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"INDONESIAN RECOVERY AND THE SECURITY OF SOUTHEAST ASIA"

body of remarks

by

HIS EXCELLENCY SOEDJATMOKO

AMBASSADOR OF THE REPUBLIC OF INDONESIA

to THE UNITED STATES

at

A LUNCHEON MEETING

of the

GREATER SAN FRANCISCO CHAMBER OF COMMERCE

on

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# I

I am sure that you are all aware of the rapid and, at times, turbulent change which has characterised developments in Indonesia these past two years. A great deal has been written on the communist-inspired coup d'etat of September 30, 1965, and the dramatic and radical transformations that followed in its wake. I see no point, therefore, in recounting to you once again the facts and circumstances of what has, by now, become a part of contemporary history.

Essentially, what has transpired in Indonesia can be summed up as the downfall of the old regime under Sukarno and the emergence of a new Government, under President Suharto, which, in sharp contrast to the past, is committed to constitutional government, realism in its outlook on the world and rationality and pragmatism in economic policies. But important as these changes have been, of much more profound significance were the changes brought about in the very spirit and mood of the nation as a whole.

There is a new upsurge of creative energies in Indonesia today, that finds its parallel only in the revolutionary elan of 1945, when the nation first broke its shackles and embarked on its revolution for independence.



It is rare indeed for a nation to be able to experience this kind of rejuvenation twice within a person's lifetime.

It is this upsurge of creative energies that feeds the renewed hopes and determination of Indonesia's leaders and masses today. Freed from the illusions of the past, it is a hope and determination that is tempered by a soberness and realism in approach and vision, an awareness of the real and urgent needs of the people and an acute realisation of the hard work that lies ahead.

It is this new spirit of Indonesia which I have come here to represent. And it is within this spirit that I would like to discuss with you today the current developments in my country, especially in their economic context.

I wish to convey to you the determination and honesty of intention of my government in its efforts to bring back to the Indonesian economy the essential elements of rationality and economic good sense. I do hope, therefore, that you will take my presence here today as evidence of the importance which the Indonesian government and her representatives here in the U.S. attach to the fostering of close and mutually beneficial relations with organizations such as yours.



## II

It is almost two years now since the new government In Indonesia started tackling its economic problems in a serious and systematic fashion. Considering the deplorable legacy of long years of governmental mismanagement and economic irresponsibility, the results so far of the rehabilitation and stabilization program give no reasons for dissatisfaction. I do not propose to tax your indulgence by a detailed description of policies and their impact on day-to-day developments. Most likely you are already familiar with them. And I think that after the articles which appeared in the current issue of Fortune, by Robert Lubar, and in the May issue of International Commerce, there is very little in the way of details that I could add. Still it might be useful to provide you with a broad survey of highlights in progress so far achieved.

For years, the most outstanding, and menacing feature of our economy has been its run-away inflation. By July of 1966, inflation had reached the incredible rate of 746%. Over the same period the consumer price index had risen to 635%. Thanks to immediate and stringent measures to halt this headlong rush towards ruin, inflation, if not yet stopped, has now been checked. In 1967 its rate went down to about 147%.



It is hoped that in 1968 it can be further pushed down to about 40%, and gradually levelled off in the succeeding year.

Considerable progress is being made in the other areas. When the new government took over in August 1966, the country's economy was in shambles. Developmental efforts were at a standstill. The effectiveness of the production apparatus had dwindled down to about 25% of capacity due to lack of spareparts, raw materials and incentives. Exports were at an all-time low and people's purchasing power at incredibly minimum levels. The economic infrastructure was nearing the point of massive break-down. The country was, and still is, groaning under the burden of huge foreign debts to the tune of some 2.5 billion U.S. dollars.

As against this gloomy picture in 1966, this much can be noted today : under the new fiscal and economic policies of the present government the Indonesian economy has definitely moved away from a "command economy" with excessive governmental control and over-bureaucratization to a "market economy" which recognises the vital role played by private enterprise in the improvement of the nation's economy. All unproductive spending on monuments and prestige projects has been cut off and an austerity program introduced, thus restoring financial



discipline. For the first time since a long time the government is operating under a balanced budget. The banking and credit system is being overhauled, and a tight money policy, with selective credits, enforced. A more effective system of tax assessment is being applied. Foreign trade has been freed from the unrealistic exchange controls which had handicapped exports and stimulated imports under the nepotistic licence system of the old regime. For the first time the foreign exchange rate is kept floating so as not to stifle exports in the still existing inflationary conditions. State subsidies were abolished and the free market pricing mechanism restored. A temporary reprieve has been gained through the rescheduling of current debt obligations and new aid has been secured through an inter-governmental group of countries interested in supporting Indonesia's economic recovery.

The impact of these and a number of other measures on the Indonesian economy has been one of forcefully braking the downward plunge and starting it upward again, albeit still slowly and often painfully. Considering the grave condition of the patient, the medicine applied was bound to be harsh. The deflationary forces resulting from reduced government spending, tighter credit policies, stricter tax enforcement, and the



abolishing of state subsidies, causing a rise in transportation costs and public utility rates, have brought hardship to many of our still-infant domestic industries and to the people at large. The government is convinced, however, that these measures should be enacted, however painful the adjustment to be made. So while the patient is still suffering the after-pains of the drastic operation, it can be said that it is now in a state of progressive convalescence. We are confident of maintaining this progress and of improving on the performance this year and the next.

We are pleased to note that this confidence is shared by many of the industrially advanced nations which are providing us with aid, as well as by the major international institutions such as the I.M.F. and the World Bank.

The World Bank is presently establishing a resident mission in Indonesia to advise the government and its various planning agencies, to provide management assistance and assist in conducting pre-investment surveys. Mr. McNamara's just concluded personal visit to our country attests, I think, to the high-level awareness and confidence in the stakes involved in helping Indonesia regain its balance in the shortest possible time.



### III

It is against this background of growing stability and international support that U.S. business should view the realities and possibilities for investment in Indonesia.

You are, I am sure, already conversant with the details of our Foreign Investment Law passed last year. It is based on the awareness that foreign private investment could and should play an important role in the process of economic growth and in enhancing productivity. The response to this new climate for investment in Indonesia by American as well as other foreign private investors has been quite satisfactory -- although we believe it could be even better.

We fully realize that aid money has recently become scarce, that trade liberalization concessions are granted only grudgingly by the advanced countries and that technical assistance has its own inhaerent limitations. The inflow of foreign private capital, technological and managerial know-how, therefore, has clearly a vital role to play, especially in a country such as Indonesia, where natural factors such as resources, markets and manpower are in sample supply.

At the moment -- and I am now quoting liberally from a recent statement by Dr Mohammad Sadli, Chairman of Indonesia's



Foreign Investment Board -- the number of new capital investment projects approved by the government amounts to about 50, and many more are in a stage of being processed. It is hoped that we can reach the 100 mark this year. If this is reached we feel that we have established a sufficient measure of credibility, both in terms of confidence in Indonesia's future as well as in the efficacy of processing investment applications.

I do not conceal the fact that efficiency in processing and handling could still be improved. We have not reached that degree of operational perfection where we can meet the prospective investor at the plane, spread the red carpet from airport to government offices and rush him back after a couple of days with an operating licence in his pocket. Perhaps we never will. But we shall constantly try to cut down negotiation time; and as officials in various echelons familiarize themselves with the problems of implementation, the number of complaints on bureaucratic red tape will, we hope, diminish gradually.

The foreign investment project is now one and a half year old. We have designated the first two years as promotional years, a low-keyed public relations campaign abroad and a



tooling-up effort within the government's bureaucracy. Because of this, we have not yet engaged in vigorous sales efforts in the various capital-exporting countries of the world. For what we want to avoid most is a frustrating congestion in Djakarta, although, at times, there seems already to be one.

Despite the low-keyed promotion efforts so far, investment possibilities in Indonesia have attracted gratifying attention, both in terms of sectoral interest as well as in terms of country distribution.

The oil and forestry sectors have registered particular interest with many approved projects and negotiations that are still underway. Mining is doing relatively well; there are enough takers for the known resources and encouraging interest in new prospecting. Interest to fish tuna, shrimp, prawn and lobster in the Indonesian seas is lively. In manufacturing there is the beginning of a vigorous interest. The I.F.C. (International Finance Corp., a World Bank subsidiary) is presently engaged in promoting three projects : an integrated textile mill, a cement plant and a fertilizer industry. The tourist industry offers excellent potentials for private investment, which happily are being increasingly recognised.



The range in terms of geographical distribution comprises the U.S., Japan, Holland and Australia as the major sources of investment interest. But increasing interest is noted also among prospective investors from Singapore, Hong-kong, the Philippines, Korea, the Federal Republic of Germany, Britain, Denmark, Canada, France, Belgium, Switzerland, Taiwan and from the socialist countries of East Europe.

Apart from "big investments", my government is also keenly interested in seeing the establishment of joint ventures between Indonesian private entrepreneurs and smaller-size American investors. In fact, it has been made possible now to extend the same benefits of tax privileges which larger investments automatically enjoy, to foreign investments totalling less than two million dollars, provided it is channelled through joint ventures. The reason behind this is our acute realisation that in order to secure healthy growth, we must, apart from attracting the influx of foreign capital and skills, also succeed in developing a competent Indonesian entrepreneurship as well.

#### IV

It would betray a graceless lack of candor, and it would be self-defeating, were I to try only to depict to you



a rosy picture of success. For one thing, before an audience such as yours, I could never get away with it. The present leaders of Indonesia are under no illusion as to the tremendous difficulties and challenges that still lie ahead. And more specifically, there are quite a number of concrete problems which will have to be faced in our efforts at promoting closer and more mutually profitable American-Indonesian economic relations.

Some of these problems must be uppermost in your minds. I am aware, for instance, that in the field of trade the reopening of our trade relations with Singapore has led to a reduction in direct trade between Indonesia and the U.S. The reasons for this reduction in volume of trade are obvious, but I want to assure you that this condition is only a temporary one, imposed upon us by the pressure of immediate needs within the framework of our stabilization program. There is no doubt, as far as the Indonesian government is concerned, that as soon as these emergency conditions are over, policies have to be adjusted so as to make possible the restoration of broader trade patterns. And this of course includes the potential increase in the volume of direct trade between our two countries.



There are also other problems which will have to be coped with if our drive for increased trade relations is to be successful. To name just a few, the speeding up of banking and customs procedures, quality control, improvement of packing, cases of late deliveries, and settlement of claims. Inhibiting factors in increasing American export to Indonesia are often the higher American prices -- including freight -- and even more the time element in transporting products from the U.S., which requires the Indonesian importer to pay high interest charges of up to ten per cent a month on rupiah borrowed to purchase the necessary foreign exchange until the goods arrive and can be sold.

For prospective American investors in Indonesia, there are other problems. Some of these, like the stability of our currency, are problems that will depend on the success of our stabilization policies and lie beyond anything we can do here. Others, like the slowness of bureaucratic procedures and instances of corruption, are problems which, with enough effort, will be overcome in due course.

We should not forget that the long period of bureaucratic mismanagement and corruption we have gone through in the



last decade has given rise to well-established patterns of corruption and well-entrenched vested interests which will take time to dislodge and to destroy. We are in Indonesia engaged in a constant struggle to restore as quickly as possible sound bureaucratic and commercial procedures and to institutionalize "the rules of the game" as they are generally conceived by the trading community the world over. We are also trying to institutionalize the procedures of consideration and selection of development projects established by the World Bank and AID, based on open tenders and competitive bidding. It is, I submit, in your interest also that this fight is won in Indonesia.

You may wonder why I stress this, but our brief experience with potential investors has raised some questions in this regard. There have been a number of attempts to get approval of certain plans by trying to go through the backdoor. There have been cases where, only too easily, certain companies decided to accommodate the greed of certain officials. On a different plane there have been problems arising out of a misconception of what the Indonesian government, or for that matter almost any government of the new nations, could in honor and responsibility, accept. Some companies have asked for exclusive



exploration rights in certain fields of mining for a number of years for the whole of the Indonesian territory. We have been faced with proposals for surveys of large integrated areas of the Indonesian economic structure, providing practically monopoly rights for the company making the survey for fulfilling the needs emerging from the survey. There have been proposals for special financial arrangements for certain types of investors, by-passing the overall financial regulations which are part of our financial stabilization policies, worked out together with the International Monetary Fund. I mention these instances because I want to appeal to you for your cooperation in helping us in Indonesia, in helping the Indonesian government, which is committed to the restoration of rational procedures and sound business practices, to achieve this goal. We, that means you as well as the Indonesians, have a common interest in winning this fight.

It is clear, that in the pursuit of this goal and in the search for ways of overcoming the obstacles and solving the problems I have touched on just now, we can only be successful if we work closely together. The Indonesian representatives at either the Embassy or the Consulate would in this connection certainly welcome any suggestions which you, collectively or



individually, could give us. I can assure you that any such suggestions would be given the most serious attention and, if acceptable, would be earnestly followed up.

Our joint efforts to find solutions to these problems are bound to put our ingenuity and our creative imagination to a test. It will not be enough just to think in the old established patterns. Nor will it be enough to face these problems with just the thought of how to turn a quick profit. We may well have to think in terms of how to develop a closer relationship between you and your counterparts in Indonesia. Technical assistance may help raise the level of your counterpart's competence and increase the capability of his organization. We may have to look for new types of credit relationship and to develop new institutions. And if this search cannot be done individually then it may be done collectively. We should also think not only in bilateral terms but in regional and multi-lateral terms. But what is needed above all is a new ethos. It may be also in your interest to help build the conditions for continuous growth and for the development of a capable commercial and entrepreneur middle class. It is only in this spirit that the foundation can be laid for a relationship that is both profitable and stable.



V

If we now cast our eyes beyond the immediate problems facing us in this respect, it should not be difficult to realize that our efforts here are only part of a general search throughout the world for new concepts, new modes of operation in the development of economic relations in the public as well as in the private sector, in aid, trade as well as private investment between the developed countries and the underdeveloped ones; between the rich and the poor, internationally as well as domestically; between the northern and the southern hemispheres of this globe. I think I do not need to elaborate on the importance of what has sometimes been called the generalization of economic development -- i.e. the importance of ensuring that economic development in the world is not going to be limited to a small number of rich nations. Rapid economic development of the poor nations is a sine qua non for peace and security in the world.

Mr. Robert McNamara, in his speech in Montreal about two years ago, very convincingly presented the case of the direct relationship between economic development and security. In that speech he stated that "Since 1958 only one of the 27 rich nations has suffered a major internal upheaval on its own



territory. Since 1958, 87 per cent of the very poor nations, 69 per cent of the poor nations and 48 per cent of the middle income nations have suffered serious violence". It has since become clear that the richer nations are not exempt from their share of violence either. This violence partially seems to stem from the tension arising out of the existence of underdeveloped pockets in their societies and this in turn seems in large measure part of the more general incongruity between the rapidity of social and cultural change magnified by the modern communications system, and the rigidity and obsolescence of the institutional structure in some important sectors of these societies. Violence in the richer countries, therefore, would seem not to be an entirely different type on the whole from that encountered in the poor countries. In any case, I think the figures presented by Mr. McNamara do present a strong case for the direct relationship between violence and economic backwardness.

It has also become clear that present concepts governing the capital flow from developed to underdeveloped countries have become inadequate. The gap between the rich and the poor nations around the globe is widening with alarming rapidity and very little is being done to stem this development.



There have been no new commodity agreements, the terms of trade between the manufactured goods of the developed nations and the primary products of the underdeveloped nations are worsening. Shipping and freight rates tend to aggravate the situation. The development of synthetics in the developed countries has led to shrinking markets for the underdeveloped countries, and all of you are undoubtedly aware of the serious consequences of the protectionist mood which seems to be growing in this country. These phenomena, as well as the increasing indebtedness of the underdeveloped countries, as a result of which, if present trends continue, by 1970 the burden of repayment and debt servicing will be equal to the entire capital flow to these countries, make it very clear that we, that is those of us who have a commitment to the development of a world system which is based on peace and justice and which will allow change to take place in a relatively peaceful manner, have to look for new concepts in the field of international economic relations. And I suggest, in trying to solve the problems that stand in the way of closer economic relations between the U.S. and Indonesia, you are in fact also engaged in this general search for a solution of what may be one of the most crucial problems that will affect the security of the entire world in the decades to come.



This is the case even in a narrower context. Irrespective of how the Vietnam war will reach a peaceful solution, much of the security of the Southeast Asian region in the post-Vietnam war era will depend on the way in which the U.S. will define its non-military and, specifically, its economic relationship with Southeast Asia. There is an inherent element of instability in the region as a result of discrepancy between the geographical distribution of ethnic units and the national boundaries that are part of the colonial heritage, between the level of expectations regarding the improvement of living standards and the actual capacities of the various governments to create such conditions, between the desire for social change and the ability of the political structures to accommodate such change, between progress and freedom. Still, no stability is possible unless at a higher level of economic life and therefore rapid economic development is a prerequisite for political stability. Here again, economic development and the security of the area are closely linked together and America's role in helping these countries to develop economically is an essential condition for this. Of course, it goes without saying, and the Vietnam war has brought home the lesson once again, that in the final analysis it is the Southeast Asian countries themselves which will



have to do the work. Foreign aid can only be supplementary, although quite often crucial, in the efforts of economic development.

But here I would like to point out that, while we customarily measure economic development by certain indices, these are merely the externals of the economic development process itself. In the last analysis we are concerned with the goals of a society, the motivations of a people and, in fact, with the will of a people to develop. This will is a political will and no amount of foreign aid or military support is capable of effectively supplementing that will; the will of a people to develop itself and to defend its national integrity and security. The Association of Southeast Asian Nations is an expression of the existence of such a will among some of the major countries in Southeast Asia. It reflects the determination of the most populous part of Southeast Asia to work out the problems of security and developments of its countries together. It signifies the refusal of these countries to accept the thesis that the fate of Southeast Asia is going to be determined solely by the outcome of the Vietnam war. It is in this context that I invite you also to view our mutual efforts to improve and develop American-Indonesian economic relations.



As far as Indonesia is concerned, the political will is there, and the potential is there. It is in some small but important measure up to us here to help transform that potential into reality.

The stakes are, indeed, high. To play a part in Indonesia's recovery and development is to help shape history -- the history of not just one nation but of an entire region, and perhaps the world. It is the kind of prospect which traditionally has stimulated American resourcefulness and initiative. It is the challenge and the opportunity which I leave with you today.

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