadcast from the P.T. Kangar factory on Radio Australia.



Geo-politics and 'regional stability' in Australian  
diplomacy: possible alternative approaches

Despite official promotion of Australian and associated multi-national business interests, which Australian businessmen consider inadequate by comparison with other countries, Australian diplomats and most political leaders seem to regard the geographical reality of Indonesia's physical location as a neighbour, her extensive control of sea lanes and the size of her population as ultimately the dominating factors in Australia-Indonesia relations. Australian attitudes in this regard have been strongly influenced both by American global strategic priorities in the Southeast Asian region and by Indonesia's own view of her geo-political role. In this context, Australian, American and Indonesian strategic assessments reinforce each other.

The United States has on several occasions nominated Indonesia to play a leading role in this region. For example, William Rogers, US Defence Secretary, stated in August 1969 that Indonesia was the key to all efforts for political stabilization in Southeast Asia. Australia was requested to strengthen ties of co-operation with Indonesia and assist her in fulfilling this role.<sup>20</sup> Indonesia's concept of 'non-alignment' has been quite acceptable to the USA, which did not support Australia's initial desire for some form of security pact with Indonesia.<sup>21</sup>

As with other countries which have been encouraged to play a dominant role in their region in achieving American-defined goals of stability, such as Iran and Brazil, Indonesia has shown signs of aspiring to regional dominance in her own right. In view of his key position within the Indonesian government structure as former Head of Indonesian Intelligence (BAKIN), Director of the Center for Strategic and International Studies (CSIS), Jakarta, and currently Minister for Information, it seems wise to give weight to the views of Maj. Gen. Ali Murtopo, who remains an important adviser to

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<sup>20</sup>*Jakarta Times*, 21 Aug. 1969. Rogers' speech was made at an ANZUS Council meeting at which Marshall Green, then Assistant Secretary for Far Eastern and Pacific Affairs and subsequently Ambassador to Australia from 1973 to 1975, also spoke in the same vein.

<sup>21</sup>The meanderings of Australian policy on this point are considered by Mackie (1970:32-52).

President Suharto and plays a key role in formulating official ideology in both the domestic and international spheres.

According to Murtopo, the world is tending towards 'multi-polarity', based on regions. According to his rather typical Javanese world view, world politics as a whole is presented as a kind of 'zero sum game',<sup>22</sup> in which ASEAN can gain or lose only at the expense of other regions. A country's role in a region depends on geo-politics, resources, physical and mental strength.

Besides showing the way towards a regional unit ... this geo-political reality always prepared a certain site as centre of the region or several sites ... the sites might take the form of countries and a country which happens to form this reality will serve as 'primus inter pares'. If Indonesia happens to hold such a position, this geo-political reality will merely remain as one of the important factors, since in the end it is the mental attitude of the nation that will determine whether the country is worthy to perform this function (Murtopo, 1972-3-4:6).

While most government leaders would express such ideas more cautiously, assumptions of Indonesia's natural right to regional dominance are very pervasive. Officially, however, Indonesia has urged that the major goal of ASEAN should be to reduce Great Power influence in the Southeast Asian region - a moderate and legitimate objective by traditional standards of international diplomacy.

So far as Australia is concerned, Murtopo makes clear that 'Australia needs Indonesia (and ASEAN) through which Australia will make meaningful contacts. On its part, Indonesia (and ASEAN) needs aid from Australia in the form of technology and capital' (ibid. : p.7). Interpreted literally this would limit Australian sovereignty in that, informally at least, Indonesia expects that major initiatives towards other ASEAN countries should be cleared through her.

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<sup>22</sup>For a fuller treatment of these themes see Anderson (1972: 1-69). For my own application of Anderson's ideas to Indonesian policy in the Southeast Asia region see Eldridge (1975).

At the same time Australia is designated a peripheral role in servicing ASEAN's economic development. It seems that not only is Murtopo's concept acceptable to Foreign Affairs in the crude form in which he has stated it, but that it constitutes a point of basic dogma in Australia's regional diplomatic strategy. One commentator has argued that a corps of Indonesian 'old hands' in senior positions within Foreign Affairs has played an influential role in shaping this strategy (Viviani, 1976, esp. pp.200-1). It seems, moreover, that the Australian Embassy relies heavily on the CSIS, Jakarta, for its intelligence assessments of Indonesian political trends. As a result of these various influences a doctrine of 'asymmetry' in Australia-Indonesia relations has taken root, whereby Indonesia is not expected to return Australia's emphasis on good relations with her with equal strength.<sup>23</sup> Stated bluntly, this means that 'we need Indonesia more than she needs us' - thus laying a long-term psychological basis for a policy of appeasement.

What alternative approaches are open to Australia? It is certainly arguable that while Australia should maintain a general attitude of friendship towards Indonesia, a greater degree of diplomatic distance could be established from the Suharto government. The distinction is of course a difficult one to draw in practice.

It has been assumed, but never openly debated, that regional stability and development is best promoted by concentrating power in the hands of a small oligarchy in Jakarta and by encouraging them to act as leaders of Southeast Asia. Policies designed to build up their economic power are assumed to be in Australia's interest, or, at any rate, inevitable. Here two related aspects must be borne in mind - the nature of Indonesia's current political regime and her relations with neighbouring countries.

Indonesia's highly centralized political system and the absence of legal and personal rights which most Australians would regard as elementary have more impact on relations between the two countries than can be openly acknowledged. At an official level there is no alternative to accepting each country's sovereign right to shape its own political system. However, since Australia and Indonesia must regularly

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<sup>23</sup> Alternative perspectives on the asymmetry doctrine are provided by Mackie (1974); see also Viviani (1976).

do business with each other in many fields, such major differences in values and institutions cannot be regarded as merely quaint or remote. In practice, much ingenuity is required to harmonize bureaucratic, business and other arrangements. The assumption of 'asymmetry' has until now ensured that greater pressure has been on Australia to be politically adaptable. While this doctrine persists, such pressure is likely to build up in ways which will prove unacceptable to growing numbers of Australians. In that context, President Carter's emphasis on human rights deserves support from Australia on self-interested as well as idealistic grounds. At the same time, the 'asymmetry' doctrine should be seen as the result of deliberate policy decisions by western countries rather than the 'inevitable' result of 'geo-politics'.

Australia could no doubt live more easily with an Indonesian political system which was more open, in which power was more widely diffused, and in which, for example, it was possible to make trade, cultural and other contacts directly with the regions rather than through Jakarta. However, official policies remain opposed to trends which might increase regional tensions within Indonesia, as potentially destabilizing to the whole Southeast Asian region.

While Indonesia has won much praise from western countries since the overthrow of Sukarno for 'pragmatism' and moderation in the international arena, in recent years the Suharto government has appeared to be living in a slowly intensifying state of siege. A constant diplomatic battle must be waged to maintain necessary external financial and military support. To this end, evidence of internal political discontent must be suppressed if possible, while critical comment from outside is censored. At the same time, Indonesia takes a close interest in the internal security situation within neighbouring countries: Thailand, Malaysia and the Philippines. Military co-operation with Papua New Guinea is particularly directed towards containment of any potential pan-Papua movement linking up with West Papuan freedom fighters in Irian Jaya. Direct intervention in PNG seems unlikely, but nevertheless the case of East Timor suggests that when Indonesia feels that her security is threatened, scruples will be quickly overcome. Thus the problem is not so much that Indonesia is expansionist in an old-fashioned territorial sense, but that the political survival of the Suharto government requires a hawkish stance

against tendencies within neighbouring countries which might represent some threat to its political stability.

Perhaps old-fashioned notions about the balance of power have been too lightly discarded in favour of abstract concepts of 'regional stability'. Realistically, internal politics affect this balance and Indonesia cannot indefinitely be viewed as a political monolith. It may be objected that this approach will be seen by Indonesia as merely a new variation of discredited colonialist policies of 'divide and rule'.<sup>24</sup> However, these objections would not be valid if serious efforts were made to develop an 'even-handed' policy of distancing Australian diplomacy from the immediate interests of the ruling political faction in Jakarta.

#### Defence and security co-operation with Indonesia

The main features of Australian defence assistance to Indonesia,<sup>25</sup> valued at \$20 million during the three-year period 1973-74 to 1975-76, have been the supply of Sabre jets, Nomad planes and patrol boats, co-operation with the Indonesian military in mapping and surveying, mostly in Sumatra and West Irian, a regular exchange between senior military and technical personnel plus a steady flow of cadets to train at each other's military establishments.<sup>26</sup> The countries have co-operated in naval exercises. Some Australian Colombo Plan projects, such as assistance to road-building in West Kalimantan and the telecommunications program, although primarily civilian in emphasis, have some level of military significance. Overall, Australian defence assistance is integrated with larger-scale US aid programs.

It appears that emphasis is being placed on consolidation of existing programs rather than on further expansion.

<sup>24</sup> This view has been argued forcefully by Mackie (1974).

<sup>25</sup> Basic information in this section has been supplied by Defence Department sources, supplemented by numerous, largely repetitive press reports, presumably also from official sources in both countries. Independent assessments are lacking in this politically 'sensitive' field.

<sup>26</sup> Strong links have also been established between the Australian Returned Servicemen's Leage (RSL) and Indonesian Veterans' Organisations since an initial visit in January 1967 by senior RSL representatives to Jakarta and West Sumatra (*Jakarta Times*, 7 and 11 Jan. 1967).

Indonesia has encouraged Australia to participate in research and development in rocketry, presumably linked to Indonesia's known interest in nuclear technology. Australian military advisers, however, consider that Indonesia's chief need at this stage is for a defence standards laboratory.

Arguments for and against defence assistance to Indonesia depend a good deal on general political judgments and ideology. While allowing for some overlap, defence aid should be considered separately from general economic aid, which is capable of justification on other grounds. Most Australian defence analysts, though not complacent about Indonesia's potential military power and future intentions, consider that defence aid is relatively cheap and allows Australia access to the Indonesian military establishment in ways that would otherwise be impossible. It is argued with some force that this is essential to any effective defence planning by Australia.

Similar arguments are advanced in favour of close co-operation with Indonesian intelligence services.<sup>27</sup> The extent and effectiveness of this co-operation is hard to gauge, but it would seem wise to view it with a degree of scepticism, as containing a strong element of 'window-dressing'. An important aim of Australian policy is to reassure Indonesian military leaders of continuing Australian support in maintaining political stability. In return, Australia probably gains a better understanding of Indonesian leaders' perceptions of domestic and international situations and perhaps some advance signals of likely official attitudes on some issues.

The price for obtaining such political intelligence is paid by the Australian public, which is confronted by walls of silence or bland official commentary on every matter which might conceivably be sensitive to Indonesia. Sometimes such information can be quite misleading, since leaks and rumours abound in Jakarta as in Canberra. More seriously,

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<sup>27</sup>This co-operation was emphasized when Mr Furlonger, Australian Ambassador to Indonesia from 1972 to 1975, was transferred directly to Jakarta from his post in the Joint Intelligence Organisation (JIO), which linked the Australian Departments of Foreign Affairs and Defence for purposes of collating intelligence information. His predecessor, Mr Jockel, was posted to JIO immediately after completing his tour of duty in 1972.

in its pursuit of the narrowly conceived political objectives described earlier, the Australian Embassy has reduced access to many other groups, thus weakening its capacity to obtain a balanced picture of political trends in the country as a whole.<sup>28</sup>

Without some minimum co-operation in the defence and intelligence fields Australia would probably become politically suspect in Indonesian eyes. Indonesia's own priorities link together the promotion of development and stability as inseparable goals of policy, as reflected in the close links between her military, security and development planning organization. Foreign opponents of the Indonesian government feel bound to oppose economic as well as military assistance to Indonesia for these very reasons. More cynically, both supporters and critics of the Suharto government seem to agree that military assistance acts as a 'sweetener' both for economic assistance and private foreign investment. Some form of military support is essential for any type of economic activity to be pursued in Indonesia in the context of increasing military participation in all kinds of business ventures.<sup>29</sup>

#### Sources of opposition within Australia

Although there has always been opposition to official policies, this has only recently gained any degree of strength. Apart from the left-wing groups implacably opposed to the Suharto regime, who were mostly preoccupied during the early Suharto years with the conflict in Indo-China, opposition was sporadic, concentrating on specific issues, such as political prisoners. Protests on this score have attracted support from an articulate minority, linked to the effective campaign led from Britain by Mrs Carmel Budiarto through the newsletter *Tapol* and drawing on data from Amnesty

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<sup>28</sup>The Australian Embassy has cultivated close links with the Centre for Strategic Studies, Jakarta, on whom it relies a good deal for its assessment of Indonesia's domestic and external politics. A translator/research officer was made available to this Institute from 1974 to 1977 from Australian technical assistance funds.

<sup>29</sup>Probably the best recent account of the military's politico-economic role is provided by Crouch (1975-76).

International and other sources.<sup>30</sup> The 'Act of Free Choice' in West Irian in 1969 provoked a good deal of hostile Australian press comment, in some ways drawing out residual anti-Indonesian attitudes from the pre-1965 period. Australian policy was characterized as that of the 'three wise monkeys' - hear, see and speak no evil, or 'koala diplomacy', with the objective of getting close to and being cuddled by Indonesia.<sup>31</sup> Allan Barnes, for example, saw this policy as pragmatic and inevitable. If Suharto was opposed and undermined in relation to West Irian, his credibility would fall and perhaps the government with him. Separatist movements would be encouraged and the threat of political and economic chaos return. 'Such out and out pragmatism may be hard to swallow without an argument about justice. One might wonder about the long-term wisdom of propping up a regime that does not have a firm basis in democracy ... but in the harsh realities of international politics, Utopian long-term dreams so often founder on unrealistic, short-term decisions.'<sup>32</sup> Thus, to a remarkable degree, the Foreign Affairs-approved bipartisan model has dominated public thinking about what is realistic and possible in relations with Indonesia. In this they have been much assisted by the various opposition groups stating their case within a well-worn framework of 'principle' versus 'political expediency'.

Opposition to official policies within the major political parties has been fairly bipartisan, although it finds stronger expression in the ALP, especially on its left wing, which has been willing to question basic assumptions about the need for friendship with Indonesia, especially where gross violations of human rights are involved.<sup>33</sup> Public dissent, prior to the Timor issue at least, has been confined to backbenchers, although Mr E.M.C. Fox was a member

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<sup>30</sup>'*Tapol*' is an Indonesian abbreviation for *tahanan politik* meaning political prisoner. Mrs Budiarjo, a British citizen married to an Indonesian (a '*tapol*' since 1967) was herself detained for a period of some three years between 1967 and 1971. The journal is published by the British Campaign for Release of Indonesian Political Prisoners, 103 Tilehurst Road, Wandsworth Common, London.

<sup>31</sup>E.g. *Age*, 22 Feb., 10 and 28 May 1969.

<sup>32</sup>*Age*, 10 May 1969.

<sup>33</sup>Cf., e.g., speech by Mr Tom Uren, Hon. Deputy Leader of the Opposition, strongly attacking official policies on Timor, *Sydney Morning Herald*, 6 May 1976.



of the Committee for Indonesian Political Prisoners<sup>34</sup> while holding the office of Liberal Chief Whip. This Committee comprised twenty-five Members of Federal Parliament (22 ALP, 3 Liberal) together with a strong trade union representation, representatives from the Australian Council of Churches, the *Catholic Worker*, the Australian Union of Students, the National Youth Council and Amnesty International. Prominent critics of Indonesia's development policies on the Liberal side in the early 1970s were Mr Neil Brown (Diamond Valley) and Mr Don Chipp (Hotham).<sup>35</sup> More recently their numbers have been swelled by opposition to *de facto* recognition of East Timor as part of Indonesia (January 1978)<sup>36</sup> and concern over Indonesian military action in Irian Jaya.

Dissent has grown among voluntary agencies and church groups. This is mainly directed against official support for the strategy of development being pursued by the Suharto government (cf. Ch.5), though their interest in such matters ranges across a wide spectrum of Third World countries. However, more attention has been focused on Indonesia partly because of a book by Rex Mortimer and others entitled *Showcase State* (Mortimer, 1973), which has made a strong impact on the thinking of many voluntary agencies and academic Indonesian specialists, as well as more left-wing dissenting groups. Indeed the basic arguments have filtered down in popular form to many who have never read the book.

The book has a two-pronged thrust. It begins with a critique of orthodox 'liberal-capitalist' models of development by which capital and skills are transferred from 'more' to 'less' developed societies, thereby creating higher rates of economic growth. In theory, the gross levels of inequality, regional imbalance, unemployment and so forth, which such a model entails should be compensated by a 'trickle down' effect even to the poorest groups, which would raise general living standards. In fact 'a dependency syndrome' is generated whereby an increasingly wealthy and powerful elite allies itself with strong overseas interests to prevent any

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<sup>34</sup> Information and literature obtainable from PO Box 333, Prahran, Victoria.

<sup>35</sup> *Age*, 11 Feb. 1970, and 23, 24 and 25 July 1973. Mr (later Senator) Chipp left the Liberal Party in April 1977 and was subsequently active in forming the Australian Democrats.

<sup>36</sup> *Age*, 23 Feb. 1978.

effective sharing of wealth or political power with the majority of the population. Most seriously, definition of the goals of development by 'local people' is pre-empted by the western orthodox model. This critique is then applied vigorously to the main areas of Indonesian public life - the military, the political system and the more grotesque consumption patterns of the urban rich. In the final chapter, Mortimer launches a fierce polemic against Professors W. McMahon Ball and H.W. Arndt, whom he sees as the leading Australian 'gurus' of western liberalism in politics and economics respectively.

*Showcase State* is not the most detailed or concise analysis of Indonesia ever written. It has nevertheless had considerable popular influence, because it refers to a situation that can easily be recognized by casual visitors to Indonesia. *Showcase State* has succeeded in establishing itself as the skeleton at many feasts. Indeed, it seems that since about 1973 Australian governments have been casting around for ways to incorporate reforms into Australian aid and investment policies, without upsetting any longer-established dogmas.<sup>37</sup> This task has been made a little easier by some shift since 1973-74 in Indonesia's official policies and rhetoric in favour of greater equality.<sup>38</sup> The January 1974 riots in Jakarta<sup>39</sup> also raised some questions in Australia about Indonesia's political direction and stability, though such questioning was not very profound.<sup>40</sup> Unfortunately, most politicians continue to see Indonesian affairs as so complex and mysterious that they are best 'left to experts'.

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<sup>37</sup> For example, see official submissions to the Senate Standing Committee on Industry and Trade, which subsequently issued a report entitled *Prospects for Trade between Indonesia and Australia*, Canberra, 1975.

<sup>38</sup> Cf. Ch.6 (especially pp.156-8).

<sup>39</sup> Numerous accounts and assessments are available of the '15 January Affair'. As good a summary as any of events and issues is provided by Crouch (1974). The Indonesian government's (unofficial) account may be read in *Peristiwa 15 Januari 1974*, Publishing House Indonesia Inc., Jakarta, 1974.

<sup>40</sup> *Prospects for Trade between Indonesia and Australia*, pp.51-2.

### The East Timor issue

The issue of East Timor brought together all major dissenting groups, while drawing in a wider range of public opinion than is normally concerned with Indonesian issues. For the first time since 1966 an Australian government felt obliged to express public disagreement with Indonesia. There was also a significant groundswell of anger in both parties. The *de facto* recognition of East Timor as part of Indonesia in January 1978, though accepted by most politicians as inevitable, has further soured attitudes towards her in many quarters. Conflict in relation to the Papua New Guinea-Irian Jaya border is likely to further strengthen anti-Indonesian feeling, while there will no doubt be undercurrents of support both in PNG and Australia for the West Papuan freedom fighters.

There seems little doubt that Indonesian perceptions of Australia have also changed as a result of trade union bans, protests and media criticism.<sup>41</sup> The personal rapport established between President Suharto and Mr Whitlam has not been repeated in the case of Mr Fraser, who is considered culturally unsympathetic towards Asian countries.<sup>42</sup> It is also argued that he has reoriented Australian foreign policy towards Europe and the USA and downgraded the importance of Southeast Asia.<sup>43</sup> While differences arising from the Timor

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<sup>41</sup> For example, a series of articles in the *Indonesian Times* by Thayu Ibnu Sabil about political events in Australia during November-December 1975 provided some curious insights into Indonesian perceptions of Australian attitudes towards Indonesia. Labor's leftist leanings were considered to make for underlying ideological hostility towards Indonesia, although Whitlam was considered more sympathetic to Asian people than any previous Australian Prime Minister. The Liberals, despite a common anti-communist ideology, were considered too 'fundamentalist' in their liberalism to understand Indonesian society.

<sup>42</sup> Maj. Gen. Ali Murtopo has stated that the Whitlam government had a better understanding of the Indonesian government than its successor (*Indonesian Times*, 25 Aug. 1976).

<sup>43</sup> See Girling (1977) for a discussion of the downgrading of Southeast Asia in Australia's overall diplomatic priorities.

dispute have been patched up at the official level as part of a more general restoration of normal relations, there seems little doubt that the hostility displayed by Australian public opinion during the Timor crisis has spoiled relations in the longer term and weakened Australia's diplomatic credibility in Indonesian eyes.

The role of the Department of Foreign Affairs has never been fully established, but there is little doubt that it has consistently adopted a pro-Indonesian position, even at the height of the crisis (Viviani, 1976). As a result, interests and principles which have previously played an important role in Australian diplomacy have been ignored in favour of the doctrine that friendship with Indonesia overrides other considerations, even the principle that decolonization should be achieved through self-determination within the framework of the UN charter. Internally, calls for public inquiries into the deaths of Australian journalists and alleged other atrocities in East Timor have been strongly resisted by Foreign Affairs on the grounds of embarrassment to Australia-Indonesia relations, as have efforts to discover the extent of Australian foreknowledge of Indonesian intentions during 1975. Closure of the radio station near Darwin, which had been receiving Fretilin broadcasts, raised further doubts as to how far internal political rights of Australians will be sacrificed when this is considered necessary in order to accommodate Indonesia.

The implications of the East Timor experience may well be far-reaching. The problem, as one commentator has stated it, is that 'Australians generally put the costs of incurring Indonesian hostility much lower than does the government, in part due to an inflated notion of Australia's ability to affect outside events ... Australian governments will need to steer a careful course between the assessment of costs on the Indonesian side and domestic political costs. It is not sufficient to say that Indonesia should not be antagonized at any cost, since domestic opinion in Australia has the capacity to create difficulties with Indonesia independently of the government's stance, as the Timor issue has demonstrated (Viviani, 1978:261). Furthermore it is important to take account of latent antagonism towards Indonesia, for which evidence is provided by an opinion poll in April 1977 on attitudes to various Asian countries. This showed that only 6 per cent of Australians considered Indonesia 'trustworthy', 36 per cent considered her 'aggressive' and only

38 per cent thought she was 'important to Australia'.<sup>44</sup>

In practice the Australian government has gained the worst of all worlds in being visibly split from Australian public opinion in the eyes of Indonesian leaders. Indonesia has been given no clear indication as to where precisely the point would be reached when Australia would consider her vital interests or principles to have been assaulted to such an extent as to make the policy of co-operation with her no longer viable. Given the groundswell of support in both Australia and Papua New Guinea for the West Papuan freedom fighters, Australia may eventually face a similar dilemma if the conflict in Irian Jaya spills over into Papua New Guinea. According to Rex Mortimer, 'for Indonesia, the Timor intervention does not represent a highly exceptional or isolated event in its policy', which consistently links maintenance of internal security with extending regional influence.<sup>45</sup> If this view is correct, a piecemeal approach aimed at isolating and suppressing potential areas of conflict or resolving crises as they arise will no longer suffice and it will be necessary to take a more fundamental look at the structure of the relationship between the two countries.

#### Impact of aid and development issues on Australia-Indonesia relations

The material presented in the next two chapters indicates the variety of ways in which aid programs have been tailored

<sup>44</sup>Opinion poll in the *Age*, 12 April 1977. This poll surveyed attitudes to eight Asian countries and indicated that negative attitudes to Asian countries remain widespread in Australia. In view of the official emphasis placed on friendly relations with Indonesia, that country fared relatively badly, being considered more 'aggressive' than China or Vietnam and less 'trustworthy' than any other country except Vietnam. It is unfortunate that Malaysia and Singapore were excluded from this poll, since this might have given some indication as to how far factors of cultural familiarity (British background, etc.) influence attitudes favourably relative to other Asian countries.

<sup>45</sup>Paper delivered to a conference on Australia and Papua New Guinea, Australian National University, Canberra, April 1976. Quotation cited in Viviani (1976:226).

to the maintenance of smooth diplomatic relations with Indonesia. This priority is also reflected in substantial increases in the volume of aid which Australia has channelled to Indonesia since 1966. From the Australian standpoint, such aid places her on a sounder footing in other diplomatic dealings with the Indonesian government. The aid program has also smoothed the path for Australian business investment in Indonesia, though it is not clear whether or not this has been a direct aim of Australian policy.

From Indonesia's viewpoint, although Australian aid supplies only a very small proportion of her overall development needs, it represents evidence of Australian goodwill with the prospect that her good offices may be used in a wider context on Indonesia's behalf. More specifically, the aid process draws Australia into a more general concern for Indonesia's economic problems and support for her development plans. However, such concern may prove a double-edged sword, since growing criticism of Indonesia's development strategy, both at home and internationally, has weakened the capacity of the aid program to fulfil the diplomatic objectives originally intended.

Since Indonesia gained its independence, the issues which have caused most controversy between the two countries have been West Irian, confrontation with Malaysia, and East Timor. Two of these have involved issues of territorial sovereignty and all three have raised fears in Australia of Indonesian expansionism. However, they have not raised questions of principle as to what does or does not constitute unjustifiable involvement in another country's domestic politics, in the way that questions of aid and development do. (One other issue which has caused tensions between Indonesia and Australia, which also impinges on the question of sovereignty, is the issue of political prisoners. However, this is in many ways an international issue, involving the United Nations Charter and other international conventions, <sup>46</sup> such as the Charter of the International Labor Organisation, to which Indonesia is a signatory.)

Some commentators do not regard Australian aid to Indonesia as sufficiently substantial to influence relations between the two countries. This view is considered in more

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<sup>46</sup> Cf., e.g. 'Indonesia at the I.L.O.', *Tapol*, Bulletin no.17, Aug. 1976, pp.2-3.

detail in the next chapter, but in any case there is a sense in which development issues are of a qualitatively different type compared with most issues involving relations between governments. In particular, questions of national sovereignty are raised which are peculiarly difficult to solve. Development planning requires constant review of administrative arrangements by the countries concerned, regular professional and technical exchange between specialists and an ongoing dialogue about goals and priorities. Since issues relating to development strategy are likely to remain a prime cause of internal conflict in Indonesia for many years yet, aid-giving countries will find it hard to avoid political involvement. This is also true for opposition groups in those countries. In this context the Whitlam Labor government's efforts to restructure aid priorities and organization, though only partially successful at the time, may prove in the long term to have raised issues of profound significance for relations between the two countries.

In 1972 a Parliamentary Joint Committee on Australia's Foreign Aid<sup>47</sup> recommended, *inter alia*, that greater attention be paid to the quality of aid, especially its social impact. Consideration should also be given to financing local costs of projects. These issues were taken up by the Whitlam government as part of a more general policy reform statement in May 1975. Senator Willesee, then Minister for Foreign Affairs, indicated the government's intention to examine more closely who benefited from aid programs and to recognize that 'previous development strategies often failed to lead to an improvement in the incomes and welfare of the poorest groups in developing countries ... aid will be directed increasingly to assisting and raising the productivity, and hence the living standards of these groups'. A greater emphasis would in future be placed on rural development and related programs. However, Willesee stressed that it was necessary to

take as our starting point the fact that the developing countries themselves have the principal responsibility for the development of their countries and the welfare of their people ... we need first to establish a new focus in our

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<sup>47</sup>Report from the Joint Committee on Foreign Affairs on Australia's Foreign Aid, 1973: Parliamentary Paper no.338, Canberra.

dialogue with developing countries so that we may come to mutual agreement on this shift in our aid.<sup>48</sup>

Guidelines for Australian investment overseas announced in January 1975 laid down that Australian investment should benefit the people in recipient countries, assist local ownership and control, ensure good labour relations and support effective environmental policies, and that investors should harmonize their activities with the host government's policies and development plans. Australian joint venture investment which was acceptable in terms of these various criteria would be eligible for investment insurance. Such insurance was previously limited to investments which provided export benefits to Australia.<sup>49</sup>

The 1972 Parliamentary Joint Committee Report also recommended a more systematic evaluation of aid programs and the unification of aid functions currently dispersed over several departments. This could be effected either by strengthening the existing Aid Branch or by establishing an authority responsible to the Minister for Foreign Affairs. The incoming Labor government worked towards the establishment of the Australian Development Assistance Agency, with the intention that aid planning should be carried out by professional specialists rather than diplomats. A combination of bureaucratic inertia, pressures from Foreign Affairs and economy cuts by the Fraser government frustrated these hopes. ADAA was abolished as an independent agency in 1977 and replaced by a semi-autonomous Bureau (ADAB) within the Department of Foreign Affairs.

Finally, it should be noted that Australians have a relatively low interest in development issues, which to the majority appear highly complex and intractable. Part of the

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<sup>48</sup> Senator D. Willesee (then Minister for Foreign Affairs), 'New directions in Australia's development assistance', paper delivered at the AIIA Conference on Australia, Papua New Guinea and Southeast Asia, Melbourne, 9-11 May 1975.

<sup>49</sup> Cf. *Prospects for Trade between Indonesia and Australia*, pp.57-8, 122. See also speech by Dr J.F. Cairns, Minister for Overseas Trade, presenting the Export, Finance and Insurance Cooperation Bill 1974, *Hansard* (House of Representatives), 30 Oct. 1974, 3039-41; *Australian Financial Review*, 23 Jan. 1974, p.5.



problem lies in the diffuse nature of development issues, which do not attract press coverage in any continuing way. It also seems that Australians have a tendency, irrespective of political ideology, to underrate the importance of issues which cannot be easily presented in terms of polarized conflict. This is an unfortunately superficial approach, both because of the urgent nature of poverty in Indonesia and because it fails to take into account the ultimately political nature of such issues.

## Chapter 2

### General characteristics of Australian aid to Indonesia

This chapter provides an overview of Australia's aid program to Indonesia. It includes a discussion of food and commodity aid and projects. (Education and technical assistance within Australia are excluded, although some statistics are provided in Appendix I.) Issues which have caused controversy include the extent to which aid is or ought to be tied to exports, the emphasis on public utilities, the role of the Australian public sector, the question of aid tying and the relative merits of loans or grants. Procedures for selection of projects are considered in order to identify the rationale underlying Australian aid programs. Overall, assistance to Indonesia is governed by diplomatic constraints considered in the previous chapter and is geared almost entirely towards promoting the modern sector.

For purposes of comparison some data are presented relating to Australia's general overseas aid program and international aid to Indonesia. The overall geographical distribution of Australian overseas assistance is indicated in Table 1.

The percentage shares allotted to various countries over the years provide some clues about Australian policy assumptions and priorities. Table 1 shows the high proportion of Australian assistance directed towards Papua New Guinea (normally around two-thirds of total assistance and only twice falling below 60 per cent in the past twenty years), the shift in emphasis away from South Asia between 1966 and 1972; the negligible share of countries outside the Asian-Pacific region and the predominance of bilateral over multilateral assistance, which fell from over 40 per cent in the 1946-55 period to between 10 and 15 per cent in most years thereafter. Despite official rhetoric about regional security and the importance of ASEAN (the Association of Southeast Asian Nations, consisting of Thailand, the Philippines, Malaysia, Singapore and Indonesia) noted in the previous chapter, the share of Australian assistance to ASEAN countries has been

Table 1  
Australian Overseas Development Assistance (ODA), 1946-78

	1946-55	1956-65	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
<u>Bilateral</u>															
Indonesia	0.7 (-)	12.7 (2)	1.2 (1)	1.5 (1)	6.0 (4)	11.5 (8)	14.7 (9)	15.6 (9)	18.0 (9)	23.2 (11)	21.4 (8)	22.9 (7)	24.6 (7)	22.5 (6)	28.3 (7)
Other ASEAN countries	0.6 (-)	25.3 (4)	6.1 (6)	5.4 (4)	7.3 (5)	7.1 (5)	7.7 (5)	7.1 (4)	7.0 (3)	9.2 (4)	8.5 (3)	14.1 (4)	16.8 (5)	16.8 (4)	23.0 (5)
South Asia	23.3 (13)	66.3 (11)	14.1 (13)	16.0 (13)	15.0 (11)	11.2 (7)	9.5 (6)	11.2 (6)	15.5 (8)	13.0 (6)	20.1 (8)	44.1 (13)	28.2 (8)	26.6 (7)	27.3 (7)
East Asia	0.2 (-)	14.6 (3)	2.9 (3)	3.7 (3)	4.0 (3)	4.6 (3)	4.2 (2)	6.0 (3)	6.3 (3)	10.0 (5)	7.0 (3)	11.4 (3)	7.8 (2)	4.9 (1)	9.0 (2)
Papua New Guinea and Oceania	83.4 (45)	380.8 (66)	75.5 (69)	84.5 (67)	93.0 (66)	102.1 (67)	117.5 (70)	126.4 (70)	138.4 (69)	146.4 (67)	181.2 (69)	175.9 (54)	219.7 (63)	238.9 (63)	237.6 (57)
Other bilateral	0.4 (-)	5.5 (1)	1.0 (1)	1.3 (1)	1.3 (1)	1.9 (1)	2.2 (1)	2.0 (1)	2.3 (1)	2.5 (1)	4.5 (2)	10.2 (3)	6.3 (2)	8.8 (2)	14.0 (3)
Total bilateral	108.7 (58)	505.2 (87)	101.1 (92)	112.5 (90)	126.7 (90)	138.3 (91)	155.8 (93)	168.3 (93)	187.5 (94)	204.3 (93)	242.8 (93)	278.6 (85)	303.4 (87)	318.6 (84)	339.3 (81)
<u>Multilateral assistance</u>															
	77.3 (42)	76.6 (13)	8.5 (8)	13.2 (10)	14.6 (10)	13.4 (9)	11.9 (7)	12.3 (7)	13.0 (6)	14.5 (7)	18.0 (7)	49.6 (15)	43.4 (13)	59.7 (16)	79.2 (19)
Total overseas assistance	186.0	581.8	109.6	125.7	141.3	151.7	167.7	180.6	200.5	218.8	260.8	328.1	346.9	378.3	418.5

Notes: Year ends 30 June. Amounts in \$US. Per cent of total in brackets.

Total overseas assistance figure is per year - in real terms as per cent of GDP.

Sources: Statistical and Research Section, ADAA/ADAB, Canberra: (1) *Geographic Distribution of Australian Bilateral ODA Flows 1945/46-1974/75*; (2) *Functional Classification of Australian Official Development Assistance to Less-Developed Countries (annual series, 1975-76 to 1977-78)*.

maintained since 1969 around 10-15 per cent of total assistance. Since 1966 Indonesia has consistently ranked second after Papua New Guinea as a receiver of Australian aid. However, the value of aid she has received has declined in both real and relative terms since the high point reached in 1973. While variations occur due to the system of three-year budgeting, since 1974-75 it appears that, informally, a policy has been operating of maintaining aid to Indonesia in the region of 7 per cent of the total. Certainly any sharp drop would be diplomatically embarrassing, but any marked shift in favour of Indonesia would very likely encounter domestic criticism.

Some interesting shifts in emphasis were emerging towards the end of the Whitlam administration, notably the swing back in the share of assistance directed towards South Asia, the fall in Papua New Guinea's share, the beginnings of interest in assistance to African countries and the increasing share of multilateral assistance. Subsequently Papua New Guinea's traditional position has been restored and South Asia's share reduced to near pre-1972 levels, though the shift in favour of multilateral aid has persisted.

In the first decade of Australian overseas development assistance, over 40 per cent was given in multilateral assistance. At that stage, the local arms of various United Nations bodies, together with some lively new agencies emerging in the voluntary sector,<sup>1</sup> were relatively more influential in shaping the aid program than has subsequently been the case compared with business and bureaucratic interests. Emphasis on South Asia, especially India, was strong until the mid-1960s, varying according to her requirements for grain imports - a policy which she reversed from about 1967 onwards. Also, international discussion of world poverty concentrated a great deal on India during the 1950s and early 1960s, largely for Cold War reasons. After 1967, however, Australian interest switched sharply in favour of Southeast Asia, especially Indonesia, and this shift in priorities was soon reflected in the aid program. Interest in South Asia revived initially because of the upheavals in Bangladesh in 1971, followed by a sharp increase in demand for grain imports by all South Asian countries. It should

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<sup>1</sup>Henry (1970) probably provides the most comprehensive coverage available on Australian overseas aid agencies during the 1950s and 1960s.

also be noted that Whitlam was concerned to balance the role of China, Japan, Southeast Asia and India in Australian policy,<sup>2</sup> while appreciating the relevance of India if Australia was to pursue a foreign policy of 'non-alignment'. This policy was reversed by Fraser, who also made cuts in Australian aid to India.

### International aid to Indonesia

Table 2 indicates the trend of foreign aid to Indonesia since the establishment of the IGGI (Inter-Governmental Group for Indonesia) consortium in 1968 until 1976-77. IGGI was set up under World Bank auspices for the purpose of co-ordinating aid to Indonesia. Australia's share of IGGI aid has remained constant at around 3-4 per cent. It might be concluded that Australian aid is insignificant in relation to Indonesia's total development program, but such a conclusion ought to be qualified.

Firstly, the major contributors to IGGI have been the World Bank, the Asian Development Bank, the United States and Japan. Australia holds her own among the middle-size group of IGGI donors. Indonesia tends to regard IGGI aid as a package. Thus the view of any member country may well influence other members. In this context, Australian claims to have exerted influence at IGGI meetings in favour of greater generosity to Indonesia may well have some basis in fact,<sup>3</sup> though it should be noted that such claims are not compatible with arguments that withdrawal of Australian aid would have no influence. In any case, competition between donor countries offering a range of skills and assistance enhances Indonesia's overall bargaining position.

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<sup>2</sup>This view was put forward by Bruce Grant, Australian Ambassador to India under the Whitlam government, in a lecture to the Asian Studies Association of Australia, First National Conference (South Asia Section), Melbourne, May 1976 (no published paper).

<sup>3</sup>Mr Whitlam is known (from British Foreign Office sources) to have placed strong pressure on Britain at the Commonwealth Conference in Jamaica in April 1975 to restore cuts in aid to Indonesia initiated by Mrs Judith Hart, Minister for Overseas Development. Mrs Hart was relieved of her portfolio on this issue: cf. *Tapol*, Bulletin no.10, June 1975, p.2, and no.14, Feb. 1976, pp.4, 8.

Table 2

IGGI aid commitments (pledged in April for forthcoming financial year), 1969/70-1978/79 (\$USm.)

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Australia	20.8(4)	19.0(3)	20.0(3)	24.4(3)	23.8(3)	33.9(4)	34.0(4)	38.0(3)	35.3(3)	40.0(2)
Canada	1.8(-)	3.0(1)	8.0(1)	16.7(2)	13.0(2)	18.0(2)	40.0(4)	33.0(3)	33.1(3)	18.0(1)
France	16.4(3)	15.0(3)	20.5(3)	20.6(2)	25.3(4)	37.0(4)	n.a.	33.0(3)	n.a.	40.0(2)
West Germany	27.0(5)	34.7(6)	41.1(7)	46.8(6)	57.0(8)	73.0(8)	42.5(5)	38.0(3)	58.6(5)	123.0(8)
Japan	120.0(22)	140.0(25)	155.0(25)	185.0(26)	180.0(25)	150.0(17)	140.0(15)	133.0(12)	189.6(16)	256.0(16)
Netherlands	40.3(8)	34.7(6)	36.6(6)	44.2(6)	51.7(7)	66.0(7)	52.0(6)	45.0(4)	n.a.	60.0(4)
United Kingdom	4.8(1)	6.7(1)	23.3(4)	26.1(4)	29.8(4)	n.a.	25.3(3)	10.0(1)	9.8(1)	12.0(1)
United States	235.9(44)	225.0(39)	215.0(34)	203.0(28)	150.0(21)	176.0(20)	50.0(5)	99.0(1)	147.6(12)	186.0(11)
Asian Development Bank	10.0(2)	25.0(4)	25.0(4)	) 145.0(20)	31.0(4)	80.0(9)	120.0(13)	120.0(11)	150.0(13)	204.0(13)
IBRD (World Bank)	52.0(10)	64.0(11)	80.0(13)		133.0(19)	250.0(28)	400.0(43)	550.0(49)	550.0(46)	662.0 <sup>c</sup> (41)
Other countries	7.2(1)	4.0(1)	n.a.	11.8(2)	17.0(2)	15.8(2)	16.2(2)	13.0(1)	19.7(2)	18.0(1)
	536.2	571.1	624.5	723.6	711.6 <sup>a</sup>	899.7	920.0	1112.0 <sup>b</sup>	1193.7 <sup>b</sup>	1619.0

a Excludes \$160m. food aid, for which country breakdowns are not available.

b Other loans were negotiated from commercial sources totalling \$1000m. in 1976-77 and \$600m. in 1977-78. Loans were agreed with East European and Middle East countries totalling \$280m. in 1976-77 and \$258m. in 1977-78.

c Includes \$12.4m. from United Nations Development Programme.

Source: Dept of Economics, Research School of Pacific Studies, Australian National University, 'Survey of recent developments', *Bulletin of Indonesian Economic Studies* (tri-annual), 1969-77.

Secondly, Australian aid takes the form entirely of grant aid. In this she is unique among IGGI donors. While Indonesia's policy is basically opposed to aid-tying, this fact to some extent offsets potential hostility.

Requests for aid are initiated by the Indonesian Planning Commission (Bappenas). These are processed by the World Bank (IBRD) which sponsors the IGGI consortium meetings.<sup>4</sup> These provide a forum for assessing Indonesia's overall economic needs and more recently for criticizing her development strategies. Since the 15 January Affair (1974), Holland has been especially critical on this score to the extent of cutting aid substantially in 1975-76 and 1976-77 and hinting at further cuts. The USA has followed an erratic course since that time, with Congress displaying sensitivity in relation to issues such as corruption, human rights and Indonesia's invasion of East Timor, as part of a more general post-Vietnam reaction towards involvement in Southeast Asia. However, cuts in economic aid, which have been partly offset by increases in military aid,<sup>5</sup> are most probably influenced by general economic conditions, in particular the sharp increase in Indonesia's oil revenue.

Despite shifts in composition, the rising IGGI assistance indicates the overall support which Indonesia continues to enjoy. Increased assistance from the Asian Development Bank and the World Bank reflects Indonesian pressure for a greater untying of aid. It also serves to cushion her economic plans from mounting political criticism within IGGI member countries. This trend has been strengthened by the one billion dollar loan from commercial sources which was added to her aid estimates for 1976-77. Indonesia is further covering her risks by negotiating credits with Middle Eastern and East European countries.

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<sup>4</sup>The World Bank's official view of its policies and procedures is provided in its own publication, *Questions and Answers*, Washington, D.C., March 1976. See also annual reports by the Bank's President, Robert McNamara. A highly critical account of the Bank's operations is provided by Hayter (1971).

<sup>5</sup>US military aid rose from \$23 to \$41 m. in 1975-76 and from \$41 to \$58 m. in 1976-77: *Tapol*, Bulletin no.21, pp.2, 11.

## Direction of Australian aid to Indonesia

Table 3 provides a sectoral breakdown of Australian assistance to Indonesia. These figures show a trend in favour of public utilities and other capital works projects and a sharp decline in food and commodity imports from 72 per cent of total aid funds in 1970-71 to 21 per cent in 1975-76. The level of allocations to education, health and social welfare has remained low, though to some extent boundaries between sectors are artificial, as will become apparent from subsequent discussion of agricultural projects. Some technical assistance, related to specific programs and projects, is included in sectoral allocations though training in Australia is included in the education sector.

### Commodity and food aid

The Bonus Export/Devisa Kredit (BE/DK) system, initiated during the early New Order period, was phased out in 1974-75. Under this system Indonesia was credited with given amounts of Australian currency which were then sold to Indonesian importers for purchase of Australian goods and commodities.<sup>6</sup> These were selected from a list agreed between Bappenas and the World Bank, and Australian exporters were subsequently reimbursed from aid funds from this account. Items commonly purchased from BE/DK funds were raw materials for industry such as aluminium, steel, tin and zinc products, machinery, transport equipment, spare parts and chemicals. The Indonesian government was assisted through a commodity aid package, distinct from aid to the Indonesian private sector - a distinction which has proved difficult to sustain in practice. Items most commonly included were fertilizers, motor vehicles, carbon black, steel products, rice and cotton. BE/DK aid has now been entirely phased out. The 1975-76 figure includes mostly food aid and probably some residual rice and commodity assistance to the Indonesian government.

Several factors have influenced the provision and subsequent withdrawal of BE/DK assistance, as is evident from the following excerpt from ADAA's Submission to the Senate Standing Committee on Industry and Trade in April 1975:

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<sup>6</sup> Cf. Wilkinson (1976:246-53) for a discussion of BE/DK aid.



Table 3

Australian aid to Indonesia: functional breakdown, 1946-78

	1946 to 1970	1971	1972	1973	1974	1975	1976	1977	1978
Development of public utilities/planning and administration	12.3(25)	2.3(15)	4.3(24)	8.1(35)	6.9(32)	9.9(43)	10.9(45)	9.2(41)	11.6(41)
Agriculture, forestry and fishing	2.4(4)	0.6(4)	1.3(7)	0.4(2)	0.5(3)	2.2(10)	6.8(28)	6.9(31)	8.2(29)
Industry, mining, construction	a	a	-	1.0(4)	a	a	a	a	a
Education, health and social welfare	7.4(16)	0.9(6)	1.3(7)	1.4(6)	1.3(6)	1.5(7)	1.6(6)	1.8(8)	2.4(8)
Other	2.1(4)	0.5(3)	0.1(1)	a	a	a	a	a	a
<u>Not allocable by sector</u>									
Contributions to finance food and commodity imports/emergency relief	24.3(50)	11.3(72)	11.0(61)	12.6(54)	12.6(59)	9.2(40)	5.2(21)	4.4(20)	5.9(21)
	48.3	15.6	18.0	23.2	21.3	22.9	24.6	22.3	28.3

Notes: Year ends 30 June. Amounts in \$Australian. Per cent of total in brackets.  
a Negligible.

Source: *Functional Classification of Australian Official Development Assistance to Less-Developed Countries.*

The Devisa Kredit (DK) arrangement no doubt led to an increased array of Australian exports to Indonesia. The purpose of the arrangement was to enable Indonesia to increase its essential imports for development purposes without creating an additional foreign exchange burden. The tying provisions benefited Australian exporters directly, and indirectly benefited Australian non-assisted exports by acquainting Indonesian markets with Australian products and creating further demand for complementary or replacement products. DK has now been phased out due to Indonesia's diminished need for balance of payments support. The shift in the Australian aid programme towards increased aid activity 'on the ground' in Indonesia will provide greater scope for aid programmes which are of immediate benefit to the poorest areas in Indonesia.

The derived demand created for Australian exports will undoubtedly persist to some extent although we note the view of the Department of Overseas Trade expressed in its submission that the expansion of Australian exports to Indonesia is now virtually independent of non-commercial factors such as aid.<sup>7</sup>

Devisa Kredit assistance attracted criticism within Australia, on the grounds that it emphasized promotion of Australian exports and facilitated middle class consumer spending (McLean 1972,1974). In any case, Indonesia's need for general balance of payments support became less urgent in view of her increased oil revenues. The issue became a bone of contention during the hearings by the Parliamentary joint Committee on Foreign Affairs on Australia's Foreign Aid.<sup>8</sup> The Indonesian government operated four categories of imports under the DK scheme - A, very essential goods; B, essential goods; C, less essential goods; D, luxury goods. Australia

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<sup>7</sup> ADAA submission to Senate Standing Committee on Industry and Trade, *Hansard* (Record of Committee Hearings), 24 April 1975, p.1200.

<sup>8</sup> *Report from the Joint Committee on Foreign Affairs on Australia's Foreign Aid*, 1973, pp.36-9 (Sections 3.3.1-3.3.10).

confined its assistance to the A and B lists. Nevertheless, imports of machinery, equipment and raw materials can be used to produce less essential consumer items or to establish the infrastructure for their production, while items such as motor vehicles and milk powder have been imported with Australian aid funds. The notion of what is an 'essential' import depends entirely on the view taken of Indonesia's development plans and priorities.

Food aid to Indonesia has consisted mainly of wheat, but some rice has also been supplied. It is officially conceded that such food aid has helped to promote Australian wheat exports to Indonesia. According to ADAA's submission to the Senate Standing Committee on Industry and Trade in 1975,

as a source of food aid, particularly wheat, Australia is now established as a trading partner with Indonesia in that commodity. Australian food aid may eventually be phased out entirely. However, as other aid donors also reduce their food aid allocations, Indonesia's commercial requirements for food grains will increase. Australia would presumably be in a good position to supply a part of these import needs, especially wheat, due to cheaper freight costs from here than from other potential suppliers (ADAA Submission, p.1200).

Pressing the argument still further, it was claimed that

we have tended to give wheat aid to Indonesia even though it is a rice consuming country. We have actually affected the consumer tastes of Indonesians to the extent of enjoying and accepting wheat bread as an alternative staple (ibid.:1208).

However, it was stressed that in the early years food aid to Indonesia was in the form of flour:

When the Indonesian authorities proposed the establishment of a flour milling industry, it did not cause a great deal of joy amongst our own flour millers, but no impediment was put in the way of Indonesians establishing their own milling industry (ibid.:1211).

The 1973 Parliamentary Report pointed out several potential disadvantages of food aid to recipient countries which

can sometimes act as a disincentive to local food production in that agricultural production may receive a lower priority in governmental objectives. Food aid may affect local market prices so that local production is disadvantaged (*Report on Australia's Foreign Aid:40*).

It can also have adverse effects on international trading patterns. Many commentators have argued that low food prices in urban areas, where food imports are mostly consumed, have a regressive effect on the internal distribution of wealth detrimental to rural areas (e.g. Krishna, 1967; Booth, 1975). Nevertheless, Australia has felt obliged to adjust her policies in this field in line with Indonesia's priorities.

The economic impact of aid on trade is discussed in Chapter 4. From the diplomatic standpoint of promoting good relations with Indonesia, it is important not to press Australian commercial interests too hard. In this context, aid should not be tied too closely to purchase of Australian exports. Statements by ADAA quoted earlier should not be taken literally and should be seen in part at least as a ploy to keep the business community quiet. Cynics point out that both sets of interests can usually be reconciled, due to the way that the Suharto government has harmonized its overall strategy with that of western business interests. However, there have been enough instances where the Australian government did not press the case for particular Australian business interests to indicate that diplomatic priorities remain paramount where any conflict arises.

#### Public utilities emphasis in project aid

Table 4 shows that most public utility projects have been in the fields of water supply, communications, transport and navigation, with growing emphasis on the latter field in recent years. Two water supply projects have been undertaken at Bogor (West Java) and Den Pasar (Bali); further projects are being prepared at Cilacap (Central Java) and Tanjung Karang (Lampung). Assistance in the field of communications has been geared towards two major programs, the Aeronautical Fixed Telecommunications Network (AFTN), which links together

Table 4

Australian assistance to Indonesian public utilities,  
1972/73-1976/77 (\$A'000)

Public utilities	1972-73	1973-74	1974-75	1975-76	1976-77
Water supply	2,581	796	2,215	928	282
Communications	2,850	2,540	2,723	1,984	1,424
Transport and	2,630	3,482	4,761	7,815	7,306
Other	39	12	2	3	-
Sector total	8,100	6,830	9,701	10,730	9,012

Sources: (1) Senate Standing Committee for Industry and Trade, *Prospects for Trade between Indonesia and Australia*, Canberra, 1975, p.66 (Table 5G); (2) Functional Classification of Australian Official Development Assistance to Less Developed Countries.

major airfields in Indonesia, with external links to Singapore and Australia, and the Australian Telecommunications Mission project (ATM). Major projects in transport and navigation have included assistance for upgrading Indonesian railways, port development at Cilacap and completion of a program begun during the Sukarno era relating to public transport in Jakarta. The road construction program in West Kalimantan (Kalbar) is likely to develop into a major power, irrigation and port development complex. This program has a military security aspect relating to the insecure border area with East Malaysia, as does the \$6 m. geological survey program in Irian Jaya. The \$12 m. program for supplying electrification equipment for some twenty cities in Sumatra and Kalimantan begun in 1977 is linked to a larger commercial venture in this field, supported by government export credit insurance (cf. p.99).

Apart from assisting the Bio Farma Institute, Bandung (West Java), in the production of vaccines and serums, Australia has had no involvement in the field of public health. Establishment of an intensive-care ward at the Dokter Cipto Hospital, Jakarta, is likely to serve the needs of a relatively affluent clientele.

In agriculture, Australian assistance has been concentrated in higher education and research, particularly in animal husbandry. Programs for upgrading animal health have been geared primarily towards expansion of cattle ranching and export programs sponsored by the World Bank in Eastern Indonesia. Since 1973-74 ADAA and ADAB have been anxious to demonstrate an emphasis on agriculture. In the case of the Serayu River Survey in Central Java, ADAA stated that

Australia will be seeking closer integration of its capital intensive projects with 'people centred' programmes aimed at improving rural productivity and raising living standards ... in close co-ordination with the Indonesian Government programmes for regional development ... By a series of relatively simple improvements and arranging greater evenness of consumption between farmers ... considerable increases in agricultural production could be achieved, with possibly two crops a year in many places and an extension of the area irrigated (ADAA Submission: 1213-14, 1217-18).

The Cimanuk River Survey of hydro-electric and irrigation potential in West Java is often described officially as an agricultural project. The Kalbar project was confined originally to road construction. ADAA claimed later that Australia was asked to look at the province's overall resources, as a result of which planning was redirected towards agricultural development (ibid:1218). These claims are probably most justified in the case of Serayu, where expertise in agricultural economics was built into the survey team from the outset, but in any case all three are multi-purpose projects with an emphasis on capital works. It should be borne in mind that unless careful account is taken of rural social structure and local administration, large-scale irrigation schemes tend to aggravate income inequalities (Booth, 1977).

Several explanations can be offered for this emphasis on public utilities. Many would claim that Australia is building up an infrastructure favourable to the same type of scientific and industrial growth pattern she is herself pursuing, thereby assisting her investment and exports. However, Australia cannot pursue such goals unilaterally, since primary responsibility for economic planning in

Indonesia rests with Bappenas, assisted by the World Bank. Nevertheless, the pattern of development to which the IGGI consortium has consistently given its blessing does certainly emphasize these types of capital works. Australia plays a small part in promoting this strategy, with corresponding responsibility for its successes and failures. However, such public utilities are general purpose in nature and have only marginal and, the Australian government would claim, incidental usefulness for exports and investments by Australian companies.

The most obvious reason for emphasizing public utilities, apart from the fact that they reflect Indonesia's own priorities, is that, as a modern industrial society, Australia's skills and resources are greatest in these fields. Although such arguments may be used rather blandly and although every aid-giving country has a natural tendency to export its own technology and institutions, such considerations cannot be dismissed lightly. The important issue is whether Australia has the will and capacity to adapt to new fields of activity, more capable of promoting employment and rural development.

There is little evidence that the changes in aid organization and official priorities effected under the Whitlam administration have produced any practical shift in emphasis. On the contrary, recent new projects in such fields as water supply and electrification represent an intensification of previous patterns. This also applies to the schemes described earlier which have been repackaged as agricultural programs. Official claims that aid programs have been re-directed in favour of rural development and employment creation seem entirely ad hoc and there is little or no evidence of any actual striving for these goals.

### Role of the public sector

The Australian public sector has been accorded a dominant role in the field of project aid.<sup>9</sup> This may have been the result of deliberate policy but also springs from administrative convenience in working with Indonesian public enterprises. An important effect has been to exclude the

<sup>9</sup> However, it appears that the Fraser government aims to allow private consultants a greater role in the aid program.

Australian private sector from many programs. The private sector objects that the government does not feel obliged to promote Australian trade via aid programs. This, they claim, is unrealistic in view of the policies of other governments, notably the Japanese. However, the government insists that this is not the function of aid, although companies do have opportunities to tender for supply of specific items of equipment and in the case of some projects, such as water supply, to act as consultants. Any other advantages derived by Australian companies, it is claimed, should be seen as incidental to the overall development process which aid programs are designed to assist.

The role played by the Australian public sector seems designed to kill several birds with one stone. Public corporations in several fields have assisted projects in Third World countries. Little is known about the internal economic or organizational costs involved, though the need to find uses for excess capacity and technical skills probably plays a part. In the case of the Snowy Mountains Engineering Corporation (SMEC), which was derived from the old Snowy Mountains Authority and which has undertaken projects in Thailand and Malaysia as well as the Cimanuk River survey in West Java, a team of proven capacity has been kept together. At the same time such aid projects can be justified to the Australian public as 'practical', while protecting the government from charges of collusion with business interests. While Australian companies may pick some crumbs from under the table, aid authorities can avoid detailed involvement with their business operations.

Finally, one suspects that the government feels better able to exercise control by operating through the public sector. Mistrust of Indonesia's administrative capacity runs deep in the Australian bureaucracy and body politic. This results in a strong didactic emphasis on 'practical training' which runs through the whole aid program. The issue of control also influences policy in disbursement of aid funds.

### Aid-tying

Aid is tied to purchases from Australia to the extent of a minimum of two-thirds of the overall value of equipment supplied, providing Australian sources of supply are available. Criticism is often less harsh on this score against Australia because aid is in grant form (i.e. non-repayable), though



costs to the Australian taxpayer are correspondingly higher because of the high tariffs protecting Australian manufacturing industry.<sup>10</sup> Despite strict tendering procedures, Australian business does benefit, and it is certainly arguable that Indonesia should be given the chance to obtain supplies more cheaply through international tender.

Various reservations can be expressed, not all obviously rooted in self-interest, to such a proposal. Firstly, the World Bank and Bappenas have found it efficient and convenient to devolve responsibility for particular sectors to specific countries. It can be argued that the Indonesian agency concerned should assume responsibility for purchase and tendering. However, this proposal does not adequately take account of the relationship between financial assistance, technical and managerial training, installing and maintaining equipment and integrating domestic administrative procedures with foreign technology. Most projects are likely to require a measure of technical advice for some time ahead and national teams or missions will therefore continue to play a role. Even when these functions are eventually taken over by Indonesia, political and bureaucratic realities in Australia will still necessitate considerable checks on her procedures and end use of funds. In the meanwhile, the argument that project teams, charged with a specific assignment, know specific sources of available supplies in Australia, is a strong one, especially in view of the painstaking supply and tendering procedures in force.

Other arguments commonly advanced in favour of aid tied to country-of-origin purchases include the alleged balance of payments burden of untied aid and the likelihood that less aid would be provided as a result. It can be argued that overall such a burden is likely to cancel out, but it seems unrealistic to expect any one country to take unilateral action to untie aid on any large scale.

A more important objection to aid-tying relates to the provision that aid should only cover foreign exchange costs. This can create serious distortions in project planning.

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<sup>10</sup> See Evans (1972:169). At the time of writing the average tariff on machinery, electrical equipment and motor vehicles was estimated at 35 per cent. For a more general discussion of these issues see Bhagwati (1970).

Foreign exchange is mostly used to purchase expensive items of equipment, while associated local costs are borne by the Indonesian government. The burden of such costs is often ignored. If the Australian government is serious in seeking projects which will provide employment and use local resources then it is likely that aid funds could be spent most effectively within Indonesia. Since this would often be cheaper, a greater range of programs could be financed from a given expenditure outlay.

### Loan or grant aid?

The origins and rationale for giving all aid in grant form are not entirely clear, but include a mixture of altruistic concern for the repayment burden carried by aid-receiving countries, the alleged benefit to Indonesia from the Australian example at IGGI consortium meetings and the diplomatic advantages gained by avoiding tedious and abrasive arguments about terms and conditions. On the other hand there is an element of charity with grant aid that does not apply to supposedly more businesslike loan aid arrangements (see Schmidt, 1970:184-99; Rao and Narain, 1963), though the practical significance of this aspect for Australia-Indonesia relations would be hard to judge. Grant aid clearly entails more Australian involvement in installing equipment, training and so forth than the mere accounting administration involved in making a loan. This certainly represents some loss of managerial autonomy by Indonesia. There are signs of restiveness on this point in some Indonesian government quarters, but not yet to the point of any formal request to Australia to change its policy in favour of the 'soft loan' approach.

Australian companies have from time to time proposed a change in policy in this direction, but for somewhat different reasons. For example, a strong attack on current policies was made by Mr D. Vaisey, former Indonesian Manager of Philips, who argued that aid should be based on the principle of 'maximum mutual benefit'.<sup>11</sup> Unlike other countries, he alleged, Australia totally failed to co-ordinate its trade and foreign policies and looked askance at the notion of trade promotion related to aid programs. As a result numerous

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<sup>11</sup>D.Vaisey, 'Towards the realisation of mutual benefit' (unpublished paper), about 1972. The author was leader in 1972 of an Australian Trade Mission relating to the electronics field.

contracts had been lost, while offers of Colombo Plan grant assistance had been rejected in favour of 'soft loan' proposals allowing more flexibility and managerial autonomy. Citing Australian aid authorities, Vaisey claimed that the AFTN project had experienced delays and 'unforeseen costs' due to lack of interest, even apathy, by Indonesians, unable to profit from such arrangements. (Under present practices, greater opportunities for 'kick back' payments exist in relation to soft loans than to grants. The former allow Indonesian officials to deal directly with foreign companies, though in principle alternative procedures could be devised to meet this difficulty.)

Finally it can be argued that larger aid allocations would be possible, because of lower net costs. In so far as current projects are geared towards the modern industrial sector there is a case for putting assistance to them on a commercial basis. However, this would beg more crucial questions about what types of project should be supported in the first place.

#### Procedures for requesting aid

In their essentials, formal procedures for requesting Australian assistance may be summarized in terms of the following steps:

1. A formal request is received from the Indonesian government either for specific assistance or for a survey.
2. A survey mission evaluates aspects such as technical feasibility, available skills and services, and suitability of the proposed location. In some cases a more general economic survey may be undertaken.
3. The proposal is accepted or amended after mutual discussion. It is not known if any formal request from Indonesia has ever been refused outright, since only agreed projects are announced.
4. A formal agreement is signed specifying the nature of the project, the form and content of Australian assistance and the responsibilities of each party.

This formalized description tells us little in practical terms, because much of the spadework at each stage is

is effected through informal discussion. While Australian diplomats are correct to insist on the formal protocol point that as a sovereign country Indonesia must herself initiate all aid requests, in reality Australia always has the opportunity to suggest areas of need and ways in which she is willing to assist. New projects are often identified as a result of projects already in operation. For all these reasons, official claims that Australia has little scope for initiative or influence on Indonesian policy ought not to be taken at face value, as will become clear from case studies in the next chapter.

### Overview of aid policy towards Indonesia

Australia's aid program to Indonesia can be better understood against the historical background of the Colombo Plan, which has developed very much on an *ad hoc* basis. The late Sir Percy Spender, who had much to do with initiating the scheme (see Wilkinson, 1976:51-72), saw the issues in terms of 'a contest for the minds and hearts of men and women ... Failure to improve living standards will undermine political stability and lead to chaos in which the strong and ruthless will win government control'.<sup>12</sup> Nearly two decades later, the Minister for External Affairs, Paul Hasluck, spelled out virtually the same proposition: 'It is not quite a paradox, but it can be stated as a paradox that a country cannot proceed to great economic advancement so long as it is in a state of insecurity and political instability. On the other hand, the lack of economic and social advancement so often contributes to insecurity and political instability. These two are interlocked.'<sup>13</sup> A little earlier, Hasluck had stated: 'I need hardly emphasise how important the development of a prosperous, united and peaceful Indonesia is for Australia's interest in this region.'<sup>14</sup> Concepts of stability have subsequently been rendered ideologically antiseptic through use of such terms as 'regional development' and 'mutual co-operation'. The core ideas expressed by Spender and Hasluck have nevertheless remained embedded in the diplomatic and bureaucratic structures which govern the aid program.

<sup>12</sup> *Current Notes*, vol.21, no.1, Nov. 1950, pp.800-16.

<sup>13</sup> *Commonwealth Parliamentary Debates* (H.R.), 5 Sept. 1969, p.763.

<sup>14</sup> *Ibid.*, 28 Feb. 1967, p.199.

At an operational level, Indonesia had an important influence in the development of Colombo Plan policies. Spender is said to have been deeply impressed by that country's poverty and by the lack of what Australians would regard as basic services. This has probably influenced Australia's insistence on offering grants rather than loans, related to a view of aid as serving primarily humanitarian and welfare purposes. This may have led to *ad hoc* compartmentalized thinking whereby projects are established without any continuing emphasis on end use or on adapting them to their surrounding environment. It may also in part account for the failure to date to develop any systematic policy relating aid with trade, though the separation of functions between departments is no doubt a major factor here.

On a lighter note, there appears to be some element of pressing Indonesia to ask the Colombo Plan to provide services which Australians consider deficient. Thus during the Sukarno period, Australian journalists and others complained bitterly about the inadequacy of Indonesian telephone services and in 1964 Qantas pilots refused to land at Kemayoran International Airport, Jakarta, owing to the inadequacy of lighting and air traffic control facilities. More recently, an outbreak of foot and mouth disease in Bali, which it was feared could be imported into the cattle regions of Northern Australia, caused the hasty extension of Australian assistance for vaccination and veterinary work. Proximity to an airport is an important consideration in many projects. Sometimes project establishment has been influenced by pleasant climate and living conditions, though location of projects in Kalimantan and Irian Jaya provide evidence to the contrary.

To some extent the Treasury influences the shape of aid programs through its overall budgetary control. Its close links with the World Bank and the Asian Development Bank cause it to give great weight to conventional goals of economic growth promoted by those institutions, correspondingly downgrading issues relating to employment, distributive justice and so forth. Treasury has been sceptical of Australia becoming involved in post-project evaluation and end-use surveys, believing that overall responsibility for development projects should remain the responsibility of the World Bank and Bappenas. Although opposing the intrusion of diplomatic considerations in the formulation of aid policy, Treasury remains an important obstacle to reform in view of

its insistence on orthodox economic and financial criteria.

It is hard to measure the impact of aid on Australia-Indonesia relations in any overall sense, apart from piecemeal judgments about specific policies or projects. However, the impact of diplomacy on the shape of the aid program is very evident. Tight control is maintained over projects to ensure they conform to diplomatic guidelines. Foreign Affairs spokesmen deny publicly that any conflict exists between 'diplomatic' and 'developmental' goals in aid policy, though this was certainly a major factor in the conflict over the role of ADAA. While bureaucratic wranglings did much to frustrate hopes for change, it was Foreign Affairs' insistence on aid as an instrument of foreign policy which ensured that ADAA and ADAB have never been able to formulate a coherent philosophy of development or achieve any high level of professional capability.<sup>15</sup>

In Indonesia, project teams work within narrowly defined limits, dealing solely with the relevant Indonesian government agency under the direction of the Embassy. This leaves little scope for exercising initiative and encourages aid personnel to turn a 'blind eye' to much that they see rather than to seek remedies. While smooth functioning of projects helps Australia to achieve its diplomatic goals, prime emphasis is placed on avoiding conflict with Indonesian government agencies.

There is a tendency to select middle-size projects. This is justified officially in terms of availability of resources and so forth, but unofficially diplomats point to the public relations advantages gained from having identifiable Australian projects spread across a range of provincial centres.

In selecting projects the Australian Embassy relies heavily on the Bappenas 'blue book', rather than seeking out Indonesians with ideas about what types of projects are likely to create employment or undertaking relevant research to this end. Indeed there appears to be little concern or

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<sup>15</sup> See Viviani and Wilenski, 1979. One positive development has been the institution of evaluation studies, though this practice has not yet been pursued on any large scale. The first such field study was *Bakeries in India: Evaluation of an Australian Assistance Project*, Dept of Foreign Affairs, Canberra, July 1973.

understanding of the possible negative employment effects of modern sector capital works projects. Australia's expressed concern since 1974-75 with rural development, employment, income redistribution and so forth has been a very pale reflection of the Indonesian government's own partial shift in priorities (discussed in Chapter 6). With one or two possible exceptions, such as the Jakarta buses project, which was much maligned by the Australian press in its early years, and the railways project discussed in Chapter 3, little thought has been given to designing programs capable of directly serving the needs of the poor majority in such areas as public health, clean drinking water in villages and urban slums, public transport and adult education.<sup>16</sup>

Aid policy-makers nevertheless claim to have steered a middle course on most controversial issues, such as the role of aid in promoting Australian business interests and the question of 'grass roots' development versus 'ultra-modern' technology. Indeed they appear quite confident in the face of attacks from both political directions. It is easy to criticize the aid program to Indonesia on many grounds. Yet it is precisely the program's moderate and unexciting qualities, indeed its capacity to be seen as 'all things to all men', which make it hard to achieve any significant reforms in aid policy and organization.

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<sup>16</sup> A powerful exposition of the choices involved here is provided in Illich's much quoted 'Outwitting the "developed" countries' (1969). This article is full of graphic statements such as 'Each car ... denies fifty people good transport by bus ... Had each dollar [spent on doctors and hospitals] been spent on providing safe drinking water, a hundred lives could have been saved. Each dollar spent on schooling means more privileges for the few at the cost of the many.'

## Chapter 3

### Official project aid to Indonesia: some case studies

In this chapter a cross-section of projects is considered in order to illustrate how they are selected and operated, including one project in an ultra-modern field of technology (telecommunications); one in the field of industrial development (Cilacap); two in the field of conventional public utilities (railways, water supply) and several related projects in the fields of agriculture, animal production, research and higher education.

#### Australian Telecommunications Mission (ATM)

The ATM has played an important policy advisory role in the overall planning of Indonesia's telecommunications system and has been instrumental in drawing up detailed plans as a basis for further foreign aid requests, including requests to Australia.<sup>1</sup>

Australia was initially approached by the Indonesian government in April 1968 to assist in a study of her domestic and international requirements in the field of telecommunications. In May 1968, the World Bank requested Australian assistance for the first phase of the study and the Postmaster General's Department (PMG) was called in to help. Following a preliminary survey by two senior PMG officers, the Australian Telecommunications Mission was established, subject to guidance by a Steering Committee consisting of the National Telecommunications Authority (Perumtel), Bappenas, the World Bank and the Australian Embassy.

The Mission's report, covering commercial, sea and air traffic, investment plans, budgeting and organization, was accepted by the Indonesian authorities and provided the basis

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<sup>1</sup>Basic data in this section supplied by Aid Division/ADAA/ADAB and ATM sources.



for a \$12 million loan from the World Bank. ATM was then invited to prepare and evaluate tenders for tower construction and the manufacture, supply, testing, and installation of transmission equipment for terminal and repeater stations. Local exchange and trunk switching equipment was designed for nine provincial exchanges in Sumatra. Subsequently, the Mission undertook supervision of the whole trans-Sumatra microwave network and its link with the main Gambir telephone exchange in Jakarta, including provision of cables and other related materials. ATM has also played a consultancy role in relation to other areas of Indonesia, especially with regard to the 'tropo-scatter' link planned to connect Surabaya (East Java) with Bandjarmasin (S. Kalimantan).

The microwave network is connected to the international telecommunications system via the satellite base station at Jatiluhur (West Java), involving international companies such as ITT, Siemens, Philips and the Hughes Aircraft Corporation of USA, which has recently installed an extensive domestic satellite system.<sup>2</sup> Jatiluhur is known to be connected to US naval communications systems in the Pacific and therefore presumably to US bases in Australia.

Why was the initial request directed towards Australia and what criteria did the Australian government apply in assessing the need for telecommunications development compared with other areas of need in Indonesia? Mr George Hams, team leader during the first three years of ATM's operations, considered that Australia was seen by Indonesia as a high technology country in this field. Not being a manufacturer of microwave equipment, it would be in a position to evaluate international tenders objectively. This explanation seems reasonable, as evidently no Australian companies have been awarded contracts for tenders prepared by the ATM, except for L.M. Erikson Pty Ltd, who have supplied telephone exchange equipment designed by the PMG. However, Australia is herself part of the international telecommunications network and the major international companies are all involved in civilian or military aspects of telecommunications development in both countries.

Diplomatic, security and commercial aspects all contributed to the decision that Australia should play a key role in the development of a modern telecommunications system in

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<sup>2</sup> *Aviation Week and Space Technology*, 7 June 1976, pp.55-7.

Indonesia, the need for which all parties regarded as self-evident. Aid Division of the Department of Foreign Affairs cited an earlier recommendation by the World Bank, in line with policies stated in the First Five Year Development Plan, to the effect that 'the place and functions of communications ... are related to the provision of facilities for the smooth flow of commodities and people required for the economic development and social welfare of Indonesia ... telecommunications as an infrastructural component plays a role that cannot be ignored in national economic development.'<sup>3</sup>

Finally, the absence of adequate telecommunications has for some years been the cause of many harrowing tales of inconvenience by Australian diplomats, journalists and assorted travellers. These in an immediate tangible sense had provided evidence of the economic 'chaos' of the late Sukarno years from which Indonesia was now thankfully emerging. By the same token, the new ultra-modern system could be seen as firm evidence of Indonesia's 'sensible' progress towards 'orderly development'.

The most prominent Indonesian critic of this type of emphasis in the development of communications and related science and research policy has been Professor Iskandar Alisjahbana of the Institut Teknologi, Bandung (ITB). His basic argument is that unless developing countries involve themselves in research and development, as distinct from simply importing advanced technology, such technology will prove unadapted to their needs. In the case of communications, it is impossible to import 'hardware' (equipment) without also importing 'software' (culture and content). It is necessary to understand the culture and modes of thought which lie behind the technology. Traditional culture can only adapt and survive in this context if Indonesia plays its part in the research and development process (Alisjahbana 1971 and 1974).

Unfortunately, Alisjahbana has not published a specific analysis of the microwave system, but he has expressed concern at lack of Indonesian participation. He argued that Indonesia could at least take over responsibility for developing spur routes from the main exchanges, and that ITB, which was in receipt of funds from Stanford University and other US and

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<sup>3</sup>Cited in a 'step by step' account of the establishment of the ATM project supplied by Aid Division at the author's request.

Dutch sources, was in a good position to assist. However, this was not acceptable to either ATM or Perumtel. Alisjahbana has been a strong supporter of satellite development for purposes of mass education, which involves a large satellite and many small ground stations. He has argued that the microwave development severely restricts the location of ground stations.<sup>4</sup>

Despite Alisjahbana's strictures about multi-nationals, the satellite system was eventually installed by the Hughes Aircraft Corporation. However, the satellite TV education network operates on a one-way system of transmission, thus negating the potential for popular participation in the development process, which Alisjahbana envisages as a result of the communications revolution. Both the microwave and satellite systems will be tightly controlled by the Indonesian government in conjunction with foreign interests, thus greatly enhancing their control over the flow of information and ideas.

It is not surprising that PMG Department engineers, recruited for a specific task, dismissed such ideas as too high flown to be technically or managerially feasible. ATM further claimed to have developed an integrated program in conjunction with Perumtel, involving training in Indonesia and Australia at all levels of operation and management. A survey of ATM personnel (see Appendix II) showed that they considered their Indonesian counterparts, though often well qualified, to be badly lacking in practical experience. Some courses were run by ATM and Perumtel at the Bandung Technical College, but the major training effort was conducted in Australia - clearly considered the repository of practical knowledge in this field. There was further concern that Indonesian counterparts did not seem highly motivated in relation to their work, due to the need to accept other part-time work and insecurity of income and status experienced throughout the Indonesian government structure. For these reasons ATM personnel considered that tight Australian control over the flow of equipment was essential, for which bilateral forms of assistance were most appropriate.

While a basic measure of friendliness was evident,

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<sup>4</sup>Based on interviews with Professor Alisjahbana in 1971 and 1975.

personal and cultural contact was limited by language difficulties and social reticence on both sides. It can be argued that possession or absence of language skills does not necessarily correlate with willingness to 'rub shoulders' with Indonesians at different social levels. Australian personnel in this and other projects appear generally outgoing in relations with Indonesians. Equally, lack of cultural perceptiveness does not necessarily imply poor motivation.

In this project a good technical performance has been achieved under difficult circumstances, with a serious effort being made to train local personnel to carry on after ATM's departure, but without any obvious consideration being given to alternative types of communication systems relevant to Indonesian needs or to the potentially far-reaching consequences of the technology employed. Criteria used both in selection of the microwave system and in the planning and design of local and trunk exchange installations were, according to official accounts 'identical with those used ... in planning similar projects in Australia'.<sup>5</sup> Even in a narrow sense, it does not seem that a consistent technical rationale relating cable, microwave and satellite systems to each other has been established. This is not the only example of Australia being asked to assist Indonesia in making plans which are at the same time being superseded by quite different plans emerging from the higher echelons of Indonesia's military-commercial establishment.

#### Cilacap Harbour Development - Industrial Estate Project

This on-off-on again project has been one of the more controversial and interesting projects in which Australia has been involved. Its final outcome and the nature and extent of eventual Australian participation are still unclear.

In 1969 the Australian government was requested to assist with harbour development in Cilacap in South Central Java as part of an industrial estate development by private investors and the Indonesian government. Western Australian state government interests had earlier established high level contacts and had influenced Indonesia's development planning

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<sup>5</sup> Cf. Reply of the Minister of Foreign Affairs, Mr Peacock, *CPD* (House of Representatives), 18 Aug. 1977, pp.497-8, Question No.788 on Australian Indonesian Telecommunications Aid Agreement.

in the South Central Java region. It appears that in March 1969, members of a Western Australian trade mission were informed by the Sultan of Yogyakarta, at that time Minister of Finance, and Mr Frans Seda, Minister of Communications, of Indonesia's plans to rehabilitate the port of Cilacap 'in anticipation of an increasing volume of trade with Australia'.<sup>6</sup> Proximity to West Australian ports provided a strong motivation for the Cilacap proposal,<sup>7</sup> with West Australia's rapidly expanding mineral resources providing a base for combining capital intensive technology and skills from Australia with large-scale availability of cheap labour. With some modest expansion of road and rail facilities, Cilacap would have easy access to what was seen as the potentially vast market of Java, whose population was expanding at a rate of more than 2-2.5 per cent per annum. At the same time, Cilacap was already experiencing a measure of industrialization, and a significant Japanese presence in textiles and iron sands mining no doubt provided an added spur to Australian investment.

A brief survey by a long-term resident Dutch businessman in Jakarta revealed several industrial joint venture opportunities. Interest was expressed, by two West Australian companies, in establishing joint ventures in fish processing and manufacture of agricultural tools. It was hoped that a consortium of companies could negotiate jointly with the Indonesian authorities, share the costs of upgrading communications, power and water facilities and rehabilitation of the fine natural harbour which had been badly damaged during the Japanese occupation. Romantic hopes were cherished in some quarters that customs arrangements in Cilacap, a small port, could be handled in a more honest and efficient fashion than at Tanjung Priok, Jakarta, by direct bilateral dealings with the local authorities.

In July 1969, ten companies formed the Australia-Indonesia Manufacturing and Trading Organisation Pty Ltd (AIMTO), which was registered in Perth, and began planning a feasibility study for the establishment of an industrial

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<sup>6</sup>Paper delivered by R.C.H. Manser to conference on Mengenal Indonesia, Australian National University, Canberra, 13-15 August 1971 (Section on 'Indonesia - Trading Partner'), p.2.

<sup>7</sup>Cilacap is approximately 1800 miles from Fremantle and 1000 miles from Port Hedland.

estate.<sup>8</sup> Representatives of four member companies and the Australian Trade Commissioner visited Cilacap in August 1969. According to AIMTO sources, the whole proposal was greeted with great enthusiasm by the Indonesian government, which established a high-powered inter-departmental committee to co-ordinate plans. The Australian government was subsequently asked to examine the economic feasibility of upgrading port facilities and to consider what assistance could be offered by Australia. AIMTO had planned to undertake their own survey and therefore urged the Indonesians only to request a simple project survey. However, this advice was overridden by Bappenas.

The Colombo Plan team's Report (Tuttle Report)<sup>9</sup> proved a considerable source of disappointment and indeed annoyance to AIMTO and its supporters. Although it was dismissed in those quarters as 'unimaginative' and 'bureaucratic', in retrospect it proved the turning point in a long-drawn-out battle which eventually led to the rejection of the AIMTO proposal by the Indonesian government in early 1973. The Australian team, consisting of representatives of the Departments of Foreign Affairs, Shipping and Transport, Works, PMG and the Bureau of Agricultural Economics was impressed by Cilacap's quality as a natural harbour, the physical potential for port development, the availability of a substantial area of cleared land and of adequate ground water at shallow depth. However, a survey of existing industry in Cilacap and the surrounding hinterland indicated extremely low purchasing power. In a key passage, the Report concluded that

Neither the economic development of the hinterland nor the, as yet, unconfirmed plans for industrialisation justify extensive port development ... existing port facilities, given their rehabilitation and upgrading, would be capable of handling the volume of traffic expected in the foreseeable future (ibid.:4).

Accordingly, the Mission recommended \$2 million assistance towards rehabilitation of wharves and godowns; dredging of

<sup>8</sup> The company's account of early negotiations was provided in AIMTO Pty Ltd, *Tjilatjap Industrial Estate Project*, Perth, 1970.

<sup>9</sup> Australian Survey Mission, *Report on Preliminary Survey of Development of the Port of Tjilatjap - Java - Indonesia*, Aid Division, Department of Foreign Affairs, Canberra, 1970.

the adjacent channel to a depth adequate for ships of 10,000 tons capacity; provision of technical assistance for upgrading the Cilacap Technical School (located in a corner of the disused Russian-assisted, partially built superphosphate plant, which was reputedly undertaking 'repair and maintenance' work in the town on a contract basis) and expertise to advise on overall town development (ibid.:4-6).

AIMTO's membership grew to twenty-two companies whose interests covered fishing and processing, poultry and livestock, agricultural tools and machinery, flour milling (currently closed to foreign investment in Indonesia), engines, boilers and cranes, transport, construction, housing and hotels, oil essences and tropical agriculture. However, the consortium failed to attract the support of large companies based in the Australian eastern states, while the Trade Commission in Jakarta had by 1971 become lukewarm, mainly it seems on the grounds of Cilacap's distance from Jakarta.

In December 1971, AIMTO presented their formal proposal to the Indonesian Government.<sup>10</sup> Running to six volumes, and drawing on a variety of expertise,<sup>11</sup> the report covered port, infrastructure, customs procedures, site and services and managerial aspects in considerable detail. However, apart from listing the general areas in which it was expected that local marketing and export prospects existed, no effort was made to undertake a detailed market survey on a product-by-product basis. Instead a purely econometric approach was adopted to prove profitability. This was an important factor in rejection of the scheme, although the most serious deficiencies of the proposal in the eyes of Bappenas lay in its financial and organizational proposals. A devastating list of objections was prepared.<sup>12</sup> In summary these related to:

<sup>10</sup> AIMTO Pty Ltd, *Project Indestcor: Industrial Estates Corporation, Tjilatjap, Central Java, Indonesia* (6 vols), PO Box 6094, Perth, W.A., 1971.

<sup>11</sup> Notably Mr F.E.S. Tydeman, formerly Harbour Master of Fremantle (W.A.), Dr A.McB. Kerr, Economics Department, University of Western Australia, and Professor Sukaji, then Dean of the Faculty of Economics (subsequently Rektor), Gadjah Mada University, Jogjakarta.

<sup>12</sup> Bappenas sources. This document was prepared during 1972. It is not certain whether it was actually sent to President Suharto, but it certainly circulated in government circles as representative of top-level Bappenas opinion.

1. Requests which could not be accepted in principle, including AIMTO's requests for first claim on profits until 80 percent of the profit had been realized, while only putting up one-third of the capital, and their request for three out of five directorships during the initial phase, on the basis of one-third capital stake.
2. Requests conflicting with existing regulations. These included freedom from all taxes throughout the duration of the proposed joint venture; request for a guaranteed loan of \$800,000, at 5 per cent interest during the first five years and subsequently at 8 per cent; freedom from customs duty for all equipment and supplies required for the operation of the estate.
3. Requests which 'smell'<sup>13</sup> of special favours, which could set an undesirable precedent. These included the AIMTO request for a monopoly on all new industrial development within 50 km of the industrial estate, its request for the joint venture to be granted some of the required (poorer) land at one Australian dollar per hectare and for the joint venture to control the supply of technical services.
4. The proposal for AIMTO to manage a bonded warehouse conflicted with government policy favouring local control. Official policy is to develop industrial estates under public sector control, open to both Indonesian and overseas participation. Finally, the AIMTO proposal was directed towards attaining maximum profitability, while Indonesia preferred simply to cover long-run costs.<sup>14</sup>

AIMTO had proposed the establishment of a joint venture, to be called P.T. Industrial Estate Corporation (P.T. Indestcor), in which the Indonesian Central Government, the Central

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<sup>13</sup> Indonesian word used is *berbau*.

<sup>14</sup> Official reply of Dr Emil Salim, then Deputy Chairman of Bappenas on 2 March 1973 to Dr H.E. Graham, West Australian Minister for Decentralisation and Development (Bappenas sources).



Java Provincial Government and AIMTO would each hold one-third of the capital, each supplying \$100,000 capital. Indonesia considered that this was a ludicrously small amount of capital with which to be requesting so many concessions. AIMTO argued that they expected to undertake most of the spadework necessary to bring Australian firms to set up on the estate, to be managed by P.T. Indestcor, while capital for development would be supplied by the companies themselves. (It was expected that at least some infrastructure services would be financed from Australian aid funds.) Since the Indonesian government would hold the majority capital they would retain control over all policy and managerial aspects. In practice, however, this could well have created an operational vacuum.

AIMTO subsequently claimed that the proposal represented a first bid in a bargaining process in which they expected to make concessions - a normal procedure in Indonesia, it was argued. While this is true up to a point, it is also the case that where one party advances a proposition that is considered totally unrealistic or even insulting, bargaining abruptly ceases. Whatever the general merits of their proposals, AIMTO showed an abysmal understanding of Indonesian policies and procedures in the field of foreign investment.

The Indonesian government took several months to inform AIMTO and the Australian government of their decision, fearing adverse business and diplomatic reaction. By this time, however, the Australian Embassy was heartily relieved at the demise of the AIMTO proposal, which it knew to be embarrassing to Indonesia. The scheme laid Australia open to charges of fostering 'enclave' development on Indonesian territory and blatant promotion of Australian business interests. Although the position of Foreign Affairs had remained fairly firm on this point since the time of the Tuttle Report in 1970, the Australian public could be forgiven for thinking otherwise in view of the continued claims by AIMTO of high level support by both governments. Statements by Prime Minister William McMahon and periodic official reports also indicated a measure of collaboration between the two governments and AIMTO.<sup>15</sup>

The stalemate surrounding Cilacap was broken during Mr Whitlam's first visit to Indonesia as Prime Minister in

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<sup>15</sup> E.g. statement on international development by Aid Division, Department of Foreign Affairs (1970 - see references).

February 1973. As a result, in July 1974, a joint Indonesian-Australian team from Gadjah Mada University, Yogyakarta, and the Sydney consulting firm of Crooks, Michell, Peacock, Stewart Pty Ltd commenced a major survey under Colombo Plan auspices.<sup>16</sup> Their brief was a broad one, covering the preparation of a ten-year strategic plan for the development of the Cilacap Industrial Estate and a more detailed operational plan within that framework. A few months later the original concept was redefined 'to place greater emphasis on establishing the physical, commercial and social preconditions for successful industrialisation at Cilacap over the period remaining in Repelita II, ... [and] the definition of a strategy which will create conditions under which an industrial estate might be established at Cilacap with the maximum local participation and the minimum social dislocation (ibid.: ii-iii).

The team advised that at that stage efforts should be concentrated on resource-based construction and port-based industries rather than on consumer-oriented manufacturing. Examples of resource-based industries included pelletization of cassava, rubber processing, bagging of fertilizer by PUSRI (National Fertilizer Corporation), processing of paper and pulp and a cement factory based on local limestone. Other possibilities included coconut products, cloves, tobacco and fisheries. Port-based industries would require heavy capital investment plus an acceleration in plans for improving road, rail, harbour, water, electricity and telecommunications facilities. This would lead to greater use of Cilacap for imports and distribution of food for the whole Bandung-Solo 'corridor'. Eventually, the greater volumes of cargo passing through the port would provide the basis for an industrial estate based on conventional manufacturing activities.

A study of the Gadjah Mada University team into labour absorption relative to investment disclosed that, for a per capita investment of Rp 6000, the three most effective labour absorbing industries were soya bean cake, fish nets and smallholders' rubber; for an investment of Rp 6000 to Rp 70,000, umbrellas, horn fans and smallholders' tobacco; for an investment of Rp 70,000 to Rp 10m, common bricks, roof tiles and land regeneration programs; for an investment of more than Rp 60m, farm implements, mechanical weaving and

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<sup>16</sup> *Cilacap Industrial Development Study*, 1975 (unpublished - obtainable from consultants, ADAA or Bappenas sources).

telecommunications (*Cilacap Industrial Development Study* 1975:23-4).

Such data have limited usefulness to economic planners, since they say nothing about the impact of new industries in creating employment or disturbing existing patterns of employment. At that time there were some 37,000 registered industrial establishments in the Kabupaten of Banyumas, which includes Cilacap, employing some 76,000 persons. As the report comments: 'In the case of small and traditional firms the poor condition of the infrastructure serves as a "natural protection" against outside competition and is probably a significant factor influencing both their scale and their survival' (*ibid.*:26).

The Report urged an emphasis on construction programs. This would partially offset the negative employment effects caused by merely improving basic infrastructure. In the case of roads, specific methods of construction were recommended to enhance work opportunities. Efforts should be concentrated on providing suitable credit facilities for small manufacturers and traders, and improving conditions at the local *pasar* (market place) with a view to the special needs of these groups. Finally, continuing efforts should be made to identify and offer (unspecified) assistance to groups disadvantaged by development.

Despite its somewhat didactic tone about the need to overcome traditional attitudes to industrialization, the Report was by no means an insensitive blueprint for modernization. However, the situation in Cilacap illustrates the contradictions both in the survey's terms of reference and in a broader sense the strategy of Repelita II, which attempts to combine redistributive and egalitarian goals with conventional goals of economic growth.<sup>17</sup> Furthermore, the report never came to grips with certain basic features of the local scene, notably the role of Pertamina and of the provincial and kabupaten governments. Some mild objections were raised about Pertamina's arbitrary use of land, in particular the location of the refinery, which neatly splits in two the area available for any future industrial estate, while its housing and recreation complex spills over into the remaining area (*Cilacap Industrial Development Study* 1975:84). The purchase of 60 hectares for a golf course and 20 hectares for an

<sup>17</sup>Cf. discussion in Chapter 6, especially pp.158-63.

airfield, widely claimed in the town to have been compulsorily acquired,<sup>18</sup> was not mentioned, nor were the 'administrative' costs paid by every enterprise in the area to the provincial and kabupaten governments.<sup>19</sup> Yet such aspects are fundamental in assessing Cilacap's overall economic prospects.

The following general comments seem pertinent to Australia's involvement in Cilacap to date:

1. The Cilacap saga has many characteristics of the contemporary style *sandiwara* - popular comedy-cum-farce - which Indonesians now enjoy applying to development themes and situations. Cilacap and the surrounding region have been the subject of frequent surveys by business and government representatives since about 1968. These are regarded with a mixture of detachment, mild irritation and hope by local people. There has been some expansion of hotel facilities, but the main impact on the town has come from Pertamina.
2. Development in the region seems most likely to occur on an *ad hoc* basis, independent of surveys, master plans and so forth. Enterprises proposed in the 1974-75 survey, such as cassava pelletization, a cold storage factory, motorized fishing, a cement factory, were already in the process of being established. Public sector plans for expansion and upgrading have been loosely co-ordinated by an inter-departmental committee in Jakarta established around 1970, but for the most part individual enterprises conceive and implement their plans autonomously. The Australian government's concentration on specific public utility projects reflects this fact. Australia agreed in 1975 to assist in the development of Cilacap's water supply system.

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<sup>18</sup>*Sinar Harapan*, 6 Sept. 1974. The Bupati, Kol. Mukmin, denied that any compulsion had been used. In the case of land acquired by Pertamina, a price commonly quoted in the town was Rp 210 per square metre paid by Pertamina compared with Rp 100 actually received by kampung dwellers.

<sup>19</sup>Eight per cent deduction was reported as a standard fee in the case of fishing enterprises, but this figure was obtained from Fisheries Authority (Dinas Perikanan) sources and may well be an underestimate.

However, it is not clear that any major decisions about the overall planning structure have been taken and a further period of *laissez-faire* development appears to have begun.

3. The AIMTO concept depended heavily on establishing 'special relationships' with the national, provincial and local authorities. (One participant company, M.G. Kailis (Perth), undaunted by AIMTO's failure, tried to distance its operations still further from Jakarta by forming a co-operative fishing venture in the Aru Islands, but was frustrated by a combination of Indonesian naval and Japanese interests.)<sup>20</sup> Such tendencies are now perhaps declining and might be regarded as a product of inexperience and the general euphoria characterizing Australia-Indonesia relations during the early Suharto years. In AIMTO's favour it may be said that their scheme, for all its limitations, did awaken Indonesian interest to the natural geographical advantages of Cilacap.
4. The Australian government has maintained a low profile and carefully tailored its involvement in Cilacap in line with shifts in Indonesian policy. For example, the failure of Indonesian enterprises to gain port development contracts deriving from Australian aid funds became a matter of some diplomatic embarrassment and policy was modified accordingly after a visit by Whitlam to Indonesia in September 1974.<sup>21</sup> Although the Gadjah Mada-Crooks-Michell report went into some aspects in greater depth, especially with regard to marketing and employment, the basic facts of the situation had been substantially covered in the Tuttle Report of 1970. Australia was nevertheless willing to oblige with an elaboration of its previous efforts, this time in conjunction with Indonesian partners.
5. The Australian government from the outset has been afforded extensive opportunities to advise on major policy aspects. In particular, the terms of reference of the Gadjah Mada-Crooks-Michell report

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<sup>20</sup>See Kailis (1971) for a critical account of this project.

<sup>21</sup>*Sinar Harapan*, 3 Sept. 1974.

stressed employment and distribution aspects. In practice, Australia has been very cautious and has mostly concentrated on a limited technical and economic brief, taking its cue from the Indonesian government as to the matters it raises and the depth to which they are investigated.

Australian involvement in other projects in central Java - such as the Serayu River survey, assistance to railways and agriculture-related and demographic studies at Gadjah Mada University - offers considerable prospects for Australia to devise strategies for rural development and employment creation schemes in one of the poorest, most densely populated regions of Indonesia, if that indeed represents a serious goal of Australian policy.

#### Assistance to Indonesian railways

Australian assistance has been part of an overall rehabilitation and expansion program worked out between the Indonesian Department of Railways (PJKA), the World Bank and Bappenas, covering diesel locomotives, carriages, wagons, signalling, braking equipment, bridging and track renewal and improvement of telecommunications.<sup>22</sup>

Australia initially became involved in 1968 following an Indonesian request to investigate bridging and track requirements. Since 1975 a permanent Australian Railways representative has been stationed at the PJKA headquarters in Bandung. In 1968 the intention was to purchase ready-made bridges and rails, probably from Japan or the USA. Instead, Australia recommended provision of basic materials such as steel bars, bolts, nuts and fasteners as a basis for manufacture of bridges and rails in the railway workshops at Bandung, together with appropriate technical assistance. This reduced costs to around 40 per cent of the original import proposal, at the same time increasing employment and upgrading local skills. Subsequently a policy of local

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<sup>22</sup> Data and discussion in this section are based on interviews with the (Australian) Commonwealth Department of Railways, the Indonesian Railway Authorities (PJKA), consultants from the West German Railways acting as advisers to the World Bank and Bappenas in Indonesia and World Bank consultants from the Canadian Pacific Railways in Indonesia in 1975-76.

manufacture has been applied more generally to Indonesian railway workshops, although major items such as locomotives and signalling equipment will probably be purchased from overseas for some time to come.

Nevertheless, the PJKA has seriously considered purchasing rails from Japan on a 'soft loan' basis, even though this would cost around three times more than local manufacture using imported Australian steel supplied free of charge. These pressures could probably not have been withstood but for the strong position taken by a team of consultants from the West German Government Railways advising the PJKA and the World Bank. Difficulties have also been experienced in persuading officials at Jakarta's port of Tanjung Priok and at the railway stores depot of Manggarai, Jakarta, to move Australian equipment and materials. Australia's system of grant aid, it has been suggested elsewhere, provides a 'lack of financial incentive' while Colombo Plan representatives have resisted demands for 'unscheduled' charges by Indonesian carriers (Vaisey *c.* 1972).

A World Bank survey conducted in 1975-76 indicated that operational weaknesses, reflecting poor morale and quality of senior personnel, were having detrimental consequences at all levels. It seems also that some Indonesian economic planners tend to take a negative view of the potential of the railway system relative to road transport. It is true that many aspects of railway modernization are capital intensive, while some forms of road transport such as the Colt (minibus) may well assist the growth of small enterprises. The Australian government should nevertheless encourage Indonesia to assess the advantages of railways as a cheap form of freight and mass passenger transport, which are capable of serving both rural and urban areas, particularly in more crowded regions such as Java, thereby assisting decentralization of economic activity and employment. Railway workshops, which represent an older pattern of industrialization, could no doubt be adapted to serve the needs of other small and medium industries.

Although this project fits within the orthodox Colombo Plan public utility pattern, it scores higher than most in using local labour, skills and resources. The Australian project leadership has had some success in mobilizing support for this type of philosophy within the PJKA, but in the process some embarrassment and tensions have been created at

higher levels of the Indonesian government. The project is therefore looked on with some disfavour by Australian aid authorities.

### Bogor Water Supply Project

Water supply schemes at Bogor (W. Java) and Denpasar (Bali) provide better support for official explanations as to how projects are selected.<sup>23</sup> They also represent the traditional type of Colombo Plan project, assisting public utilities in the urban industrial sector. However, some interesting procedural aspects emerge from these projects, together with questions about their ultimate end use.

The Bogor Water Supply project has cost roughly \$2 million. This project and one of similar scope at Denpasar (Bali) were started within a year of each - about 1970-71 - and thus conceived during the same era of aid policy. Repelita I included provision for water supply rehabilitation and expansion in twenty-six Indonesian cities, from which Australia was asked to select two. Although Jakarta was considered, Bogor and Denpasar were selected for budget reasons and as medium-size projects where Australia could be given overall responsibility and an opportunity to achieve a demonstration effect. In the case of Denpasar, the planned expansion of tourism was an important factor in the eyes of both countries.

Execution of projects was handed over to consultants, working in conjunction with the Indonesian Department of Public Works and Electricity (PUTL). (In the case of Bogor, the consultants selected were Vallentine, Laurie and Davies and in the case of Denpasar, Scott and Furphy.) Both projects involved location of adequate underground or surface water sources and installation of relevant pipes, meters, taps and fittings. All of these, plus wrought iron, cement and asbestos have been provided from Australian sources. In the case of Bogor, the main suppliers were Tubemakers, Vinidex and Hardie, operating through their Indonesian joint venture, P.T. Harflex, conveniently sited between Bogor and Jakarta. Local sand and building materials were provided by PUTL.

Some difficulties occurred at Bogor in relation to reticulation work undertaken by a local contractor. Delays

<sup>23</sup>Information in this section based on interviews with Australian aid authorities, Australian consultants and Indonesian water authorities (PUTL).



of several months occurred on the Australian side in supplying equipment and fittings. At that time the procedures for supply and tendering were cumbersome, involving as a common pattern three months for checking on specifications by the Commonwealth Department of Supply, two months preparation and putting out to tender and up to six months for collection of equipment, transportation, customs processing and delivery to the site. As a result of the Bogor experience, the first stage was eliminated and the Department of Works was allowed to accept specifications directly from the project team. Nevertheless, most Colombo Plan projects continue to experience supply bottlenecks at both the Australian and Indonesian ends.

At Bogor training was conducted 'on site' through a counterpart system, the Australian team withdrawing in 1976. During the period of expansion planned up to 1990 there will be continued dependence on supplies from Australia and P.T. Harflex, though the Australian team left behind some supplies when they withdrew. The consultants have been engaged on other work in Indonesia for the World Bank and will continue to hold a 'watching brief' on operations at Bogor.

At Bogor, it seems clear that despite provision of some drinking taps in public places and in kampung areas, the water supply is mainly intended for private residential purposes. Water flow is planned to increase from 100 litres to 760 litres per second between 1970 and 1990,<sup>24</sup> evidently based on projections of Bogor's growth as a residential area for Jakarta, the growing industrial area on the Bogor-Jakarta road, and the city's absorption into the enlarged conurbation of Jakarta, Bogor, Tangerang and Bekasi (Jabotabek).<sup>25</sup>

The long-term water demands flowing from the Jabotabek development are not known, but the prospects of industrialization spreading to Bogor itself are considerable. Major road construction schemes are already cutting into agricultural land and the combined effect of industrialization, residential overspill and tourist development makes the future

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<sup>24</sup> *Air Minum Bogor*, Direktorat Teknik Penyehatan, Dir-Gen. Cipta Karya, Departemen Pekerjaan Umum Tenaga Listrik (PUTL) Jln. Siliwangi No.4, Bogor, pp.1-2.

<sup>25</sup> A discussion of the Jabotabek project may be found in Rahardjo (1975).

of the urban and semi-rural kampung areas around the city uncertain.

Most urban kampung areas had been covered at least with stand pipes in yards or streets by 1976. In 1975 a system of differential pricing was worked out, it is claimed, at the Colombo Plan team's suggestion. Cheaper rates were set favouring smaller 'non-permanent' and 'semi-permanent' dwellings, rising steeply at higher levels of consumption. The assumption that better off residents in 'permanent' dwellings will consume more water is certainly correct. However, Peter McCawley has argued forcefully in the case of electricity that, because the rich consume more, the total subsidy to them from tiered rates is greater and thus a greater quantity of resources is diverted for their benefit at the expense of poorer groups (McCawley, 1971:Table 13.13). Such reasoning could equally be applied in the case of water supply. Additionally, in Jakarta and Bandung high unofficial charges are demanded to speed up installation, thus further disadvantaging poorer residents. For these reasons, some economists favour 'full cost' pricing for all users, though an alternative way to meet such objections would be to tier rates even more steeply, ensuring that richer groups pay well above the average costs of supplying the service to all users.

The estimates of rising population on which demand projections were based presumably derived from official plans for industrial and residential development projected in the late 1960s. However, the Jabotabek conurbation plan has only surfaced in the Indonesian media as a widely known goal of official policy since 1974-75. Apart from the initiative on pricing policy near the end of the Colombo Plan team's involvement, Australia has shown little concern with questions of end use or with the overall plan of development for the Bogor region into which the water supply project would fit.

#### Agriculture, research and higher education

Two main programs are considered in this section: one is the Australian Asian Universities Co-operative Scheme (AAUCS), and the other the Bogor Animal Research Institute (CSIRO). Reference is also made to various types of assistance relating to animal health services. This assistance has been related to a major World Bank sponsored cattle ranching project in Eastern Indonesia which provides an important link

between these two programs.

The origins of both schemes can be traced to an unsuccessful proposal initiated by the Australian Institute for Agricultural Science (AIAS) in 1967 for the establishment of an Australian Institute of Overseas Development.<sup>26</sup> This proposal was also sponsored by the Australian Freedom from Hunger Campaign Committee, the Australian Agricultural Economics Society and the Royal Society. It was claimed that Australia's long experience in agricultural sciences placed her in a strong position to help alleviate world shortage of food supplies relative to population growth. The Institute would undertake applied research, extension and training activities at a selected centre in Southeast Asia. Within Australia it would evaluate requests for agricultural aid, maintain a register of personnel prepared to work overseas, arrange orientation courses, conduct seminars and prepare extension material. Finance would come from the sponsoring organizations but approaches would also be made to the Australian government, to private industry and overseas foundations. It was also envisaged that in some instances fee for service work could be undertaken.

In planning its field program it was envisaged that the Institute would follow the formula for success attributed to the Ford and Rockefeller Foundations, who concentrate on a restricted range of problems where the results could have wide potential application and work closely with local institutions. Research was to be located in a country acceptable politically to the Australian government, close to existing educational institutions and 'should be so located that it is in a place large enough to supply normal technical and agricultural services, and which has good air connections to enable the ready supply of specialised equipment, personnel from Australia, visiting scientists and trainees etc.' (Attachment VI, pp.6-7). The Australian location was to be Canberra, close to the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian National University (ANU) and relevant government departments.

Two survey missions to Indonesia during 1969 resulted in a Memorandum of Understanding being drawn up between AIAS

<sup>26</sup>AIAS proposal paper submitted to the Canberra Inter-Association Committee on Agricultural Aid, 29 Sept. 1969 (together with attachments relating to detailed aspects).

and the Indonesian Department of Agriculture.<sup>27</sup> This was actually signed by the Indonesian side. Aid Division had been kept in the picture from an early stage, had assisted the two survey missions and in other ways indicated support. However, the scheme seems to have been finally buried by the two governments some time in late 1969.

It seems that despite their signature of the Memorandum of Understanding with AIAS, the Indonesian authorities were lukewarm about the scheme. A major reorganization of higher education in agriculture was under way as part of a general restructuring of Indonesian universities. In March 1969 a USAID team had recommended that a consortium of American universities be formed to concentrate on building up teaching and research capability at the two leading (*pembina*) Agricultural Science and related complex of faculties at Bogor Agricultural Institute (IPB) and at Gadjah Mada University, Yogyakarta.<sup>28</sup> According to this scheme of things, agricultural research at other provincial centres would take a secondary place and be dependent for funds and expertise on a consortium of *pembina* or 'feeder' faculties under the auspices of the Department of Higher Education and Culture, which would also control foreign contacts with individual universities.

In retrospect, signing of the Memorandum of Understanding by Indonesia may be seen as a diplomatic gesture, though either this was not immediately appreciated by the Australian aid authorities or was simply not conveyed to the Australian sponsoring organizations. The AIAS scheme would have established an agricultural research station near Medan, with a primary emphasis on food and cash crops.<sup>29</sup> From early 1970, or probably earlier, Australia was strongly urged to concentrate on research, education and related technical assistance

<sup>27</sup> *Memorandum of Understanding between the Department of Agriculture of the Republic of Indonesia and Australian Institute of Agricultural Science, signed in Jakarta, 18 July 1969.*

<sup>28</sup> Agricultural Education Team, *Pre-Contract Survey*, USAID, Jakarta, 28 March 1969. The team leader was Dr Ira Baldwin.

<sup>29</sup> Kebun Jeruk is located near Tebing Tinggi, some 100 km southeast of Medan. By all accounts it was a highly successful agricultural research and extension centre run for many years by Mr H. Westenberg (an Indonesian citizen of mixed Dutch-Indonesian origins) with military support.

in the field of animal husbandry and to concentrate efforts in the eastern half of Indonesia. To some extent, this was simply a question of allocating areas of responsibility in tidy parcels in order to achieve some politically acceptable regional balance in the designation of pembina faculties or at least channelling some measure of foreign assistance by way of compensation to those universities who had to miss out. Such factors must be balanced against official rationalizations later advanced by the Australian aid authorities stressing Australia's special experience with cattle, the geographical proximity and climatic similarities between Indonesia's eastern islands and Northern Australia.

It seems likely that certain stylistic features of the AIAS scheme were a little disconcerting to senior Indonesian agricultural planners. The Overseas Development Institute would be located near Medan in the Tebing Tinggi area. It was planned to work in close association with Kebun Jeruk agricultural research station located nearby, which placed a strong emphasis on extension work, consulted closely with local farmers and in general respected local and practical as well as academic knowledge. Dr David Penny, a member of the first survey mission, had during his several years' association with the University of North Sumatra<sup>30</sup> encouraged this type of approach among students and developed close links with Kebun Jeruk.

The Bimas concept which originated at Bogor during the late Sukarno years was also influential in North Sumatra.<sup>31</sup> As part of a mass effort in agricultural extension students and 'experts' lived in villages, exchanging ideas on an equal social footing with farmers and other rural people. The Suharto government later attempted to apply the Bimas formula across large areas of Indonesia. Unfortunately, in an attempt to achieve rapid increases in rice production, the key qualitative features of the original scheme were overlooked. Inadequately prepared students and extension workers in insufficient numbers were given areas too large to cover, while the military sometimes adopted heavy-handed methods against farmers considered insufficiently co-operative.

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<sup>30</sup> Dr Penny was a visiting lecturer at this university from 1958 until 1962 and in 1964-65.

<sup>31</sup> For an outline history of Bimas see Roekasah and Penny (1967).

Overall, too much emphasis seems to have been placed on technical aspects and not enough on questions of community involvement, motivation, social structure and so forth.<sup>32</sup> By the time of the AIAS proposal, many agricultural planners were beginning to react against deficiencies apparent in the revised Bimas approach, but certainly not to the extent of returning to the original concept.

In short, the AIAS approach was, to use a Javanese term, insufficiently *halus*.<sup>33</sup> The Indonesian authorities therefore quietly procrastinated until Australia came up with more reassuringly bureaucratic proposals, in line with their own priorities. The AIAS scheme was buried and resurrected in a new and highly technocratic form, with a ten-year project for development of an Animal Research Institute at Bogor under the leadership of the CSIRO. A less professionally aggressive, but no less elitist set of arrangements were prepared in relation to the field of higher education in agricultural sciences, in the form of the Australian-Asian Universities Co-operation Scheme (AAUCS).

#### Australian-Asian Universities Co-operation Scheme (AAUCS)

In 1968 the Australian Vice-Chancellors' Committee (AVCC) had 'accepted the invitation from the Australian Department of External Affairs to revive earlier proposals to cooperate with the governments of Indonesia, Malaysia and Singapore in raising the standard of tertiary education in these countries'.<sup>34</sup> A seminar at the ANU in October 1969

<sup>32</sup> Franke (1975:159-69) argues that the Suharto government had destroyed farmers' and students' organizations which had brought success to Bimas and similar programs during earlier years. Large-scale corruption was also alleged in relation to several multi-national companies.

<sup>33</sup> For an account of this and related Javanese values see Geertz (1960 Part 3:especially Ch.17). Ideas of politeness, refinement, subtlety and smoothness form part of this highly complex concept, which also conveys a strong sense of hierarchy and aloofness from the material concerns of the lower social orders.

<sup>34</sup> Australian Asian Universities Co-operation Scheme (AAUCS), *Report of the Mission to Indonesia 9 June-1 July 1970* (Internal Report to the Standing Committee of the Australian Vice-Chancellors' Committee), p.8 (3.1.1).

established guiding principles and the First Survey Mission left for Indonesia one month later. Funds had already been allocated in the 1969-70 budget for various items to assist Indonesian universities over and above the cost of the two AAUCS survey missions and before these missions had reported, as is normal for aid projects.<sup>35</sup> AAUCS had in any case been established in September 1969 on the basis of an exchange of letters between the Department of External Affairs and the AVCC. This procedure obviated the need to await a formal request for specific assistance routed through Bappenas.

The first AAUCS Mission Report generated some controversy. Professors Donald and Turner had undertaken a survey in 1963, though their report 'could not be implemented owing to unforeseen circumstances that developed subsequently' (ibid.: 2) (i.e. the political upheavals of the 1964-66 period). It appears that, as a result, some level of rapport had been developed with the University of Brawijaya, Malang (East Java) during the earlier period and some sense of moral obligation existed as a result of these previous recommendations. Significant philosophical differences became apparent between the team members, resulting in a dissenting report by Dr Penny, as a member of the first AIAS mission.

The majority report recommended an Australian unit in Malang, emphasizing animal production, and that another Australian group should co-operate at an overall level with the Faculty of Agriculture at either Brawijaya or North Sumatra, both of which had been classified as madya faculties.<sup>36</sup> Penny considered that the major effort should be made at Bogor on the grounds that Australia had almost no experience of working in the agricultural field in Indonesia and should therefore begin at the strongest institution, where an advanced scientific approach had more chance of being appreciated (Penny, 1970). A second Australian teaching unit should be located at Medan, on the grounds that Java's needs could be served from the pembina faculties at Bogor and Jogjakarta and agricultural conditions in Sumatra bore a greater resemblance to those in the tropical regions of Australia, or at Hasanuddin University, Makassar (South Sulawesi), a major regional centre emphasizing animal

<sup>35</sup> AAUCS, *First Progress Report*, December 1970, pp.30-2.

<sup>36</sup> AAUCS, *Report of the Mission to Indonesia*, 23 November-21 December 1969, pp.13-20. 'Madya' means a mid-level and 'muda' an 'underdeveloped' faculty.

husbandry and ranking high in Indonesian priorities. If a third unit was established, this could be at GMU, Jogjakarta, the only other pembina faculty in the field of agriculture, with Brawijaya a poor fourth choice. 'Indonesia's agricultural potential lies mainly in the outer islands; and it is just not possible that Java's [severe] food and population problems can be solved by concentrating the further development of higher agricultural education at institutions located wholly in Java' (ibid.:4). Penny took a poor view of the scientific and academic infrastructure of Brawijaya at that time, which should therefore only be considered with great reluctance if the previous moral commitment was considered too strong.

The official report made no effort to deal with these criticisms of the Brawijaya location and stated its reasons in very general terms. Apart from the aspect of 'moral obligation' deriving from the earlier survey in 1963, the main reasons advanced in favour of Brawijaya related to enthusiasm and willingness to learn of staff, pleasantness of climate, 'nearness to Australia' of the heavily populated, undernourished region of East Java and the opportunity for a specific Australian impact in a situation where development had been limited and no other assistance was being offered. With regard to this last argument, Penny's view was that any Australian impact depends on doing a good job and gaining recognition as part of a team. This in turn depends on good personnel being sent to work in feasible situations, where the ground has been well prepared.

The majority view was accepted on the question of location, together with agreed recommendations concerning fellowships for post-graduate study in Australia, a special role for the University of Queensland in the field of tropical agronomy, sponsoring of annual Southeast Asian conferences on agriculture, finance for equipment and journals and a further survey of agricultural extension services (see Williams, 1970). In the light of ten years of experience at Bogor by a University of Kentucky team, the mission was agreed in its opposition to direct undergraduate teaching. The emphasis instead should be on assisting and upgrading of staff, course content and research.

A second Survey Mission, following a strong request from the Indonesian Department of Higher Education and Culture, shifted the emphasis of the program to Eastern



Indonesia. Efforts were to be concentrated at the Universities of Brawijaya, Udayana, Denpasar (Bali), which had not featured at all in the first Report, and Hasanuddin, Ujung Pandang - formerly Makassar - (South Sulawesi). The reason cited by the Second Mission for this regional emphasis was the existence of 'a greater potential for applying Australian expertise in tropical pastures and animal production, possible economic potential in the future for Indonesia and closer geographical association with this country (Australia)'.<sup>37</sup> In this context Hasanuddin University has developed close links with the World Bank sponsored cattle-ranching project while Udayana University is closely linked to programs for promoting exports of live cattle from Bali. It was also argued that the MUCIA consortium's efforts at Jogjakarta and Bogor 'might well have reached the point of a diminishing return per unit of effort'.<sup>38</sup> Possibly the two Australian survey missions, apart from the dissenting view expressed by Penny, had doubts about the justice of concentrating resources at a few strong centres, though there may also have been some 'sour grapes' reaction against apparent American pre-empting of the best locations.

The Second Mission recommended against sending Australian experts on a long-term residential basis. Instead it was proposed that teams of visiting specialists should conduct short courses (the normal period has proved to be from 3 to 5 weeks) in fields proposed by the host university. Such courses would be prepared by consultation in advance between the parties.

While short courses are concentrated at the three universities in East Java, Bali and South Sulawesi, some basic teaching equipment, together with some Australian journals, have been sent to a total of nine universities. This creates some confusion, since although the short courses

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<sup>37</sup> AAUCS, *Report of the Mission to Indonesia, 9 June-1 July, 1970*, p.12.

<sup>38</sup> Ibid. MUCIA consisted of a consortium of five US universities originally formed in 1964 under the title 'Mid-West Universities Consortium for International Activities' consisting of the Universities of Michigan, Wisconsin, Illinois, Indiana and Minnesota. For general background on the role of MUCIA in Indonesia see AID/MUCIA/Indonesia Program for the Development of Higher Agricultural Education, *Operational Plan*, USAID, Jakarta, 15 June 1971 and Baldwin (1971).

are always held at one of the three named universities, they are attended by staff from the other institutions. Since courses are intended to identify areas of follow-up research, this naturally leads to requests for visits to those universities by Australian experts and for awards of fellowships in Australia.

Short courses have been offered in a diversity of fields such as tropical pastures, beef production, agronomy of annual crops, cattle breeding, poultry diseases, livestock extension, immunology (at Bogor), horticulture, plant protection and research methods.<sup>39</sup> Support has been given for residential Australian specialists in demography (University of Indonesia, Jakarta) and agricultural economics (GMU, Jogjakarta). One Australian is regularly assigned to tour Indonesian universities to advise on the use and maintenance of equipment supplied through AAUCS. Surveys have been undertaken on extension work (Williams, 1970), teaching of English (Angel, 1971), teaching of basic sciences (AAUCS, 1975), and forestry education (Ovington and Carron, 1971). Special Masters' degree programs have been established in the fields of demography and agricultural economics at the Development Studies Centre at the ANU, Canberra. Assistance has also been given towards preparation of Indonesian textbooks in these fields.<sup>40</sup>

Despite this wide range of activity AAUCS operations in Indonesia create an overall impression of diffusion of effort and discontinuity. The Academic Director, currently located in Melbourne, works on a part-time basis. The rejection of full-time residence in Indonesia as a regular feature of the AAUCS program denies Australian agricultural specialists the opportunity for continuous, in-depth dialogue with Indonesian colleagues, while too much depends on random contacts by short-term visitors.

Aid personnel often refer to the AAUCS as Australia's most successful Colombo Plan project in Indonesia, whereas it could be argued that whatever their other shortcomings, standard-type Colombo Plan projects at least stress continuity

<sup>39</sup> Reports on most of these courses may be obtained from the AAUCS Standing Committee of the AVCC, P.O. Box 1142, Canberra, ACT, 2601.

<sup>40</sup> *Development Studies Centre Newsletter*, ANU, Canberra, no.5, August 1977, p.4.

and on the spot attention to problems. Accountability for project implementation rests with a Project Leader, whereas with the AAUCS it rests with a Standing Committee of the AVCC, consisting of personnel whose knowledge of Indonesia is slight and whose interests are inevitably diffuse.<sup>41</sup> The scheme is unlikely to realize its full potential until these structural defects are tackled effectively.

Diplomatically, it must be conceded that the AAUCS seems to have been a success, at least with higher levels of the Indonesian government, as Australian visitors come and go, often returning for further short visits, greeted with customary Indonesian cordiality and warmth. While more discerning Indonesian specialists may feel some sense of impatience, an important, though latent, goal of Australian diplomacy in Indonesia is fulfilled by a visible Australian presence in a series of provincial centres. With characteristic amateurism, Australia avoids the type of involvement in Indonesia's problems and associated diplomatic and cultural burdens of long-term 'institution-building' stoically undertaken by USAID, MUCIA, and the leading American foundations (cf. AID, 1968). At the same time, knowledge is transferred in a leisurely and cordial atmosphere in a manner largely oriented towards Australian convenience and styles of operation at home. Some compromise between the extremes represented by the Australian and American approaches would therefore seem desirable.

#### Assistance in animal research and health services

Negotiations for a major Australian involvement in animal research in Indonesia began at roughly the same time as the AAUCS, but, because of its size and complexity, this scheme has taken longer to 'get off the ground'. The proposal has significant international ramifications. Late in 1970 the World Bank sponsored support for the concept of international research institutes (Gurnett-Smith and Goggin, 1972: A1). Sir John Crawford was appointed chairman of the relevant Technical Advisory Committee. In response, Australia expressed interest in supporting an institution on the lines of the International Rice Research Institute (IRRI), Los Banos, Philippines, to research animal production and health problems.

<sup>41</sup> For instance, the second chairman of the AAUCS Standing Committee, Sir George Cartland (1972-75), did not visit Indonesia during his term of office.

It is worth quoting at some length from a report of this Technical Advisory Committee in October 1971. In a section dealing with livestock research in Southeast Asia, the Report states:

the Chairman ... could now report some preliminary steps ... involving a programme of investigations under way under the leadership of the Australian Scientific & Industrial Research Organisation (CSIRO) ... [CSIRO] had been willing for some time to participate in or mount a feasibility study of livestock problems in South East Asia, and at the moment had a preliminary mission at work in Indonesia and Malaysia ... delineating the fields to which CSIRO might usefully contribute. This would be followed by a feasibility study of an area which seemed most appropriate to strong Australian support; it could lead to work in pastures, it could lead to work in crops, it could lead to work in animal husbandry, but there was as yet no specific commitment beyond the general intent of the Australian Government to undertake the support of a major research activity in South East Asia ... It was not clear whether the eventual proposal would call for support beyond that available from the Australian Government; if it did, it might well come to TAC at the request either of the Australian Government or of the Consultative Group (ibid.:F10-11).

The subsequent development of the project must be judged in the light of this long-term Australian ambition to be involved in a major way in such a regional research institution. It is also clear that the directive for Australian efforts to be concentrated in the field of animal research, production and health services came from the World Bank, the key bureaucratic link in guiding both the AAUCS and CSIRO project being provided by Sir John Crawford.<sup>42</sup> It is likely that both schemes had been discussed informally at a much earlier stage, since according to the official CSIRO account, the Minister for Foreign Affairs had proposed in February 1970 that CSIRO

<sup>42</sup>Sir John Crawford, then Vice-Chancellor of the Australian National University, was the first chairman of the AAUCS Standing Committee of the AVCC. Sir John also maintained close advisory links with those planning the proposed AIAS project.

might become involved as an entity in Australia's aid programmes. This was to be on the basis of CSIRO managing a research project funded by the Department of Foreign Affairs (Gurnett-Smith and Goggin, 1972:A1).

As early as September 1971 it was determined that Indonesia should have first priority in this general field, with Malaysia receiving second priority. A joint CSIRO/Foreign Affairs mission conducted a preliminary survey in late 1971. In the light of the background outlined earlier, it is hard to believe the claim in the mission report that 'Indonesia, as having first priority, was approached with a completely open mind' (ibid.:A3).

A striking statement, which appears early in the CSIRO mission's report, reads:

The scientific poverty of Indonesia is shown clearly by most of its research and educational institutions. All the research groups in the universities we visited were in such a state of extreme poverty, low morale and in many cases of such low levels of training that we could not recommend one with which we would associate a first class research institution (ibid.:B2).

It was conceded that some government agricultural research institutions achieved a somewhat higher standard, mainly in the area of estate crops. Given such an outlook, apart from staying out of Indonesia altogether, two options were open - either to establish an entirely independent institution or to associate with a weak institution for the sake of good diplomatic relations. The former policy seems to have been adopted in the case of the CSIRO project, while the latter style of approach found favour in the case of the AAUCS.

The CSIRO preliminary survey seems to have been inconsistent in evaluating institutions and possible fields for Australian co-operation. In some cases, notably rice and estate crops, existing research institutions were considered too well developed for Australian participation, though others were rejected for precisely the opposite reasons. While the World Bank Eastern Islands cattle-ranching scheme in Sulawesi, Sumba and (West) Timor no doubt accounts initially for Indonesian and World Bank pressure on Australia to

concentrate on the field of animal production and research, it provides only a limited explanation for CSIRO's subsequent activities.

Even to a layman, the scientific and related geographical rationale provided by CSIRO seems odd. 'Lack of experience' has not for instance deterred the USA from an intense involvement with tropical crops, while Australian experience, with at least some relevant crops in northern Australia and with rice in northern New South Wales, seems to have been discounted. Indonesian livestock is in many ways significantly different from breeds found in Australia and in most cases the latter cannot easily adapt to Indonesian conditions. The scope for cattle breeding on the island of Java is minimal. Climatic conditions in the eastern islands of Indonesia manifest some similarity to northern Australia, though Malang cannot be regarded as suitable from this viewpoint. Almost no scope exists in the Bogor region for cattle breeding. The scope for goats and sheep is hardly better, though some scope exists for sheep-breeding in the hills above Bandung. Presumably, therefore, Bogor was selected as the prime agricultural scientific centre in the country, though this brings the wheel full circle back to the initial judgment by the survey team that there existed no institution in Indonesia worthy of association with a first class research institution.

Considerable ingenuity was shown in establishing an organizational structure appropriate to CSIRO's goals. The institution finally selected for association was the Animal Husbandry Research Institute (Lembaga Penelitian Peternakan - LPP) which operated under the control of the Department of Agriculture, and was at that stage concentrating mainly on poultry research.<sup>43</sup> The CSIRO mission commented:

we were impressed with what we saw. The leader had been trained in Hawaii and had a well set out series of experiments using imported and selected local birds as foundation stock ... this institute

<sup>43</sup>The team expressed considerable optimism towards poultry, recommending concentration of efforts on local breeding of higher quality birds at lower prices (Gurnett-Smith and Goggin, 1972:E25-6). Persistent commercial difficulties facing poultry producers throughout Java, at least, were ignored.

is well worth support. It would require continued priority treatment from the Indonesian government as staff and facilities are inadequate even with a significantly large research programme financed from Australian sources. Australian scientists might work on the breeding and production testing of animals in the first instance but in due course the laboratory would need to move into pasture and fodder crop research. The links between the institute and the regional centres appeared to be good and the Bogor site would be a good base from which local trials could follow (Gurnett-Smith and Goggin, 1972:E41-2).

This assessment was negated by a later conclusion that

It should be recognised that even though we are proposing the linking of CSIRO with an already existing Institute, the Institute exists more in name than in function. It is because of this that we propose that Australia meet the whole cost of constructing a new laboratory. Similarly, it will be necessary to accept that professional staffing of the Institute will be mainly an Australian responsibility for many years until such time as selected personnel receive training overseas. We spoke to only one research scientist at the Institute who could be considered as suitable to act immediately as a counterpart officer to an Australian scientist (ibid.:F6).

Pursuing the logic of this last conclusion, CSIRO embarked on the construction of an entirely new laboratory complex at Ciawi, some 10 kilometres from Bogor. Since the Indonesian Department of Agriculture has now consolidated the various research institutions under its control into one research body (Badan Penelitian), the enlarged Animal Production Research Centre (Pusat Penelitian Pengembangan Peternakan - PPPP) has been duly incorporated into this structure, with a nominal association with the existing LPP. This approach would almost certainly have destroyed LPP. It has now been modified so that PPPP acts as the fundamental research unit, while LPP is to concentrate on extension work - an approach which evidently ignores the integral link between conception of research and its application in a specific socio-economic context.

It is clear that Indonesia neither wished for nor requested the type of advanced scientific research pursued by CSIRO. Her original request was for a modest upgrading of LPP Bogor. Although a phased handover of PPPP is planned over a period of ten years, it will still be hard to fit the new research complex into any general institutional structure for research and extension. Australian aid officials have nevertheless justified the scheme as demonstrating the value of rigorous and sustained effort in scientific research, which Indonesia has agreed to accept on a trial basis.

It may be noted that the CSIRO Survey Mission in 1971 paid more than passing attention to aid procedures. Noting the request by LPP for assistance, naming Australia and FAO as potential donors, the mission commented that:

The publication of this project [by Bappenas] is, in effect, an official request to potential donors and the responsibility now rests with a donor to signify interest in acceptance. The request, as outlined by Bappenas and the Institute, is for a smaller involvement than we recommend. This was raised with the Director of the Institute who explained that the request was framed without knowing what would be the reaction of donors. He saw the request, in its present form, as an effort to open negotiations with a donor. But the objectives as laid down by Bappenas namely, to rehabilitate and improve the existing equipment and staff at the Institute, and assisting in planning and implementing the research programme, are in keeping with our proposals (ibid.:F5-6).

As a general observation, the Australian Embassy in Jakarta constantly receives a stream of requests for assistance from all kinds of government agencies. Its usual response is to refer these to Bappenas, pressing those cases where Australia has an active interest. In this case, the original request for LPP was adapted to a quite different purpose by the aid authorities.

Some potential exists for linking the CSIRO project with more modest efforts in the field of animal health services. Through the good offices of Professor Bain, Faculty of Veterinary Science, University of Sydney, Australia has since 1970 been assisting the Animal Diseases Research Institute, Bogor (LPPH), and the Institute for Animal Virus Diseases, Surabaya



(LVK). These institutions have supported the development of the Eastern Islands Diagnostic Laboratories Scheme which is linked to the general expansion of animal production in Eastern Indonesia. As part of this project, Australia has been able to improve standards of control over foot and mouth disease, which it feared could have entered Australia. Indonesian suspicions on this score form an important theme in the CSIRO Survey Report and it was urged that Australia could not hope to pursue her interests here without dire diplomatic consequences, except as part of an overall research involvement (ibid.:B8, F4). CSIRO held a negative view of the research potential of LPPH and LVK in terms of its own objectives (ibid.:E39, 42), though having overcome similar objections in its association with LPP, this should not prove a barrier if integration of these various activities proves necessary in the future.

The CSIRO project stands out from other projects in the sense that Australia pressed for her own concept of research organization to be adopted in the face of considerable Indonesian opposition. Part of the explanation lies with the tenacious views which CSIRO holds of its autonomous role within the Canberra bureaucratic structure. To judge from its own account, these views have become more entrenched in relation to overseas aid as a result of its experiences in Thailand, where staff were seconded to Foreign Affairs and, as a result, it is claimed, became professionally isolated. CSIRO was therefore determined to operate in Indonesia as a distinct entity (ibid.:F6, A1).

Elements of both scientific conviction and ethnocentrism enter into the overall CSIRO outlook. However, other government agencies, such as the ATM and SMEC, which also possess strong professional *esprit de corps* and which do not lack normal bureaucratic capacity for expansion, have adopted a far lower profile in Indonesia. An important part of the explanation therefore seems to rest with Australia's desire to play a dominant role in a major Southeast Asian regional research institute, funded from World Bank sources and closely associated with the IBRD sponsored cattle-ranching development in Eastern Indonesia. Other Australian assistance in the fields of higher education and animal health has been designed to fit in with this general scheme of things.

### Conclusion

While projects vary according to their particular

context, these case studies substantially confirm the overall judgments offered in the previous chapter. The subordination of aid projects to goals of diplomacy and promotion of the modern sector is illustrated in numerous instances where Australia has failed to press questions about end use and relevance to the local context. At the macro-planning level, aid authorities are extremely cautious in advising on policy matters even when invited to do so, for fear of becoming involved in Indonesia's internal politics.

For example, to have become deeply involved in shaping development strategy in Cilacap and the surrounding region would have entailed weighing competing claims between government bodies, including powerful interests such as Pertamina. By contrast, the case of Cilacap also shows that Foreign Affairs was prepared to oppose Australian business interests quite firmly for the sake of a wider diplomatic accord. Again, in the case of both the Bogor water supply project and the ATM project, it appears that the original context in which they were conceived was superseded by more far-reaching plans with little attempt at liaison between Australian authorities and the top echelons of the Indonesian government. However, an exception to the general principle of conflict avoidance was in part provided in the case of the Bogor Animal Research Institute. Apart from the special place which the CSIRO occupies in the Canberra bureaucracy, the scheme enjoyed a special seal of approval from the World Bank.

Individual instances have been cited where efforts were made by project personnel to adapt projects to their local context. The railways project has perhaps provided the best example, mainly because of the personal efforts of the Director of Commonwealth Railways, who fought persistent battles with both Australian and Indonesian authorities for the upgrading of railway workshops, in order to encourage maximum use of local skills and resources. In the case of Cilacap, questions relating to the impact of capital works programs on employment and small enterprises were not taken up in any depth, though some small measures were proposed to alleviate likely negative effects. Proposals for tiered water rates at Bogor favouring kampung dwellers showed some belated concern for the project's local impact, though they could have little influence on overall planning.

The AIAS proposal, though in retrospect rather too sanguine about the contribution Australia could offer to

Indonesian agriculture, at least aimed for a close association with Indonesian farmers and specialists. It consequently failed to find an adequate bureaucratic rationale. In general, despite efforts by individuals, relations between Australian project personnel and their Indonesian associates seem cordial but superficial, reflecting an overall lack of professional rapport. While many convincing explanations can be offered in terms of differences in technical background, culture and so forth, the diplomatic climate at higher levels does little to create a helpful environment in this regard.

Finally, this limited number of case studies casts grave doubts on official rationalizations claiming that Australian aid programs are only initiated at the request of the Indonesian government. The CSIRO project at Bogor provides a case where formal procedures were stretched well beyond their normal limits, while they appear to have been considerably short-circuited in the case of the AAUCS. In the case of ATM, Cilacap and in several areas of research and higher education in agricultural sciences and animal husbandry, Australia was asked to offer general policy advice. This is also true of several projects discussed in Chapter 2, notably the Serayu and Cimanuk River surveys and the Kalbar Roads project. Such evidence largely destroys official excuses blaming Indonesian policies for lack of positive ideas on Australia's part for fostering employment, income redistribution, rural development and other declared goals adopted by both governments. Specialist reports in these fields usually rate a low priority and do not lead to follow-up visits or continuous involvement at field level. As will be argued in a later chapter, these redistributive goals are in conflict with Indonesia's overall strategy for economic growth. It is therefore diplomatically inconvenient for Australia to pursue them beyond fairly narrow limits.

## Chapter 4

### The Australian private sector in Indonesia

The Australian private sector in Indonesia plays an influential role in determining the diplomatic climate between the two countries and in influencing general Australian perceptions of Indonesia. Australian companies have found little difficulty in identifying their own interests with the strategy of economic development of the Suharto government, particularly its emphasis on promotion of the modern sector.

These points can be illustrated by looking at trade relations between the two countries, Australian investment and the structure of joint ventures. Issues to be raised in this chapter will include the role of aid and other forms of government support in enhancing private sector interests, foreign ownership of Australian companies, political associations of Indonesian partners, pressures for greater indigenous Indonesian (*pribumi*) participation in enterprises and the influence of lobby groups. The social and cultural outlook of Australian businessmen will also be discussed in relation to such aspects as partnership, training and knowledge of the Indonesian language, based on a survey of company attitudes.

#### Australian trade with Indonesia

Australian exports to Indonesia showed an impressive growth between 1966 and 1975. Since then the trend has levelled out. Nevertheless, exports to Indonesia constituted less than 2 per cent of total exports in 1975-76. Their composition is indicated in Table 5.

These figures mostly bear out the conclusion of the Senate Standing Committee on Industry and Trade (1975:4) that 'the greatest potential for growth and exports to Indonesia probably lies in capital goods including machinery, transport equipment and other metal manufactures', though

Table 5

## Australian Exports to Indonesia, 1966-67 to 1976-77 (\$A m.)

	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77 <sup>a</sup>
Animals and animal products	0.5	0.9	0.8	1.7	2.6	3.3	6.6	7.3	8.6	8.8	9.4
Cereal grains/preparations	1.9	4.6	4.2	7.1	4.3	6.7	5.9	18.8	85.3	48.0	66.4
Other food, tobacco, oil and vegetable products	0.1	0.7	0.2	0.4	0.9	1.0	1.4	1.6	1.9	2.9	3.6
Petroleum, chemicals, synthetics, plastics and rubber products	1.1	0.7	1.0	1.9	3.7	5.6	4.5	5.5	10.8	13.8	16.7
Pulp and textile products	0.1	0.3	0.3	0.8	1.4	1.4	1.9	1.6	1.3	1.4	0.7
Metals and minerals	0.7	0.7	1.4	5.6	7.7	9.2	7.2	19.2	26.2	32.4	43.2
Transport equipment	0.4	1.5	7.7	9.7	7.4	14.7	19.0	35.3	16.1	9.2	4.3
Machinery and equipment	0.3	2.6	1.7	2.8	5.8	6.8	10.2	8.6	13.9	18.0	17.3
Other manufacturing	b	0.1	0.3	0.7	0.7	0.9	1.0	1.4	1.7	1.7	1.3
Miscellaneous commodities and transactions	1.9	1.8	2.9	4.6	5.0	7.6	17.1	7.1	9.4	25.2	17.7
Total	6.9	13.9	20.6	35.3	39.5	57.2	74.6	106.5	175.3	161.3	180.5

Notes: a Eleven months to May 1977.

b Negligible.

Sources: (1) Senate Standing Committee for Industry and Trade (1975:16-18, 134-9).  
(2) Department of Overseas Trade.

exports of transport equipment have suffered a sharp decline since their 1973-74 peak. Petroleum and chemical products have increased steadily. Exports of grains and cereals have grown steadily, while exports of other food, especially dairy products, have risen markedly. Indonesian interests have claimed that imports of Australian dairy products have a depressing effect on the viability of local milk production, while wheat imports are now only acceptable to Indonesia to supply local flour mills reserved for domestic enterprise. Previously it was argued that flour imports were helping to depress the price of rice and cassava, a low protein carbohydrate eaten by the poorest section of the Indonesian population, while assisting the Suharto government's strategy of cheap food consumption in urban areas, with consequent regressive effects on overall distribution of wealth (cf. pp. 40-1). However, the problem of ensuring adequate local production at reasonable prices to both producers and consumers without subsidizing the better off classes is inherently very complex.

Imports from Indonesia represented around 3 per cent of total Australian imports in 1975-76. Their composition is indicated in Table 6. The 1975 Senate Report envisaged little growth in short-term Australian demand for Indonesian imports. Demand is mainly for primary commodities which are mostly in direct competition with those from more established suppliers in the Asian region and consequently gain little benefit from the Australian developing countries tariff preference scheme, which in any case often applies unduly rigid restrictions (as in the case of Indian chappals). While production costs may be comparatively low in Indonesia, commodities from other suppliers, such as tea from India and Sri Lanka, timber from Malaysia, Taiwan and the Philippines and rubber from Malaysia can also compete (Senate Standing Committee 1975:21).

The pattern of Australian imports from Indonesia partly reflects Indonesia's overall dependence on exports of primary commodities, oil and minerals, though imports of oil and petroleum products declined dramatically following the discovery of Bass Strait oil in the mid-1960s. However, this picture may change again in a few years' time unless Australia discovers further sources of supply. The 1975 Senate Report suggested that Indonesia's best long-term prospects for expanded exports to Australia lay in the field of petrochemicals and that the very large foreign and local investments

Table 6

Principal imports from Indonesia, 1967-68 to 1976-77 (\$A 000's)

Description	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
Animal, fish and vegetable (materials and products)	37	82	61	25	47	57	148	169	201	949
Coffee, tea, cocoa, spices	2,725	3,806	4,577	5,855	8,086	8,447	7,789	11,183	14,184	29,954
Tobacco	43	39	67	54	10	68	92	34	78	25
Rubber	-	-	-	57	611	1,186	2,249	1,927	2,935	3,441
Wood, textiles, fibres	27	162	192	473	625	1,627	4,226	1,618	1,165	933
Petroleum and petroleum products	52,392	55,652	43,737	15,649	4,400	1,412	601	514	3,240	4,463
Essences, oils, perfume, toilet and cleaning preparations	11	22	25	54	50	106	100	136	85	134
Total	55,235	59,763	48,659	22,168	13,830	12,904	15,205	15,581	21,888	39,897

Sources: (1) Senate Standing Committee (1975:140-3).  
(2) Department of Overseas Trade.

in Indonesia's oil industry would result in the production of a wide range of oil-derived chemicals, synthetic dyes, fibres and plastics (ibid.:23). Tourism was claimed as a further potential source for expanding export earnings with increasing numbers of Australians visiting Indonesia in recent years.

There is potential scope both for exports of handicrafts and for more functional articles such as bamboo products (furniture, floor coverings, racks, lamps, baskets and hats), silverware, batik, wood carvings, furniture and toys, though it would be necessary to improve the rudimentary state of production and marketing, since production mostly occurs in small scattered workshops, with quality uneven and unreliable. It has been proposed that Australia could assist in the establishment of an Industries Development Institute to help overcome these problems.<sup>1</sup> This Institute could perhaps be linked to the Australian Asian Universities Co-operation Scheme (AAUCS). Despite the potential value of such a scheme, there are obvious dangers from too rigid use of Australian technical, marketing and related cultural criteria in evaluating the role of small workshops, and enterprises.

The balance of trade since 1970 has swung increasingly in Australia's favour, as indicated in Table 7. This has become a serious bone of contention in Australia's relations with her ASEAN neighbours. In Indonesia's case the fact that Australian imports are actually lower than in the mid 1960s is a course of continuing political embarrassment, although at this stage Indonesia's manufacturing industry is oriented far more towards the domestic market than to exports compared with other ASEAN countries (Garnaut, 1978).

Recently, ASEAN countries have been adopting a more militant stance in international forums in pressing demands for a 'New International Economic Order'. At times it seems that Australia is being specially pressured to liberalize imports as part of a more general effort to exert leverage with western countries. Certainly Australia's response will be seen as a test of her sincerity in identifying with the economic needs of the region. While there appears to be much

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<sup>1</sup> Senate Standing Committee, 1975:6, 69. Cf. also evidence by Peter McCawley on 10 April 1975, *Hansard* (Record of Committee Hearings), pp.389-909 (especially pp.845-7).



Table 7Australian trade balance with Indonesia, 1959-76  
(\$A million)

Year	Imports	Exports	Balance
1959-65 (average)	53	9	-44
1965-66	62	5	-56
1966-67	57	7	-50
1967-68	55	14	-42
1968-69	60	21	-39
1969-70	49	35	-14
1970-71	23	39	+17
1971-72	14	57	+43
1972-73	14	75	+61
1973-74	17	107	+90
1974-75	19	175	+157
1975-76	25	161	+137

Source: Senate Standing Committee, 1975:68).

justice in these demands, it seems wise to direct tariff concessions as far as possible towards the products of small and medium size locally owned enterprises. Some of the pressure being brought against Australia on this issue originates from Australian and other western businessmen unable to find adequate local outlets for their products. Since availability of cheap labour is often an important factor in attracting foreign investment in Southeast Asia, coupled with protective tariffs and other forms of government assistance, exports by such companies to Australia could be held to represent a form of dumping. They will certainly be seen in this light by Australian trade unions whose members are threatened by unemployment.<sup>2</sup>

<sup>2</sup>For a fuller discussion of these issues see Eldridge (1978).

## Role of aid vis-à-vis the private sector

Compared with the efforts of other aid-supplying countries, notably Japan, the impact of aid in promoting exports and investment seems marginal. However, some companies have benefited significantly, while aid contracts probably helped in the initial establishment of several others.

While there is little doubt that some benefits accrue to Australian companies from the aid programs, it is open to debate whether this represents a deliberate policy aim or, as Australian diplomats insist, is merely incidental to assisting Indonesia's overall development. The evidence on this point is rather mixed. On the one hand until recently Australia has stuck fairly rigidly to the rule whereby at least two-thirds of supplies and equipment must, if available, be purchased from Australia. However, as noted in Chapter 2, management of aid projects is dominated by the public sector, while private sector participation has been on a subordinate contractual basis. Notions of partnership and complementarity between government aid and private sector activities, though pushed during Mr McMahon's period as Treasurer and Prime Minister,<sup>3</sup> have never been acceptable to the aid authorities, as was dramatically illustrated in the case of Cilacap.

The case for viewing aid as an instrument for promoting Australian exports and investment has been forcefully put by David McLean (1974:5-6):

While Australian aid has had a diplomatic purpose - supporting the pro-western Suharto regime - it has

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<sup>3</sup> See, for example, McMahon's address to an ACFOA sponsored conference on *The Australian Role in Joint Ventures and Investment in Developing Countries of Asia and Pacific*, Sydney, 14-15 April 1969, pp.1-9. This position is also supported by Professor H. Arndt, who at the same conference proposed a scheme whereby Australian aid funds could be used for minority equity participation in Australian-Asian joint ventures, which would be transferred over time in some agreed form to the Asian partner. The general thrust of this and similar proposals would be, in Arndt's words 'to dilute and eventually do away with the gulf between government in the business of aid and private enterprise in the business of investment' (pp.39-40).

also had two economic effects. First, it helped Australia build and penetrate markets in Indonesia and to maintain capacity use by dumping of surplus commodities and windfall profits for Australian companies. This effect has been strongest in the case of wheat, vehicles and metal exports.

Second, as a corollary to enlarging sales of Australian companies, it has helped to depress the productive capacity of Indonesia's less competitive industry and agriculture. It has established a dependent relationship, in which Indonesia requires a continuing infusion of parts and systems to maintain its infrastructure and consumption patterns. Such dependence has developed in wheat, telecommunications, bus and railway maintenance, water supply and other sectors. Furthermore it has contributed to Indonesia's reliance on foreign exchange for urban consumption needs and counterpart funds (income generated by the Indonesian government through the sale of Australian commodity grants) to support government operations.

These arguments are not supported by Table 8, which shows a steady reduction in the proportion of Australian aid relative to total exports. Directly aid-financed exports as a proportion of total exports to Indonesia fell from a high point of 56 per cent in 1968-69 to 13 per cent in 1974-75. Food aid has been steadily reduced, while BE/DK aid has been eliminated. However, it may be argued that these losses will be amply compensated by the expansion of export credits, guaranteed by the Export Finance Insurance Corporation (EFIC) established in 1975. In this way political criticism has been defused by channelling aid and export promotion into separate traffic lanes. So far as projects are concerned, a significant proportion of costs incurred relate to salaries of Colombo Plan personnel, thereby reducing the percentage of total exports which can truly be attributed to the aid program.

Only 18 out of 103 Australian companies surveyed in 1972 indicated that they had supplied goods or services to Indonesia through the aid program (see Appendix III for details). Products supplied by these companies included transmission and conveyer belting, pumps, hand tools, pipes and fittings, chemicals, and pharmaceuticals, radio equipment,

Table 8

Australian exports and aid, 1966-75  
 (Percentage relative to total exports in brackets) (\$A m.)

Year	Total exports	Total aid	Aid financed exports		
			BE/DK aid	Commodity aid	Food aid
1966-67	6.9	-	-	-	-
1967-68	13.9	5.9 (43)	4.8 (34)	-	-
1968-69	20.7	11.5 (56)	3.5 (17)	1.8 (9)	3.5 (17)
1969-70	35.3	14.6 (41)	5.0 (14)	1.7 (5)	4.0 (11)
1970-71	39.1	15.5 (40)	5.2 (13)	1.1 (3)	4.2 (11)
1971-72	57.2	17.8 (31)	6.0 (10)	3.2 (6)	4.3 (7)
1972-73	74.6	23.1 (31)	3.7 (5)	3.9 (5)	5.1 (7)
1973-74	106.5	21.2 (20)	1.6 (2)	-	9.8 (9)
1974-75	175.3	22.9 (13)	-	-	7.3 (4)

Source: Senate Standing Committee (1975:67).

carbon black, iron and steel products, building hardware and portable sawmills (for railway sleepers). Five companies had supplied consultancy services in relation to water supply projects at Bogor and Denpasar and port development at Cilacap.

Most companies favoured increased aid to Indonesia but preferred that aid be channelled bilaterally and maintain a recognizable Australian identity. In this way aid could help to authenticate Australian technical, commercial and manufacturing capacity and foster a sympathetic commercial environment. Companies generally supported the current emphasis on technical and administrative training and development of infrastructure such as telecommunications, roads, port facilities and so forth, though many recognized Indonesia's acute needs for rural development, health and education facilities and labour intensive industries to stimulate employment. Liaison between business and government was considered weak, while dissatisfaction was expressed at the comparative exclusion of the private sector from shaping Australia's aid program in Indonesia, compared with other countries, notably Japan. However, such opinions were mostly expressed in fairly mild terms and many companies appeared sympathetic to the official view of aid as a primarily humanitarian activity (see p.50, also Parsons, 1971). While Australian companies obviously support policies designed to promote their interests, many see these as being enhanced in a broader sense by a strong diplomatic emphasis on building good relations with Indonesia.

Evidence about the indirect effect of Australian aid programs in helping companies gain access to or familiarity with the Indonesian market is also rather limited, although some have featured prominently as aid suppliers. One example is James Hardie Asbestos Pty Ltd, which has been an important supplier of pipes and fittings for water supply projects. Originally these were manufactured in Australia, but the establishment of a joint venture, P.T. James Hardie Indonesia, at Tangerang near Jakarta, will provide a local source of supply. In June 1977, P.T. James Hardie Indonesia, in conjunction with P.T. Bakrie Tubemakers, won a contract worth \$16-18m. for supply of all pipes and associated equipment for water reticulation systems to houses, shops and factories in forty-two Indonesian cities.<sup>4</sup>

<sup>4</sup>*Overseas Trading*, vol.29, no.16, 19 Aug. 1977, p.458.

Consulting engineers in fields such as water supply, construction and town planning have gained useful experience through aid projects which help them secure other contracts. However, Australian consultants have been actively seeking opportunities in Asian countries in an increasing range of fields and there seems no reason to see their role in the aid program as decisive to their prospects. It appears that some Australian joint ventures were receiving aid supplies under Devisa Kredit aid. Assistance to consumer-oriented industries, such as condensed milk and ice cream, became increasingly hard to justify and has now been abandoned. Nevertheless, there is no evidence that any companies established markets or investments in Indonesia on the basis of Devisa Kredit who would not otherwise have done so.

On balance, aid must be seen as a marginal and incidental factor in promoting Australian business interests and not as a deliberate or major aim of government policy. However, this situation may be changing as a result of pressure from ASEAN countries for 'trade rather than aid'. This is accompanied by demands for more Australian investment in joint venture and regional projects. In 1976 there was a major policy switch, allowing aid funds to be channelled to local contractors.<sup>5</sup> In some cases this will involve Australian joint ventures. Thus P.T. James Hardie Indonesia has received funds from both ADAB and EFIC sources to finance its '42 cities' water supply contract, while a consortium of Australian companies linked to P.T. Luzipara Trading Co. has similarly combined EFIC credit with aid funds in relation to supply of electrical equipment.<sup>6</sup>

#### Other government support for the private sector

The Trade Commission in Jakarta provides a wide range of services to potential exporters and investors, including promotion and publicity, translation services, data collection and analysis and some measure of liaison with Indonesian government, business and financial institutions. Trade missions have been sponsored in a wide range of fields, though recently limited efforts have been made to assist Indonesia expand export markets in Australia.

<sup>5</sup> See Joint Statement by ASEAN Heads of Government and the Prime Minister of Australia, Kuala Lumpur, 7 Aug. 1977 (Dept of Foreign Affairs, *Background*, 12 Aug. 1977).

<sup>6</sup> Department of Overseas Trade and EFIC sources.

There has been little debate as to the costs and benefits to the Australian taxpayer of providing such assistance, though this would be hard to pin down in precise financial terms. It would also be difficult to distinguish between benefits to particular companies and the presumed benefit to Australia as a whole. However, since much of the Trade Commission's energies are spent in helping Australian companies to pinpoint specific business opportunities, the possibility of charging some form of consultancy fee could reasonably be considered.

It should be noted that economic data collection about Indonesia by the Australian government remains predominantly in the hands of the Department of Overseas Trade which must certainly bias policy planning towards an emphasis on the modern sector. Consideration could usefully be given to the establishment of a broader based economic intelligence unit which could provide consistent coverage of trends in all major areas of economic life in Indonesia, with staff capable of drawing on a wide range of local and international sources.

In December 1974, the Export Finance Insurance Corporation (EFIC) took over the functions of the Export Payments Insurance Corporation (EPIC) in providing insurance against non-commercial risks for overseas investment. In addition EFIC provides direct loans for the purchase of Australian exports, though in practice these are usually channelled through private commercial institutions. EFIC 'receives funds from the Budget at the rate of interest which allows it, where appropriate, to match but not lead credit terms offered in the international market' (Senate Standing Committee, 1975:122). In effect, the Australian government subsidizes the difference between the interest rate offered by Australian trading banks and the international rate for 'soft loan' credit. To some extent this has offset criticisms from the private sector that Australian export credit is uncompetitive, especially in relation to Japan. EFIC legislation also requires emphasis on 'demonstrable advantage, economic and social, of the investment to the host country' (ibid.), though no clear guidelines have been laid down as to how such factors should be weighed against Australian commercial advantage.

Major projects financed by EFIC to date include \$45m. for nickel exploration by INCO (Canada) in South Sulawesi, which in turn has contracted with some 40-50 Australian

companies for equipment, services and supplies, \$40m. for electrical equipment and \$10-11m. for water supply contracts mentioned earlier.<sup>7</sup>

### Australian investment in Indonesia

The general direction of Australian investment in Indonesia from 1966 to 1974 is indicated in Table 9.<sup>8</sup> Apart from Nicholas Aspro Pty Ltd, all Australian investment has entered Indonesia since 1966. (A detailed list of companies and their activities is provided in Appendix IV.)

Australian investment is entirely directed towards mining, transport and industrial products, though one company did have plans for manufacturing agricultural tools and other equipment for fishing and cold storage as part of the ill-fated Cilacap industrial estate venture. This reflects general trends indicated earlier in relation to exports. In fact exports and investment are related in the sense that Australian exports consist in part of machinery, equipment and supplies for Australian joint ventures.

The borderline between exports and investment is often somewhat blurred. For example, GMH Australia regularly supplies an Indonesian incorporated company, P.T. Udatin, with packs of ready-made Holden parts for assembly at its factory in Surabaya. This company is 100 per cent Indonesian owned (dominated by families from the Christian region of North Sulawesi), but since its inception in 1950 it has operated under GMH franchise and technical control. Cars are distributed by a sister company in Indonesia, P.T. Udatimex.

Several consulting firms have obtained contracts in such fields as engineering and construction, though it appears that Australia fares poorly in this field relative to American, Japanese or European companies. Investigations by the Department of Overseas Trade and other specialist groups suggest that even when prices are competitive and technical competence

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<sup>7</sup> Department of Overseas Trade and EFIC sources.

<sup>8</sup> According to lists issued by the Trade Commission in Jakarta, the number had declined to 40 by the end of 1976. However, this conflicts with a survey in July 1976 by Jenkins (1976) which puts the total of Australian companies with investments in Indonesia at 47.



Table 9

Australian companies' investment in Indonesia  
(Approved to 31 December 1974)

Area of activity	Number of joint ventures	Capital value (\$USm.)	Per cent of total capital investment
Transport equipment, parts, accessories	3	2.2	2
Construction equipment, materials, tubes, pipes, containers, glass, fittings	20	41.1	35
Other plant, machinery and equipment	4	18.6	16
Air taxi/charter	2	0.7	1
Mining, exploration, dredging	5	26.8	23
Steel products	3	19.7	17
Chemicals and gases (materials, products and processes)	6	3.8	3
Pharmaceuticals	1	1.3	1
Dairy products, ice cream	2	2.4	2
<b>Total</b>	<b>46</b>	<b>116.8</b>	<b>100</b>

Source: Senate Standing Committee (1975:157-9).

well established, Australian consultants suffer from their small size in international terms and lack experience in 'presentation' - that is glossy format, bland style, supported by the necessary social and financial contacts.

Most Australian enterprises could be described as examples of 'import substitution', a strategy adopted by Indonesia, along with many other developing countries, whereby domestic production of goods formerly imported is encouraged

under tariff protection and other controls.<sup>9</sup> From the foreign country's standpoint, investment is substituted for exports, often under less competitive conditions. While from Indonesia's viewpoint, short-term foreign exchange costs are reduced, the internal infrastructure required to service such industries often produces strains on the economy. Other distortions are produced by orientation towards a middle-class, partly expatriate, consumer market, mostly located in Jakarta and other major urban centres.

Some industries in which Australian capital has been accepted have subsequently been closed to foreign investment. Examples are hoes (*pacul*), dairy products, boot polish, printing ink, air taxi and charter.<sup>10</sup> One Australian-based company which was able to invest in a supposedly closed area of the economy was Philip Morris, which purchased a rundown factory at Malang, East Java, converting it from production of local brand kretek cigarettes, manufactured partly from cloves, to western-type cigarettes. Although further exclusion has been urged in many fields on grounds of self-interest or economic nationalist ideology, it should be noted that such closure also protects foreign interests already established in these fields.

Apart from direct investments, several Australian companies operate through wholly-owned Indonesian firms via management contracts. A notable example was P.T. Gollin Indonesia Development Company with whom Gollin and Co. Pty Ltd of Australia held a management contract until its provisional liquidation in 1975. Such contracts are especially relevant in the marketing and service fields, where Indonesian regulations oblige foreign business interests to operate through registered Indonesian agents. In such cases the

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<sup>9</sup> Cf. McLean (1974). For an extreme example of the effect of import substitution policies, see Nations (1975).

<sup>10</sup> Details of foreign industries closed to foreign investment are provided in *Lists of Priorities on Fields of Domestic Capital Investment and Foreign Capital Investment for the Year 1977*, Capital Investment Coordinating Board, Jln. Cut Mutiah No.7, Jakarta. Despite the wide range of products covered by this list, the Indonesian government insists that it represents only a broad guideline, which is open to negotiation. Indonesian officials express embarrassment at the circulation of unofficial lists in western countries.

degree of external control exerted varies according to the bargaining strength of the respective parties.

### Ownership of Australian companies

Of fifty-one companies listed in the 1975 Senate Report with investment in forty-six joint ventures in Indonesia (Senate Standing Committee, 1975), about nineteen appear to be Australian owned. Seven could reasonably be described as joint UK-Australian companies - including companies linked with BHP, such as Guest, Keen and Nettlefolds. Ten companies are dominated by UK interests such as Tube Investments, Guthrie, British Oxygen, Leighton Contractors and the Vickers group. Surprisingly only two companies appear to be directly American owned - Century Storage Battery Co. and St Regis Paper Corporation. American and British interests dominate British Tobacco, Nicholas, Comalco and Concrete Industries Monier. Two companies, VSL Pre-Stressing (Aust.) Pty Ltd and Westminster Dredging (Aust.) Pty Ltd, are Dutch dominated.<sup>11</sup>

Better known names among Australian-owned companies operating in Indonesia include James Hardie Asbestos, Repco, Sidney Cooke, Australian Consolidated Industries, Sims Consolidated and Wormald International. These companies have growing interests in the Asian region and some seem to be on the way to becoming 'mini' multinationals in their own right. The Australian Dairy Board, which also operates in several other Southeast Asian countries, produces condensed milk in a joint venture near Jakarta (P.T. Indomilk).

Companies not listed in the Senate Report include several small oil companies, such as Endeavour Oil and Australian Associated Oil Fields, consultants in construction and engineering fields, trading companies, and advertising agents, where the two major Australian companies involved, Ogilvie Mather and Fortune International, form part of a multinational chain with interests in the USA, Europe and Asia. American mining companies, such as Kennecott and Freeport International, whose copper-mining ventures in Irian Jaya are closely linked to operations in Australia, are not

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<sup>11</sup>The seven remaining companies could not be classified in terms of two published sources used in this section - viz. *Who owns Whom, Australasia and the Far East* and *Jobson's Year Book for 1974/5*.

officially listed as Australian investments but are important to the total picture. As another example, Broken Hill Associated Smelters, 50 per cent owned by CRA, sells refined lead from its Port Pirie plant to Indonesia, mostly for manufacture of car batteries, using a German-Indonesian joint venture company, P.T. Bitaragann, for distribution purposes in conjunction with local agents.<sup>12</sup> Last but not least comes the well-publicized operation of Australian racing interests, in conjunction with the Jakarta government, in horse racing (Pulo Mas Jakarta Racing) and Greyhound Racing (P.T. South West Pacific). It is doubtful whether this venture has proved as profitable as claimed by its critics. Operation of horse racing and associated gambling activities has increasingly been taken over by the Jakarta authorities, though Hong Kong interests are also reported to be involved.

### Joint ventures

The Australian private sector's operations in Indonesia cannot easily be classified into neat categories. Links between domestic and international capital are highly complex. The range of business activity is very wide, while great flexibility is evident in relation to organizational structure. It is possible to sign a contract to undertake technical or managerial services to wholly-owned Indonesian companies and thereby exercise considerable control. Some large international companies are allowed to incorporate subsidiaries as sole ventures, but this is against the trend of Indonesian policy. However, the most common organizational form for companies investing in Indonesia is the joint venture - a partnership between Indonesian and foreign investors, involving incorporation as a limited company (P.T.: Perseroan Terbatas) under Indonesian law.

Since the 1967 Foreign Investment Law, which opened all but a few major fields of activity to foreign investment, foreign investors have been encouraged, wherever possible, to find local partners. This has mostly been effected in a flexible and informal way through the offices of the Capital Investment Co-ordinating Board, which co-ordinates the processing of applications.<sup>13</sup> The advantages of joint ventures

<sup>12</sup>The German partner is Arnold Otto-Meyer.

<sup>13</sup>For a basic explanation of the original law and related issues of company organization, see *Investment in Indonesia Today*, prepared by the Technical Team on Foreign Private

from the foreign investor's standpoint centre on the Indonesian partner's local knowledge of business procedures, markets and government structure and ability to provide social contacts and to bridge cultural gaps. Out of twenty-six joint ventures listed in the 1975 Senate Report for which information is available about the distribution of shares held by Australian and Indonesian interests, the Indonesian partner held a majority share in only one instance. One other joint venture was split 50-50, while in six other cases the Indonesian shareholding was 40 per cent or over. In eleven cases the Australian shareholding was 80 per cent or more. In the case of ACI, Nicholas and Comalco, Australian equity participation was shared with other overseas investors.

However, the figures for Indonesian participation are unreliable and even fictitious in quite a few cases. Apart from the Chinese, Indonesians are generally unwilling or unable to contribute share capital, though they may sometimes contribute land at some notionally agreed value. Foreign companies often find the goodwill, services and protection of bureaucrats or military men sufficiently useful to subscribe nominal capital shareholding on their behalf or at least to lend for this purpose in lieu of future profits. In the absence of any effective system of company registration, companies are not obliged to publish information as to profitability, share issues, names of directors and so forth. This makes it possible for the real owners and operators of enterprises to remain unidentified if they wish, and for companies to be dissolved and to reform very rapidly. The Javanese custom of giving individual rather than family names makes the problem still more complex. For these reasons, comments about financial and political links between Indonesians and Australian or other foreign companies are bound to be fairly speculative.<sup>14</sup>

In the case of Australian joint ventures, there is a slight predominance of Chinese names and companies listed as partners. It is not possible to know, *prima facie*, whether

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13 (continued)

Investment, Government of the Republic of Indonesia, 1 Sept. 1968. Law No.1 of 1967 was subsequently amended by Law No.11 of 1970. Updated guidelines are issued periodically by the Capital Investment Co-ordinating Board, Jakarta.

<sup>14</sup> Some information on this score is provided by Short (1978).

these are acting in their own right or on behalf of others. A small number of names appear frequently as the nominal partner of foreign companies. For this reason, it is possible to overestimate the importance of such individuals, who are often notaries, accountants, consultants or other agents collecting some modest commission in return for their services, but without real power in the management of the enterprises they represent. From a political scientist's viewpoint, the search for generals, though fascinating, is not immediately rewarding, since their association with joint ventures is usually indirect. The extent of nominal shares held by military associates of joint ventures is therefore unimportant, since this is only one of several possible ways of securing payment or other remuneration. Though the military play a more directly entrepreneurial role in some regions, their main role is to provide political protection and administrative facilities rather than to participate in any direct way in running companies, for which purpose they often do not possess relevant expertise. In the longer term, access to international sources of capital through association with joint ventures may prove important in the development of an indigenous (*asli*) entrepreneurial class, though such an emergent class will have a strong military and bureaucratic base (Robison, 1978).

Some of the largest Australian investors have close links with the Suharto family. ACI, incorporated as P.T. Kangar Consolidated Industries, has established a glass manufacturing factory at Bekasi, some 25 km east of Jakarta. The nominal Indonesian partner, holding 15 per cent, is Mr B. Hasan, an adopted son of General Gatot Subroto, who is personally close to the President. (Subroto has been influential since the time of nationalist struggle with the Dutch in the Central Java-based Diponegoro Division, from which President Suharto originates.) Leighton Contractors is in partnership, through P.T. Leighton Indonesia, with P.T. Astra International Inc., undertaking various construction contracts in Jakarta. P.T. Astra, which is primarily involved in importing Toyota cars, has progressively expanded its interests in construction, cement, petroleum and timber and is also an agent for the import of compressors and tractor equipment. This company featured prominently in the January 1974 riots in Jakarta, owing to its close and allegedly corrupt links with the group of senior military then advising the President (ASPRI) (see Crouch, 1975-76; Simms, 1974). The name of the President's wife, Ibu Tien Suharto, is regularly

linked with Astra. P.T. James Hardie Indonesia has as one of its listed Indonesian partners Mr Santoso Harso Kusumo, an accountant and economic consultant, whose name appears frequently in relation to various joint partnerships with foreign companies, together with Mr Widodo Sukarno. Mr Sukarno has been a business associate of Brigadier General Sofjar, Chief of KOSTRAD (Military Reserve Command) until 1973, and manager of the chain of enterprises controlled by the foundation Yayasan Dharma Putra Kostrad, established by Suharto in 1964. Australian wheat supplies have also been channelled to P.T. Bogosari, owned by the foundation Yayasan Harapan Kita with which Ibu Tien Suharto is also closely associated (Crouch, 1975-76; McLean, 1974).

Other interesting personalities in partnership with Australian companies include Mochtar Lubis, the editor of *Indonesia Raya* and internationally known advocate for civil liberties under both the Sukarno and Suharto regimes, who has been a partner in the advertising agency, Fortune, the former Ambassador to Australia, Mr Sujitno Sukirno, listed in the 1975 Senate Report as a partner in Impact International, and Lieut. General Ibnu Sutowo, until 1976 head of the State National Oil Corporation, Pertamina, listed as a partner of John Holland (Holdings) Ltd.

Comment is frequently made about the extent to which Australian investment is concentrated in Jakarta. At the end of July 1976, twenty-five out of forty-seven investments, with an authorized capital of \$67 m. out of a total of \$144 m., were located in Jakarta, mainly in the chemicals and pharmaceuticals, food, building materials and construction industries (Jenkins, 1976). Direct partnership with the government of Jakarta reinforces this trend. Australian companies registered in 1974 as having partnership arrangements with the Jakarta government are shown in Table 10. Other links certainly exist through the Jakarta government's interest in local companies and its well known involvement in real estate, construction, hotels and entertainment, in which Australian companies have shown a fairly consistent interest.

The fact that many Australian companies are linked with powerful interests does not necessarily mean any close involvement with their other political or economic activities, beyond the immediately specified arrangement. Australian companies have apparently developed a reputation for caution in their selection of Indonesian partners. In seeking maximum political

Table 10

Australian companies with registered partnership  
arrangements with the Jakarta government, 1974

Australian Company	Name of Indonesian Incorporated Company	Activity
Rheem Australia Pty Ltd	P.T. Rheem Indonesia	Manufacture of drums and pails
Sims Consolidated Ltd	P.T. Pembangunan Jaya	Lead oxide, battery plates and components
Blue Metal Industries Ltd and Colonial Sugar Refining (CSR)	P.T. Jaya Readymix	Readymixed concrete
Victoria Racing Board	Pulo Mas Jakarta Racing	Horse racing

Sources: (1) Senate Standing Committee (1975:157-9).  
(2) *Direktori Perdagangan Industri dan Parawisata*, Jakarta, 1974:659-63.

and economic security they tend to opt for soundly-based Chinese companies linked to individuals with military connections as close to the President as possible. However, such connections do give Australian companies a definite stake in the political survival of their associates, which in turn is likely to influence their definition of 'stability' as an objective of Australian policy towards Indonesia in fairly narrowly conceived ways.

#### Political lobby groups

Since 1966 there has been a progressive expansion of international and regional institutions promoting the interests of the private sector. In 1971 the Australia-Indonesia Business Co-operation Committee (AIBCC) was established to assist prospective investors and 'work ... for the improvement of business conditions ... [and] ensure the continuation of



a stable relationship between the two countries - a relationship which understands the national heritage and aspirations of both countries and a relationship that will draw together regional neighbours and trading partners in a growing bond of friendship'.<sup>15</sup>

The inaugural President of AIBCC was Mr J.B. Reid, then chairman of James Hardie Asbestos Pty Ltd, with Mr W.J. Henderson, Director-General of the Associated Chamber of Manufactures of Australia, as Secretary-General. Membership at the end of 1975 had reached 160 individuals and companies, representing all major sectors of economic activity.

AIBCC works closely with a counterpart group in Indonesia, the Indonesia-Australia Business Co-operation Committee (IABCC).<sup>16</sup> The inaugural President was Mr Eddie Kowara, Vice-President of the Indonesian Chamber of Commerce, who is prominent in the construction business<sup>17</sup> and whose son is married to a daughter of President Suharto. Since 1971 semi-official 'seminars' have been held annually and attended by senior officials from both countries, plus a few invited academics. The tone of discussion tends to be bland, uninformative, even mildly evangelistic. However, both AIBCC and IABCC are highly regarded by the Indonesian government and this twin organizational structure is replicated in the case of several countries with whom Indonesia actively promotes business relations.

AIBCC's potential role as political 'trouble-shooter' was shown when, in July 1973, Mr Don Chipp, MHR, wrote three trenchant articles attacking corruption, deprivation of political rights and maldistribution of wealth in Indonesia together with Australia's uncritical support for the Suharto government.<sup>18</sup> The following month, the President of AIBCC, Mr John Reid, circulated a reply, which viewed the problem of corruption in Indonesia sympathetically in a historical

<sup>15</sup> Extracted from AIBCC Official Statement of Aims, Canberra, 1971.

<sup>16</sup> The Indonesian name is Dewan Kerja Sama Pengusaha Indonesia-Australia (DKSPIA).

<sup>17</sup> A company with which Kowara has been notably associated is P.T. Tehnik Umum.

<sup>18</sup> *Age*, 23, 24 and 25 July 1973.

context, placing as much blame on foreign investors as Indonesians - a pertinent argument in the wake of the Lockheed affair. However, the other two issues were ignored and Mr Chipp's criticism was dismissed as 'carping and destructive', giving only part of the picture. The article concluded with feeling: 'Indonesia has been subjected to more gratuitous, ill-informed and wilfully incorrect advice than almost any other country. Their inherent good manners and courtesy have not resulted in them saying, as they might, to those critics to move away and mind their own business.'<sup>19</sup> Yet Mr Chipp in fact appeared to be giving advice to the Australian government roughly along those lines, although the definition of what is legitimately Australia's business offered by Mr Chipp and similar critics would presumably not be acceptable to the AIBCC.

Two other regional organizations which play a vaguely defined quasi-political role in shaping economic relations between the two countries are the Pacific Basin Economic Council (PBEC) and the Private Investment Company for Asia (PICA).

PBEC was originally formed by the Australia-Japan Business Co-operative Committee, later including the US, Canada and New Zealand. Efforts are concentrated on the 'less developed countries of the region', with special emphasis on Indonesia. A Pacific Basin Investment Charter has been drawn up, providing guidelines to investors. PBEC's Human Resources Development Committee holds annual seminars to exchange information on business methods in the region and to study the role of private enterprise and the problems of investment in developing countries in the Pacific Basin area. To this end, both PBEC and the Australian government have financed provision of technical training and industrial experience in Australia (Senate Standing Committee, 1975:132).

PICA was originally sponsored in 1969 by the Japanese Committee within PBEC. Capital was subscribed by Japan, America, Australia, Canada and European countries. It appears willing to invest in business operations in the region on a fairly free-wheeling basis, though with a preference for joint ventures and local majority shareholding, especially where this may contribute to the development of regional or

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<sup>19</sup> Article circulated on behalf of the AIBCC, 6 Aug. 1973.

sub-regional economic and capital markets. Its ideological stance is made clear by support for investments in developing countries 'which maintain a favourable climate for investment, particularly those providing a reasonable degree of political, economic and monetary stability to carry on private business activities' (ibid.:133).

### Nationalist resurgence and foreign enterprises

Since around 1973 there has been increasing conflict over the role of foreign investment in Indonesia, reawakening earlier nationalist sentiment from the Sukarno period in various new forms. A greater share has been demanded for Indonesian ownership and management in joint ventures, more use of local labour and resources, greater diffusion of economic benefits and the elimination of foreign dominated 'enclaves'.

The January 1974 riots in Jakarta, though nominally directed against Japan in the person of Prime Minister Tanaka, were primarily directed against the group of presidential advisers (ASPRI) led by General Ali Murtopo which allegedly has close business links with Japanese interests. Earlier disturbances in Bandung in August 1973 were directed against Chinese businessmen,<sup>20</sup> but could also be seen as a broader attack on the common triangular joint venture configuration between foreign companies, Chinese capital and Indonesian military and officials.

As a result of these upheavals, the Indonesian government announced a series of measures to raise Indonesian shareholding in joint ventures, encourage entrepreneurship by *pribumi* rather than Chinese Indonesians, give Indonesians greater technical and managerial responsibility and encourage subcontracting to local enterprises while closing more fields to foreign investment. However, investors are repeatedly assured of the government's 'flexibility' in implementing these objectives and clearly no specific strategy has been spelled out to achieve them. A sceptic might conclude that the net effect will be to enhance the economic role of the military and the bureaucracy and to widen the range of interest groups which must be financially and in other ways 'accommodated' within the joint venture structure. Mr A.R. Soehoed, then Vice-Chairman of the Investment Co-ordinating Board,

<sup>20</sup>Peristiwa 15 Januari 1974, pp.175-87.

argued in New York in 1975 that the object of the new (post-January 1974) policies was 'to avoid possible friction between foreign and domestic business circles and for no other reason. A healthy interplay between private domestic and foreign enterprise is essential for sound development and an economy free from disagreeable politico-economic issues' (Capital Investment Board, 1975:p.4 of Soehoed's paper).

The government faces problems in expanding Indonesian participation in joint ventures in view of the limited availability of local capital, especially from *pribumi* Indonesian sources. Various government-sponsored financial institutions, such as Bapindo, have been organized to purchase shares, which in principle may be sold to local shareholders. It is clear that the institutions are themselves organized on a joint venture basis, often with majority foreign ownership, although the total institutional shareholding in individual companies is counted for purposes of valuation of Indonesian capital participation in joint ventures.<sup>21</sup> The National Bank of Australasia Ltd and the Commercial Bank of Australia Ltd are part of a merchant bank syndicate formed in 1974 which falls within this category (Senate Standing Committee, 1975:123).

Most of the announced changes have proved cosmetic in nature, as the Indonesian government seeks to satisfy rising economic nationalist demands at home, without alarming foreign investors, who are assured that such changes will help to promote a more stable business climate. At base, the objective is a political one of maintaining 'common interest between foreign enterprise and foreign investor on the one side and host government and indigenous entrepreneur on the other.

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<sup>21</sup>Capital Investment Board, 1975:p.7 of Soehoed's paper. During discussion of the Report by the Working Committee on Finance (p.12), Mr Machmud, representing Bank Indonesia, stated: 'the financial institutions are also given an opportunity to participate in equity in any foreign investment company and the financial institution is considered as an Indonesian Partner, even though you may have 80% owned by foreigners. I don't think it would be a great problem for you to find partners ... there are now about 11 financial institutions in Indonesia and most of the foreign partners of these institutions are prime banks from many countries.'

For it is only in this way that close and mutually profitable relations can be assured to grow between them, *at as low a political cost as possible*'<sup>22</sup> (original emphasis).

### Social and cultural aspects of Australian-Indonesian joint ventures

The 15 January Affair in 1974 brought to a head underlying dissatisfactions with the disruptive influence on Indonesian culture caused by the large-scale influx of foreign companies and their alleged unwillingness to adapt to local customs and institutions. At the same time, Indonesia's leaders were accused of aping western culture in the process of enriching themselves. However, the concept of 'Indonesianization' of enterprises contains some inbuilt difficulties. If the main emphasis is to be placed on absorption of Indonesian personnel into senior positions, then it is likely that more Indonesians will adopt western cultural forms unless enterprises are indigenously shaped and controlled from the outset. The Indonesian government's approach to questions of cultural assimilation reflect its general line towards foreign companies since January 1974, encouraging them to show respect and understanding for Indonesian national aspirations, to make some appropriate gestures but not to feel alarmed or in any way under attack.

Australian companies have generally showed themselves willing to co-operate with official policies to the necessary extent, though effectively avoiding any in-depth contact with the indigenous economy, society and culture.

There are many sides to this picture. To begin with, most businessmen consider Indonesia a more difficult country in which to conduct business than other Southeast Asian countries, because of its poor communications and other facilities, complex bureaucracy, corruption, weak legal system and problems of health and climate. However, a minority consider Indonesia a congenial country in which to operate, provided one makes an effort to understand local ways of conducting business. Paradoxically, Australian businessmen display remarkable optimism about Indonesia's long-term economic prospects - an outlook shared, at least until quite recently, by most of their associates in western countries.

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<sup>22</sup>Capital Investment Board, 1975:14 (address by Mr Adam Malik, Foreign Minister of the Republic of Indonesia, p.3).

A survey of Australian business attitudes towards joint ventures indicated that the prime motivation for their establishment was to foster good relations with the Indonesian government.<sup>23</sup> While advantages of legal and administrative convenience, local knowledge and contacts of Indonesian partners were recognized, they were considered less essential from a strictly technical and managerial viewpoint. For this reason some companies saw an agency or management contract as a convenient compromise.

Again, companies show a fairly negative approach towards training and promotion of Indonesian personnel, though this is often concealed by good-natured bonhomie and expressed willingness to meet the Indonesian government's requirements. Many companies consider that Indonesian personnel are unreliable and lacking in diligence and precision. These defects are attributed to their general approach towards work rather than to specific lack of knowledge. However, a significant minority hold an opposite viewpoint, while most companies recognized Indonesians' skill in social and interpersonal relations.

On balance, companies prefer to train Indonesians for marketing management positions rather than use similarly trained Australians, since marketing is viewed as an activity involving direct dealing with the Indonesian people. Where international marketing is involved, Australian personnel are preferred. In this context, some tendency exists towards equating 'local' with 'rural', although the focus of most companies' activity is plainly urban. Australian companies offer a variety of technical, trade, commercial and supervisory training, sometimes through formal external courses, but mostly in job-specific ways at the place of work. Contact with Indonesian professional or scientific institutions is slight, though some contact exists with universities in a few cases. The Indonesian government imposes no formal requirements on joint ventures for training local personnel, though since 1974 some general plan must be offered when applying to the Investment Co-ordinating Board.

Many companies send senior Indonesian personnel to

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<sup>23</sup>This section is based on a wide range of interviews with company personnel in Australia and Indonesia, together with a questionnaire to 103 companies undertaken during 1972-73 (see Appendix III).

Australia to gain 'practical' experience. Some measure of ethnocentrism is in evidence here, in that the emphasis is not only on acquiring specific skills but on sending Indonesians to see how 'things are done properly' in Australia. Ironically, such training is often regarded as unnecessary but as something done to appease Indonesian desires for gaining status through overseas travel - often cited by Australian company executives as if this were a uniquely Indonesian characteristic. In any case, companies have sponsored an increasing flow of Indonesian personnel for six to nine months' familiarization and training courses in Australia, sometimes in association with the Colombo Plan program.

On the surface, Australian companies display very positive attitudes towards learning the Indonesian language. Most consider it necessary for resident Australian personnel to learn Indonesian in order to promote satisfactory relations with Indonesians and effective internal operation and management of enterprises, though there is less inclination to see language ability as necessary for transacting business in Indonesia. Learning Indonesian is commonly seen as a desirable social accomplishment and a gesture of good will, but by no means a necessity. Many business executives consider it more important for their wives to speak Indonesian than to do so themselves. Generous expressions of approval by Indonesians at all social levels for minimal efforts at speaking Bahasa Indonesia no doubt reinforce this type of outlook.<sup>24</sup> In the work situation, some language ability is considered useful in order to communicate with workers and junior staff. However, English is considered essential for conducting business negotiations, since partial language ability could lead to misunderstanding on crucial matters. An English-speaking Indonesian notary is usually considered adequately competent for this purpose.

It is probably no easier for Indonesians to speak and understand English well than it is for Australians to gain adequate mastery of Indonesian. The commonly expressed view that the incentive to learn English and therefore the availability of English speakers will always be more than adequate at the very least displays a lack of reciprocity in Australian attitudes towards Indonesians. It may also have detrimental consequences in practical terms. Inability to read documents,

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<sup>24</sup> 'Apa kabar, Pak?' 'Kabar baik, terima kasih. Tuan sudah pandai Bahasa Indonesia!'

reports, surveys and so forth, or to have some direct understanding of the environment within which a business activity operates must place limits on company effectiveness - a point which is equally relevant in the case of government aid operations. Furthermore, if too much emphasis is placed on English language ability in selecting local personnel, this may be at the expense of Indonesians with better managerial, commercial or technical qualifications.

There has always been a hard core of reasonably fluent language speakers among long-term Australian residents. The business community was strengthened in this regard in 1966, when three Australian Embassy personnel left Foreign Affairs and established consultancy operations.<sup>25</sup> However, the proportion of resident Australians speaking Indonesian, except at a relatively superficial level, remains small. The proportionately larger flow of short-term visitors further reinforces the negative linguistic cultural orientation of the Australian business community, and no doubt the Australian community as a whole, in Indonesia.

Many of the views expressed by company personnel discussed in this section merit analysis in more sophisticated sociological terms. In a political sense, however, they do suggest serious limitations in the capacity of Australian companies to understand and respond to demands for 'Indonesianization' of companies and greater harmonization of their economic activity with Indonesian society and culture.

#### Political impact of the private sector on Australia-Indonesia relations

Between 1966 and 1975 both exports and investment increased dramatically, though subsequently there has been virtually no growth. The 1975 *Senate Report on Prospects for Trade between Indonesia and Australia* concluded blandly that 'Indonesia's prospects for economic development are brighter

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<sup>25</sup> Following the PIBA conference in August 1967 (cf. p. 13), eight companies established P.T. Nasihat as a consultancy enterprise to service the needs of Australian investors. P.T. Nasihat played an important link role with the Indonesian government during the early Suharto years. This has faded with the expansion of the Trade Commission in Jakarta and the Capital Investment Co-ordinating Board.



than at any time in her 30 years independence ... [Her] plans have experienced a good measure of success to date. There appears to be no reason why the course of steady development embarked on by Indonesia should undergo any sudden or immediate change.<sup>26</sup> Such optimism has subsequently been belied by events, notably the Pertamina crisis and the sharp fall in the flow of foreign investment (c.f. pp.176-7, 182-4).

It has been noted earlier that there is some tendency for general diplomatic relations between Indonesia and Australia to move between extremes of tension and cordiality. If the growth of joint ventures is any guide, the Australian private sector is particularly sensitive to changes in Indonesia's political climate. Between 1966 and 1974 their number grew from one to forty-six. Since the resurgence of economic nationalism in 1974 Australian investment in Indonesia has been virtually static, though it has been growing elsewhere in the Asian region, notably Singapore and Malaysia.

Little is known about the economic rationale which determines companies' decisions to invest in Indonesia or about the profitability of those which have become firmly established there,<sup>27</sup> but at least there are few signs of capital being withdrawn despite the current lull in new investment. It seems that most of these companies saw investment as the surest way in the long term to boost exports. Indonesia's richness in resources and the size of her population are believed by many Australian businessmen to produce a potentially unlimited demand for plant, equipment and products of all kinds. This underlying optimism is being constantly weighed by the Australian private sector against all the more immediate difficulties of investing there discussed earlier.

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<sup>26</sup>Senate Standing Committee (1975:4). This conclusion was strongly supported by submissions representing government and business viewpoints and by prominent academics such as H.W. Arndt and J.A.C. Mackie (who nevertheless urged greater attention to distribution aspects). Despite efforts by the Committee, critics of official policies failed to present an alternative case.

<sup>27</sup>A useful study of the rationale for investment of a sample of Australian companies 1967-72 is provided in Levinson (1972). A variety of other company experiences are recorded in the submissions of evidence relating to Senate Standing Committee (1975). See also Short (1978),

This probably goes far towards explaining its tendency to swing between extremes of optimism and pessimism in judgments about Indonesia's economic future, which are accentuated by the ideological form in which such judgments are often couched.

Optimism about market prospects may in fact prove to have been exaggerated in that insufficient weight has been given to the low levels of purchasing power of most Indonesians. Companies tend to argue that even if the urban middle class market constitutes only 3-5 per cent of the population, this represents enormous potential in absolute terms. There also seems to be a tacit acceptance of the idea that problems of maldistribution of wealth will be solved by a process of 'trickle down' to poorer groups as Indonesia's economy grows. Yet the growing emphasis on manufacturing exports by Indonesia and other Asian countries demonstrates the limits to the local market's capacity, at least in the short term. It is possible that, for this reason, Australian companies may become more willing to support the demands of Indonesia and other ASEAN countries for liberalization of Australia's import policies. However, there appears to be little interest in or support for other redistributionist aspects touched on in the 1975 Senate Report, such as the expansion of small industries or the recommendation that 'encouragement should be given to the effective use of labour-intensive "mid-level technology", wherever applicable, in investment and in development assistance projects'.<sup>28</sup>

The role of the Australian private sector in Indonesia must be considered in a regional and global as well as bilateral context. Activities in Indonesia are often paralleled by similar operations in other countries of the Asian-Pacific region and elsewhere throughout the world, which are co-ordinated through an increasingly complex institutional structure. Of increasing significance in this context is the triangular economic relationship between Australia, Japan and Indonesia. For instance, there appears to be a

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<sup>28</sup>Senate Standing Committee (1975:5). The substantive section in the Report to which this summary refers (5.3.2., pp. 54-5) recommends 'mid-level technology' as a means of countering critics who brand foreign investment as 'neo-colonial'. However, the implications of such a shift are not discussed.

close relationship between the Australia-Japan and Australia-Indonesia Business Co-operation Committees, both through overlap of companies and personnel and through regional organizations such as PBEC. The extent of co-ordinated planning in relation to projects, use of resources, finance and political aspects, is probably extensive. The CSIS (Jakarta) is known to have taken an interest in this question for a number of years and, for example, indicated some concern at the impact on the Japanese economy of economic nationalist trends in Australia during the 1973-75 period in relation to minerals policy.

As in the diplomatic sphere, the increasingly multi-lateral nature of private sector activity in Indonesia is scarcely a cause for wonder. However, it does cast doubt on nationalistic arguments often advanced by Australian business representatives for all kinds of government assistance in support of their interests in Indonesia. As we have seen, such demands are only partially successful in a narrow bilateral sense. In the broader context, it seems that far more powerful global and regional forces are operating to shape Australia's perceptions of Indonesia and definition of national interest in relation to her. Overall, the Australian private sector has had a strong influence in sustaining domestic political support both for the government of President Suharto and for the general strategy of development pursued by Indonesia since 1966.

## Chapter 5

### Australian voluntary assistance in Indonesia

The importance of non-government organizations (NGOs) in the overseas aid field lies in their ability to provide an alternative focus on development issues to that offered by government and business leaders. Although the number of people directly involved is not great, such aid agencies have proved able to present their ideas in a simple and popular form to fairly influential sections of Australian public opinion. Through contacts with politicians, academics, trade unionists, student, church and other groups they have contributed towards forming an articulate minority of often dissenting opinion on policy towards Indonesia. Partly for this reason and partly as a result of changing government policies, they have faced increasing difficulties in operating programs in Indonesia.

The main efforts of NGOs in the field of overseas aid have been concentrated in small-scale programs in agriculture, nutrition, population control, health, education and community development. Traditionally, many agencies have played a specialist role, though proliferation of their activities in recent years has led to growing confusion and overlap. In April 1977 the Australian Council for Overseas Aid (ACFOA) consisted of thirty-two full member organizations. Some major voluntary agencies remain outside ACFOA, such as the Australian Red Cross Society, while many smaller church and other bodies undertake activities which could loosely be defined as aid.

Most voluntary aid agencies are either national branches of international or regional organizations or have close links with parallel organizations in other countries. These international links probably provide an important sociological explanation for the demands regularly voiced by NGOs for Australian government aid to be placed on a multilateral rather than a bilateral basis. In practice, many agencies practise their own form of bilateralism by channelling their

assistance through associated organizations in recipient countries.

A limited number of agencies were selected for study, depending on the range and extent of their activities in Indonesia (which often prove difficult to distinguish from more general activities) or their importance within the Australian aid constituency. Apart from incidental references, non-AFCOA members are excluded from discussion, though it must be stressed that the omission or inclusion of any program does not by itself imply any judgment on its worth or effectiveness.

### Philosophy and aims of voluntary aid agencies

Two themes recur constantly in the literature and official statements of most aid agencies - the need to foster 'self-help', or 'self-reliance', and the prime importance of human and moral values in development. A related theme is that of compassion and the obligation of the world's rich, including Australians, to share their wealth with the poor majority of the world. Recently, this has changed to a more controversial interpretation stressing causal relationships between the wealth of developed countries and the poverty of those still underdeveloped.<sup>1</sup>

There is an inevitable vagueness about terms such as self-help and self-reliance, and whether they refer to individuals, groups, villages or whole societies. This makes it possible to ascribe widely different meanings to them. However, agencies increasingly stress community self-help in evaluating projects, reflecting a trend towards co-operative rather than individualistic styles of development.

As an example, Australian Catholic Relief's criteria for acceptance of self-help projects require identification of specific groups who are expected to benefit and evidence of effective local leadership.<sup>2</sup> Projects should use local

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<sup>1</sup>The thinking of some agencies seems to have been influenced by theories of dependency in the academic literature on development. Cf. discussion on pp.193-5 and associated references.

<sup>2</sup>*Australian Catholic Relief Mandate*, as approved by the Episcopal Committee for Development and Peace of the Australian Episcopal Conference, Sydney, September 1973.

resources, labour and skills, should be technically and economically sound in the local context and self-supporting after an initial period. Efforts should also be made to fit in with government policy and to gain financial and other assistance from local authorities.

'The aspiration towards 'human development' is still more vague. However, it brings into focus the social, personal and spiritual needs of people side by side with their material needs. Here again conflicting ideological interpretations have led to a tangled maze of definitions of the term development.

For example, in May 1976 Community Aid Abroad (CAA) adopted as part of its Policy Manifesto a definition of development as:

That process of change through which a society evolves values, political leadership and other forms of organisation necessary to mobilise and utilise resources in such a way as to maximise the opportunities available to the majority of its members, for realisation to the fullest possible extent of their potential as human beings (Geoffrey Currey in Mortimer, 1973:20-1).

The author falls into a common trap. 'Development' is a term which inevitably entails value judgments and is often ideologically loaded in a western liberal-capitalist direction, under the guise of apparently neutral, factual terminology.<sup>3</sup> However, radical critics of this approach, instead of abandoning the term, seeking a new one or better still making explicit value statements which can stand in their own right, continue to use it in much the same pseudo-factual way as their opponents. Thus Currey describes development as

The passage from the less human to the more human, as the expansion of opportunities for the realisation of human creative potential, the giving to all members of society the greatest possible latitude for the exercise and expansion of their

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<sup>3</sup> Myrdal (1970:Ch.1) draws out the practical consequences of such bias while some more obvious philosophical difficulties are discussed in Goldsworthy (1977).

faculties. It is a liberating process of change (Mortimer, 1973:20).

By contrast, a highly individualistic concept of development is provided by the official statement of purposes of the Junior Chamber International (to which Australian Jaycees is affiliated) which sees its role as

a personal development organisation which will provide members with opportunities for growth at their own pace and consistent with their individual needs and abilities, so enabling them to attain a realisation of their potential to benefit society.

The emphasis is made quite clear in the Jaycees' 'Creed' which declares amongst other things that 'economic justice can best be won by free men through free enterprise'.<sup>4</sup>

Unfortunately, few statements by voluntary agencies are so explicit in either direction as the above quotations and their true meaning is consequently harder to draw out. For example, the problem of definition emerged in a more practical context in relation to the Action for World Development program in 1972 run by the Australian Council of Churches and Australian Catholic Relief. This was intended as a popular style adult education course, geared especially to Christian groups in Australia. Its guide booklet, *Development is for People*, began from the position, based explicitly on the Christian idea of man made in the image of God, that 'development is the process by which all humanity moves to life with dignity and a just share in the world's resources'. On this basis

everyone has the right to life, liberty, security of person ... a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care ... necessary social services ... security in the event of unemployment, sickness,

<sup>4</sup>Information supplied by Australian Jaycees, Geelong, Victoria. Other points in the Jaycees' creed include faith in God, the brotherhood of man which transcends the sovereignty of nations, government by laws rather than men, the supreme importance of human personality and service to humanity.

disability, widowhood, old age ... the right to education (Action for World Development, 1972:1).

There follows a series of slogans such as 'Development is more than food - but when you're hungry that's where you start'; 'Development is more than education - but when you're illiterate that's not a bad place to start'; 'Development is more than trade, too - but a fair wage for a day's work is elementary justice' (ibid.:12, 14, 17).

As purely moral judgments these prescriptions seem thoroughly deserving of support, but such uses of the term 'development' serve only to confuse issues. Without labouring the point 'what is at issue is a preference for one type of political and economic organisation rather than another', in terms of the familiar (to political philosophers) issue of 'freedom from some constraint' as against 'freedom to be or do something' (see Weldon, 1953:69-75). This alternative is often equated with the conflict between liberal and Marxist interpretations of freedom. While the realpolitik of the development debate inevitably leads to philosophical conflict over definitions, opponents of the orthodox liberal growth model seem at times to be in danger of allowing the multiplication of conceptual jargon to detract from the practical worth of the alternatives they are proposing.

### Community Aid Abroad

CAA and the British agency OXFAM have combined operations in Indonesia, pooling field staff and administrative resources.<sup>5</sup> After 1972 it was found diplomatically convenient to operate all programs in the name of OXFAM. Since 1977 funding for new projects in Indonesia has been discontinued and funding of previous operations wound down, mainly owing to tensions arising from the Timor crisis though some informal contacts are retained.

Agricultural assistance has included installation of village pumps, dams and irrigation facilities, a rice mill, sheep and cattle projects and technical and managerial assistance to Kebun Jeruk, a large experimental agricultural station

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<sup>5</sup> Information in this section has been obtained from CAA Head Office, Melbourne, through field officers in Indonesia and through visits to many of the projects.



run in association with the University of North Sumatra, Medan.<sup>6</sup> In some instances, small private enterprises have been assisted. Programs of nutrition education have been undertaken through the Indonesian Council of Churches and through the Christian Foundation for Public Health (YAKKUM), Solo, Central Java. The trend, however, is generally against nutrition education in Asian countries, on the grounds that such programs tend to treat symptoms rather than causes. It has been found that poor farmers will sell higher protein crops, animals or fish to finance purchase of more basic necessities, though once a threshold of subsistence has been reached, some small proportion may be retained for domestic consumption.

CAA has supported publications by the Indonesian Association for Agricultural Economics (PERHEPI).<sup>7</sup> This is linked to the Agro-Economic Survey (a semi-autonomous research body within the framework of the Indonesian Department of Agriculture, which has been funded by the Agricultural Development Council, sponsored in turn by the Ford Foundation), and to the Lembaga Pembinaan Usaha Bersama, a government (GOLKAR) supported organization amalgamating smaller ones, notably Pantja Sila Farmers' Organization, in the field of agricultural extension, which nonetheless manages to retain some of its earlier voluntarist ethos.

Family planning projects have proved consistently popular with CAA branches in Australia. Apart from the usual clinic-type projects, support has been provided for educational and research programs, using leaflets, slides and puppets channelled through institutions such as the Indonesian Planned Parenthood Association, the Indonesian Council of Churches, the Demography Institute of the University of Indonesia, Jakarta, and the Population Institute, Gadjah Mada University, Yogyakarta.

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<sup>6</sup>Cf. pp.73-5. Kebun Jeruk was pioneered by a brilliant agriculturist, Mr H. Westenberg, an Indonesian citizen who had achieved considerable success in agricultural extension work with local farmers. In 1971 Kebun Jeruk was handed over to a foundation involving Pertamina (State Oil corporation), PUSRI (National Fertiliser Corporation) and the University of North Sumatra, Medan.

<sup>7</sup>Notably *Triubus* (monthly).

Several projects for village school construction have been supported in recent years. It has been common for the government to encourage villages to build schools by supplying a teacher if this is done. However, textbooks are usually not available or else beyond the means of most villagers. More recently, the broad-based critique that has been mounted against conventional school-centred programs in poor countries (Illich, 1971; Myrdal, 1968:Pt 3, Chs 31-3) has had its effect on voluntary agencies, which increasingly favour programs with more vocational or community education content. This is linked to a growing interest in village level technology.

CAA has become increasingly associated with local agencies in training cadres for village level extension work. There is a national trend towards development of cadres, encouraged by the Indonesian government and by student and youth organizations such as BUTSI (an Indonesian version of the Peace Corps or Australian Volunteers Abroad, operating on home territory) and PRAMUKA (Scouts' Association). Some radical trends are emerging, as training courses emphasize themes not merely of local self-help but of self-definition of needs and priorities by even the poorest social groups. The political effect is both to sharpen criticism of development planning 'from above' and to transmit new types of popular demands 'up the line'. Such trends will be difficult to reverse, since these ideas have been allowed to percolate very widely and are easily legitimized within the body of conventional wisdom and official rhetoric underpinning Repelita II (Second Five Year Plan, 1974/75-1978/79) (see also pp.156-8).

Wherever possible, CAA/OXFAM works through Indonesian NGOs, selected on the advice of the Field Director, which then handle all local aspects. As a rule, funds are not channelled to government departments, though in several instances government research or training institutes, such as the Social Welfare Institute, Bandung, receive funds directly. Individual university academics, notably from Gadjah Mada University, have sponsored several projects. In some cases heads of villages have received funds directly, though this is becoming increasingly difficult to arrange with the Indonesian authorities. Village authorities are usually unaware of the possibility of obtaining such assistance. CAA/OXFAM require a great deal of information of the baseline data type and this task usually proves too formidable without the intermediary good offices of an institution or

individual with relevant overseas contacts.

A high proportion of CAA assistance in Indonesia is channelled to institutions with religious affiliations, although this does not seem to be part of any deliberate policy. On balance there may be a sentiment in the opposite direction. However, religious-based institutions play a significant role in Indonesia in such fields as social welfare, health and education. No doubt factors such as cultural familiarity and established international lines of communication have facilitated the steady flow of approvals for projects sponsored by Christian agencies, who have also shown a more ready understanding of the participatory, socially 'progressive' philosophy encouraged by CAA/OXFAM.

Aid to Islamic institutions has mostly been directed towards supporting vocational training programs. The best known of these institutions, often visited by touring CAA groups, is the Darul Falah Vocational Training School near Bogor, West Java. Official CAA literature speaks warmly of local leadership there, but concern is expressed that there is too much emphasis in some Islamic schools on inculcating technical skills and too little on fostering discussion and participation. It also appears that religious education plays a far greater role in the total life of Islamic agencies than it does in their Christian counterparts. In part, assistance to Islamic institutions serves a diplomatic as well as developmental purpose in fostering good relations with the Indonesian government, by maintaining balance between Christian and Islamic institutions.

A significant proportion of CAA/OXFAM assistance in Indonesia has been channelled through YAKKUM (Christian Foundation for Public Health) based in Solo, Central Java, and its offshoot organization YIS (Prosperous Indonesian Foundation).<sup>8</sup> CAA's association with these organizations is worth studying in some detail.

YAKKUM was originally established in the 1950s by Dr Nugroho Gunawan who, as a general medical practitioner,

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<sup>8</sup>The full Indonesian titles of these organizations are Yayasan Keristen untuk Kesehatan Umum and Yayasan Indonesia Sejahtera. Accounts of their programs and philosophy are provided by *In Action* (Quarterly English Language Newsletter of CD-Yakkum), and *Vibro* (Quarterly English Language Newsletter of Yayasan Indonesia Sejahtera).

developed a strong conviction that conventional medical practice treats effects rather than causes. He therefore decided to concentrate on improving food production, nutrition, public health and education. Indonesian field staff under his guidance have developed an increasingly strong commitment to popular participation in selection, design and implementation of projects and developing skills and attitudes appropriate to this end.

YAKKUM leaders would admit mixed success in achieving these objectives. A brief survey carried out in 1973 in three kabupatens where YAKKUM projects had been in operation (see Appendix V for details) suggest that villagers' perceptions of the processes whereby projects are planned and implemented require more in depth study. As a generalization, it appeared that village people interviewed mostly saw the initiative for projects as stemming from three or four village leaders, in conjunction with YAKKUM representatives, and their own role as one of approval at a village meeting together with provision of labour. If true, such a conclusion would not be surprising in terms of the normal functioning of Javanese villages nor would it prove any more than the need to operate initially through established village structures and the difficulty of breaking new ground in the short run.

Nevertheless, the general approach pursued by YAKKUM and YIS appears to have generated considerable local support. A particularly successful scheme has been the community health insurance scheme (Dana Sehat), initially pioneered by YAKKUM in Solo.<sup>9</sup> This scheme relies heavily on local discussion, participation and leadership and has since been taken up in many parts of Indonesia, providing much needed health coverage at low premiums. A system of voluntary subsidy, adapted to local culture, is built into the scheme, whereby richer villagers pay higher rates or make up fund deficits in periods of high demand. The potential role of locally training and recruited cadres was seen more clearly as a result of this scheme.

A key link role with CAA has been played by an Australian volunteer, Mary Johnston, who was initially employed by the Indonesian Department of Social Welfare (Depsos) and has

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<sup>9</sup>The most extensive available account of this scheme is provided by Nugrohc (1972).

subsequently worked with YAKKUM and YIS for several years. She has played an important part in evaluating projects, editing English language publications and organizing training courses.

Because of growing pressures from sponsoring churches for a more explicitly Christian identification in its programs, growing restrictions on its work by local authorities, and differences of opinion as to how to deal with these pressures, it was found necessary to split YAKKUM in 1974. YIS was established as a foundation under the auspices of the Indonesian Council of Churches, but with sympathetic board members.

Before 1974, YAKKUM had placed increasing emphasis on the strategy of training village level cadres. YIS, whose membership is more oriented towards radical philosophies of community development, has concentrated its efforts almost exclusively in this direction. By co-operating with government sponsored training programs YIS hopes to survive the near universal takeover of voluntary training programs and thus spread its key ideas more widely. YAKKUM concentrates mainly on projects, though there appears to be some overlap with regard to the Dana Sehat health insurance scheme.

YIS's concentration on raising skills and consciousness in the first instance rather than on projects accords very much with recent directions in CAA's thinking. The trend towards cadres is particularly strong in Central Java, for which the old YAKKUM organization must be given some credit. The ferment of ideas relating to this type of development strategy is particularly strong in the Solo-Jogyakarta region. It is based on the work of numerous groups sponsored by the Gadjah Mada University, the Asrama Realino, a dynamic Catholic institution,<sup>10</sup> and many other local agencies whose field staff share a strong esprit de corps. Their work has a significant 'spin-off' effect on youth and student groups.

It is understandable that in these circumstances CAA has been considering concentrating activities in Central Java - a move which could be justified in terms of the extreme poverty of the region. At the same time the strength of

<sup>10</sup>Inspiring leadership in training, youth and student cadres and experimenting with small technology has been provided over many years by a Dutch priest, Father de Blot, who has also undertaken extensive work in relation to the families of political prisoners.

traditional culture and social structure offers some real possibility of pioneering alternatives to orthodox strategies of development.

### Australian Volunteers Abroad (AVA)

This relatively small program has had an impact on Australia-Indonesia relations over the past twenty-five years out of all proportion to its size. Usually only five or ten volunteers are in Indonesia at a time. While the particular skills which they bring no doubt seem insignificant in terms of Indonesia's total needs, the importance of the volunteers lies in the lines of communication which many of them have established, particularly in spreading Indonesian language and culture through the Australian education system and in academic fields such as history, politics and economics. They have also influenced indirectly the general climate of thinking about development issues particularly among voluntary agencies with whom they have structural links.

The forerunner of Australian Volunteers Abroad, formed in 1964, was the Indonesian Volunteer Graduate Scheme which had been pioneered in the early 1950s.<sup>11</sup> The basic concept, which emerged from an International Student Christian Movement Conference in Bombay in 1949, is that Australians possessing specific skills and qualifications should be employed by Indonesian government or voluntary agencies at local rates of pay and conditions. While it is not assumed that this will be sufficient to break down cultural barriers, it is intended at least to narrow the gap. The marked difference in lifestyle of volunteers compared with most other Australian expatriates has done much to colour their views of foreign aid and investment and caused many volunteers to advocate more socially, if not politically radical philosophies of development.

It is intended that volunteers, by working under Indonesian conditions, should gain a more realistic insight into problems of applying western skills at grassroots level. From such experience it has been seen that western scientists, technicians and other professional people assume the existence of a whole technological and administrative infrastructure to support their area of specialization, which simply does

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<sup>11</sup>For an account of the early years in this scheme see Southall (1965).

not exist in most of the situations in which volunteers work. They must therefore become very versatile, adapting and simplifying uses for their skills, while learning many new ones.

Currently, the emphasis is on promoting agricultural, technical and other vocational skills, volunteers being placed at relevant training institutions. There has also been a regular flow of English teachers to Indonesian universities. In recent years they have been linked to the English language upgrading program which forms part of the Australian Asian University Co-operation Scheme (AAUCS) (Angel, 1971).

Despite their skill and versatility, volunteers have tended to be younger and therefore less well established in their careers than the Indonesian authorities would wish. Otherwise the scheme still seems well accepted, though the rising status and living standards of many local white-collar and professional classes is creating an increasing social gap between young volunteers and their Indonesian counterparts, making it necessary for AVA to pay higher salaries to attract more senior professionals and tradesmen.

#### Australian Council of Churches

Australian Council of Churches' (ACC) assistance to Indonesia is channelled either through the World Council of Churches' (WCC) Head Office in Geneva or through its subsidiary organization, the Regional Christian Conference of Asia, to the Indonesian Council of Churches (DGI).<sup>12</sup> It is therefore hard to identify specific Australian-assisted projects or DGI projects, since most activities are run by local churches or specialized Institutes. DGI sponsors a wide range of programs. While some schemes seem to be soundly conceived, others, such as the provision of low-cost housing in Jakarta, which seem designed mostly to assist middle-class groups, including DGI staff, are of more doubtful value.

ACC's efforts to define goals of development have become entangled with an increasingly complex theological debate over justice, equality, self-reliance and so forth. Some basis for conflict exists between the WCC and Indonesia in the radical social and political ideas expressed at the WCC's

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<sup>12</sup> Indonesian title is Dewan Gereja-Gereja Indonesia.

international assembly in Nairobi in 1975 (WCC, 1975). Also, its official adoption of Paolo Freire's educational strategy of 'conscientization' (Freire, 1972a and b) and assistance to his Institute for Cultural Action, which is on Indonesia's list of banned foreign organizations, could lead to friction unless this approach is watered down considerably. This in fact appears to have happened in the program operated by the DGI's 'Development Centre' for training 'motivators' and extension workers at village level. (The concept of 'motivator' appears to be similar to that of 'change agent' in Freedom from Hunger sponsored programs.) The terms 'development' and 'liberation' are given obscure theological meanings in the churches' official literature, while their implementation is scarcely explained. Thus development education involves

the contribution of the churches in the ongoing development debate within the nation; this includes dialogue with government planners, with representatives of other religious groups, with university circles, with youth groups, publications, studies, etc. Seminars are also planned with key persons in development operations, in order to assess new methods for rural development to establish new forms of cooperation between church groups, government officials and people of other faiths (WCC, 1976:24-8).

Such programs can be interpreted and implemented in conservative ways, allowing the Indonesian government to import large doses of its own standard rhetoric about the need to develop appropriate 'mental attitudes'.<sup>13</sup> Also, the relatively middle-class social orientation of Indonesian Christian leadership at this stage makes a genuine grassroots program extremely hard to conceive and implement. On the other hand, such social groups appear mildly restless and in a general sense reflect the type of discontents expressed in the Jakarta demonstrations in January 1974.

Some conflict occurred between the Australian and Indonesian delegations at the Nairobi conference of the World Council of Churches in 1975 as a result of alleged Australian hostility towards Indonesia in relation to Timor. Attempts were made to reach accommodation between ACC and DGI representatives at a conference in Jakarta in December 1976, but

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<sup>13</sup>Kami harus waspada ... meningkatkan sikap mental ... ketahanan nasional' etc.



resulted only in an agreement to disagree. While Indonesian Christian leaders may have ambivalent domestic political attitudes, it is certainly embarrassing to them for Australia and Indonesia to clash openly at the diplomatic level. In such circumstances they will feel bound to adopt a common nationalistic front alongside their government. This will probably reinforce conservative tendencies internally and lead to more formalistic, diplomatically conceived joint programs with overseas churches.<sup>14</sup>

### Freedom from Hunger/Action for Development

Agricultural projects supported by Freedom from Hunger/Action for Development (FFH/AD)<sup>15</sup> include fertilizer application and extension projects in Central and East Java, pasture development for livestock, poultry, bee-keeping and orchard projects and a nutrition program in the Gunung Kidul, a chronic malnutrition area southeast of Jogjakarta. They have also supported population control and education programs through the Indonesian Planned Parenthood Association, which receives substantial funds from the World Health Organisation, and the Population Institute, GMU, Jogjakarta.

FFH Australia has in recent years extended its ideas well beyond its original concern with food and nutrition into wide-ranging efforts to implement the ideals of self-help and human development discussed earlier. Greater emphasis is now placed on development education in Australia, reflecting an international trend within FAO and related UN bodies.<sup>16</sup>

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<sup>14</sup>One suggestion for enhancing 'mutual co-operation' (*kerjasama*) is that Indonesian Christians be invited to conduct evangelistic missions among aborigines in Australia. Although unexceptionable on general Christian grounds, linguistically and culturally such a proposal makes little sense. It would also transgress ACC's own criteria stressing community self-definition of development goals, unless particular aborigines positively requested evangelization by Indonesian missionaries.

<sup>15</sup>Data in this section obtained from FFH/AD sources. In 1970 national Freedom from Hunger groups were renamed Action for Development.

<sup>16</sup>See, for example, FAO journals *Ceres: (The FAO Review)* and *Action for Development*, also *Development Dilemma*, produced by FFH/AD.

FAO places considerable hopes on its recently established Indonesian National Change Agent Training Programme.<sup>17</sup> This forms part of the Asian Regional Change Agent Programme, in which nine village-level development workers from Indonesia, Malaysia, Philippines and Thailand formed a study-training team during 1976, visited each other's field programs and shared experiences with other groups engaged in community development work. It was hoped that as a result such development workers, designated as 'change agents', would understand and define their own role more clearly. Subsequently, a follow-up program was established for Indonesia. Although conceived as a training program, it seems that a major aim is to achieve greater co-ordination between the numerous government and non-government organizations working in this field. According to official guidelines:

- A secular institution in the private (non-government) sector should act as the executing agency for the program.
- The institution must have an established rapport with relevant government agencies and be able to establish a dialogue between different socially, culturally and religiously affiliated rural development organizations.
- The institution should have experience in innovating in methodologies for training rural development workers.
- The participants/case studies in the program should represent both government and privately-sponsored rural development programs.
- The program should extend throughout Indonesia, not only in Java and Bali.
- The program should be designed so as to continuously relate conclusions and recommendations to the concerned government agencies for evaluation and possible adoption and support through government programs.

Existing FFH/AD programs of 'caderization' in the Upper Solo River Basin (Central Java), *pesantren* (Moslem rural school) programs in West Java, agricultural and village development in the Highlands of Irian Jaya and assistance to the 'Centre for the Development of Human Resources in Rural Asia' are to be associated with the 'change agent' program,

<sup>17</sup> Discussion of this project is based on the Project Statement (Project No. PR.74) issued by FAO on behalf of FFH/AD.

with a view to co-ordinating privately sponsored programs in Java and later in other provinces.

The definition of aims and methods in all these programs is vague and full of jargon, making it hard to judge their likely outcome. While the government seeks to appropriate ideas and skills and to bring voluntary institutions into some framework of bureaucratic control, the agencies seek means to legitimize their activities, while retaining maximum freedom of action. While often aiming to influence government policy, agencies find difficulty in handling new demands for co-operation when they are successful. Jargon may therefore be an index of sensitivity in their relations with the Indonesian government as well as reflecting political tensions within the agencies' own domestic constituencies.<sup>18</sup>

While FFH/AD no doubt hopes for a breakthrough towards some radical new style of local leadership, there is also a serious danger that through its efforts numerous smaller voluntary organizations could be absorbed under government control. The 'change agent' program will probably entail closer integration with the World Bank and the USAID, which has greatly increased its assistance to Indonesia, Thailand and the Philippines since 1975 in training middle level government officers in the field of rural development. The problem for its national groups is that Freedom from Hunger is not only a grassroots organization, but an arm of the United Nations and the international FAO bureaucracy. Most voluntary agencies, irrespective of ideology, suffer from the contradiction of planning at the top level to activate the 'grassroots', but FFH/AD experiences this dilemma perhaps more acutely than most.

### Foster Parents' Plan

Not all agencies share the ACFOA philosophy of community development and self-reliance, as is illustrated in different ways in the case of Foster Parents' Plan and World Vision.

The most controversial feature of Foster Parents' Plan's

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<sup>18</sup>For a systematic treatment of issues involved here see Lissner (1976). See also *New Internationalist* (Journal of Oxfam and Christian Aid, UK) No.45, Nov. 1976 (edition entitled 'The Politics of Charity: Voluntary Aid and the Third World').

work is its direct assistance to specific children.<sup>19</sup> Critics argue that this approach isolates children from their families and the local community of which they are a part, though the Plan's organizers claim to operate within a framework of professional social work.

During the financial year ended 30 June 1975, around 11 per cent of total field costs in Indonesia were devoted to community development activities, compared with 45 per cent for direct provision of cash, gifts and medical care for children and families.<sup>20</sup> The Indonesian field staff favour the channelling of a much greater proportion of assistance to community development programs. Expatriate field staff also seem to share this view, but overseas donors continue to insist that their aid should be identified with specific children, whose families must write regularly to their benefactors in Australia as a condition of assistance. This entails considerable translation and postage costs (though in the case of US aid, costs are reduced by carrying letters in the diplomatic bag!).

The Plan's work in Indonesia is concentrated in Bali and in the Jogjakarta region of Central Java, with special emphasis on the Gunung Kidul region and the city of Jogjakarta itself. Over 100 Indonesian field staff are employed. In 1975, families selected for assistance received \$7.50 per month in cash and supplies in the city and \$6.50 outside. Projects supported include provision of wells, drainage and sewerage systems, communal bath houses and toilets in kampung areas (often unused or unusable). Close contact is maintained with other voluntary agencies such as YAKKUM and YIS from which the Dana Sehat concept has been taken up. These contacts strengthen trends in favour of a community development approach.

This example reflects the broader problem of balancing the emotional needs of many voluntary activists in western countries for some personal identification with those who receive aid against concrete local needs at the receiving end. While Foster Parents' Plan leans too heavily in the first direction for many critics, the problem nonetheless

<sup>19</sup> This section is based on data supplied by Foster Parents' Plan and interviews with field staff in Jogjakarta.

<sup>20</sup> See *Plan Digest*, Foster Parents' Plan of Australia, P.O. Box 455, South Melbourne, Victoria, Dec. 1975, pp.10-11.

exists in one form or another with all types of aid. The difficulty is to devise approaches which channel emotional energies at the donor end as constructively and realistically as possible.

### World Vision

World Vision (WV) is heavily oriented towards sponsorship of individual children and families. However, unlike Foster Parents' Plan, the explicit link between aid and evangelism in WV's work is a constant bone of contention within ACFOA. WV explains its role as

a ministry to total need - physical, spiritual, emotional. Nationals of the child's own culture present Christianity both by example and teaching. It is an integrated and natural part of the program. In no sense is Christian profession a condition of receiving aid. Youngsters are helped on the basis of need.<sup>21</sup>

Another statement indicates that a child has eight basic needs: the first seven are fresh water, a decent place to live, education, good food and clothing, health care, social welfare, protection at work. Finally, in terms of 'Helping the Whole Child' it is stated that

World Vision gives help to people of any and every religion, but we believe that they should be given the opportunity hear about Jesus, to understand His claims to be God and to know of His desire to include them in His kingdom (ibid.).

Allegations are made from time to time that parents of children sponsored for assistance must agree to their receiving Christian education as a condition of assistance, though published evidence is not available on this point.

Christians of all kinds are deeply divided about how far the churches should be involved in political and social issues compared with more 'spiritual' and evangelistic concerns. World Vision could reply with some justice to critics both inside and outside the churches that they are

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<sup>21</sup>'Is there Room in Your Family for One More?', World Vision Childcare, Melbourne, 1975.

at least responding, though perhaps belatedly, to demands that Christians should be involved in the material needs of the world's poor. While efforts should be made to achieve some effective distinction between aid programs and evangelism, critics of any kind of evangelism are in effect opposing the free international flow of ideas as even a notionally desirable goal. The exchange of religious or other ideas between 'West' and 'East' is no longer by any means a one-way traffic.

A good part of World Vision's controversial image seems due to its style. The organization is certainly dynamic, but its literature is often strident.<sup>22</sup> Also, although a member of ACFOA, World Vision has developed the habit of conducting its major appeal for funds one month before the annual Austcare-Freedom from Hunger door-knock - traditionally a combined ACFOA effort. Its successes in fund-raising arouse considerable resentment as a result.

In Indonesia, World Vision claimed in 1976 to be sponsoring some 12,500 children in 147 homes.<sup>23</sup> For this purpose, fourteen social workers were employed - a far lower ratio compared with Foster Parents' Plan. It also supports programs in such diverse fields as rice and vegetable cultivation, irrigation, pigs and livestock, nutrition and homemaking training for mothers, health and welfare. 'Survival kits' of materials such as basic kitchen utensils, nails, buckets, ropes, blankets, mosquito net, hoe and palm thatch for roof repairs have been provided to transmigrating families while a basic emergency kit was provided to some 18,000 families following floods in East Java in 1975. In general, World Vision argues publicly in support of goals of aid and development conventionally accepted before the 'new wave' of development education in the early 1970s.

Assistance is channelled exclusively through local church groups. World Vision began work in Indonesia in 1961, pioneered by the Reverend Heini Germann-Eddey and sponsored

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<sup>22</sup> As an example, the pamphlet *World Vision*, April 1976, explaining the concept of the 'Love Loaf', which draws on an interpretation of the miracle of the feeding of the five thousand, begins with a headline: 'Mr Mujib Khan and his FAMILY OF SIX would like to eat THE SCRAPS FROM UNDER YOUR TABLE at your earliest convenience.'

<sup>23</sup> World Vision Sources.

by World Evangelisation Crusades. Headquarters were established in Malang, East Java, whose Bible Institute has been an important centre for evangelism of a more fundamentalist kind.<sup>24</sup>

Finally, World Vision played an active role in assisting refugees from East Timor in 1975. To date, no other Australian aid agency has been allowed to operate in any part of Timor, owing to the support of many ACFOA members for the Fretilin cause. By contrast, World Vision is active in West Timor and is in a strong position to gain early entry to the former Portuguese territory if and when the Indonesian authorities consider they have established adequate territorial control.

### The politics of voluntary aid in Indonesia

This summary has shown the wide range of programs and operating styles of Australian NGOs in Indonesia, which are in turn linked to a complex international network. In this context, enormous difficulties are encountered in matching external assistance with local resources, skills and administrative procedures, though such an environment can also prove stimulating, judging by the enthusiasm and persistence of most Indonesians and foreigners who work in this field.

Regulations under which non-government agencies operate have tightened in recent years and their application has become increasingly uncertain. The government's approach seems ambivalent. On the one hand it welcomes external assistance, on the other it discourages rival programs from developing outside its control. While recognizing that overseas agencies can often influence important areas of public opinion in the west, they are also anxious about the possible disturbing influence of foreigners 'wandering around', especially in villages. Foreign residents working short or long term in Indonesia must obtain sponsorship from the relevant local institutions and government authorities. Rules relating to registration of residence and movement are equally tight both for foreigners and Indonesians.

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<sup>24</sup>For an interesting, though highly coloured account of spiritual and evangelistic trends against a turbulent political background in the early years of the Suharto government, see Koch (*c.*1970). This book had a remarkable influence on perceptions of Indonesia in evangelical Christian quarters in western countries.

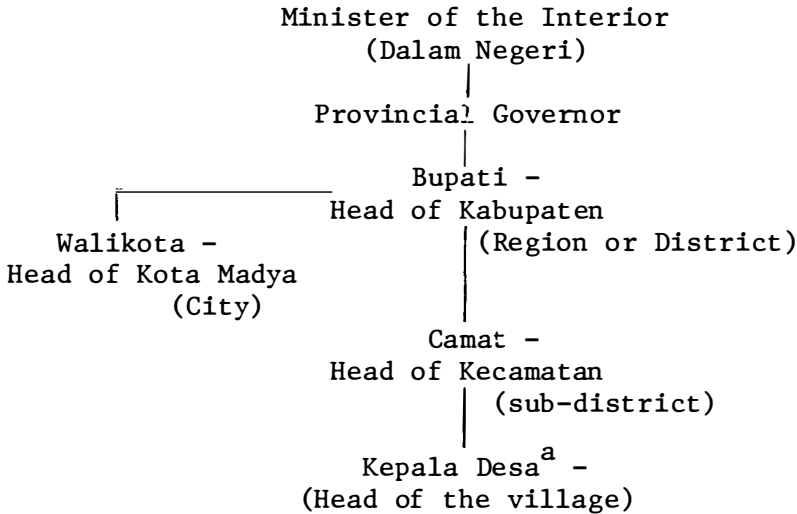
All external assistance must operate within the framework of the 1973 Regulation governing Overseas Co-operation and Technical Assistance, issued by the Minister for Home Affairs (Dalam Negeri), Lieut. General Amir Machmud, in September 1973.<sup>25</sup> Government bilateral assistance and assistance from United Nations agencies are covered by general agreements with the relevant department plus the Department of Foreign Affairs. Non-government agencies must sign agreements covering general objectives and operating procedures with relevant departments. All projects must be reported and in theory cleared by a special Co-ordinating Committee within the Cabinet Secretariat representing key departments.

On the ground the situation is far more complex, requiring some understanding of the relationship between national and local levels of government. On p.142 is a diagram outlining the standard chain of command within the Department of Home Affairs. A parallel, but not precisely similar chain of territorial command operates for the military, police and security forces.

An important feature of the Suharto period has been the erosion of traditional village autonomy. This has occurred in two main ways - through the subordination of the village head to higher levels of government, and in many cases the replacement of older village heads by young graduates or military men, and through constant expansion of tasks assigned to the traditional village administration, with consequent need for assistance and supervision by outside technical personnel. The near total ban on political parties operating below kabupaten level between elections (according to the theory of the 'floating mass' usually attributed to General Ali Murtopo) has had the effect of making the bureaucracy, especially the Dalam Negeri structure described on p.142, the only channel through which wishes and needs of villagers have any hope of being transmitted to higher levels of government. In the course of time, the village system may reassert its strength in some modernized form. Already there appears to be a policy of greater devolution of decision-making to kabupatens in the form of planning units to mirror those at provincial level. However, the weight of personnel and expertise is still concentrated at higher levels of

<sup>25</sup> *Peraturan Tentang Kerjasama Dan Bantuan Teknik Luar Negeri*, Ditetapkan di Jakarta Pada tgl. 7 Sept. 1973, Menteri Dalam Negeri, Amir Machmud.





a Nomenclature varies in different parts of Indonesia - e.g. Lurah in Java.

Note: Cities follow the same lower level subdivisions as other regions. In some areas an authority comprising several sub-districts exists immediately below the kabupaten level, known as a *kewadanaan*.

government, leaving the villages unable to come to grips with the diversity of demands pressing in on them.

Non-government agencies, whether or not supported from overseas, developed their basic operating styles during the Sukarno period, when villages enjoyed a greater measure of autonomy, and relationships with government authorities could be developed on a far more *ad hoc* and personalized basis than is now possible. Furthermore, the relative lack of government programs in most fields gave non-government agencies greater scope for operation. Since part of their philosophy has consisted of playing a catalyst role in stimulating development, voluntary agencies are in many ways victims of their own success. While ideas of community participation and self-reliance are incompatible with undue government control, most voluntary programs cannot be sustained above a minimum level without supporting government expenditures. The key question at this stage therefore is whether government and non-government agencies can work together so that the voluntary sector does not simply become an arm of government and so that local people still have a chance to make some real contribution.

The 1973 Regulations specify that local authorities or non-government institutions (Badan Sosial) receiving offers of overseas assistance must report this fact to the Minister for Home Affairs via the Provincial government. The Minister in turn directs requests to the Cabinet Co-ordinating Committee (Sekretariat Kabinet), which designates the relevant government instrumentality as Project Authority. Often authority is delegated to provincial governments and eventually down to the local authority which made the initial request.

Fortunately, these regulations are rarely applied in their full rigour or all activity would grind to a halt. Some agencies, such as Save the Children Fund, which supports a vocational training centre at Jombang (East Java),<sup>26</sup> and Project Concern Australia which has been operating a community health complex at Mengwi (Bali), have effectively merged their programs with those of the government. However, others, especially those with more radical social philosophies, have found the difference in outlook still too great and the prospects of achieving basic goals too slim to accept the loss of autonomy which such a way of working would entail. More cumbersome arrangements are still possible, as can be illustrated from the experience of CAA/OXFAM.

Based on agreements signed with the Departments of Foreign Affairs (October 1972) and Internal Affairs (March 1973), an agreement was drawn up with the Department of Social Affairs (Depsos) in 1974,<sup>27</sup> which provided the formal basis of operation, though in practice leaving considerable scope for improvisation as to detail. A crucial role is played by a Bupati in encouraging or discouraging a project application and in clearing lines with higher authorities. CAA/OXFAM could still send funds directly to the project, providing Depsos was notified. The Project Authority was accountable to CAA/OXFAM, Depsos and, according to the 1973 regulations, Dalam Negeri. In practice reports and accounts were sent via the Bupati. In the case of its Training School at Bandung, Depsos insisted in 1975 that funds be sent via the Department rather than direct to the School as previously. Where funds were paid directly to any level of government, this was usually done at a public ceremony to provide some measure of safeguard. In general these arrangements held good though

<sup>26</sup>This program has also been funded from ADAA/ADAB sources.

<sup>27</sup>CAA/OXFAM sources.

skirmishes occurred from time to time, depending on the nature of the project and attitudes of local authorities.

The 1972 Agreement with Foreign Affairs designated both Dalam Negeri and Depsos as Indonesian counterpart agencies. However, this represented little more than a token gesture towards inter-departmental harmony. By 1971, Dalam Negeri had taken over all community development programs from Depsos in rural areas. During the Sukarno years Depsos had encouraged the establishment of village development institutions (Lembaga Sosial Desa), parallel to but by no means identical with the village administrative hierarchy. Despite much rhetoric, the LSDs in some cases did achieve significant levels of popular participation. In 1971, Dalam Negeri placed them under the control of the village administration and so under its own direct control. Lack of experience by Dalam Negeri, together with a more authoritarian and hierarchically structured view of community development, have effectively killed the LSDs as potential agents for social change. The only significant work retained by Depsos in rural areas relates to training of social workers and its emphasis has consequently shifted to more limited concepts of 'welfare' and 'rehabilitation'.

These changes caused considerable difficulties for several institutions receiving funds from CAA, such as YAKKUM, YIS and the Institute for Social Development (IPM), Malang (East Java), which for many years had worked in a close relationship with Depsos. IPM's programs were in fact curtailed in 1971 as a result of direct intervention by Lieut. General Amir Machmud.<sup>28</sup> It seems that Dalam Negeri officials regarded the personalized, and apparently unstructured approach to village development adopted in training programs as subversive and were particularly suspicious of the Instit-

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<sup>28</sup>IPM provides intensive 4-year training courses, with students spending half of each year in one village with which they become familiar in depth. Study of village administration also forms an important part of the course (Janssen, 1971). It appears from the foreword to the publication cited, by the Minister for Social Affairs, Dr A.H. Tambunan S.H., that close sympathy and shared objectives existed between Depsos and IPM Malang. Up to 1971 the Institute also ran short courses for government officers and other interested groups, but Dalam Negeri apparently changed its policy after some of its officers, disliking its emphasis, withdrew from a course after two days.

tute's Rektor, Dr Jannsen, a Jesuit priest who had lived for many years in Indonesia.

The so-called Suburi affair in 1971 was cited as a paradigm case of cultural ineptitude and insensitivity by foreigners and used as a blanket pretext for tightening regulations against overseas personnel working in rural areas. An American research institution had conducted a survey of village opinion using random sampling techniques. President Suharto's name was placed third in the list of choices offered to respondents, but despite the President's success in this mini popularity poll a great furore ensued. The fact that this survey had been conducted under the sponsorship of BAKIN, one of Indonesia's national intelligence agencies, did not suffice as an excuse. The issue was probably linked to inter-departmental conflict between Dalam Negeri and Depsos discussed above. 1971 was also an election year in which Dalam Negeri, in conjunction with the military, exercised heavy-handed control in rural areas (K.Ward,1974).

During 1972 a program covering some seventy villages in the poor and dry Gunung Kidul region of South Central Java was cancelled by order of the Minister. This program had been initiated by the Indonesian section of the World Assembly of Youth (WAY) with assistance from World University Service (WUS), UNICEF and Freedom from Hunger, Australia. It appears that the government disapproved of the emphasis on 'consciousness-raising' and local participation and the extensive movement of outsiders into villages entailed by this program. Interestingly, by 1974 WAY Indonesia, with the support of the Foreign Minister, Adam Malik, was making approaches to Freedom from Hunger to transmit the balance of funds to a restructured program in Gunung Kidul. This was to be operated under the auspices of the Indonesian National Youth Committee (KNPI), a government front organization established within the framework of SEKBER GOLKAR (Secretariat of Functional Groups), covering military, police, public servants and all legal professional, labour and farmers' organizations. WAY was by then alleged, as part of the general fallout from Watergate, to be operating as a CIA front in at least some countries (Agee, 1975:624). Freedom from Hunger refused the request, though discussions were continued in relation to a similar project in East Java.

During 1973 and 1974 YAKKUM was ordered to restrict its activities in the Kabupaten of Sragen, adjoining Solo, where

it had been operating several programs assisting villagers in school construction, poultry and goat breeding, pasture programs, health services and training courses. Initially, several practical courses popular with women and teenagers were discontinued in Sumberlawing due to the disapproval of the Camat, although similar courses sponsored by the government failed to achieve comparable popularity. Later a training program for local cadres in agricultural extension work was abandoned. In the neighbouring Kecamatan of Gemolong the local authorities for a while accepted YAKKUM assistance in training kecamatan and village officers, formed into cadres under government auspices. However, a change of Bupati in 1974 brought all projects and training programs in Sragen under direct government control.

Apart from local and personal factors involved in this unhappy chain of events, they do represent an example of the types of pressure building up. In the neighbouring Kabupaten of Sukoharjo, YAKKUM seems to have maintained an emphasis on projects rather than on more controversial community development ideas. However, YIS decided to concentrate exclusively on training cadres and in 1975 were given an important role in training and recruiting cadres in the Kabupaten of Banjarnegara near Cilacap. It is intended that eventually Dalam Negeri personnel at lower and middle levels of government may come to accept the key principles of community development pioneered in YIS and YAKKUM programs.

Some prospect exists that this type of arrangement may provide a framework for co-operation between voluntary agencies and the Indonesian government. However, there is uncertainty about the attitude of the Minister, Lieut. General Amir Machmud, who as a Moslem is believed to object to the Christian basis of support of many agencies. He also adopts a strongly nationalist outlook towards foreign influences, though Department officials informally insist that he is not opposed to overseas agencies as such, providing they do not attempt to 'fly the flag' in rural areas. Also, some embarrassment can occur when a village receives more money from overseas than from government sources. In general, NGOs need to adopt a 'low profile' and allow the government to claim the lion's share of credit for successful programs.

According to the strategy laid down in Repelita II, kecamatans are designated as Development Working Units, based on population density and resources in each area, with

responsibility for co-ordinating village development plans.<sup>29</sup> Kabupatens are to constitute development centres, consisting of one or more growth centres providing education, health, market facilities and other services, with the surrounding rural areas constituting 'hinterlands' providing raw materials, agricultural production and manpower. Currently expertise is concentrated at higher levels of government and therefore at a progressively greater distance from specific points of need in the villages, though in 1975, Dalam Negeri signed agreements with USAID and the World Bank for training provincial (Bappemda), kabupaten (Bappemka) and kecamatan staff.

In these circumstances the prospects for non-government agencies offering expertise to government programs is bound to diminish, unless government officials can be influenced towards a philosophy of popular participation in local development planning. There is some trend in this direction, assisted by the movement for small technology which is encouraging more flexible attitudes among local officials. Overall, overseas agencies have shown considerable flexibility in organization and cultural styles and in ensuring that local leadership comes to the fore. Nevertheless, their future prospects are uncertain and will depend to an important extent on their political influence outside Indonesia and the effectiveness of their work in the field of 'development education'.

#### Political role of NGOs in Australia: impact on Australia-Indonesia relations

In recent years an increasing number of NGOs have come to believe in the need to expand their political role within Australia and some have adopted fairly radical positions. Up to the middle or late 1960s NGOs pitched their efforts primarily at a humanitarian level, making Australians aware of their affluence and the need to share some of their wealth, supported by a series of quasi-political campaigns to increase the level of Australian government aid. Although such efforts have remained part of the agencies' stock in trade, the power structures and life-styles of western society have increasingly come to be seen as the fundamental cause of under-development.

<sup>29</sup>Rural Development in Indonesia, English language document published by the Directorate General of Rural Development, Department of Home Affairs, Republic of Indonesia (undated, c. 1975) indicates the Department's view of its role in rural development strategy. See also Ibrahim: 1976.

This has led to a sharper questioning of the value of aid, although this has only had a limited impact on NGOs' overseas programs.

During the early years of the Suharto government, the voluntary aid fraternity followed a line towards Indonesia in many respects similar to that of the Australian government, welcoming the advent of an apparently more moderate and pragmatic government whose prime concern lay with promoting economic development. As a result there was a rapid expansion of voluntary aid to Indonesia after 1966. Differences of political viewpoint certainly existed on issues of human rights, the nature of military rule and the desirability of American influence on the new government, but the common Australian view of Sukarno as having ruined Indonesia's economy was largely shared by voluntary agencies.

Several strands of opinion have influenced the thinking of NGOs in relation to Indonesia's development needs and priorities. Academic specialists have played a fairly influential role, because popular knowledge about Indonesia is limited. From 1966 to about 1971-72 academic debate in this field was dominated by economists, but since then political aspects have come more to the fore. So far as the earlier period is concerned it is worth contrasting the approaches of two economists from the Australian National University, Professor Heinz Arndt and Dr David Penny.<sup>30</sup>

Arndt's interests centre mainly on policy-making at the macro-level while Penny's work has centred on micro-level case studies. For the most part Arndt has advocated a pattern of growth in the classifal liberal-capitalist mould. Although an agricultural economist by training, Penny believes that an understanding of Indonesian culture is essential to understanding technical and economic aspects. However, he is by no means uncritical of Indonesian culture. He also holds strong convictions that western methods are usually less relevant than local methods and that Indonesians have a far better understanding of their own situation and needs than most westerners are usually prepared to concede.

Broadening his approach from an initial concern with identifying Protestant-ethic type values in North Sumatra

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<sup>30</sup> Dr Penny left the ANU in 1974 to take up a post in the Department of Aboriginal Affairs.

among both Batak and Javanese ethnic groups (Penny and Singarimbun, 1967; Penny, 1966 and 1967), his work culminated in a detailed case study of rural poverty in a Central Java village in collaboration with a long-term Indonesian colleague, Masri Singarimbun (Penny and Singarimbun, 1973).<sup>31</sup> This work provided a strong indictment of the inability of many foreigners, and urban Indonesians as well, to perceive or analyse the extent of malnutrition and grinding poverty of all kinds in their midst. Penny's view of the capacities of most Australians in this regard are not much more complimentary.

This approach has been acceptable to the middle range of opinion in the voluntary sector. Penny has worked with a number of CAA groups in the selection of projects, often acting in a liaison capacity with colleagues in Indonesia. To some extent these efforts have been linked to his interest in agricultural research projects involving government assistance discussed in Chapter 3.

In comparison with the considerable esteem which he enjoys in many business and government circles, Arndt has a more limited influence among voluntary aid groups. However, in so far as conventional objectives of maximizing Australian government aid retain some importance in the thinking of voluntary agencies, Arndt remains a strong champion of such a position.<sup>32</sup> There appears to have been a point in the late 1960s when many voluntary activists were prepared to support linking Australian aid with investment in Indonesia - a position always strongly advocated by Arndt.

In April 1969, ACFOA joined with the Australian Institute of Management, the Committee for Economic Development of Australia, the Chamber of Manufactures of New South Wales, the International Chamber of Commerce, the Associated Chamber of Australia and the Overseas Development Institute of Australia in convening a conference involving 150 businessmen to discuss Australia's role in promoting joint ventures and investment in developing countries of Asia and the Pacific (Australian Council for Overseas Aid, 1969). Mr W. McMahon, then Federal Treasurer, Mr C.S. Krishna Moorthi, Vice-

<sup>31</sup> Masri Singarimbun is currently Director of the Population Institute, GMU, Jogjakarta.

<sup>32</sup> A general argument in favour of increasing Australian aid is provided in Arndt (1968a).



President, Asian Development Bank, and Professor Arndt were key speakers. The Department of Trade and the Aid Division of the External Affairs Department were officially represented.

A generally negative attitude towards government aid has characterized the attitudes of Australian NGOs since the inception of the Colombo Plan, which in many ways reflects their middle-class social base (Henry, 1970). The assumption that non-government programs are inherently superior to those of the government always leaves open the possibility of an ideological nexus between the voluntary and private sectors. However, this line of thinking was swept aside by a diversity of radical political trends in the 1970s, based on critical questioning of the assumptions and goals underlying western development models.

The first evidence of such critical ideas making any public impact came in 1972 with the study-cum-action campaign of Action for World Development (AWD) initiated by the World Council of Churches and jointly sponsored by the Australian Council of Churches and the Episcopal Conference of Catholic Bishops. The basic message which emerged from the campaign, buttressed by solid slabs of 'liberation theology', was the need for justice in international trading arrangements in order to overcome unequal interdependence of 'rich' and 'poor' countries. The ethnocentrism underlying western thinking about development was challenged, along with the assumption that problems of Third World poverty were mainly located 'over there' rather than close to home (Action on World Development, 1972).

Parallel to the main thrust of Action for World Development efforts, a small research project was sponsored by the churches via a new organization, International Development Action (IDA), directed towards Australia's involvement in Indonesia.<sup>33</sup> A team of six Australian students, who were competent in the Indonesian language, spent a total period of nine months conducting investigations in Australia and Indonesia and reporting on their findings to Australian schools, universities, church groups and voluntary organizations. In Indonesia the team divided their attention between government aid, voluntary aid and Australian companies. They also

<sup>33</sup> See *Indonesia: Australia's Involvement*. Members of the team were Christine Carolan, David Hobby, Nicholas Hughes, Gregg Landy, Kim Loughlin and Marian May.

looked at the population question and provided descriptive sketches of several villages. The report, which was fairly simplistic, nevertheless ruffled a few diplomatic feathers. The data presented by the team was never publicly challenged. Although many of their observations were necessarily impressionistic, given the short time available and the team's limited experience, reaction in Australian and Indonesian government quarters seemed unreasonably sharp. Indeed, comments heard at the time about the alleged damage to Australia-Indonesia relations, if true, would only serve to illustrate the fragile nature of such relations, despite the euphoric pronouncements heard so often in the early Suharto years. In retrospect, the amateurish but politically well-aimed efforts of this student team marks the beginning of a trend among Australian voluntary activists to cast doubt on the 'economic miracle' claimed in the official propaganda of both countries.

The publication of *Showcase State* (Mortimer, 1973) strengthened this trend of thinking. It also provided ammunition for a counter-attack on the 'technocrats' by 'Indonesianists' in non-economic fields, whose own framework of scholarly work had been severely shaken under Suharto's New Order by the shift away from political and cultural concerns to economic analysis, by tighter controls over foreign scholars and by severe restrictions and arrests of Indonesian academics. The close nature of contacts between a few Indonesianists, notably Herbert Feith (see particularly Feith, 1976a and b), and major voluntary agencies assisted the promotion of the book's key concepts. One example of its influence, already mentioned, was the adoption by Community Aid Abroad as part of its official strategy of Geoffrey Currey's definition of development. As an interesting sidelight, CAA financed an organization called the Light Powder and Construction Works (LPCW) to criticize its own operations in the field of Third World development and to act as a goad in discussions at branch level. The LPCW project was led by Peter Britton, who had contributed a chapter on the Indonesian army to *Showcase State*.

In a more general sense, criticism of the 'integration cum imitation' model of development has almost become an orthodoxy among leaders of more activist ACFOA agencies. This has been the key theme of development education within Australia since the AWD campaign in 1972. In this context FFH/AD set up the Ideas' Centre as a specialist unit to

distribute film strips and documentary materials suitable for schools and community groups. ACFOA publishes *Development News Digest*, while CAA actively promotes *New Internationalist*, a lively radical magazine published in the UK under the auspices of OXFAM and Christian Aid.

NGOs were involved in submissions to the Parliamentary Joint Committee in 1972,<sup>34</sup> whose findings reflected many criticisms of Australia's aid program commonly held in the voluntary sector. The Committee recommended a shift in favour of multilateral assistance, payment of local as well as foreign exchange costs and employment of local resources and enterprise where possible. More importantly, the debate which flowed from the Committee's report opened the way for the removal of aid functions from direct control by the Department of Foreign Affairs.

ACFOA was given representation on the Consultative Committee which was set up as part of the legislation establishing the Australian Development Assistance Agency. Sir John Crawford, another member of the Committee, who played an important role in ADAA's establishment and was a strong advocate of separating diplomatic from developmental functions in aid administration, did much to strengthen informal links between NGOs and the bureaucracy.

The consultative machinery proved largely ineffective as ADAA was not finally established as a statutory body until a few months before the fall of the Whitlam government in late 1975. Under ADAB, formal consultation has been confined almost entirely to allocating government aid to NGO programs.

NGOs face some difficult dilemmas in deciding whether to accept such funds. From the aid authorities' viewpoint, subsidizing NGOs serves the purpose of relieving the government of pressures to shift their emphasis from the modern sector in favour of village level development, for which it argues the NGOs are better equipped. An understanding has been established that such aid will not lead to interference in their programs. However, in view of the pressures described earlier to integrate the agencies' work in Indonesia with government programs, Australian aid authorities will feel a strong diplomatic obligation to ensure that they conform with Indonesia's wishes.

<sup>34</sup>*Report from the Joint Committee on Foreign Affairs on Australia's Foreign Aid, 1973.*

NGOs' attitudes towards government aid have always been ambivalent, in that they continuously lobby for more aid while being strongly critical of the type of aid provided. Complaints are commonly directed against aid tied to Australian exports, its political and often military orientation and its alleged failure to 'reach the people'. (A survey of attitudes towards aid to Indonesia by CAA branches in 1972 is provided in Appendix VI, which contrasts sharply with attitudes of Australian companies, indicated in Appendix III.)

It seems surprising that NGOs should have remained consistent and articulate lobbyists for increasing or at least maintaining the level of official aid. Even after the 1972 AWD Campaign, which had been fiercely critical of every aspect of the Australian aid program, the one specific demand on which all parties could agree was to lobby politicians to increase Australia's aid budget. The affiliation of many NGOs to UN bodies no doubt obliges them to press for Australia to achieve the official UNDP target of 0.7 per cent of Gross National Product. Yet this emphasis on quantitative goals almost certainly negates precisely those qualitative aspects which NGOs stress in their own programs. Once an aid budget has been set, administrators look for projects on which to spend funds. It is both quicker and more convenient administratively to select a few public utilities for this purpose than to seek out a large number of small-scale programs involving, to the official mind, nebulous ideas about participation and so forth. In theory, NGOs can argue that no contradiction is involved in pressing both for more and better quality aid. However, in practical political and public relations terms they project an extremely confused message.

At the time of the Timor crisis and for a year or two afterwards the NGOs were able significantly to affect the climate of official relations between Australia and Indonesia. In late 1975 ACFOA co-operated with trade union and other groups in sending a barge carrying supplies to East Timor. They also sent a task force which recommended extensive assistance and the recognition of Fretilin as the legitimate government of an independent state (Timor Task Force, 1975). ACFOA brought strong pressure on the Australian government to support re-entry of the International Red Cross to East Timor and expressed strong opposition when \$250,000 worth of official aid was channelled to that territory via the

Indonesian Red Cross - a move which was generally accepted as representing tacit recognition of Indonesian sovereignty. They also funded the visit of Mr James Dunn, a former consul in Dilli, to Portugal where he collected evidence alleging Indonesian atrocities in Timor. This was subsequently presented to the US House of Representatives Sub-committee on International Relations and caused considerable diplomatic tensions between Australia and Indonesia.

As a result of Indonesia's actions in East Timor, coupled with the obstructions encountered in sending non-government humanitarian aid there, several agencies joined other community groups at a conference in August 1976 in calling for an end to all aid to Indonesia, claiming that its effect was to reinforce an 'unjust system'. It appears, however, that ACFOA's approach has been to urge a reduction in Indonesia's share of Australian aid and a diversification to other countries. Although the promise of \$86m. aid announced by Mr Peacock in Jakarta in April 1976 encountered strong opposition, evidence from Table 1 (p.32) indicates that aid to Indonesia had by then in any case reached a plateau in both percentage and real terms.

Attitudes to the East Timor conflict have undoubtedly damaged ACFOA's standing with the Indonesian government and many of their associates inside that country, and further highlight the difficulties of reconciling politically oriented 'development education' programs within Australia with the cautious styles of operation necessary in Indonesia. In this context, serious tensions have arisen between radical and conservative agencies, with the Australian Red Cross Society withdrawing from ACFOA in protest against political involvement over Timor. Within the individual agencies, rank and file members usually prove more conservative than their executives. It should also be remembered that ACFOA's more radical supporters were subject to constant attack by right wing politicians in Australia for their stand on Timor (Viviani, 1978).

It would nevertheless be wrong to regard the official aims of even the most radical NGOs as in any way revolutionary. Marxists certainly dismiss them as either irrelevant or as promoting small-scale capitalism. It is not difficult in many instances to identify links between rural projects, government plans and the activities of foreign governments and corporations, though this is more due to the increasingly

integrated nature of the development process than to any deliberate intent. Evidently NGOs have concluded, consciously or unconsciously, that there are better prospects for effecting change by working within 'the system' than by confronting it.

The strength of the NGOs lies in the diversity of links they have established at all levels of Indonesian society, much of which remains beyond the experience and comprehension of most Australian government and business personnel. For this reason alone their long-term position is likely to remain viable, despite the tensions which they have recently experienced in their relations with the Indonesian government.

## Chapter 6

### Recent trends and issues in Indonesian development

This chapter outlines issues relating to Indonesia's Second Five Year Plan (Repelita II: 1974-79), and provides a background against which Australian policies can be assessed in the Conclusion. Judgments about Indonesian policies will be based on political rather than strictly economic criteria. The chapter concludes with an assessment of the Suharto government's future prospects.

The First Plan (Repelita I: 1969-74) concentrated on financial stabilization and development of public utilities, especially in the fields of transport and agriculture. Oil and minerals exploration and light and medium industrial development were encouraged by a strong emphasis on foreign investment. Ideological aspects were played down by comparison with the Sukarno period. However, development plans still had to be formally justified in terms of Indonesia's official ideology of Pantja Sila.

The Second Plan, placed emphasis in its preamble on achieving greater equality of benefit between social classes and regions, and on providing employment and basic necessities. Although these are not new goals, in that egalitarian themes always played a major part in Sukarnoist rhetoric and were never entirely buried during the early Suharto years, Repelita II represents the most definite attempt yet to link them with specific plans.<sup>1</sup>

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<sup>1</sup>*Repelita II: Second Five-Year Development Plan 1974-5 to 1978-9*, Jakarta, Department of Information, 1974. See also *The Guidelines of State Policy of the Republic of Indonesia*, Department of Information, R.I. (based on the Decree of the People's Consultative Assembly of the Republic of Indonesia No. IV MPR 1973 on the Guidelines of State Policy). For a more extended quasi-official interpretation of the relationship between state ideology and development planning see Murtopo (1972).

Thinking about development in Indonesia has reached a stage of considerable confusion. The type of criticism offered by *Showcase State* (Mortimer, 1973) is now commonplace in many writings and discussions, by no means confined to Jakarta intellectuals. This has been made possible by shifts in official rhetoric, though data offered in this chapter indicate that in practice economic policies and structures are hardening in an inegalitarian direction.

Subject to the above provisos, a broad framework of consensus or 'conventional wisdom' about Indonesian development strategy can be outlined in terms of the following propositions:

1. The benefits of development programs should be reflected in a more equal distribution of income, wealth and basic services.
2. Such services should serve essential needs of the majority and be reflected in the design of education, health, housing, transport and other programs.
3. A better balance between industry and agriculture should be achieved both within and between regions. Industrialization should be spread out from Jakarta to other major cities, while smaller scale industrialization should be encouraged in district and regional centres. However, the main emphasis should be on agriculture, in which most of the labour force still finds employment.
4. There should be substantial increases in public expenditure in such fields as irrigation, water supply, roads and bridges in rural areas, education, family planning, housing and public health.
5. Dependence on foreign aid and foreign capital should be reduced in all fields, though the approach to such matters should remain flexible. To this end internal savings should be encouraged, together with indigenous entrepreneurship.

For several reasons such ideas have become both respectable and politically necessary. Since the early 1970s they have increasingly been heard in prestigious quarters in the west, including the World Bank. The egalitarian, reformist critique of orthodox growth and development strategy by Gunnar Myrdal and others is now more familiar to the



technocrat-intellectual class in Indonesia, although as yet there are few signs of radical or Marxist thinking. The 15 January Affair (officially referred to by the Indonesian government as 'Malari')<sup>2</sup> certainly had a political impact on the framing of Repelita II. The subsequent defeat of the Thieu government in South Vietnam in April 1975 has made its successful implementation more urgent.

There is fairly general agreement that implementation of Repelita II goals has been inadequate, though the gap between achievement and intention is evaluated more or less sympathetically according to one's distance from the centres of power. Discussion is often not very meaningful, as the government points doggedly to physical and financial targets achieved and future targets projected, while others point, with varying degrees of boldness, to numerous examples of mismanagement, misappropriation and inconsistencies between principle and practice.

Debate on development strategy ranges over a wide range of cultural and philosophical as well as economic topics, though it is often verbose, tends to imitate western trends and avoid detailed factual analysis. This is partly a consequence of the widespread climate of political and intellectual repression in Indonesia. While the courage and resourcefulness of many groups in bringing these issues into the public arena must be acknowledged, the whole debate over redistribution occurs within a limited frame of reference which fails to question how far such objectives can be achieved without significant political and institutional changes.

#### Redistribution with Growth (RwG)

In a broad theoretical sense, many of these inconsistencies can be usefully understood in terms of the debate over 'Redistribution with Growth' which has recently influenced discussion in relevant international policy-making and academic circles. To place this issue in context, it has been fashionable since the mid-1950s to argue, in terms of a simple analogy, that the production of a large cake unequally

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<sup>2</sup> Some dispute has arisen as to whether 'Malari' is simply an acronym for 'Fifteenth January' or is a term coined by the government to refer to a misfortune (*mala*) which damaged Indonesia's reputation. The latter meaning is used to suggest some form of subversion.

divided gives more benefit than a small cake divided more or less equally. Other critics have pointed out that the pattern of distribution is the key factor determining the quality and content of development - in terms of the cake analogy, determining what type of cake is produced in the first place.

The conventional growth approach, emphasizing the maximization of GNP per capita, was dominant until around the early 1970s.<sup>3</sup> According to this view, it is essential for a poor country to concentrate on its areas of greatest potential strength, to support the able and energetic and to accept widening inequality in living standards as an unavoidable price for rapid economic growth. In the process, economic opportunities for increased income and employment would 'trickle down' to poorer groups. At a later stage, it was argued, it would be possible to pay greater attention to welfare aspects and deal with social casualties of the growth process.

An accumulation of field studies has in recent years provided grounds for challenging this orthodoxy from several directions. Gunnar Myrdal argues that the low productivity of the majority, due to poor health, malnutrition and so forth, must render such growth strategies ineffective except in a few isolated socio-economic enclaves (Myrdal, 1968, 1970). He also insists that such analyses are in many ways culturally biased and unrealistic. Neo-marxist critics have stressed the imperialist nature of relationships between the main centres of economic and political power in the west and the ruling elites in Third World countries. A third prong of attack is provided by a loosely associated set of criticisms based on moral, cultural or environmental grounds. Possibly the best known critic in this group is Ivan Illich, who has argued that most forms of modern technology are unusable by the mass of people in poor countries in terms of their existing resources, lifestyle and institutions (Illich, 1969). Environmentalists have pleaded that the limitations of energy and other resources present a global challenge which cannot be downgraded by Third World leaders, as at present, to mere problems of pollution experienced by a few

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<sup>3</sup>For standard accounts see, e.g., Lewis (1955), Johnson (1967) and Rostow (1971). For a parallel account of socio-cultural aspects see Hagen (1962).

advanced western countries.<sup>4</sup> All these groups increasingly question the political realism of expecting ruling elites to initiate reforms which are likely to threaten their own wealth and power.

A compromise approach was suggested in a 1974 World Bank publication, *Redistribution with Growth* (Chenery *et al.*, 1974). This strategy is founded on a basic political judgment that 'intervention which alters the distribution of the increment to the overall capital stock and income will arouse less hostility from the rich than transfers which bite into their existing assets and incomes' (ibid.:56). The report proposed alternative sets of indicators for measuring distribution aspects with greater sensitivity together with strategies for building them into development planning procedures from the outset.

However laudable the report's aims, one must question the wisdom of attempting to quantify objectives which are essentially qualitative. For example, successful rural development cannot be achieved simply by allocating funds and capital equipment. This depends also on the quality of the administrative structure, the social attitudes of officials, how far they involve themselves with the practicalities of implementing and co-ordinating policies at village level, the extent to which good lines of communications are established and farmers are effectively involved in planning and operating agricultural development programs (cf. Lipton, 1968; Myrdal, 1970, esp. Chs 3, 4 and 5).

More general doubts have been raised as to the political realism of the report and even about its basic motivation. In a trenchant attack, Colin Leys argues that the whole RwG approach is based on 'the presumption that poverty must be alleviated without disturbing the political power of private capital'.<sup>5</sup> Thus the task is conceived of as something done 'for' rather than 'by' the poor - evidenced by the constant references to 'target' groups. In view of previous history of ruthless repression in numerous Third World countries, including Indonesia, talk of 'mobilizing' the poor is merely hypocritical, Leys argues.

<sup>4</sup>For example, Ward and Dubos (1972) and *The Ecologist* (1972) make a strong effort to link environmental problems in western and non-western countries.

<sup>5</sup>*Institute of Development Studies Bulletin*, 7(2), 1975, p.5.

Much of this discussion hinges on whether and under what circumstances ruling groups will be willing to adopt redistributive measures. Leys argues that the report gives no general reason for expecting such willingness and that therefore the proposed welfare indicators give no guide as to the policies particular regimes are likely to adopt. The authors of the report reply that this attack misses the point and that what they seek are realistic possibilities for change under existing circumstances, without precluding the need for more revolutionary change or even outright necessity of resort to armed force where elites prove otherwise immovable. However, it is argued that there is still 'a considerable range of societies for which the strategy is at least plausible, even though in some of them the likelihood that it will be adopted with any vigor is remote' (Chenery *et al.*, 1974:71-2).

The report further argued that Third World leaders would be willing to adopt some of these changes based on calculations of enlightened self-interest, such as fear of revolution, advantages to the elites from general improvements in health and education and the potentially conservative social effects of land reform in consolidating the position of peasant farming classes. Rivalries between military, bureaucratic, regional and other groups may encourage elites to vie for support from broader sections of the population. Leys asks why such reforms, especially land reforms, have been so fiercely resisted in the past. In reply, it is suggested that marginal shifts in public expenditure and investment policies can often escape the notice of elites, and, by implication, technocratic devices can be developed as smokescreens to hide the effect of such concealed transfers.

At this stage arguments about the political realism of the RwG strategy seem inconclusive. Leys and others insist that it is both too pessimistic about the capabilities of the poorer classes to mobilize themselves across linguistic, ethnic, religious and other barriers and too sanguine about the inability of rich groups to perceive their own broad interests and organize a coherent strategy for their defence. Its proponents on the other hand argue that a 'Pandora's Box' effect is likely to occur as a result of marginally redistributive policy changes, though they are uncertain whether this will lead to unstable reformist alliances followed by reactionary coups or to political mobilization

by the poor to defend and extend their gains.

Redistribution with Growth in the context of Indonesian development strategy

This discussion does not imply that Indonesia has consciously adopted a strategy of Redistribution with Growth, or even that the theoretical framework on which it is based is explicitly known or understood. In any case, Indonesia has regularly proved too complex to be fitted easily into any neat framework of theoretical explanation. Nevertheless, it does seem that many of the contradictions in Indonesia's policy formulation and implementation reflect rather well the type of issues raised in the RwG debate.

Despite numerous policy statements and speeches, Indonesia has made little progress in defining alternative strategies and pinpointing basic objectives, as distinct from obstacles to implementing existing programs. Emphasis on the fifth principle of the Pantja Sila, social justice, had led to mounting criticism of the life-styles of the rich. Consequently 'simple living' (*hidup sederhana*) has been adopted as a semi-official slogan, providing critics of the government with further grounds for pointing out gaps between theory and reality.<sup>6</sup> Much discussion centres on the willingness of better-off groups to make personal sacrifices for the sake of raising the living standards of the majority, but choices and issues are rarely posed in any sharp or specific fashion. The philosophy of Redistribution with Growth appears to offer a convenient escape from this dilemma.

In Repelita II, the emphasis on growth is being continued and often intensified, but accompanied by moderate increases in public expenditure in previously neglected fields. In this context, the various sectoral targets are rarely discussed in relation to each other so that, for instance, the question is never raised as to whether stressing a priority of rural development and at the same time developing a large conurbation (Jabotabek), including a third airport, are compatible objectives. Widespread moral concern for goals of distributive justice and the 'quality of life' does not seem

<sup>6</sup>E.g. *Kompas* (Jakarta), 24 Jan. 1976: 'Gerakan Hidup Sederhana Jangan Jadi Gerakan Hidup Munafik' - an account of that day's debate in the DPR (People's Assembly) on the Budget Estimates for 1976-77.

to be linked in concrete ways with domestic and international economic planning.

These issues will now be explored in relation to trends in budget allocations and revenue, external trade, domestic and foreign investment, small enterprises and 'alternative' technology.

### Sectoral allocations in Indonesian development strategy

Repelita II aims at an annual growth rate of around  $7\frac{1}{2}$ -8 per cent with substantial increases in mining, industrial and to a lesser extent agricultural production. This assumption underpins the various redistributive objectives in the Plan.

Table 11 shows the sectoral distribution of development expenditure, excluding foreign aid, between 1972-73 and 1977-78.

Commentators such as Myrdal have argued forcefully that the quality of development plans are as, if not more, important compared with the achievement of physical and financial targets. In any case, figures by themselves give no idea how funds were actually used. Great caution should therefore be exercised in measuring Indonesia's priorities in terms of sectoral budget allocations. However, undue concentration of resources in a few sectors certainly contributes towards the creation of dislocations and shortages in less favoured sectors. Sectoral comparisons are further complicated by Indonesian budgeting categories of 'Development' and 'Routine' Expenditure. The rationale for this distinction is by no means clear, but seems to correspond roughly with overhead and current costs. Breakdowns of routine expenditure by sectors have been available only since 1976. The effect of their inclusion would be mainly to show a large increase in percentage allocations to Regional Development, Defence and State Apparatus at the expense of other sectors (Department of Information, R.I, 1976-77 and 1977-78).

Finally, the role of Pertamina in financing various public sector programs before 1976 in ways that do not appear in official budget statistics is still impossible to evaluate, though it seems clear that its contributions were mostly felt in relation to industrial, mining, construction and communications projects, with some largesse also being distributed

Table 11  
Indonesian development expenditure by sector, 1972-73 to 1978-79<sup>a</sup>  
 (Rupiah billions) (percentage of total in brackets)

Sector	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78 <sup>b</sup>	1978-79
Agriculture and irrigation	53 (18)	98 (22)	302 (31)	315 (25)	374 (19)	376 (17)	413 (17)
Industry and mining	21 (7)	33 (7)	71 (7)	113 (9)	167 (9)	148 (7)	222 (9)
Electric power and gas	24 (8)	45 (10)	79 (8)	93 (7)	210 (11)	232 (11)	266 (11)
Transport, communications and tourism	70 (23)	79 (18)	124 (13)	157 (12)	416 (22)	365 (17)	389 (16)
Trade and co-operatives	-	-	4 (-)	6 (-)	10 (1)	12 (1)	11 (-)
Labour and transmigration	c	c	5 (1)	15 (1)	29 (2)	66 (3)	122 (5)
Regional development	59 (20)	70 (16)	136 (14)	169 (15)	191 (10)	236 (11)	271 (11)
Religion	1 (-)	1 (-)	3 (-)	3 (-)	6 (-)	8 (-)	9 (-)
Education and culture	18 (6)	37 (8)	47 (5)	120 (9)	142 (7)	220 (10)	269 (11)
Health, family planning and social welfare	8 (3)	9 (2)	25 (3)	41 (3)	50 (3)	72 (3)	87 (4)
Housing and water supply	6 (2)	9 (2)	7 (1)	18 (1)	28 (1)	68 (3)	60 (2)
Defence and national security	6 (2)	13 (3)	23 (3)	26 (2)	43 (2)	56 (3)	116 (5)
Law enforcement	na	na	2 (-)	6 (-)	8 (-)	12 (1)	14 (1)
Information and media	na	na	3 (-)	11 (1)	48 (3)	11 (1)	12 (-)
Science, technology, research and statistics	11 (4)	17 (4)	11 (1)	21 (2)	28 (1)	38 (2)	47 (2)
State apparatus			24 (2)	37 (3)	49 (3)	60 (3)	65 (3)
Investment in state enterprises	23 (8)	41 (9)	98 (10)	119 (9)	122 (6)	190 (9)	62 (3)
	298	451	962	1269	1920	2168	2435

a Excludes project aid.

b Estimate.

c Negligible.

na Not available

Sources: (1) Department of Information, Republic of Indonesia, 1975:101, Table II-9.

(2) *BIES*, 'Survey of recent developments', 1972-8.

in the fields of health, education and agriculture.

Despite these difficulties, certain broad features stand out. Firstly, the combined share of industry, mining, electric power, transport, communications and tourism has remained at a high level over the whole period, declining slightly from 38 per cent in 1972-73 to 36 per cent in 1978-79. (Following the oil boom in 1974 Pertamina's massive expenditures in these fields allowed the ordinary budget to decline to 28 per cent until 1976-77 when the figure rose dramatically to 42 per cent due to Pertamina's debt situation.) In addition, Transmigration, which is now increasingly oriented towards mining and industrial infrastructure, has grown rapidly to 5 per cent of the development budget. Although allocations to Agriculture and Irrigation showed a dramatic increase at the beginning of Repelita II in 1974-75, allocations in 1977-78 and 1978-79 of 17 per cent actually show a declining share of 1 per cent compared with 1972-73. The share of development expenditure allocated to regional development shows a decline from 20 per cent to 11 per cent over the whole period, but when routine expenditure is taken into account this sector has roughly maintained its position. While education has shown an impressive increase from 6 to 11 per cent, the share allocated to health, housing, family planning and welfare has been negligible. Overall, these figures provide little or no evidence of a serious shift in priorities in line with the official goals of Repelita II.

The proportion of development expenditure relative to total expenditure has risen from around 40 per cent to a little over one-half from 1972 until 1977-78 (Department of Information, R.I., 1976-77 and 1977-78, also 1975:85, 101, 104), which has presumably had the effect of strengthening the overall emphasis on capital works programs. Furthermore the oil boom has strengthened the trend towards capital intensive development in industry, mining and communications and this pattern was not reversed after Pertamina's financial collapse in 1976. In this regard, Peter McCawley and Chris Manning have commented that

Pertamina's investments ... [have assisted public sector investment in] the domestic satellite, the associated telecommunications systems including the micro-wave project, colour TV, fertiliser plants, oil refineries, Krakatau Steel, Pertamina's



tankers, substantially increased spending on electricity projects, additions (including DC10 aircraft) to Garuda's jet fleet, and the Asahan project. Clearly, large amounts of expenditure during the last few years have not been spent in capital intensive ways - many new schools have been built, funds for the kabupaten program have been increased, and health clinics have been established - but the fact remains that if one were to draw up a list of ways of disposing of, say, \$6 or \$7 billion, it would be difficult to prepare a more capital intensive set of projects.<sup>7</sup>

Foreign aid reinforces these tendencies. Table 12 shows that most aid is directed towards the electric power, industry and mining, communications and tourism sectors, though the figures for 1977-78 show a decline in these sectors from 78 to 61 per cent compared with 1976-77. Agriculture's share of aid remained largely static over the period. Health, education, welfare and regional development have received relatively little support.

A similar story emerges from Table 13 which indicates the proportion of development expenditure in each sector financed by project aid, though significant improvements do show up in the case of agriculture, housing and water supply. (The sudden jump in spending on Information and Media in 1976-77 mainly assisted the domestic satellite communications network supported from US sources.)

The dominance of the modern sector can be further illustrated by a brief look at two fields which in theory have received a higher priority in terms of Repelita II strategies - Regional Development and Housing and Water Supply.

The government has placed special emphasis on its Regional Development Programme, by means of special Presidential Instructions (INPRES). The scope of these has been progressively expanded from an initial concentration on roads, bridges and irrigation works in rural areas to cover Health Clinics (Pukesmas), schools, training, resettlement projects and rural electrification. In addition, a flat rate grant is given to each village to be spent on projects of its own

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<sup>7</sup>'Survey of recent developments', *BIES*, 12(3), Nov. 1976, p.27.

Table 12

Distribution of project aid by sector, 1972-73 to 1977-78  
(Rupiah billions) (percentage of total in brackets)

Sector	1972-73	1973-74	1974-75	1975-76	1976-77 <sup>a</sup>	1977-78
Agriculture and irrigation	12 (19)	19 (16)	26 (13)	30 (14)	96 (14)	142 (20)
Industry and mining	16 (26)	29 (25)	64 (33)	65 (30)	117 (17)	95 (13)
Electric power (gas)	9 (14)	28 (24)	39 (20)	46 (21)	151 (21)	164 (23)
Transport, communications and tourism	22 (35)	28 (25)	42 (22)	50 (23)	283 (40)	208 (29)
Trade and co-operation	-	-	b	b	b	b
Labour and transmigration	-	-	b	b	b	10 (1)
Regional and sub-regional development	-	-	b	b	2 (-)	8 (1)
Religion	-	-	-	-	-	-
Education and culture	2 (4)	2 (1)	8 (4)	7 (3)	5 (1)	30 (4)
Health, family planning and social welfare	b	1 (1)	7 (4)	7 (3)	6 (1)	13 (2)
Housing and water supply	1 (2)	3 (2)	1 (1)	3 (1)	3 (-)	28 (4)
Defence and national security	-	6 (5)	n.a.	-	n.a.	n.a.
Law enforcement	-	-	n.a.	-	n.a.	n.a.
Information and media	-	-	b	2 (1)	36 (5)	3 (-)
Science, technology	-	-	b	b	b	3 (-)
State apparatus	-	-	n.a.	-	n.a.	n.a.
Investment in state enterprises	-	-	7 (3)	7 (3)	7 (1)	23 (3)
<b>Total</b>	<b>62</b>	<b>114</b>	<b>196</b>	<b>218</b>	<b>708</b>	<b>727</b>

a Estimate  
b Negligible

Sources: (1) Department of Information, R.I.:101, 104.  
(2) Department of Information, R.I., 1976-77, 1977-78.

Table 13

Project aid as a percentage of Indonesian development expenditure by sector,  
1972-73 to 1977-78

Sector	1972-73	1973-74	1974-75	1975-76	1976-77 <sup>a</sup>	1977-78 <sup>a</sup>
Agriculture and irrigation	22	19	9	9	26	38
Industry and mining	78	86	91	58	70	64
Electric power and gas	38	61	49	49	72	71
Transport, communications and tourism	31	36	34	32	68	57
Trade and co-operation	-	-	14	11	4	5
Labour and transmigration	-	-	4	4	4	15
Regional and sub-regional development	-	-	b	b	1	3
Religion	-	-	-	-	-	-
Education and culture	12	4	17	6	4	13
Health, family planning and social welfare	5	12	29	17	12	18
Housing and water supply	25	32	17	15	10	41
Defence and national security	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Law enforcement	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Information and media	-	-	15	18	76	30
Science, technology, research and statistics	-	-	2	2	1	7
State apparatus	-	-	-	-	-	-
Investment in state enterprises	-	-	7	6	6	12

a Estimate.

b Negligible.

n.a. Not available.

Source: Department of Information, R.I., 1976-77, 1977-78.

choosing, within a framework of general guidelines. INPRES projects are required to meet such criteria as use of local labour and resources, benefit to the poorest groups, raising agricultural production, local participation, self-reliance and so forth (Department of Information, R.I., 1975:568-9; also Salim, 1975). In 1974-75 the breakdown of budget allocations for kabupaten programs showed a distribution of roads - 56 per cent; bridges - 16 per cent; irrigation projects - 12 per cent. Other projects related to village markets, bathing places, public toilets, reafforestation, flood control, inland harbours, waterways and bus stations (Department of Information, R.I., 1975:570, 573). The figures for regional development were inflated by the transfer in 1975-76 of Puksesmas, though there has in any case been a significant expansion of both these programs during Repelita II.<sup>8</sup>

It may be argued with some force that rural areas at low stages of development cannot absorb large and sudden injections of funds without dislocation. Nevertheless, a case exists that, if the bulk of resources is allocated to the modern sector, this will determine the environment within which local programs are developed. Furthermore, failure to moderate the pace of urban and industrial development will tend to create demand inflation for land and other resources.

This type of issue was illustrated in a survey of Kabupaten Banten in West Java (Rahardjo, 1975), which showed that local development plans were mostly geared towards (as yet imprecise) growth plans for the Jabotabek conurbation and plans for iron, steel and industrial development in the Serang-Cilegon region. Studies in more outlying regions such as Madura (Contado and Kusumowinoto, 1975) and West Sumatra (Naim, 1975) illustrate a broadly similar trend towards integrated cross-sectoral planning. It is therefore important, in evaluating kabupaten programs, to determine the extent to which local programs are geared specifically to supporting national plans for industrialization, commercial and plantation agriculture, mining and tourism. Recent devolution of planning functions to lower levels of government as an extension of the present heavily centralized planning apparatus seem likely to produce a parallel bias in the design of local development programs.

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<sup>8</sup>The government's policy is to locate People's Health Centres in each kabupaten.

As shown in Table 13, the share of budget allocation for housing and water supply rose from 2 to 3 per cent between 1972-73 and 1977-78. This marginal shift has been mainly directed towards expanding urban water supply and housing for police, military and public service personnel. No large-scale cheap public housing program is envisaged in urban areas, although there has been some research into building materials, building of model houses for display and into provision of 'site and services' (Department of Information, R.I., 1975:709-20).

While there are obvious sociological advantages in maintaining a kampung environment in large cities for recent migrants from rural areas - compared with Singapore's approach of providing high rise flats at low rentals - it is doubtful whether the formula of providing 'site and services', with the accompanying apparatus of savings banks, mortgage loans and so forth, can prove more than marginally relevant in meeting the housing needs of the very poorest, especially in the face of rapidly growing competition for land use.

There is unfortunately little literature on housing and public health in Jakarta. Certainly the gravity of the situation has been pointed out in a number of surveys linking disease, miserably inadequate sewerage, sanitation and water supply with wider aspects such as low income and malnutrition (Soesanto, 1974; Ryanto and Marsis, 1974). However, institutional causes have not been pinpointed, such as interests of private landlords, and the practice of charging three years rent in advance related to a system of contract which places no responsibility on landlords for repair and maintenance and gives no means of redress to tenants, while land can be and often is compulsorily acquired by the authorities for projects of a wasteful or prestigious nature.<sup>9</sup> Despite some extension of drinking water facilities to kampung areas, most water supply facilities are directed towards offices, hotels and the better residential districts.

Rural housing and water supply are left almost entirely to local initiative, although some funds are provided through the regional development program. While the concept of local self-help in housing may have more meaning at village level, traditional materials such as bamboo must prove inadequate

<sup>9</sup> Saleh and Assegaf (1977). See also *Prisma*, No.5, Mei 1977, Tahun IV, edition entitled 'Who Owns Jakarta?'.

to the needs of a rapidly rising population. Research into rural housing needs is accorded little priority. Although stone and limestone are available in some areas, some profitable uses can be found for most types of building materials in the modern sector. For example, wood is in short supply in many parts of Indonesia, though exports to Japan continue to rise. In 1972-73 a factory was established near Sukabumi, West Java, to produce particle board for pre-fabricated houses (Department of Information, R.I., 1975), though the impact of such an effort can only be marginal.

### Development finance

Table 14 indicates Indonesia's major sources of budget revenue. The increased contribution of oil tax to overall domestic revenue since 1974 is striking, though there are now clear signs that the oil revenues are levelling off.<sup>10</sup>

Public sector spending rose sharply from 1973 to 1975, in contrast to earlier years of relative fiscal conservatism. However, despite the Pertamina crisis, little attempt has been made to rethink basic policies. Rather than cutting development expenditure in the face of resistance from the bureaucracy, the government has been seeking new sources of revenue and encouraging private investment. It is argued that 'such policies would free resources for investment in labour intensive and social sectors, so that the goals of increasing employment and more equal distribution of income expressed in the Second Plan can be better achieved'.<sup>11</sup>

In general, these figures give little evidence of any serious effort to collect funds from Indonesia's higher income groups, while the incentive to do so has probably been much reduced by the oil bonanza. The role played by income tax seems small, while the level of non-oil company tax, which includes joint-venture companies, is little better.

While various 'luxury' items would be included under the heading of sales tax, taxes on items of domestic equipment and consumption have a regressive impact on poorer sections of the population. The balance of revenue comes mostly from

<sup>10</sup> For a general assessment of the economic effect of the Pertamina crisis see McCawley (1978). See also H.W. Arndt in *BIES*, 14(1), March 1978, pp.15-18.

<sup>11</sup> *BIES*, 12(2), July 1976, p.7.

Table 14  
Indonesian budget revenues, 1972-73 to 1978-79  
(Rupiah billions)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78 <sup>a</sup>	1978-79
Direct taxes	302 (40)	505 (43)	1,229 (62)	1,592 (58)	2,046 (56)	2,497 (59)	2,808 (59)
Personal income tax	24 (3)	34 (3)	43 (2)	62 (2)	84 (2)	114 (3)	138 (3)
Company tax	31 (4)	44 (4)	91 (5)	128 (5)	127 (4)	165 (4)	195 (4)
Oil company tax	199 (27)	345 (29)	973 (49)	1,250 (46)	1,619 (45)	1,947 (46)	2,067 (43)
Other direct taxes	49 (7)	82 (7)	121 (6)	151 (6)	215 (6)	271 (6)	408 (9)
Indirect taxes	254 (34)	413 (35)	458 (23)	540 (20)	741 (20)	898 (21)	1,043 (22)
Sales tax	35 (5)	55 (5)	85 (4)	119 (4)	162 (4)	231 (5)	259 (5)
Import duties and sales taxes <sup>c</sup>	101 (14)	179 (15)	230 (12)	246 (9)	359 (10)	436 (10)	458 (10)
Excise taxes	47 (6)	62 (5)	74 (4)	97 (4)	131 (4)	170 (4)	225 (5)
Export taxes	33 (4)	69 (6)	70 (4)	62 (2)	62 (2)	67 (2)	82 (2)
Other	39 (5)	50 (4)	-1	15 (1)	27 (1)	-5 (-)	18 (-)
Non tax revenue	35 (5)	50 (4)	67 (3)	110 (4)	119 (3)	89 (2)	119 (2)
Foreign aid	158 (21)	203 (17)	232 (12)	491 (18)	717 (20)	764 (18)	811 <sup>b</sup> (17)
<b>Total revenue</b>	<b>748</b>	<b>1,172</b>	<b>1,986</b>	<b>2,733</b>	<b>3,623</b>	<b>4,248</b>	<b>4,781</b>

a Estimate.

b Project aid only.

c Includes domestic oil tax.

Sources: (1) Department of Information, R.I. (1975:64, 68, 70. 78).

(2) *BIES*, 13(1), March 1977, p.14 (Table 7).

(3) *BIES*, 14(1), March 1978, pp.12-13.

import and export duties, which provide government planners with a further incentive to maintain the prevailing pattern of foreign trade and tariff protection.

Indonesia's dependence on foreign aid has shown no sign of diminishing since the beginning of Repelita II. Aid has actually increased as a proportion of total development funds from 24 per cent in 1974-75 to 35 per cent in 1977-78. This represents a disappointing reversal of the downward trend since 1969-70, when aid financed over 70 per cent of development expenditure.<sup>12</sup> It is certainly arguable that future IGGI aid should be made conditional on a greatly expanded and more equitably distributed effort in revenue collection by Indonesia. Necessary technical assistance in data collection, accounting and so forth could be provided by IGGI countries.

### External trade

Table 15 shows the extent of Indonesia's dependence on oil and petroleum exports. Since the Pertamina crisis in 1976, she has made efforts to boost oil revenues by increasing production, demanding higher taxes and share of profits from foreign companies and applying strong pressures to creditors and contractors to renegotiate Pertamina's debts.

Most other exports consist of commodities such as rubber, coffee, tea, pepper, palm oil and copra traditionally exported since the Dutch colonial era, plus a growing variety of food exports together with minerals, especially tin and copper, and timber, which constitutes the second largest export earner after oil. Efforts have been made recently to increase exports of manufactured goods to other Asian countries with higher labour costs and to the Middle East as well as to western countries. However, their overall impact on export earnings remains marginal and is well below the proportion of total exports achieved by manufactured goods in other ASEAN countries (Garnaut, 1978:11 (Table 3). Handicrafts also provide a growing, but still relatively small source of foreign exchange revenue.

Table 16 indicates that Indonesian imports are geared mainly towards supplying consumer goods and infrastructure requirements for the urban manufacturing sector. The growth

<sup>12</sup>Department of Information, R.I., 1977-78; *Kompas* (Jakarta), 10 Jan. 1975: 'Pajak sebagai sumber Pembiayaan Pembangunan'.



Table 15

Indonesian exports, 1975-78 (\$USm.)  
(% of total in brackets)

	1975	1976	1977	1978 (Jan.-June)
Food and live animals	368 (5)	589 (7)	1,066 (10)	431 (7)
Beverages and tobacco	36 (1)	40 (-)	56 (-)	28 (-)
Raw materials	1,055 (15)	1,582 (19)	1,761 (16)	823 (14)
Crude oil	4,943 (70)	5,652 (66)	6,827 (63)	3,768 (65)
Petroleum products	368 (5)	352 (4)	471 (4)	465 (8)
Animal and vegetable oils	160 (2)	145 (2)	193 (2)	80 (1)
Chemicals	24 (-)	28 (-)	60 (1)	32 (1)
Manufactured goods	92 (1)	74 (1)	236 (2)	146 (3)
Machinery and transport (equipment and vehicles)	32 (-)	53 (1)	60 (1)	30 (1)
Other	23 (-)	31 (-)	123 (1)	18 (-)
<b>Total</b>	<b>7,101</b>	<b>8,547</b>	<b>10,852</b>	<b>5,821</b>

Source: Central Bureau of Statistics, R.I., Exports by Commodity, Destination and Port of Export (Annual Series: 1975-78), Jakarta.

Table 16

Indonesian imports, 1975-78 (\$USm.)  
(% of total in brackets)

	1975	1976	1977	1978 (Jan.-June)
Food and live animals	577 (12)	782 (14)	959 (15)	634 (19)
Beverages and tobacco	15 (-)	19 (-)	21 (-)	13 (-)
Raw materials	162 (3)	198 (3)	227 (4)	156 (5)
Crude oil	55 (1)	45 (1)	354 (6)	103 (3)
Petroleum products, lubricants, etc.	202 (4)	393 (7)	381 (6)	149 (4)
Animal and vegetable oils	3 (-)	4 (-)	7 (-)	18 (-)
Chemicals	808 (17)	542 (10)	619 (10)	375 (11)
Manufactured goods	1,074 (23)	1,222 (22)	1,225 (20)	591 (18)
Machinery and transport	1,773 (37)	2,310 (41)	2,270 (37)	1,224 (36)
Other	101 (2)	157 (3)	168 (3)	111 (3)
<b>Total</b>	<b>4,770</b>	<b>5,673</b>	<b>6,231</b>	<b>3,374</b>

Source: Central Bureau of Statistics, R.I., *Imports by Commodity and Country of Origin* (Annual Series: 1975-78), Jakarta.

in food imports is also noteworthy. Even allowing for poor harvests in 1977 and 1978 Indonesia appears less and less likely to achieve her declared aim of overall self-sufficiency in food production. In so far as most of these imports are directed towards the urban areas, thus discouraging local production by holding down food prices, the effect is likely to be cumulative.<sup>13</sup>

Table 17 indicates that Indonesia's balance of payments situation has progressively worsened, despite the steep rise in oil prices since late 1971. Oil revenues had to be diverted to meet massive debts incurred by Pertamina, whose outstanding debt was eventually renegotiated at \$3.7 billion compared with original estimates as high as \$10.5 billion.<sup>14</sup>

The whole foreign trade strategy which Indonesia is pursuing seems to entail a frantic search for export earnings. This in turn requires an ever greater flow of imports, aid and investment to sustain the infrastructure on which the whole process depends. Table 18 indicates that debt servicing in relation to public sector projects will reach almost 20 per cent of export earnings by 1979. These figures do not take account of interest and dividend payments to private foreign investors. The predicted easing of the debt service ratio is evidently based on the bold assumption that export earnings will more than treble between 1976 and 1985. Moreover, during the 1980s, Indonesia plans to substantially increase her new borrowing. While there may be differing views on the economic wisdom of such policies, from a political viewpoint they run counter to official policies of reducing dependence on foreign aid and capital.

Indonesia has joined with other Third World countries, especially her ASEAN neighbours, in pressing demands for a 'New International Economic Order' (NIEO).<sup>15</sup> These entail

<sup>13</sup>Wheat and flour constitute a growing component of food imports. While cultivation in Indonesia is obviously inappropriate, the indirect effect of such imports in lowering rice prices obtainable by farmers must be taken into account.

<sup>14</sup>*BIES*, 12(2), July 1976, pp.3-4; *Sinar Harapan*, 12 Aug. 1977, pp.1, 12. Transfer of debts to other enterprises should properly be regarded as an accounting device and not a true debt reduction.

<sup>15</sup>A strong statement of the case for the NIEO is provided by Haq (1975 and 1976). For a discussion of Indonesia's role see Kartadjoemena (1977).

Table 17  
Indonesia's balance of payments, 1972-73 to 1978-79 (\$USm.)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78 est.	1978-79 forecast
Exports f.o.b.	1939	3613	7186	7146	9213	10396	11009
Imports c.i.f.	-1820	-3399	-5616	-6020	-7920	-8864	-9462
Services (excl. freight)	-676	-970	-1708	-1980	-2095	-2504	-2666
Current account	-557	-756	-138	-854	-802	-972	-1119
oil	399	641	2638	3138	3710	4451	4656
non-oil	-956	-1397	-2776	-3992	-4512	-5423	-5775
Capital inflow (net)	895	1111	440	843	1695	1888	1477
Foreign aid	481	643	660	1995	1823	2089	2220
Foreign investment	480	549	-185	-1075	38	319	37
Debt service	-66	-81	-89	-77	-166	-520	-780
Errors and omissions	87	5	-311	-353	108	-81	-
International reserves (-=increase)	-425	-360	9	364	-1001	835	-358

Source: *BIES*, 14(1), March 1978, p.4.

Table 18  
External debt profile for Indonesia, 1976-95<sup>a</sup>  
 (\$USm.)

Year	Total borrowing	Actual disbursement	Debt payments			Exports	Debt service ratio (%) <sup>b</sup>	Net resource transfer from abroad <sup>c</sup>
			Interest	Principal	Total			
1976	3,400	2,700	386	427	813	5,890	13.8	1,900
1977	2,100	1,830	559	630	1,189	7,160	16.6	640
1978	2,000	1,800	623	979	1,602	8,160	18.6	200
1979	2,400	2,020	639	1,250	1,889	9,690	19.5	130
1980	2,900	2,320	695	1,289	1,984	10,720	18.5	330
1981	3,300	2,660	753	1,216	1,969	n.a.	n.a.	690
1982	3,800	3,030	869	1,008	2,078	n.a.	n.a.	950
1983	4,400	3,460	1,002	1,346	2,348	n.a.	n.a.	1,110
1984	5,100	4,070	1,171	1,577	2,749	n.a.	n.a.	1,320
1985	5,800	4,700	1,316	1,842	3,159	19,260	16.4	1,660

a These estimates are subject to revision depending on changing estimates of Pertamina's debt liabilities.

b Export earnings as a percentage of total debt payments.

c Actual disbursements less total debt payments.

n.a. Not available.

Note: In his Independence Day Speech on 17 August 1976, President Suharto gave a figure of \$10.8 billion as the total of existing foreign aid debt commitments, consisting of \$2.5 billion Old Order debts and \$8.3 billion New Order debts, including \$7.9 billion in loan and \$0.4 billion in grant aid. The amount actually utilized plus outstanding interest amounts to \$6.7 billion, of which \$2.1 billion are Old Order debts.

Source: *Far Eastern Economic Review*, 2 July 1976 (cf. also *BIES*, 12(3), Nov. 1976, pp.28-9.

fundamental changes in the structure of international trade, aid and finance. Apart from the usual criticisms of aid being used to further imperialist objectives, the distortions created by aid-tying and the burden of indebtedness, Indonesia has become increasingly concerned to protect herself from political criticism in western countries. For these reasons she warmly supports proposals that the level of aid contributions should be fixed on a progressive taxation basis as a proportion of each country's GNP, and that aid should be given mainly on a grant rather than a loan basis and should be channelled multilaterally. It has also been proposed to integrate the World Bank and the International Monetary Fund with the various agencies of the United Nations, to form a new World Development Authority which would be subject to far greater control by Third World countries, who at the same time prefer that emphasis should be placed on trade rather than aid. To this end, guaranteed prices should be established for commodities, supported by a Common Fund.

Dr Daed Joesoef, formerly a senior policy planner at the CSIS Jakarta and currently Minister for Education and Culture, has argued that in order for Indonesia to maintain control of her domestic affairs, it has become necessary to 'politicise international economic management' (Joesoef, 1975). J. Panglaykim, a CSIS economist, has expressed concern at anti-business and anti-growth philosophies emanating from the environmentalist movement and other radical groups in western countries, which he believes Indonesia should help to counter by forming a 'political partnership' with governments and business leaders there (Panglaykim, 1975). At the same time, Asian business leaders should take steps to organize small entrepreneurs for the purpose of achieving more equal bargaining power with wealthier countries.

Indonesian leaders have shown little appreciation that demands for justice at the international level need to be matched by policies of social justice and self-reliance at home.<sup>16</sup> If the benefits of NIEO policies flow only to a small elite in Third World countries, the likelihood of a popular 'backlash' in western countries will become considerably stronger. So far as foreign trade is concerned, attempts to diversify exports and maximize foreign exchange

<sup>16</sup> Soejatmoko (1975) provides a significant exception. Soejatmoko is a former Ambassador to the USA. He was Dyason Lecturer on behalf of the Australian Institute of International Affairs in 1967.

earnings could turn out to be merely an elaboration of long-standing colonial economic patterns.<sup>17</sup> If Indonesia is to escape from relationships of external dependence, she would appear to need to reappraise the potential for using her resources to service directly the needs of the mass of her people, coupled with a stringent review of import priorities. As a political consequence, this would involve curbing many patterns of middle class spending and economic activity now taken for granted.

For example, it seems necessary to question the policy of using large areas of land for cash crops, minerals, tourism and urban development rather than for food production. Most economists assert that through the law of comparative advantage, market forces will provide the best guide as to the optimum use of resources. However, this view seems to ignore gross inequalities in the distribution of wealth, which ensure that the most profitable markets are to be found in servicing the needs of westerners or wealthier local consumers. Although higher export earnings may in theory enable food to be purchased at a lower comparative cost, these same market forces ensure that foreign exchange earnings are used either for urban consumption or for further developing infrastructure in the modern sector. Poor peasants and tenant farmers who lose their land as a result of the commercialization of agriculture and enter the ranks of the rural or urban proletariat also lack adequate purchasing power to satisfy their needs for food and basic services.<sup>18</sup>

Indonesia has stepped up her efforts to expand the range of her food exports in recent years to include sorghum, soya beans, cassava, fish and cattle.<sup>19</sup> Myrdal and others have

<sup>17</sup> For a classic account of the relationship between Dutch colonial economic policies and Indonesia's economic dependence on commodity exports see Geertz (1970). A more wide-ranging historical interpretation is provided by Wertheim (1964).

<sup>18</sup> e.g. Frances Moore Lappe and Joseph Collins (1976) have argued bluntly that 'to be cut out of the production process is to be cut out of consumption' and that credit policies are biased in favour of large landowners and others with political influence. See also Myrdal (1970:94-7) and George (1977, esp. pp.30-41, 168-72).

<sup>19</sup> *BIES*, 12(3), Nov. 1976, p.3, (Table 1) indicates an

decried the tragedy of poor countries exporting vitally needed protein to rich countries. Even cassava, a low protein staple food, eaten by the very poorest groups, especially in Java, is exported to provide poultry feed, using capital intensive pelletization processes which provide little local employment.

Overall, Indonesia's external trade policies appear to conflict seriously with official goals of redistributing wealth, though as yet Indonesian critics of current development strategies have focused relatively little attention on these aspects.<sup>20</sup>

#### Foreign and domestic private investment

Table 19 indicates that the bulk of foreign investment has been directed towards manufacturing, with significant support for mining, forestry, construction and hotels. It is also clear that foreign investment has created very little employment, while no estimates are available of the number of jobs lost.<sup>21</sup> Between 1967 and 1975 the average size of foreign capital projects approved was roughly three times greater than in the case of domestic capital (Department of Information, R.I., 1975:206, 212). Since 1976 there has been a considerable slowdown in the modern sector, evidenced by excess capacity in such fields as construction, hotels, tyres, glass, paper and textiles, accompanied by sharp cuts in public sector spending.<sup>22</sup> These trends were reflected in a dramatic fall in the level of foreign investment after

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#### 19 (continued)

overall stagnation in food production between 1973 and 1975, except in milk, vegetables and, to a lesser extent, fish.

<sup>20</sup> Cf., e.g., article in *Mahasiswa Indonesia*, 23 Dec. 1973 (cited in Soeharsono Sagir (1975:184-7)), which sees increasing export earnings and national savings as absolute prerequisites for escaping from external dependence.

<sup>21</sup> *BIES*, 7(3), Nov. 1976, p.33 (Table 12) indicates that a little over 176,000 jobs were created directly from a total of 6.7 billion US dollars worth of foreign investment approved between 1967 and 1976.

<sup>22</sup> *BIES*, 13(1), Mar. 1977, pp.22-8.



Table 19  
Foreign investment approvals, 1967-77 (\$USm.)  
 (% of total in brackets)

	1967-73	1974	1975	1976	1977 (1st half)
Forestry	463 (15)	62 (4)	16 (1)	37 (8)	9 (5)
Mining	954 (30)	69 (5)	507 (29)	4 (1)	-
Manufacturing	1,146 (36)	1,125 (74)	1,161 (66)	349 (76)	126 (74)
Textiles	551 (18)	399 (26)	31 (2)	24 (5)	47 (27)
Chemicals	199 (6)	232 (15)	61 (3)	36 (8)	41 (24)
Basic metals	226 (7)	246 (16)	876 (50)	12 (3)	-
Metal products	155 (5)	65 (4)	29 (2)	66 (14)	33 (19)
Construction	49 (2)	27 (2)	10 (1)	1 (-)	4 (2)
Hotels	117 (4)	81 (5)	21 (1)	14 (3)	1 (1)
Other	416 (13)	166 (11)	51 (3)	55 (12)	32 (19)
<b>Total</b>	<b>3,144</b>	<b>1,529</b>	<b>1,766</b>	<b>461</b>	<b>171</b>

Source: *BIES*, 13(3), Nov. 1977, p.14 (Table 6).

1975, indicating a loss of foreign business confidence in Indonesia.<sup>23</sup>

Table 20 indicates the relative share of investment between foreign and domestic capital. Caution is needed in assessing these data since investments are classified foreign or domestic according to whether nominal shareholding exceeds 50 per cent. Numerous techniques are available for retaining actual control through the agency of compliant local partners. A variety of pro-forma transfers and arrangements of the 'Ali Baba' type have been worked out to give greater nominal shareholding to *pribumi* Indonesians, together with various types of merchant banking and trustee arrangements discussed in Chapter 4.<sup>24</sup> Despite these qualifications, the shift in favour of domestic capital in 1976 may well presage a long-term policy change.

Table 20

Foreign and domestic investment approvals, 1972-76 (\$USm.)  
(% of total in brackets)

Year	Foreign	Domestic
1972	522 (42)	713 (58)
1973	664 (31)	1,465 (69)
1974	1,498 (73)	554 (27)
1975	1,765 (76)	569 (24)
1976 (1st three quarters)	304 (33)	607 (67)
Total	4,753 (55)	3,908 (45)

Source: *BIES*, 13(1), Mar. 1977, p.23 (Table 14).

<sup>23</sup>Foreign Investment Climate in Indonesia, US Embassy, Jakarta, 31 Aug. 1977; Rummel and Heenan (1978). On the other hand, Arndt argues (*BIES*, 13(3), Nov. 1977, pp.12-17) that the 1975 figures were swollen by two very large investments. Also a new pattern of joint venture between foreign capital and state enterprises is being evolved.

<sup>24</sup>Cf. pp.112-14, also *BIES*, 12(3), Nov. 1976, pp.34-5.

Little progress has been made in encouraging investment outside Java, as indicated in Table 21, though there has been some trend of domestic investment in favour of East Java. Most projects outside Java relate to mining, forestry or plantations. Reduction in the number of approvals in Jakarta has been balanced by rapid expansion in West Java, especially in the area immediately surrounding Jakarta.

#### Assistance to small industry and weak economic groups

A variety of schemes have been established for assisting small enterprises and 'weak economic groups', offering loans, credit, insurance, feasibility studies, training courses and advice on procedural aspects. Credit facilities have been progressively extended to rural areas and in late 1976 a scheme was commenced for provision of small loans to petty traders.<sup>25</sup> Areas of economic activity covered include such fields as building materials, small public transport vehicles, cloth, wood, leather, rubber products, metals, handicrafts, salt, black pepper, chicken farming, inland and sea fishing (Department of Information, R.L,1975:227-8, 230).

Such reports as are available indicate a rather uneven performance. There appears to be a considerable problem of non-recovered debts, possibly as high as 30-40 per cent, though this problem is by no means confined to the small industry sector. P.T. Bahana had only negotiated credit arrangements with fourteen small enterprises and is apparently only allowed to invest in limited liability companies.<sup>26</sup>

No obvious solutions are in sight for tackling the massive problems handicapping the growth of small enterprises, which Indonesia shares with most other Third World countries (Arief and Stachura, 1974; Soeharsono Sagir, 1975:147-50). Organizational handicaps include governmental restrictions over permits for small traders, subsidies, taxation concessions and bureaucratic advantages available to large enterprises. In the case of exports, the bias that has been in evidence since Dutch colonial times against smallholders and in favour of large estates still persists. The attitude of local military commanders, who often engage in business on their own account, can also be an important factor. Small enterprises must pay high interest rates over short repayment

<sup>25</sup>BIES, 13(1), Mar. 1977, p.29. Loans were in some cases as low as two dollars.

<sup>26</sup>BIES, 13(1), Mar. 1977, p.29.

Table 21

Regional investment trends, 1967-76 (per cent)

	Domestic investment projects				Foreign investment projects			Total no of projects	All projects	
	1969-70	1971-74	1974-76	Total	1968-70	1971-74	1975-76		Total	%
(Number of projects)	(384)	(1,168)	(188)	(1,740)	(232)	(337)	(51)	(620)		
Jakarta	37	26	15	27	47	47	27	46	1,055	32
West Java	15	22	31	21	8	17	28	14	656	20
Central Java	11	10	7	10	3	4	3	3	272	8
East Java	7	12	17	12	9	10	18	10	377	11
Java	70	70	70	70	67	78	76	73	2,360	71
(Number of projects)	(164)	(511)	(82)	(757)	(114)	(95)	(16)	(225)		
Sumatra	17	15	15	15	18	9	13	13	493	14
Kalimantan	9	11	8	10	9	7	3	7	324	10
Other	4	4	7	5	6	6	8	7	165	5
Outer Islands	30	30	30	30	33	22	24	27	982	29

Source: *BIES*, 12(3), Nov. 1976, p.36 (Table 13).

periods. Lack of co-ordination between the agencies assisting them raises costs and leads to slowness in processing requests, while bank officials may in many instances deduct 10-20 per cent from the sum loaned.

Several institutions are involved in assisting small enterprises, reflecting confusion of goals and functions. Official statements adopt a strong moralistic and didactic tone. In addition to P.T. Bahana and P.T. Askrindo, a Project for Guidance and Growth of Small Industry (BIPIK) was established in 1974. This body was charged with the extremely vague tasks of giving leadership and extension services to 'weak economic groups', providing training skills and 'exercises', 'profiles' of small industry, quality maintenance, assistance in research, promotion and information. Official speeches refer periodically to 'Training Centres', which are to provide management training and other assistance.<sup>27</sup> Institutions emphasizing technical, managerial and marketing aspects were to be promoted by the universities in their several regions (Department of Information, R.I., 1975: 231-2). (In this context it is interesting to note that theories about 'achievement motivation' by the American social scientist David McClelland (1961) retain an influence in Indonesia not widely accorded to them in the west.)

Such a pattern of institution building is more likely to provide middle class employment than to assist small entrepreneurs. Official stress on the need for 'education', development of 'correct' mental attitudes and so forth, serves to obscure basic problems and needs.

### Small technology

The issue of small or 'appropriate' technology has recently attracted considerable interest as part of the whole development debate in Indonesia (see Ziemek, 1975, esp. bibliography). International development studies literature since at least the early 1960s has given a prominent place

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<sup>27</sup> The Indonesian word *latihan* is frequently used in very vague contexts where no specific activity is suggested, e.g. Department of Information, R.I. (1975:229-32), where frequent reference is made to *pusat-pusat latihan* (Training Centres) which are to provide 'exercises' and 'tasks' and other undefined forms of support (*pembinaan*).

to problems of technology transfer.<sup>28</sup> The notion of appropriate technology appears to derive from the environmentalist movement in the west, where it has proved difficult to absorb into the mainstream of economic and social analysis. However, in Indonesia it has been accepted fairly naturally into contemporary discussion and writing about development, alongside more standard issues such as stimulation of small enterprises, rural employment, use of local resources and, on a more ideological plane, distributive justice, simple living and self-reliance.

Not surprisingly, the movement for small or appropriate technology is linked to a more philosophical questioning of the goals of development, often associated with those aspects of Hindu and Buddhist thought which stress the human satisfaction to be derived from creative work rather than maximizing production and consumption.<sup>29</sup> There is therefore a need for a style of technology which could be functional in both a technical and cultural sense, but simpler, cheaper and less harsh in its impact on workers than modern western technology. Such an approach would have obvious advantages in terms of traditional Indonesian, especially Javanese culture, which is characterized by a decorous style of life and work emphasizing craftsmanship and quality.

It would be wrong to label this approach as merely a temporary, idealistic reversion to traditionalism. Soedjatmoko, while expressing reservations about some of the 'world-denying' qualities of Gandhi's philosophy, nevertheless accepts it as more relevant to the needs of rural Asia than the adoption of western-style industrialization. There is nevertheless a need for 'creative harmony with the modern world' (Mohamed, 1975). Barbara Ward (1974) has called for a pattern of production, marketing and public services relevant to the most critical needs of the majority, which stresses human creativity, yet is firmly scientific and rational in its practical modes of operation. However, such a combination cannot be assumed, as many indigenous belief

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<sup>28</sup> e.g. *Institute of Development Studies Bulletin*, 3(1), Oct. 1970:issue entitled 'Transfers, Technicians and Technology', also Williams (1975). For a more broad-ranging analysis see Kidron (1965).

<sup>29</sup> Probably the most influential exponent of these ideas is Schumacher (1974).

systems place most emphasis on cultivating inward mental states of tranquillity and harmony. For instance the Kebatinan movement in Java has recently made efforts to formulate an organized philosophy of development, but without resolving the conflict between scientific values and Javanese culture which has been a continuing theme of Indonesian politics for many years.<sup>30</sup>

The essence of the appropriate technology gospel consists of devising techniques for using existing, locally available resources, skills and labour rather than inventing new (large) machines. Emphasis is placed on innovative research, but ideally this should be carried out as near the point of final use as possible. Most of the technology in question is still at an experimental stage and by its nature is situation-dependent. This makes dissemination of information difficult. In Indonesia, work has been carried on in relation to village pumps, hydraulic rams, various types of filters for water storage and purification, sanitation systems, animal digester units for converting (recycling) animal waste into fertilizer, model housing for rural areas, windmills as an alternative source of power and a variety of 'do-it-yourself' activities ranging from bicycle assembly to home crafts such as furniture making and textiles, which are functional in nature compared with more elaborate, decorative, traditional types of handicraft.<sup>31</sup> There is considerable interest in small technology among the growing number of voluntary or semi-official cadres in rural areas and among lower and middle-level government officials.

The Indonesian government has made some efforts to co-ordinate work in this field, working through institutions assisting small enterprises. Problems of overlap discussed earlier are well illustrated in the case of a project for developing a rattan industry near Cirebon, West Java (Imran, 1974). The product was marketed in Jakarta and other major

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<sup>30</sup> E.g. Trimurti (1975). The title of this edition of *Prisma* is 'Iman, Amal dan Pembangunan' (Belief, Action and Development). More classical historical and sociological accounts are provided in Geertz (1960), Feith (1963) and Anderson (1972).

<sup>31</sup> See papers presented to a conference on Appropriate Technology at Asrama Realino, Jogjakarta, 18-19 December 1975, sponsored by the Institute for Economic and Social Research, Education and Information (L.P.3 E.S.).

West Java cities. Raw materials were imported from Kalimantan. The project involved the Departments of Industry and Labour and Transmigration, the Bank Rakyat Indonesia, the National Credit Corporation (P.T. Askrindo), the Institute for National Export Growth (LPEN), the Institute for Labour Development (LPTK), together with provincial and local authorities. The Agricultural Institute, Bogor, evaluated timber quality while the Department of Plastic Arts, Institute of Technology, Bandung, assisted with design in conjunction with the Art and Cultural Centre in Jakarta, Taman Ismael Marzuki. The Institute for Economic and Social Research, Education and Information, which sponsors *Prisma*, assisted with marketing surveys.

Perhaps it is unfair to judge efforts in this field from such an obviously show-piece pilot project, though this example certainly looks like a case of 'using a sledgehammer to crack a nut'. In fact the problem goes a good deal deeper. As with many other efforts in the field of rural development, the growth of small technology is likely to come about as a by-product of trends and policies in the modern sector. In terms of Repelita II strategies, foreign investors have been requested in very vague terms to use more local skills and resources and to consider designing simpler machines or modifying existing ones. While this may bring useful results in particular instances, most large companies are unlikely to maintain any continuous interest in this field and in many situations will see the development of such technology as against their interests. Politically, policies emphasizing alternative technology are bound to involve greater stress on popular participation at the local level in determining both the ends and means of development and in that sense may well appear to the authorities as potentially subversive.

### Political prospects

Enough evidence has already been offered to indicate that there are serious contradictions between the strategy Indonesia claims to be pursuing and what is happening in practice. In none of the fields examined do goals of distributive justice form the major thrust of policy. Various judgments are possible about both the sincerity and administrative capacity of the Indonesian government, but in any case it seems that Indonesian planners have operated on the assumption that growth must precede redistribution and that no contradiction exists in pursuing both goals. This



assumption has come under increasing challenge in the political arena.

Since the Malari Affair in 1974, the government has extended its political control through penetration of student labour, farmer and other organizations, while at the same time appearing to be more responsive to social and economic demands. Political criticism of the government has become sharper, subsequent to the Pertamina crisis in 1976. Significantly, politicization on ideological lines is now in evidence in many quarters in ways not characteristic of the early Suharto years.

The journal *Prisma* provides a good forum for this kind of discussion. As an example, the February 1976 edition (V(1):41-58) featured a 'Dialogue' on the theme 'Equalisation of Income: Dream or Necessity' including such diverse contributors as former Vice-President Hatta, former army Chief of Staff, Dr T.B. Simutupang and General Ibnu Sutowo. Hatta in simple but moving terms reiterated the theme that maximizing GNP per capita is not the same as maximizing social welfare. This had always been Indonesia's policy since 1947 but the political will for its implementation 'at the top' was clearly lacking. In sharp contrast, Sutowo, in what turned out to be virtually his 'swan song' as Chief of Pertamina, emphasized the benefits of ultra-modern technology and the need for economic growth as a pre-condition for redistribution. Dr Simutupang, freshly returned from representing Indonesia at the World Council of Churches Congress in Nairobi (November 1975), observed that Indonesia was heading towards a new form of feudalism, and commented on the growing disparity between those 'accepted' and those 'rejected' by the system. As a vague political strategy, Simutupang suggested that there is a middle group, against whom repression will only be light and discontinuous, who should accept responsibility to speak up for the oppressed groups. A younger contributor, N. Madjid, made a militant call to 'raise the flag for Social Justice', as the forgotten one of the five principles of Pantja Sila. Another young contributor, T. Sumartana, demanded an end to 'false consciousness', not only in terms of expecting those who are making their own ever larger cake to stop and cut it up equally, but in the sense that demands for equalization have not been formulated by poor groups themselves but by middle class student intellectual groups on their behalf. The poor, who are too busy making ends meet to solve abstract problems, have come to accept

inequality and injustice as inevitable and have developed a 'culture of silence'. To overcome this some form of 'conscientization' is needed (along lines advocated by Paolo Freire 1972a and b) to enable the poor to formulate their demands in concrete ways.

The March 1977 issue (*Prisma* VI(3)) on a very similar theme ('The Map of Poverty: Waiting for the "Trickledown"') adopted a still sharper tone. Particularly harsh comment was directed towards compulsory land acquisition and evictions from kampung areas in Jakarta. Abuses of authority are cited in considerable detail together with the total absence of effective legal safeguards. Many such evictions, it is argued, are caused by socially worthless projects such as golf courses, luxury housing and hotels, which form part of the Jakarta Master Plan (Saleh and Assegaf, 1977).

The February 1977 edition of *Prisma* concentrated on the forthcoming general election.<sup>32</sup> The ideological framework of Pantja Sila was not challenged, but its practical meaning and effectiveness in channelling popular wishes were. Several contributors referred in thinly veiled ways to defects in electoral machinery and heavy-handed methods used by the military, pointing out the excessive powers of the executive relative to the legislature and judiciary. Such comments suggest an increasing boldness amongst opposition groups and perhaps also a growing interest in the practical machinery of representative institutions.

Many will argue that opinions expressed by such dissenting groups carry little weight. In isolation this may be true, but it should be realized that, since about 1973 when criticisms of the *Showcase State* type were first voiced effectively within Indonesia, the Suharto government has been impaled on the horns of a serious dilemma. A mood of resurgent economic nationalism then swept the country which the government could not ignore, especially since it was shared by many sections of the military. However, containment of such forces has been a key reason for the strong support received by the Suharto regime from western governments and multi-national companies. The riots of January 1974 in Jakarta alarmed the Indonesian authorities more because of their potential for

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<sup>32</sup>*Prisma* (VI(3)): 'Demokrasi dan Pemilihan Umum : Mencari Penyambung Lidah' (Democracy and the General Election : In Search of a Spokesman).

weakening overseas confidence than because they posed any serious internal threat.

So far, these conflicting internal and external pressures have been managed by a series of public relations exercises, favouring *pribumi* Indonesians, which military-dominated enterprises have in many cases turned to their own advantage. The government has also closed a number of fields to foreign investment. Increased demands for higher taxes and capital participation, especially in oil and minerals exploration ventures, together with mounting reports of corruption, Indonesia's worsening debt situation and the loss of momentum in the modern sector have changed the climate for foreign investors quite adversely.

It is not yet clear when and to what extent these various trends will sufficiently weaken the Suharto government's external bases of support to make possible a serious internal challenge. The Indonesian elections in May 1977 did not give a clear indication either way.<sup>33</sup> However, the strong challenge by the Moslem Unity party, which won over 30 per cent of the vote across the country, over 40 per cent in West Java and in Jakarta combined with the Democratic party to outpoll the government-controlled Golkar, was only contained elsewhere in Java by a strong appeal to anti-Islamic sentiment. Thus the electorate was again polarized on religious and cultural lines in ways reminiscent of the politics of the 1950s. Subsequently President Suharto was re-elected by the MPRS in March 1978 only after several months of sustained protests by students and Moslem groups, with some moral support from senior military and other leading political figures.<sup>34</sup>

The Suharto government, despite its military strength, has faced serious problems ever since 1966 in finding a

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<sup>33</sup> A solid analysis of the elections and their likely consequences is provided by Harvey (1977). Useful accounts are also provided by Hamish McDonald, *Australian Financial Review*, 1 and 2 March 1977 and David A. Andelman in the same paper, 21 May 1977.

<sup>34</sup> Notable critics of Suharto have included former Vice-President Hatta and General Dharsono who was forced to resign as Secretary-General of ASEAN. A particularly damaging blow to the government was provided by the refusal of the Sultan of Jogjakarta, Hamengkubuwono, to renominate as Vice-President.

legitimate basis for the exercise of political authority. It has in fact retained most of the institutions of 'guided democracy' established under President Sukarno. The partially elected Assembly (DPR-MPRS) operates for the most part in a vacuum. The present system, though highly flexible, lacks legal ground rules for popular participation. Indonesia cannot be regarded as an outright dictatorship but finds it hard to move towards either full political democracy or a purely one-party state and total suppression of elections.

Suharto's role in balancing developmental goals with culturally legitimizing symbols is at least well established. Despite his lack of charisma, one could foresee his presiding over several possible combinations of reformist or neo-traditionalist groupings or equally over some 'law and order' restorationist military grouping, such as emerged from the October 1976 coup in Bangkok. It is just as likely, however, that he has become a political liability to each of the various groups. If elections due in 1983 are held on schedule, an even higher level of coercion than in the 1971 and 1977 elections will probably be needed to achieve a Golkar victory, if Suharto is again to seek re-election as President. Rather than carry such a burden, it seems likely that strong efforts will be made by military and political leaders to find a more acceptable alternative.

A frontal assault to gain power by any group from outside government circles is most unlikely to succeed and even a coup attempt by any one group within the accepted governmental structure would face great difficulties. However, there is scope for coalitions to form around broad issues of social and economic reform. Factions contending for power may well appeal to wider sections of the population for support - a process which could lead to some loosening up of the present political structure. Thus, a military coup need not be accepted, *a priori*, as the norm for effecting political change.

So far as the political impact of the 'development debate' is concerned, probably the most serious failure on the part of almost all participants is the possible unconscious acceptance of what has been called the 'integration' or 'dependency' model of development.<sup>35</sup> Perhaps the best

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<sup>35</sup> e.g. A. Smith, 'The integration model of development: a critique', Chapter 2 in Mortimer (1973), and Frank (1971). For critical (Marxist) comment on Gunder Frank see Leys (1977) and Leaver (1977).

theoretical exponent and critic of this model is André Gunder Frank, who turns on its head the normal view of underdevelopment as being caused by shortage of capital and skills, and instead paints a vivid picture wherein the resources of the rural areas are continuously expropriated by the financial and industrial centres of the western world. This is made possible by co-optation of national, regional and local elites into an interdependent world economic system in ways that make their interests permanently contradictory to those of the majority. Their political power is buttressed by external support and, where necessary, intervention. As evidence, Frank argues that historically the periods of greatest prosperity at local and regional levels in the Latin American countries he studied occurred at times when the metropolitan countries ruling them faced some kind of internal crisis, causing disruption of trade and communications. At such times a measure of autonomous development, using local resources, was possible.

If this analysis is correct, the consensus in relation to Repelita II described at the beginning of this chapter and the philosophy of Redistribution with Growth which characterizes its practical implementation will lead only to an intensification of the economic and social patterns opposed by reformist critics of the Suharto government. Furthermore, the trend towards regional and local development planning based on interlocking 'growth centres' and 'hinterlands',<sup>36</sup> is likely to produce a chain of subordinate economic and administrative relationships very similar to that described by Frank.

The increasingly homogeneous nature of the development strategy being adopted must dampen the enthusiasm of those who scent rapid political change in the wind in Indonesia. However, it is unlikely that the consensus among reformist groups for decentralization of the economy, a better rural-urban balance, greater expenditure on basic public facilities and reduction of external dependence, will hold together if the assumptions of the integration model prove correct for the next phase of Indonesian economic history. At this stage, a wider section of the middle class are experiencing some benefits from Repelita II strategies, while many students and intellectuals are satisfied with at least some evidence

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<sup>36</sup> See, for instance, Ibrahim (1976). For an alternative or 'de-development' approach see Hadad (1975).

of rural development activity, in which they can often participate through voluntary groups, cadres, surveys or consultancy work. There is also probably at least some 'trickle-down' benefit to poorer groups. However, it is more likely that rural 'under-employment'<sup>37</sup> and urban dislocation will grow more rapidly than the government's plans can deal with them. In that case more clear-cut lines of battle should emerge between the urban and rural masses, whose expectations will have been both aroused and disappointed, ranged against the broad alliance of technocrats, military and big business interests at present governing Indonesia plus some new regional elites. Floating uncertainly between the two groups are likely to be student groups, some lower level military and public servants and various smaller and middle level entrepreneurs.

It is by no means certain whether Indonesia will achieve change via an evolutionary, reformist path or through some form of revolutionary upheaval. There has as yet been no comprehensive study of political and social structure under the New Order on which to base a judgment,<sup>38</sup> though a brief outline of likely alternatives may be offered.

Barrington Moore jnr, in a memorable though rather tortuous comparative historical analysis of modernization processes in several European and Asian countries (Moore, 1967), identifies three major political routes to the same goal, each of which depends on the balance of social forces rather than the conscious adoption of any particular ideology. The first is the bourgeois or liberal democratic route which occurs when a capitalist entrepreneurial class can emerge relatively independent of the monarchy and associated central bureaucracy. The second is the conservative or fascist model, where a powerful central state takes the initiative in promoting modernization, producing a subordinate entrepreneurial class in the process. In the first case the peasant class is effectively uprooted. In the second they are reduced to some modernized form of serfdom. In the third, revolutionary

<sup>37</sup> Commonly, rural labour commutes between many types of subsistence, self employed and wage labour activity. The terms 'employment' and 'unemployment' are thus too inflexible in the Asian context and even the term 'under-employment' does not adequately describe the situation. Myrdal (1968) emphasizes that the common factor is low labour productivity (see especially Ch.16).

<sup>38</sup> An important recent contribution is Robison (1978b).

case, the peasants' social institutions and capacity for subsistence are profoundly threatened by the process of modernization but remain intact. In this situation, the rural masses have both the motivation and the capacity to strike back.

Moore makes no reference to Indonesia nor, more seriously for the purpose of this analogy, to the whole contemporary process of international economic relations. However, the parallels between the second model and the type of military-bureaucratic capitalism which has emerged in Indonesia since 1966 seem rather striking, at least so far as Java and the major provincial centres are concerned. By contrast, many outlying or 'hinterland' areas provide potential territorial bases for wars of national or regional liberation along lines already demonstrated by Mao Tse-tung and Ho Chi Minh - a process which may already have begun in East Timor, Irian Jaya, and parts of Kalimantan. At the opposite end of the spectrum there are growing pressures for reforms along liberal or social democratic lines from Indonesia's small but growing middle class, and western interests may well point in this direction in order to pre-empt more revolutionary trends. While Indonesia's emerging entrepreneurial class will be mostly dominated by the military and bureaucracy, this class will be highly factionalized and lacking in cohesion, and this should permit some measure of reform.

Overall, while all three patterns of development can be recognized in different segments of Indonesian society, it is not yet clear which will emerge as the dominant trend. While a regime of broadly similar complexion to the present one may well survive for a few more years, Indonesian political life may be expected to experience increasing strains and instability.

## Conclusion: future prospects

The contradictions in Indonesian development strategy are reflected in each of the major fields in which Australia has been involved. I want to conclude by outlining some possible alternative approaches which could be adopted by Australia, supported by a broader assessment of their political feasibility.

Australian aid authorities supported goals of economic growth and industrialization promoted in the early years of the Suharto government with very few questions or misgivings. Partly as a result of the Labor government's policies and the efforts of a small active section of the aid constituency, and partly in response to changes of emphasis initiated by Indonesia, some cautious shift favouring promotion of rural development, income redistribution, employment and regional balance has been incorporated into official statements of aid philosophy. However, Foreign Affairs and aid personnel have shown very limited understanding or concern to translate such ideals into practical policy, while the Departments of Overseas Trade and Treasury work actively in the opposite direction.

The private sector has effectively distanced itself from the debate surrounding these issues. Its support for the mainstream development policies of the Suharto government remains undiminished, though since the Pertamina crisis its optimism about Indonesia seems more qualified and its incursions into the public arena less frequent. By contrast, non-government organizations, on the evidence of the type of programs they have supported over many years, do take questions of grass-roots development seriously. While their impact on distribution and employment has been at best marginal, and while the more radical NGOs have experienced serious tensions both internally and in their relations with the Indonesian government, their long-term impact in raising consciousness has probably been more profound.

In the purely aid context, the most obvious reforms that spring to mind have already been proposed during the course



of the Parliamentary Enquiry in 1972 and the debate surrounding the establishment of the Australian Development Assistance Agency during the next three years. Indeed many have been accepted as official policy. Probably the single most important breakthrough that could be achieved would be if ADAB and Foreign Affairs were to take seriously the emphasis on research and evaluation laid down in ADAA's original charter. This would require both a reassessment of recruitment policies to attract fresh talent and a willingness to consult outside experts. Unless practical schemes for implementing redistributionist policies are carefully researched, they will inevitably be down-graded or dismissed as slogans. It is not possible to tack goals of social justice or employment creation on the end, as it were, of capital works projects. Rather, such goals need to be built into development programs from the outset.

Attempts to unify aid policy-making and administration were less than successful at the time ADAA was established. In particular, renewed efforts should be made to define more clearly the relationship between budgetary, trade and aid policies. Australia's limited efforts at reform have been overtaken by events, as ASEAN countries have demanded radical restructuring of their economic relations with western countries, rather than an extension of traditional type aid programs. The Department of Overseas Trade is still geared overwhelmingly towards expanding Australian exports and could not be expected to adapt easily to policies of actively promoting imports from Southeast Asia, but the outlook of Australian companies with established interests in the region is likely to change, at least in the medium-term. However, for reasons discussed in the section on external trade in Chapter 6, the emphasis by Indonesia and other ASEAN countries on expanding exports may well be in conflict with goals of redistribution and provision of basic needs for the poor majority.

Finally, a good deal could probably be done both in the initial orientation of project personnel and in drawing more effectively on their experience. At present, experts are given a limited briefing relating to their project and the living conditions they may expect to encounter. Little guidance or encouragement is given to them to consider broader questions of end use in designing projects, to seek out local expertise, develop professional rapport with Indonesians or effective understanding of their culture and institutions. On their return to Australia, debriefing is perfunctory.

No obvious effort is made to use their experience for the benefit of subsequent project teams or as part of any more general process of development education.

Most major questions relating to aid and development are at base political and possible shifts in policy should be understood in this context. Two related questions must be considered initially. First, if the analysis of her development strategy in the previous chapter is correct, what justification can be offered for continuing any level of aid to Indonesia? Second, are Australians imposing their own technical, cultural or political values on Indonesians through aid programs and, if so, by what right?

It should be noted that imposition of values can occur as much through withholding as by giving aid. Political choices cannot be avoided in determining development strategy. In principle, foreigners must determine whether or not to support such choices, though in practice they often do much to initiate them. At least choices should be made consciously rather than by default. Some element of coercion seems unavoidable, especially in the case of large donors, despite endless rhetoric about 'aid without strings' and 'non-interference' in the domestic affairs of recipient countries. This can at least be partly counterbalanced by establishing close professional rapport and a continuing dialogue about ends and means at both top policy-making and project levels.

Criticism of aid on cultural grounds tends to assume that Asian cultures are unable to adapt in the face of developmental pressures from the west. There is evidence to suggest that modernization processes are often adapted to local social structure and culture rather than the other way round, though this has the effect of reinforcing the position of landowners, military, bureaucrats and other established elite groups. It is these groups who initiate aid requests. They also formulate definitions of national culture which can, where necessary, be used against their political opponents, including foreign critics. Such opportunism tends to undermine serious dialogue about development issues, which to be effective requires freedom to criticize each other's values and culture within reasonable bounds of sensitivity.

This study has concentrated a good deal on demonstrating a bias towards the modern sector in both Indonesian and Australian policy-making. It must be reiterated that this

does not imply opposition to technology and material growth *per se*, but rather a concern with who benefits, or with who can use a given piece of technology and who participates in decisions over its use. Indonesians at all social levels have very complex attitudes towards such questions. Ideally, they would prefer to raise living standards while leaving their social institutions as little disturbed as possible, though most would recognize such desires as unreal. There are nevertheless sound theoretical and practical reasons for ensuring that development programs are adequately related to local institutions, though as Myrdal and others have pointed out, these require continuous, tough-minded scrutiny.

Accepting the right of both donor and recipient to judge their own interests and of foreigners to discuss the merits of alternative development strategies with Indonesians, are there sufficient grounds for dissatisfaction with Indonesia's current policies and political regime for Australia to cut off aid? Those concerned primarily with diplomatic relations would argue that this would merely damage relations but have little economic or other impact. Against this, it was argued in Chapter 2 that Indonesia sees IGGI aid as a package deal and would be concerned about the impact on other countries. A major argument throughout this study has been that fear of offending the Indonesian government has engendered a persistent superficiality in the formulation of aid programs. Nevertheless, any policy which sought to encourage a shift in Indonesian priorities would probably require a parallel upgrading of Australia's efforts in the aid field. Realistically, this can only be achieved piecemeal. However, the Indonesian government is by no means monolithic and numerous channels for influencing policy are available. At a formal level at least, it is possible to propose certain changes without conflicting with her official development ideology.

There is a tendency for Australians, along with other westerners, to call into question the whole aid program whenever Indonesia makes some controversial political move or when they discover some aspect of Indonesian society of which they disapprove. Academics are just as much prone to such views as anyone else. Each program should be judged on its merits, and withdrawal of support in any one area should not cause the aid program as a whole to be placed in jeopardy. This could of course happen if nothing whatever in Indonesia were found to be worth supporting, but at this stage there are good grounds for arguing that Australians do not have

sufficient knowledge about Indonesian society and economy to make such a judgment. Nevertheless, it must be recognized that any serious attempt to assess the impact of aid on income distribution and employment would be likely to lead to the scrapping or drastic redesign of many projects. Greater pressure should also be brought to bear on Indonesia, both directly and through IGGI, to exact a greater tax contribution from wealthier groups.

One additional reason for maintaining aid to Indonesia which seems worth mentioning is the educational value to Australians of involvement in the life of her large, culturally rich and diverse, though materially poor neighbour. Greater efforts could also be made to foster public knowledge and interest in aid programs, which would require the establishment of effective consultative machinery between ADAB and the general community and wider dissemination of critical, informative literature about aid programs.

It is sometimes suggested that Australia should withdraw aid in order to exert pressure on Indonesia in relation to such issues as human rights and East Timor. This would be to use the aid weapon as a blunt instrument, in that except in the case of defence aid, it would be hard to establish clear links between these issues and specific aid programs. Such action would also adversely affect Australia's ability to sustain any effective dialogue with Indonesia about long-term issues of development policy. However, this does not preclude Australia from making known her views both through direct diplomatic channels and international forums.

A good deal has been made of the conflict between diplomatic and developmental values in the design and implementation of aid programs. How valid is this distinction? As we have seen, Australian diplomats, though denying any conflict in principle, insist in practice that aid must be subordinate to foreign policy goals. In the sense that all development programs contain some political aspect, a measure of truth must be conceded to the diplomats' viewpoint. However, from a professional standpoint the arguments for maintaining a distinct emphasis on developmental aspects are compelling. Nor is there anything obviously undesirable in a situation where the Minister is sometimes obliged to reconcile conflicting patterns of advice. At the country level, diplomatic goals are accorded primacy unless the Ambassador, who is immediately responsible for co-ordinating

all branches of activity, has a strong personal commitment to promoting development.

In a broader sense, it can be argued that promotion of good relations and support for Indonesia's overall development strategy are identical goals. Marxists would insist that both are in accordance with the global strategy of international capitalism and also entail a commitment to maintaining the political stability of the Suharto government. Although such interconnections are fairly obvious, this type of outlook is too monolithic and inadequate to explain detailed situations. In any case the support base for the Suharto government has narrowed to the extent that many who have formerly supported it would now regard some measure of political reform as essential to their long-term interests. Nevertheless, the nexus is sufficiently established to make reforms in aid and development policies contingent on a redefinition of diplomatic objectives.

It is necessary to replace the doctrine of 'asymmetry' with one emphasizing a more reciprocal relationship between the two countries. Such an approach would avoid any unduly abrupt shift away from current official interpretations of 'regional co-operation' and would fit easily into diplomatic idioms acceptable to Indonesia. It would also carry some symbolic advantage, in that in terms of her own national struggle, Indonesia is likely to understand a strong but friendly nationalistic assertion of equality by Australia in relations with her, especially if this is linked to a policy of reducing dependence on the USA and Western Europe.

Such dependence has done much to impose ideological blinkers on Australian perceptions of Indonesia and may well have produced an undue emphasis on geo-political aspects. This in turn has aggravated fears about what type of government will succeed Suharto. There now seems to be some greater acceptance among diplomats that there should be a return to the norm which prevailed during the Sukarno period whereby Australia recognizes her long-term interest in maintaining friendly relations with Indonesia irrespective of who is in power. In effect this would mean maintaining cordial relations at the official level without undue identification with the ruling political faction. To preserve Australian national sovereignty, a reassertion of an earlier tenet of diplomacy towards Indonesia is also necessary to the effect that on controversial issues 'friends can disagree'. In

practice, it seems likely that such a shift will occur only by slow degrees. In the meanwhile, the established official position still maintains considerable resilience and durability.

Australia tends to underrate her capacity to exert leverage on Indonesia's developmental policies. As a relatively non-threatening 'middle power' Australia has considerable acceptability and freedom of manoeuvre in her dealings with Asian countries, and without going into the merits or otherwise of their specific programs, one can draw a partly appropriate analogy with the Scandinavian countries. They have exerted an influence internationally in relation to development issues quite disproportionate to their size and political strength, essentially through the force and quality of their ideas. Once it becomes clear to Indonesian authorities that Australia will insist that programs she supports must have a demonstrable impact on employment and income distribution, in due course they are likely to accommodate Australian preferences and respond with appropriate requests. Unfortunately, there appears to be little understanding or interest in such issues within the relevant policy-making sections of the Australian bureaucracy, whose thinking is still largely dominated by conventional, growth-oriented capitalist ideology. Even during the Whitlam period little attempt was made to spell out the practical implications of official redistributionist policies, probably owing to a combination of bureaucratic inertia and uncertainty about Indonesia's response.

It could also be argued that some reduction in the emphasis which Australia places on close diplomatic ties with Indonesia might in fact produce a more relaxed relationship between the two countries and consequently an improved environment for effecting policy reforms. This process could well be assisted by Australia diversifying her relations with other previously neglected countries in Asia, Africa and the Pacific. (In view of her obsession with 'geo-politics' and maintaining open lines of communication with Europe, Australia's continuing neglect of the Indian sub-continent seems difficult to explain.) Nevertheless, in view of past investment of effort, the case for Indonesia retaining a high priority in Australia's overall development assistance program is strong. A greatly expanded overall aid effort would be necessary for such a strategy to be feasible. On the basis of current patterns, substantial increases in funds

would be required, though the budgeting implications of more redistributive aid and development priorities are unclear at this stage.

In the longer term, policy-making will need to take more account of the issue of 'reform versus revolution'. In the case of Indonesia, however, the lack of substantial middle ground between supporters and opponents of the Suharto government makes it hard to come to grips with this question. I am conscious, along with Gunnar Myrdal and Chenery *et al.* (Chapter 6), of proposing reforms to be implemented through established power structures assisted by a presumably enlightened 'public opinion'. While this no doubt reflects a personal 'left liberal' bias, the issue also hinges on judgments about the likely trend of events in Indonesia.

On the basis of the analysis in Chapter 6, it seems clear that both the external and internal bases of support for the present government are being eroded. While the speed at which this process is occurring may be hard to grasp, there is nothing obvious in sight which might reverse it. The most likely time for major changes is in the early 1980s when the external debt crisis should reach its height, the present '1945' generation of senior military become due for retirement, and elections due in 1983 begin to loom large. However, it does not necessarily follow that a dramatic overthrow of the present regime will occur. As a result of increasing social fragmentation, a state may develop such that this government or its successor, while retaining power in a formal sense, will find the extent of their political control greatly weakened.

Most Australian diplomats would find their worst fears of 'instability' fulfilled if such a picture proves to be even moderately correct. The problem that will face Australian policy-makers in the 1980s is that the several major conflicting trends of development described towards the end of Chapter 6 are likely to be occurring simultaneously, requiring a flexible response by countries friendly to Indonesia. It is obviously desirable for Australia to distance herself from involvement in Indonesia's several potential 'mini Vietnams', though continued support for her current development strategies will make this increasingly difficult. Alternatively, failure to achieve an adequate shift in the direction of Australian policies in the near future could necessitate a more painful break with Indonesia at some later stage.

Appendix I

Indonesian students and trainees in Australia, 1966-76, by year and course

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Students -											
secondary education	-	-	-	-	2	-	-	-	-	-	-
Humanities	7	1	2	1	2	1	12	54	72	64	34
Education	14	1	4	7	17	24	86	79	68	80	71
Fine Arts	23	21	23	16	18	14	17	-	-	-	-
Law	-	-	-	2	-	-	-	-	-	-	-
Social sciences	2	2	-	2	1	2	19	4	6	8	14
Economics	23	15	8	4	1	-	2	11	9	10	9
Natural sciences	29	28	18	18	23	28	42	31	31	34	32
Engineering	140	121	97	86	72	51	53	62	49	33	31
Medical sciences	17	26	15	12	11	11	14	8	9	14	16
Agriculture	37	33	27	23	27	33	39	36	35	43	43
Other and unspecified	-	2	-	-	-	-	-	1	2	-	-
<b>Total students</b>	<b>292</b>	<b>250</b>	<b>194</b>	<b>171</b>	<b>174</b>	<b>164</b>	<b>284</b>	<b>286</b>	<b>281</b>	<b>286</b>	<b>250</b>
Trainees -											
Planning and											
administration:											
a. Economic planning	4	3	11	6	5	2	3	1	-	-	1
b. Public											
administration	7	5	11	14	16	25	17	13	11	10	8
Public utilities	4	20	50	29	30	50	34	28	15	19	37
Industry	6	11	19	20	21	36	21	24	12	23	23
Trade	8	2	5	5	11	15	10	4	4	3	-
Agriculture	1	5	9	6	25	26	33	16	12	9	10
Health services	19	12	14	17	12	30	52	38	31	28	26
Education	7	7	3	22	69	76	25	12	10	13	12
Social services	2	1	4	9	8	6	13	1	7	6	6
Multi-sector and											
unspecified	-	5	-	2	1	-	-	12	2	-	-
<b>Total trainees</b>	<b>58</b>	<b>71</b>	<b>126</b>	<b>130</b>	<b>198</b>	<b>266</b>	<b>208</b>	<b>149</b>	<b>104</b>	<b>111</b>	<b>123</b>
<b>Total award holders</b>	<b>350</b>	<b>321</b>	<b>320</b>	<b>301</b>	<b>372</b>	<b>430</b>	<b>492</b>	<b>435</b>	<b>385</b>	<b>397</b>	<b>373</b>



## Appendix II

### Questionnaire to Colombo Plan personnel working in Indonesia

A questionnaire was offered in 1973 and 1975 to Colombo Plan personnel working on the Bogor Water Supply, ATM, AFTN and Cimanuk and Serayu River surveys.

Questions relating to Australia's aid program in Indonesia were identical with those given to CAA groups (Appendix VI) and businessmen (Appendix III). Other questions related to initial briefing and orientation, training responsibilities, attitudes towards Indonesian associates, social contacts and language experience. Difficulties were experienced in obtaining responses, only 18 being received, 11 of these were from ATM personnel (out of a possible 28 working on this project in 1975). The sample is too small to be statistically valid and only unscaled responses have been considered. However, the comments of ATM personnel probably represented a fair sample for that project, and are offered as suggesting possible interesting lines of investigation to other researchers. Interviews were conducted with all three leaders since the project's inception and with relevant senior PMG personnel in Australia.

### Appendix III

#### Questionnaire to Australian companies with interests or potential interests in Indonesia

The survey was conducted in 1972-73. A total of 103 companies responded out of some 260 approached. Sources used included membership of the Australia Indonesia Business Cooperation Committee, membership of trade missions, Trade Commission (Jakarta) lists of companies, attendance at relevant seminars, etc. Companies varied in their stage of involvement in Indonesia. Some were already involved in trade or investment, some were in process of negotiation and others at preliminary stages of assessing prospects, though it was not considered possible (or necessary) to categorize companies on such a basis.

- 73 companies were engaged in manufacturing
- 5\* companies were engaged in mining and oil exploration
- 9 companies were designers/contractors in the building industry
- 19 companies were consultants in various fields ranging from engineering to management
- 13 companies were engaged in advertising, banking and other services
- 5 companies were involved as suppliers

(N.B. Some companies are involved in more than one type of activity)

\* This category was under-represented in this survey; cf. Table 9, p.102

The questionnaire requested information and opinion on such issues as type of company organization adopted, market prospects, extent of Indonesian shareholding, joint ventures, training of Indonesian personnel, strengths and weaknesses of Indonesian personnel, role of Indonesian language, problems of conducting business in Indonesia, use of local skills and sources of supply, contact with local institutions and services required from the Australian and Indonesian governments. Questions on Australia's aid program to Indonesia (Questions 24-30) were identical with those put to Community Aid Abroad branches (cf. Appendix VII). Companies were also asked about any direct involvement which they might have had with the aid program.

Most questions were of an open-ended, descriptive type but a number of scaled questions were included. Companies were asked to give their assessment of the following questions on a Scale 1 to 7:

<u>Question</u>	<u>Mean average score</u>	<u>Number of companies responding</u>
5(b) Joint participation with an Indonesian company as either not necessary (1) or essential (7) for the purposes of building good relations with the Indonesian government	4.86	96

<u>Question</u>	<u>Mean average score</u>	<u>Number of companies responding</u>
6(b) Ditto for the purposes of transacting business in Indonesia	4.11	93
7(b) Ditto for the purposes of obtaining effective internal operation and management of an enterprise in Indonesia	3.93	89
9(b) Training of Indonesians for senior management positions as either not necessary (1) or essential (7) for the purpose of building good relations with the Indonesian government	4.87	83
10(b) Ditto for the purpose of transacting business in Indonesia	4.47	83
14(b) Preference for using training Australians (1) or trained Indonesians (7) for marketing management in Indonesia	4.68	66
16(iv) Optimistic (7) or not optimistic (1) about marketing prospects in Indonesia	5.12	84
17(b) Learning Indonesian language by Australian personnel resident in Indonesia not necessary (1) or essential (7) for the purpose of building satisfactory social relations with Indonesians	5.49	88
18(b) Ditto for the purpose of transacting business in Indonesia	4.58	85
19(b) Ditto for the purpose of obtaining effective internal operation and management of an enterprise in Indonesia	5.15	79
20(b) Business dealings as more difficult (1) or less difficult (7) than other South-east Asian countries	3.30	74
25(b)* Not at all necessary (1) or absolutely essential (7) that Australian aid programs to Indonesia should possess a recognizable Australian identity	5.53	79
27(b)* Australian aid programs to Indonesia should be entirely tied (1) or untied (7) to purchases from Australia	3.33	84
29 Extent to which Australia should supply more (7) or less (1) aid to Indonesia	5.46	80
30(b)* Australian aid should be channelled via bilateral (1) or multilateral (7) channels	2.40	78

\* For an  $\chi^2$  comparison with responses of CAA branches see Appendix VI.

Appendix IV

Australian-Indonesian joint ventures

Activity	Australian investor	Local partner(s)	Capital US\$ and year of approval
Sweetened condensed milk	Australian Dairy Produce Board	PD Marison NV	750,000 (1967)
Shoe polish	Kiwi Polish Pty Limited	Co. Pension Fund as trustees	300,000 (1967)
Steel containers (drums and pails)	Rheem (Aust.) Industry Pty Ltd	Joint venture with Indonesian government	250,000 (1969)
Collapsible tubes	Impact International Pty Limited	Mr Sujitno Sukirno (Ex-Ambassador)	160,000 (1969)
Asbestos cement sheet	James Hardie Asbestos	PD Karya Jasa	400,000 (1969)
Cold storage dry ice and ice-cream	British Tobacco Co. (Aust.) Ltd	Mr Ghen Wa Tek	1,600,000 (1970)
Glass manufacture	Australian Consolidated Industries Ltd	Mr B. Hasan	4,500,000 (1970)
Pharmaceuticals	Nicholas Pty Ltd (joint with Parke Davis & Co. of Detroit, USA)	Miss K. Diapari SH	1,281,000 (1970)
Dredging contractors	Westminster Dredging Australia Pty Ltd	PN Waskita Karya (state owned)	100,000 (1970)
Motor vehicle batteries	Century Storage Battery Co. Ltd	PT Sumber Selatan Trading Co. (55:45%)	600,000 (1971)
Printing ink and adhesives	Sidney Cooke Chemicals Pty Ltd	NV Pantjasona (90:10%)	550,000 (1971)
Air taxi/charter	Saatas Pty Ltd	PT East Indonesia Air Taxi (80:20%)	200,000 (1971)
Agricultural tools (hoes)	Vickers Hadwa Pty Limited	PT Pioneer Trading Company	500,000 (1971)
General mining	Tropic Mineral Holding Pty Ltd	Contract of work	1,160,000 (1971)
Air taxi/charter	Airfast Services Pty Ltd	PT Safari Air (80:20%)	500,000 (1971)
Tin mining	Broken Hill Pty Co. Limited	Contract of work	20,000,000 (1971)

Activity	Australian investor	Local partner(s)	Capital US\$ and year of approval
Tin mines	Kay: Ara Mining Corp. (Blue Metal Industries and CSR Co. Limited)	Contract of work	5,000,000 (1971)
Industrial gases	The Commonwealth Industrial Gases Ltd	(a) PN Zaatas (b) PN Asam Arang State Enterprises (65:35%)	2,060,000 (1971)
Metal windows and doors	(a) Guthrie & Co. Pty Ltd (b) Chris Turner & Scott Pty Ltd	PT Sumber Selatan	300,000 (1971)
Construction, contracting	Leighton Contractors Pty Ltd	PT Astra International Inc. (60:40%)	1,000,000 (1971)
Aluminium extrusion	Comalco Australia Limited	Mr Liem Tiang	1,700,000 (1971)
Lead oxide, battery plates and components	Sims Consolidated Limited	PT Pembangunan Jaya (60:40%)	407,500 (1972)
Ready-mixed concrete	(a) Blue Metal Ind. (b) CSR Co. Limited	PT Pembangunan Jaya	1,000,000 (1972)
Prefab. building and housing components	Permawall Manufacturing (Qld) Pty Ltd	PT Amanat PT Harkrisma (40:60%)	500,000 (1972)
Assembling electrical appliances	Deltech International Pty Ltd	CV Patuha Bogor West Java	2,000,000 (1972)
Fishing and cold storage	M.G. Kailis Gulf Fisheries Pty Ltd	PT Dharma Aru (70:30%)	750,000 (Feb. 1973)
Supporting services for oil drilling	Vickers Ruwolt Australia Pty Ltd	PN Pertamina	500,000 (Apr. 1973)
Rigid PVC pipes and fittings	Vinidex Tubemakers Pty Limited	PT Salim Economic Development Corp. (60:40%)	900,000 (May 1973)
General contracting	J. O'Clough & Son Pty Ltd	PT Erba (50:50%)	500,000 (May 1973)
Asbestos, cement, pipes and fittings	James Hardie Asbestos Limited	(a) Mr Tandiono Manu (b) Mr Santoso Harso Kusumo	20,000,000 (June 1973)
Corrugated fibre-board containers and fittings, planks and boards	(a) Australian Consolidated Ind. (b) St Regis Paper Corp. (USA)	Mr Priyadi (90:10%)	1,250,000 (Oct. 1973)

Activity	Australian investor	Local partner(s)	Capital US\$ and year of approval
Corrugated galvanized building materials	(a) ARC Ind. Ltd Australia	PT Freyssinet (90:10%)	1,800,000 (Aug. 1973)
	(b) John Lysaght Ltd Australia		
	(c) Hall Engineering (Holdings) Ltd England		
Concrete roof tiles, blocks, drainage pipes	Concrete Industries (Monier) Australia	PT Lima Satu	1,293,000 (Sept. 1973)
Adhesive glue paste	(a) Davis Consolidated Industries Ltd	(a) CV National Industrial Adhesive Supply	370,000 (Oct. 1973)
	(b) Island Investment Pty Ltd	(b) Mr Barry S. Diah (75.5:24.5%)	
General contracting	John Holland (Holdings) Ltd	(a) PT Widjajakusumah	1,000,000 (Oct. 1973)
		(b) Lt Gen. Ibnu Sutowo (60:40%)	
Integrated steel mill	Sims Consolidated Ltd (Australia)	PT Sumber Sedjahtera (75:25%)	18,000,000 (Nov. 1973)
Fire extinguishers	Wormald International (Aust.) Pty Ltd	Firma Bayu Santosa (80:20%)	550,000 (Feb. 1974)
Sugar refinery	Tarnpirp Pty Ltd Frank Kostenak	PT Marison	15,600,000 (Feb. 1974)
Building contractor	Manchil Pty Ltd	Pt Indra	500,000 (April 1974)
Steel pipe fittings	Tubemakers of Australia Ltd	NV Bakrie & Brothers	4,943,000 (June 1974)
Zinc oxide	(a) The Lysaght Durham Chem. Co. (Aust.)	Mr H. Wilson	526,000 (March 1974)
	(b) William Jacks Hong Kong		
Automotive parts (clutch/brake)	RepcO Limited	PT Sumber Selatan	1,150,000 (1974)
Consulting engineer	Stephenson & Turner	PT Gabah Laras	300,000 (1974)
Welding wire mesh and cold rolled sections	B.R.C. Lysaght (joint venture)	n.a.	(1974)

Activity	Australian investor	Local partner(s)	Capital US\$ and year of approval
Manufacture of corrosion prevent- ing products	Dimet Victoria Limited	Drs Santoso Harsokusumo	75% equity (originally) (1974)
Office construction	V.S.L. Pre- stressing (Aust.) Pty Ltd	P.T. Capitol Mutual Corporation	

Source: Department of Overseas Trade; cf. also Senate Standing Committee on Industry and Trade 1975:157-9.

n.a. Not available

Appendix V

Survey of project selection in three central Java villages  
assisted by Christian Foundation for Public Health (YAKKUM), Solo

The survey was conducted between March and June 1973. Interviews were conducted by a Javanese speaking (5-year trained) graduate in rural social sciences from the Faculty of Economics, Gajah Mada University, Yogyakarta. Basic data were supplied by YAKKUM and local authorities.

Apart from the head of the village, ten to twelve people were interviewed in each of the three villages, including village officials, teachers, farmers, farmers' wives and agricultural labourers.

Questions did not follow a rigid sequence, but essentially villagers were asked to identify projects which had been undertaken during the period 1969-73, how the projects originated, the types of discussion which occurred, reasons for the project's selection, what assistance had been received from outside the village, whether the project had been effective and beneficial. Respondents were also asked to assess their own role in relation to various projects.

Basic data relating to the three villages surveyed are as follows:

(1) Boyolayar village is approximately 40 kilometres to the north of the city of Solo, about 8 kilometres from Sumberlawing in kabupaten Sragen. The village is very isolated. At the time of the survey there was no road transport, though a road link was being planned. The village possessed only one mule and four radios. The area is hilly and the soil mostly hard limestone. The main crop is cassava and only a small proportion of land is devoted to rice paddy.

rice paddy	19 ha
dry land	275 ha
house garden	40 ha
woodland	<u>271 ha</u>
total	<u>605 ha</u>

As a consequence the population is fairly small, consisting of 771 males and 850 females. There are no irrigation facilities. There is one primary school, built with funds from CAA, but there are few textbooks and most of the teachers live outside the village.

Altogether, living standards are extremely low. The development projects most likely to make an impact in this area are related to goat breeding and experimental pastures (*rumpu kolonjono*) conducted by YAKKUM and the government 're-greening' (*penghijauan*) program.

(2) Location of Begajah Village: in kabupaten Sukoharjo, 6 kilometres to the south of the city of Solo, along the main road to Wonogiri. Communications are good. Condition of the soil is good and most land is



used for rice or house gardens.

Area of rice fields	183.8 ha	Population: male	2004
Area of dry land	16.4 ha	female	<u>2125</u>
Area of house gardens	80.3 ha	Total	<u>4129</u>
Other	<u>31.5 ha</u>		
Total	<u>312 ha</u>		

Irrigation channels seem in good condition. During the dry season they can irrigate 75 ha. There are two primary schools. Housing conditions seem satisfactory relative to the general standards of the region. Some better off farmers were building brick homes at the time of the survey.

(3) Kadilajo Village is 38 kilometres west of the city of Solo, 10 kilometres north from the main road to Jogjakarta, in the kabupaten of Klaten. The area is one of rich volcanic soil at the foot of Mt Merapi.

Area of rice fields	137.5 ha	Population: male	1324
Area of house gardens	55.5 ha	female	<u>1510</u>
Other	<u>6.0</u>	Total	<u>2834</u>
Total	<u>199 ha</u>		

Irrigation channels seem in good condition, there is sufficient water and during the dry season the area of irrigated paddy field is approximately 100 ha.

There is a kindergarten, a primary school and a family health program. Housing conditions and general standard of living of the population seem fair. Transport facilities are inadequate. There are only five motor cycles and two horses and carts, although the condition of roads and bridges is satisfactory. (The village would probably benefit greatly from some type of communally owned bus, van or opelet.)

#### Summary of responses on initiative in relation to projects

##### (1) Boyolayar

- (a) (Replanting) - This is a government program for safeguarding marginal land in a critical condition.
- (b) Project for goat rearing - the initiative came from YAKKUM as part of a scheme for raising people's incomes.
- (c) School building - decision to build the school came from the people and YAKKUM supplied aid.
- (d) Collection of stones to build the road - initiative from the Kecamatan authorities.

##### (2) Begajah

Initiative for a model house came from YAKKUM using a style of housebuilding which fulfilled all necessary health conditions. Village leaders used the project as emergency relief to help a man whose house had blown down in a hurricane. Maintenance was subsequently neglected.

The second primary school in Begajah: initiative came from the people in the area who persuaded the village officials to act.

Building of a water sluice gate at Plumcung: initiative came from farmers.

For other irrigation projects the initiative came from a Village Development Committee established within the framework of Dalam Negeri's official program for rural development (Pembangunan Masyarakat Desa).

(3) Kadilajo

The dam project and irrigation at Cililing seems to have been based on popular initiative, though at the time of the survey long periods of delay had been experienced.

Health clinic - popular initiative, but evidently stimulated by YAKKUM. Some opposition from Moslem groups.

Irrigation channels - initiative from village officials and YAKKUM following a survey of the needs of the area.

Road widening - initiative from village officials as part of the program for giving the village a 'face-lift'.

Clearing rocky soil for rice fields - initiative from the Camat of Karangnongko. The project is intended as a pilot study for testing the advantages of using rocky soil for sowing rice seed or developing fisheries.

General comment

Involvement of villagers other than officials in planning and discussion varied considerably from one project to another. In general, participation is not great, but it appeared to be highest in the most prosperous village of the three - Begajah - and least in the poorest village, Boyolayar. Most positive popular involvement seems to have occurred in relation to school building projects.

## Appendix VI

### Survey of Community Aid Abroad branches which have supported projects in Indonesia since 1966

The survey was conducted in 1972. Forty-nine CAA branches were contacted plus five associated Rotary groups. Of the combined groups, thirty-seven responded, plus one individual member of the NSW Executive of CAA. Groups were asked to give a collective answer, drawing to the best extent possible on members who had knowledge of the group's involvement in the relevant project(s). Most questions were of a descriptive, open-ended type and were concerned with reasons for selecting particular countries for support and types of project preferred; sources of information about projects, about Indonesia and about development issues generally; the extent to which groups discussed development problems in Indonesia (as distinct from fund-raising), the respective role of CAA officers and local people in initiating projects and the efficiency, usefulness and possible extension of projects in Indonesia. Questions relating to aid were identical with those to businessmen (Appendix III) relating to strengths and weaknesses, terms and conditions, channels for disbursement and general characteristics.

CAA's intention is that its branches, by selecting projects for support, will identify with the needs of the specific group they are assisting, thereby gaining a better general understanding of development issues. However, this survey indicated that most energies are devoted to fund-raising, that little time is devoted to discussion of development problems and that access to information is very limited. Nevertheless, most groups expressed definite opinions about the main problems confronting Indonesia. (This picture may have changed since the time of the survey, since CAA and NGOs generally have stepped up their efforts in development education.)

Groups were asked to give their assessment of the following questions on a Scale 1 to 7:

<u>Question</u>	<u>Mean average score</u>	<u>Number of branches responding</u>
13(ii) CAA officers should (7) or should not (1) play an active advisory role with regard to technical and managerial aspects of CAA supported projects in Indonesia and other aid-receiving countries	3.58	33
14(ii) Ditto advisory role in the definition and initiation of projects	4.13	32
15(ii) Selection of projects more influenced by characteristics of the project (1) or by a general interest in Indonesia (7)	2.81	31

<u>Question</u>		<u>Mean average score</u>	<u>Number of branches responding</u>
16(ii)	Selection of projects influenced more by effective operation of the project (1) or by its potential impact in motivating Australians (7)	2.79	33
17(ii)	Discussions held regularly (7) or not at all (1) on problems of economic development in Indonesia	1.77	30
18(ii)	Ditto on problems of economic development related to the project(s) supported by the group in Indonesia	1.61	31
19(ii)	Project(s) supported by the group in Indonesia operating efficiently (7) or not efficiently (1)	5.79	29
20	Project(s) supported by the group in Indonesia useful (7) or not useful (1) as a working part of the local economy	5.72	25
24(ii)	Not at all necessary (1) or absolutely essential (7) that Australian aid programs to Indonesia should possess a recognizable Australian identity	3.15	27
25(ii)	Australian aid programs to Indonesia should be entirely tied (1) or untied (7) to purchases from Australia	5.83	30
27	Extent to which Australia should supply more (7) or less (1) aid to Indonesia	6.11	27
29(ii)	Australian aid should be channelled via bilateral (1) or multilateral (7) channels	4.36	22

Chi-square ( $\chi^2$ ) tests were undertaken to compare responses between business companies (cf. Appendix III) and CAA branches, on questions relating to Australian aid, using the Median Test.<sup>1</sup> The results confirm that the two groups hold significantly different views.

	<u><math>\chi^2</math> score</u>	<u>Level of significance</u>
Tied v. non-tied aid (Business - Question 27(b); CAA - Question 25(ii))	16.33	.001
Aid should/should not possess a recognizable Australian identity (Business - Question 25(b); CAA - Question 24(ii))	23.11	.001
Australian aid should be channelled bilaterally/multilaterally (Business - Question 30(b); CAA - Question 29(ii))	7.07	.01

1. S.S. Siegel, *Non-parametric Statistics for the Behavioural Sciences*, New York, McGraw-Hill, 1956, p.111.



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