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**Interim Report from the
Joint Committee on Foreign Affairs
on
AUSTRALIA'S RELATIONS
WITH INDONESIA**

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Sir,

On 19 May 1970 the Committee appointed a Sub-Committee to consider Australia's relations with Indonesia. The Interim Report of the Sub-Committee was considered and adopted by the Full Committee on 17 October 1972.

The Joint Committee on Foreign Affairs has the honour to present to you the following Interim Report:

PART I

The purpose of the Interim Report is to acquaint you with the work of the Committee, the area of its inquiries and its preliminary findings upon the subject of relations between Papua New Guinea and West Irian, which the Committee believes to be of immediate concern (see page 2.1 *et seq.*). Factual material on Australian aid to and trade with Indonesia are included as appendices to this interim report.

The following members have served on the Sub-Committee since its establishment:

Senator R. Bishop
*Senator Dame Nancy Buttfield
Senator J. L. Carrick
Mr S. E. Calder, D.F.C., M.P.
Mr D. M. Cameron, M.P.
Hon. Sir John Cramer, M.P.
*Hon. R. C. Katter, M.P.
Mr F. M. Kirwan, M.P.
Mr M. J. R. MacKellar, M.P.
Mr W. L. Morrison, M.P.
Mr L. J. Reynolds, M.P.

The Chairman of the Committee is an ex-officio member of the Sub-Committee. At the first meeting of the Sub-Committee Mr W. L. Morrison, M.P., was elected Chairman.

During its inquiries the Sub-Committee has held 26 meetings, at 15 of which witnesses were heard.

The Sub-Committee considered that a visit to Indonesia would greatly assist it in its work. However, representations to the Minister for Foreign Affairs were unsuccessful.

The Sub-Committee intends to continue its inquiries with particular emphasis upon Australian aid to and trade with Indonesia, and defence considerations in Indonesian/Australian relations, and to present a more comprehensive report to the Committee at a later date.

INDONESIA—BACKGROUND NOTES

Physical features

The Indonesian archipelago, comprising some 3000 islands spread over 3000 miles from Sumatra in the west to Irian Barat (West New Guinea) in the east is the world's largest island complex.

* Not currently a member.

The largest island exclusively within Indonesian territory is Sumatra (164,129 square miles), although this area is exceeded by the Indonesian portion of Kalimantan (208,298 square miles) and almost equalled by West Irian (160,617 square miles). Other major islands include Sulawesi (72,890 square miles) and Java (51,039 square miles including Mandura). Each of these major islands, with the exception of Sulawesi, rest on the stability of the two continental shelves. The many other lesser islands are mostly situated in the unstable and folded area between the shelves, with the exception of the Riau Islands off the end of the Malay Peninsula and the tin-rich islands of Bangka and Billiton in the western Java Sea.

On each of the large, shelf-based islands mentioned above (Kalimantan, Sumatra, Java and West Irian), there are pronounced mountain ranges facing the deep seas on the outer edges of the shelves and broad plains sloping down to the shallow inner seas. The smaller islands of the inner-shelf zone generally rise steeply from deep waters and exhibit only narrow coastal plains. The high-land mountain core of most islands is usually substantial, with many mountains, and volcanic cones exceeding 10,000 feet in altitude. The highest mountains in the country are in the snow-capped central range of West Irian, including the Carstenz-top of 16,400 feet.

Climate, vegetation and soil

Climatically most of the Indonesian archipelago may be described as maritime, equatorial and monsoonal.

Temperature varies only slightly throughout most of the country between the ranges 23.5°C to 31° in the plains and 18° to 26.5° on the interior plateaus and a high average rainfall is maintained. The actual rainfall pattern of any given part of the archipelago varies in accordance with three main factors: location relative to the equator, proximity to Australia or mainland Asia, and the position of that area of convergence between the southern and northern tropical air masses known as the intertropical front. The general rainfall pattern may be described as a transition from west to east as follows: most of Sumatra and Borneo experience no real dry season but only fluctuations in precipitation; areas of southern Sumatra, most of Java, and the Lesser Sunda Islands experience a wet season that reaches a peak in January and a relative dry season that peaks in July; east from Java, the dry season becomes generally more pronounced and is most evident in Timor, which experiences a dry season of five months.

In its natural state, nearly all of Indonesia supported a very dense vegetation varying in character according to altitude, water availability and soil fertility. Vegetation zones range from mangrove swamps and evergreen rainforests at lower altitudes up to subalpine and alpine vegetation in the hills.

Wide tracts of the country are still covered by forest, particularly in Irian Barat, eastern Kalimantan, Sumatra, Sulawesi, and the Molucca Islands. Swidden or slash-and-burn shifting agriculture, has taken a heavy toll of forest cover in areas of Sumatra and particularly in the relatively highly populated Lesser Sundas, where the forest ratio of less than 20% is even less than that of densely populated Java (23%).

The distribution of flora and fauna types through the archipelago reflects the geological patterns described above in that an Oriental-type zoogeographic region extends over the Sunda Shelf, and an Australian-type is found on the Sahul Shelf, while the area in between contains elements of both and has been called the Indo-Australian region.

The fertility of soil in tropical areas is strongly affected by the climate. The combination of sustained high temperature, humidity and heavy rainfall rapidly leaches the soil and thereby reduces its fertility. Leaching is a widespread phenomenon in Indonesia, but particularly in the west, on Sumatra and Kalimantan. The presence of extensive and dense tropical rain forest is no indication of soil fertility because such vegetation establishes a self-perpetuating ecology in which humus is almost completely utilised. Leaching presents less of a problem where the dry season is more in evidence or where volcanic activity serves to renew the value of the soil with young volcanic basic material.

Population size and distribution

With an estimated total population in 1972 of 120 million, Indonesia is the world's fifth most populous nation, exceeded only by China, India, the USSR and the USA.

The rate of population increase is estimated to be about 2.5 per cent per cent per year, which means that the population is doubling itself every twenty-eight years. A simple mathematical projection of future population according to present trends produces figures of 140 million in 1975, 160 in 1980, and 185 in 1985.

The population is extremely youthful, with well over half the total under 20 years of age and only about 6.5 per cent over 55.

Java, together with the small island of Madura off the northeast coast, comprises 7 per cent of Indonesia's land surface but contains about 65 per cent of the country's total population or some 80 million persons. The next most populous island, Sumatra, trails far behind Java with a population of about 20 million. Elsewhere in the archipelago, except for the densely populated little island of Bali, population density is highly localised in and around towns and cities.

Java presents a classic case of overpopulation relative to resources and, as such, has long received special attention in demographic literature. Perhaps only Bangladesh and West Bengal provide cases of similar magnitude.

Virtually all available arable land on Java was already being cultivated early in this century, when Dutch observers first began to stress the existence of a serious population problem, and the population has since tripled. Average population density is now in the vicinity of 535 per square kilometre (1,400 per square mile) of all land, including mountains and swamps, and in extensive areas of central Java density may well reach 1,345 per square kilometre (3,500 per square mile).

The patterns of land distribution and utilisation that have resulted from the intense population pressure on Java can only be described in very general terms due to the nature of available statistics. Three obvious features emerge from the available evidence: that farms are extremely small; that a high and

increasing number of families do not own any land; that within villages land ownership tends to be concentrated in few hands.

One hectare of land, composed of 0.7 hectare of wet-rice field and 0.3 hectare of dry land, has long been accepted by Javanese peasants and government officials, both Dutch and Indonesian, as sufficient to permit a family of five persons to exist simply but well. In dollar terms, a family with such an amount of land would have an annual income of about \$A120. Available evidence indicates that the proportion of families on Java dependent upon agriculture but owning less than 0.1 hectare or no land at all is probably in excess of 70 per cent. While there are no reliable figures on landlessness as such, estimates range around 50 per cent of the rural population. In the context of the Javanese countryside, a farmer owning more than 0.7 hectare may be regarded as a rich landlord.

One result of the overpopulation of rural Java is rapid urbanisation. The population of the largest Indonesian city, the capital Djakarta, has grown by about 1,000 per cent from approximately half a million in 1940 to at least 5 million now, and other cities have grown even faster. Djakarta is at present estimated to be among the most populous cities in the world. Perhaps as much as 85 per cent of Djakarta's population lives in extreme slum conditions or as squatters without access to urban amenities such as piped water and electricity. Average per capita annual income in Djakarta has been estimated at \$US100, but probably less than 10 per cent of the population earn more than \$50.

Similar conditions pertain, although on a lesser scale, to the five other major cities (Surabaya, Bandung, Semarang, Medan, and Palembang) which, together with Djakarta, account for one-third of Indonesia's urban population of some 19 million. About 260 towns have been classified as cities and some 40 of these have populations over 100,000.

Ethnic and cultural patterns

Indonesian society is ethnically and culturally diverse. More than 360 distinct ethno-cultural groups and over 250 linguistic groups have been distinguished within the indigenous population, including at least ten major groups with populations in excess of one million. The largest single group is that of the Javanese, with a population of some 60 million, followed by the Sudanese of West Java with about 20 million. Other major groups include Malays, Minangkabaus, Toba Bataks, Balinese and Buginese. Ethnic diversity is not in itself a cause of political cleavage but it can, and has in the past, contributed to such cleavage.

Another pattern of divisions within Indonesian society is that based on religion. Islam penetrated different communities in the archipelago to different degrees. Reflecting its initial entry into the area in association with trade and commerce, Islam first became deeply entrenched in the coastal and commercial communities and was only subsequently carried into the agricultural interiors of the islands. Some areas remained impervious to Islam and retained their indigenous and pre-Islamic religious traditions more or less intact, Hindu Bali being the most prominent example. In many of these non-Islamicised areas, Christianity was subsequently able to secure a foothold, often coexisting with indigenous animism such as in Minahasa, Tapanuli, Flores and Timor.

Indonesian Islam is deeply divided between two major tendencies, one orthodox and rural-based, the other theologically modernist and urban-based. While some 80 per cent of Indonesians nominally profess to adhere to Islam, the actual numerical strength of Islam as a political force in Indonesia appears to have remained fairly constant at about 40 per cent of voters.

Another powerful factor in the pattern of religions is that of traditional syncretism, particularly among Javanese. There are a large number of syncretic religious sects that combine within their teachings elements of various disparate religious traditions. The significance of such sects is reflected in the establishment within the Ministry of Religion of a bureau responsible for their registration and observation. The social and political influence of some of these sects appears to be on the increase.

A third religious force is Christianity. There are probably more than five million Christian Indonesians with Protestants outnumbering Catholics by about three to one. Christians are disproportionately over-represented within the ranks of the civil service, the military, academic and teaching staff, due in part to favourable treatment accorded them under Dutch rule and to the related factor of the relatively high quality of Christian educational institutions in comparison with state and Islamic institutions. A consequence of these factors is that the Christian communities exercise a disproportionately large degree of social and political influence.

Apart from ethno-cultural divisions within the indigenous population, there are clear distinctions between that population and several exogenous groups, particularly the Chinese. Estimates of the total number of Chinese range between 2½ and 3 million, or less than 3 per cent of the Indonesian population. More precise statistics are not readily available due to the complexity of the subject. Chinese have settled in Indonesia over a period of several centuries and due to considerable intermarriage and cultural assimilation, no simple racial criterion serves to determine who is and who is not a 'Chinese'.

The Chinese today are about evenly distributed between Java and the outer islands, although the movement of Chinese to the outer islands only began in the 1920's following the development of extractive industry in those regions. Within Java, the Chinese population is overwhelmingly concentrated in urban areas due to historical factors and the vagaries of government policies. For both political and economic reasons, the Dutch colonial government and successive Indonesian administrations discouraged Chinese entry into rural areas. In the outer islands Chinese are more rural in distribution than in Java, and they form a higher proportion of the local populations. In several regions, notably West Kalimantan and the Riau Islands, the Chinese comprise between 20 and 30 per cent of the population.

Within the Indonesian Chinese community there are a number of divisions based on region and ethnic group of origin in China, period of settlement in Indonesia, and degree of cultural assimilation with indigenous Indonesians. Official estimates indicate that something more than half of Indonesian Chinese are Indonesian citizens, the remainder being, whether by administrative default or by choice, citizens of the Republic of China (Taiwan).

Due to such factors as their minority status, their favoured position within the Dutch colonial structure, and the entrenched economic interests of some of them, the Chinese Indonesians have frequently become the objects of discriminatory policies and frustrated nationalist sentiment. Among the changes that followed the collapse of President Sukarno's regime in 1966 was the closure of all Chinese-language schools. The existence of Chinese schools had long served to perpetuate the cultural and social separateness of a significant proportion of the Indonesian-Chinese community, and their closure should serve to facilitate an increased rate of cultural assimilation.

History

Man has an extremely long history in the Indonesian archipelago. Traces of early human types have been discovered on Java that date from the early pleistocene age, and it has been argued that a branch of *Homo Sapiens* may have evolved independently in the region. The archipelago appears to have been peopled in the first four centuries A.D. by at least two migrant waves that had their origins somewhere in central Eurasia. The earliest material evidence of Indonesian history dates back to early in the fifth century A.D. and indicates the presence of Hindu influence from India upon the indigenous culture. It would appear that, even prior to the arrival of Indian influences, the indigenous civilisation had mastered the art of cultivating irrigated rice fields by means of ox and buffalo labour, had developed a rudimentary metal technology, were skilled at navigation, and practiced animism and ancestor worship.

Indian influence, particularly Hinduism and Buddhism, probably provided the politico-religious underpinnings of the first complex political structures to develop beyond the village level. Indian-derived religious principles were apparently adopted by the rulers and courts of early Indonesian kingdoms in order to increase their legitimacy. Only very gradually did Hindu or Buddhist principles come to be absorbed into popular culture, where they became inextricably related to pre-existing cultural values.

Indianised states appear to have existed on Java, Kalimantan, and Sumatra during the sixth and seventh centuries and there is evidence that the commercial interests of these states extended to India and China. The two major empires in the period of predominantly Indian cultural influence were Srivijaya (roughly A.D. 700-1200), Sumatran-based and controlling the Malacca Straits, and Majapahit, which exercised authority throughout the archipelago until the early 1400's. It was in this period that Islam began to exercise a political influence in the area that was to undermine the strength of the great Indianised empires.

Islam reached S.E. Asia from India, where it had been deeply influenced by mysticism. As with Hinduism and Buddhism before it, Islam was often adopted by local rulers in the archipelago as a new means of political legitimisation; however, unlike the other two religions, in many areas Islam succeeded in becoming firmly established among the mass of the population. Particularly following the establishment around 1400 of the Islamic commercial city-state of Malacca, small Islamic states flourished along the coastal trading routes. By the middle of the fifteenth century, the power of the Islamic states along Java's northern coast had virtually eclipsed that of the empire of Majapahit.

The fall of Malacca to the Portuguese in 1511 heralded the period of European influence in and ultimate dominance of the region. Throughout the first half of the sixteenth century the Portuguese sought to extend their control over the trade routes of the archipelago at the expense of the Islamic states, particularly Atjeh in northern Sumatra, Demak on Java's north coast, and several lesser centres in the Moluccas. By the late sixteenth century, Portugal found its position in S.E. Asia under challenge from other European powers, notably the Spanish, English and Dutch. By the end of the sixteenth century the Portuguese had been reduced to insignificance in S.E. Asia, maintaining only a toehold in the form of a settlement on Timor, and before the seventeenth century had ended, the Dutch East India Company had established clear commercial predominance over the other European forces in the area.

From its base at Batavia (Djakarta), the Dutch East India Company began a piecemeal process of expansion of the territory under its control. Due in large part to conflicts within and between Mataram and Bantam, the two major kingdoms on Java in the seventeenth and eighteenth centuries, the Dutch were able to gain control over all of Java by the middle of the eighteenth century. In the same period, the Dutch established their supremacy throughout most of eastern Indonesia and in large areas of Sumatra, with the notable exception of Atjeh, which only succumbed early in the twentieth century following a protracted war. The Dutch East India Company collapsed and its assets were taken over by the Dutch state in the last year of the eighteenth century.

Between 1811 and 1816, the Netherlands East Indies were ruled by the British under Raffles; however, the relatively liberal policies that Raffles introduced in some fields did not long survive the return of Dutch authority. The cost to the Dutch treasury of fighting the Java War of 1825-30 and of extending Dutch authority throughout the island induced a return to, and an intensification of, the system of forced labour and intense exploitation that had characterised the pre-Raffles period.

By the beginning of the twentieth century the nature of the Dutch involvement in the Indies had altered considerably in scope and magnitude. The growth of plantations on Sumatra and the discovery of oil on that island and in Borneo spelled the end of the Java-centred colonial economy. A Dutch and Eurasian community of settlers that numbered more than 200,000 in 1930 provided the upper caste of the colonial social structure and served to deepen the Dutch involvement in and dependence upon the Indies. The government expanded the range of its activities in an effort to stimulate and control economic, political and social progress in the archipelago. A small but growing number of Indonesians obtained access to secondary and higher Western education, and the socioeconomic contradictions of modern colonialism gave rise to a nationalist movement.

The nationalist movement appeared in the first decade of this century in the form of small, aristocratic and locally-based groups of moderates pressing for incremental reforms. By the second decade, it had assumed the form of an increasingly radical mass movement appealing to anti-Dutch sentiment first in terms of Islamic, and later Marxist, symbols. A quasi-communist nationalist rebellion was violently suppressed in 1926-27. Communism was banned and the

ranks of the nationalist leaders thinned by execution and exile. The nationalist initiative passed to groups of Western-educated intellectuals which were neither communist nor specifically Islamic. In mid-1927, a group of technical students and graduates in Bandung, West Java, established the *Partai Nasional Indonesia* under the leadership of the young architect Soekarno. The PNI demanded complete independence for Indonesia and urged non-co-operation with the colonial authorities.

The Dutch government responded to the burgeoning nationalist challenge with a mixture of repression and co-operation. Non-cooperative nationalist leaders were exiled and gaoled, political freedom was greatly curtailed, and moderate nationalists were encouraged to participate in an ineffectual People's Council (*Volksraad*) established in 1918. Nationalism remained suppressed from the mid-thirties through to the Japanese invasion of 1942, although the influence of nationalist ideas continued to spread. The effects of the depression in the 1930's were particularly damaging in the Indies and served to further polarise the society along racial lines. By the 1940's a distinctly Indonesian language derived from Malay had become firmly established and served as a further unifying symbol for nationalist sentiment.

The swift defeat of the Dutch by the Japanese in early 1942 had an enormous psychological effect upon the Indonesians and gave fresh impetus to Indonesian self-confidence. The Japanese authorities sought from the outset to mobilise the Indonesian population and to gain its support. Mass organisations were encouraged to develop and Islamic and nationalist leaders such as Soekarno were elevated to positions of influence and provided with facilities that enabled them to increase their support. Para-military organisations were set up and large numbers of youths were given military training and indoctrinated in militant anti-Westernism. Indonesian administrators were rapidly promoted to fill the many positions vacated by the Dutch and the spread of the Indonesian language was encouraged. Although the initial general response to the Japanese occupation had been one of applause, the increasingly harsh methods employed by the Japanese in the face of military defeat of the war effort caused the initial euphoria of release from Dutch rule to evaporate. By the time of the Japanese surrender a large number of Indonesians had realised that Japanese imperialism was no better than that of the Dutch.

Indonesian independence was officially proclaimed by Soekarno and Hatta on the seventeenth of August 1945. Before the end of September, the Republic of Indonesia, with Soekarno as President and Hatta as Vice-President, had a provisional constitution, an elementary executive structure, the nucleus of an army, and enjoyed the support of virtually every organised group in the society. When it became apparent to Republican supporters that the Dutch were returning under the cover of the Allied, primarily British, occupation forces, scattered fighting broke out. By the end of the year, the situation had deteriorated to one of open warfare. The Indonesian Revolution against the Dutch dragged on, despite an initial treaty in 1946 and a UN sponsored truce in 1948, until guerilla resistance and hostile world opinion combined to force the Dutch to concede defeat on 27 December 1949. The Dutch forces departed leaving behind

a federal structure known as the United States of Indonesia. This weak federation was rapidly dismantled and Indonesia was proclaimed a unitary republic in August 1950.

The constitution in force during most of the 1950's provided for a more-or-less figurehead President, a strong legislature, and a Prime Minister and Cabinet directly responsible to the legislature. Throughout this period, unstable coalition cabinets collapsed at a rate of almost one each year, with consequent discontinuity in policy. Elections held in late 1955 and early 1956 for Parliament and a Constituent Assembly empowered to draft a new constitution, did not have the stabilising effect that had been widely anticipated. The long and bitter campaign that preceded the elections served to exacerbate social tensions and encourage abuse of public office for political purposes.

Almost twenty national-level parties and many lesser organisations contested the elections, but four emerged predominant. The Indonesian Nationalist Party (PNI—*Partai Nasional Indonesia*) obtained 22.3 per cent of the total vote, followed by the two major Islamic parties, the Masjumi (*Madjelic Sjuro Muslimin Indonesia*) with 20.9 per cent and the Moslem Scholar's Party—(NU—*Nahdatul Ulama*) with 18.4 per cent. The fourth largest party was the Indonesian Communist Party (PKI—*Partai Komunis Indonesia*), which obtained 16.4 per cent of the vote. Only six other parties obtained more than 1 per cent of the vote, and none of these reached 3 per cent. The PNI, NU and PKI were predominantly Javanese parties, a characteristic underlined by the election results, whereas the Masjumi was predominantly a party of the outer islands. Following the elections, a tendency for alliance among the PNI, NU and PKI became increasingly apparent, with the Masjumi and the small but influential democratic socialist party (PSI—*Partai Sosialis Indonesia*) increasingly alienated from the government. The PKI, under the vigorous chairmanship of D.N. Aidit after 1952, expanded rapidly to emerge from regional elections held on Java in 1957 as the most dynamic and popular political party.

By 1956, the Indonesian political system was in the grips of a severe legitimacy crisis that was to last for several years. Internal elite conflict had seriously impaired the effectiveness of the state apparatus and consensus as to the forms and goals of government was almost completely destroyed.

The Constituent Assembly produced by the elections proved to be no more than an arena for public and protracted ideological conflict between Islamic and secular factions. The Assembly was incapable of agreeing on fundamental aspects of the proposed constitution and, by reflecting the ideological cleavages of Indonesian society, served only to exacerbate social tensions. In West Java, Atjeh, and Sulawesi, guerilla units of the extremist Islamic movement, Darul Islam (State of Islam), represented a serious threat to internal security and governmental legitimacy throughout the fifties and into the early sixties. Political factionalisation had seriously divided the military, and in 1956 there were several attempted coups by dissident army groups in West Java. In the same year there was much evidence of a rising level of dissatisfaction and rebelliousness among the military in the outer islands.

Economic conditions began to deteriorate following the end of the Korean war boom, and the downward trend increased under the influence of political

instability and bureaucratic inertia. The sudden takeovers in 1958 of all Dutch business interests in the country by militarist nationalist trade unions accentuated the economic chaos and were particularly damaging to inter-island communication. Most of the confiscated firms were subsequently placed under military control, thereby giving the military a large stake in the national economy.

By 1957, few politically conscious groups in the country retained any commitment to the parliamentary system and most accepted that substantial, even radical, changes were required. A major threat to the state lay in the tendency for political, economic, and communal cleavages to reinforce each other. The basic split between the PNI-led cluster of forces and the Masjumi-led groups was to a considerable extent conterminous with economic and ethnic tensions between the outer islands and West Java, on the one hand, and the largely Java-oriented centre on the other. Outer islanders were aware that demography had assigned them to virtually permanent minority status under the existing electoral system. They were also acutely conscious of the fact that, while the outer islands earned about three quarters of the country's foreign exchange, they received a disproportionately small share of economic benefits.

Two major alternative sets of policy orientations were before the nation as of 1957: that of the regionalist forces, supported by the Masjumi and the PSI, and that of President Soekarno, supported by the army high command under General A. H. Nasution and the PNI-led political forces, including the PKI. The regionalists stood for the establishment of a duumvirate leadership consisting of ex-Vice President Hatta (a Sumatran, non-party, ex-Prime Minister who resigned in 1956 due to differences with Soekarno) and Soekarno, for increased regional autonomy amounting to virtual federalism, and for repressive action against the PKI.

Soekarno's proposals, developed publicly from 1956 onward, called for radical changes in the structure of the political system. The system the President proposed entailed a return to the 1945 Constitution, a document hastily drawn up in August 1945 that featured a strong Presidency along American lines and relatively weak legislative bodies that included representatives of 'functional groups' and the regions. Soekarno also envisaged the establishment of a nationwide mobilisation movement that would ultimately replace political parties. The President explained that the concept of an 'active opposition' was alien to Indonesia and that the system that he proposed would draw strength from traditional Indonesian patterns of village democracy and would unite the nation's diverse political forces. Soekarno released details of his concept only gradually and in piecemeal fashion, describing it as 'Guided Democracy', in contrast to 'liberal', or 'fifty-per cent-plus-one', democracy.

The regional challenge to the government in Djakarta reached a peak in early 1958 with the establishment of an alternative government—the Revolutionary Government of the Republic of Indonesia (abbreviated in the Indonesian as PRRI), based on Sumatra and headed by the Masjumi leader and former governor of the state bank, Mr Sjafruddin Prawiranegara, a Sudanese. The PRRI Minister of Finance was prominent economist and PSI leader, Professor Sumitro Djojohadikusumo. In another deeply aggrieved region, Sulawesi, a popular

movement known as Permesta, the 'Total People's Struggle', sprang up in sympathetic response to the PRRI.

Following some initial hesitation and probing, the forces of the central government moved against the PRRI in March 1958 and succeeded in reducing it to guerilla proportions within a month in what has been called a 'most civil of civil wars'. Permesta resistance was stronger than that of PRRI, but it too was decisively defeated by July 1958.

The defeat of the rebellion cleared the way for the establishment of Guided Democracy. The army, with its unity restored, its reputation enhanced, its weaponry increased and improved by Soviet aid, and its powers broadened by martial law, emerged from the rebellion as a much more significant political force than it had ever been before. Due to the involvement in the rebellion of men such as Sjarfruddin and Sumitro, and to the generally sympathetic attitude to the rebel cause of the Masjumi and PSI, these two parties were discredited and weakened and were able to voice only ineffectual protests against the movement towards Guided Democracy. Both PSI and Masjumi were disbanded in 1960 as part of the trend towards increasing authoritarianism.

Guided Democracy was officially inaugurated on 5 July 1959 when President Soekarno decreed both the dissolution of the deadlocked Constituent Assembly and a return to the 1945 Constitution. In a show of governmental vigour, Soekarno formed a new cabinet with himself as Prime Minister and set in motion far-reaching administrative and legislative changes. Masjumi and PSI leaders were excluded from all positions of authority prior to the disbandment of the two parties in 1960, and PNI, PKI and NU figures were appointed to prominent positions. When the elected Parliament opposed the government's greatly expanded budgetary proposals in early 1960, Soekarno dissolved it, passed the budget by decree and, within four months, installed a new legislature consisting of appointees from the parties, functional groups, and the military. This initial flurry of activity, with intense symbolic manipulation and a renewed emphasis upon the need to wrest West Irian from the Dutch, served to create an impression of progress and an aura of optimism that was to last for several months.

Despite its oppressive ideological din, its indoctrination and mobilisation programs, and the curtailment of civil liberties, Guided Democracy was unable to develop into a strong dictatorship because of its shaky economic base and the essential duality of its power structure. The regime was the joint creation of the President and the army high command, and, at least during its first few years, these two forces were able to co-operate despite their differences. As the PKI increased in strength and influence, however, the Soekarno army relationship became increasingly strained.

The regime was able to obtain a measure of support from several mutually incompatible groups only insofar as it avoided serious attempts to solve problems that involved the conflicting interests of those groups. This meant, in effect, that Guided Democracy was unable to tackle its most fundamental economic and administrative problems. Driven by its internal dynamics, the regime devoted its energy to essentially unproductive symbolic posturings and chauvinistic foreign policy gestures such as confrontation with Malaysia. Unable to control its administrative apparatus, the government was also incapable of mustering

sufficient power to eradicate opposition. Soekarno sought to prevent alienation from crystallising into opposition by playing off one faction against another and by maintaining the ideological initiative. The proliferation of formal structures; bureaus, councils, 'fronts', 'commands' and presidentially-appointed 'representative' bodies, which took place under Guided Democracy only served to highlight the essentially unstructured nature of the regime.

By 1965, the ingredients of a major crisis were present. Debilitating inflation had reached runaway proportions. The economic infrastructure suffered from a decade of neglect. Precious resources continued to be siphoned off for the inconclusive conflict with Malaysia. It had become difficult to discern whether the President or the PKI exercised the ideological and political initiative. Widespread PKI agitation on such central issues as land distribution and corruption had built up social tensions to the point of open conflict in East and Central Java, and had seriously weakened the PNI-NU-PKI alliance. Since 1963, when Soekarno led Indonesia out of the United Nations and opted for 'confrontation' with Malaysia, the country had become isolated even within the 'third world' and had come to rely increasingly upon tenuous links with China. The PKI appeared intent upon obtaining the escalation of 'confrontation' in order to divert military resources and attention away from the internal power struggle, and it was pressing for the establishment of a 'fifth force' of armed peasantry that could offset the strength of the army.

The long-awaited showdown between the PKI and the army was precipitated by an attempted coup d'état that took place on 1 October 1965. Elements of the PKI were implicated in the coup attempt, and the anti-communist military leaders responded by mobilising their forces for a conclusive attack upon the PKI. The coup forces in Djakarta were routed within one day due to the initiative of army strategic reserve units under the command of General Suharto. An anti-communist campaign was launched on Java soon after the coup attempt and extended throughout the archipelago. Approximately half a million people died in the ensuing social upheaval, and, by February 1966, the PKI had been reduced to political insignificance.

With the removal of the PKI from the political arena, the precarious balance of forces that had sustained Guided Democracy was irrevocably destroyed. There was considerable evidence that Soekarno himself had been involved in the coup attempt, and following the defeat of that attempt the President was unable to regain the political initiative from the army and its civilian allies. Massive student demonstrations staged under military auspices challenged the authority of the President and his cabinet until, on 11 March 1966, Soekarno was forced to hand over effective control of the state to General Suharto. Suharto then moved step by step to erode Soekarno's bases of support without provoking serious social conflict. In March 1968, the People's Consultative Assembly voted to remove Soekarno from the Presidency and to replace him with Suharto pending a general election.

Suharto moved swiftly after 11 March 1966, to restore order and to reverse many of Soekarno's major policies. Under Suharto's direction, 'confrontation' was slowed down and eventually ended by agreement with Malaysia in June

1966. A new cabinet was appointed and charged with the task of resuscitating the economy with foreign economic assistance. Relations with China, seriously ruptured during the post-coup turbulence, were allowed to remain suspended, and close relations were sought with the Western powers.

PART II

PAPUA NEW GUINEA AND WEST IRIAN

The Committee in noting the acceleration of the movement of Papua New Guinea towards self-government and independence recognised the importance of this development in the context of Australia's relations with Indonesia.

In this Interim Report the Committee deals specifically with two issues of immediate interest

- (a) In the course of its investigations the Sub-Committee noted that the border between Papua New Guinea and West Irian had neither been finally delineated nor officially recognised. In the Committee's view every attempt should be made to complete the negotiations prior to Papua New Guinea's independence.
- (b) From evidence before the Sub-Committee it appeared that substantive discussions have not yet taken place with Indonesia on a border regime between West Irian and Papua New Guinea. The Committee suggests that substantive discussions be initiated as quickly as possible. The Committee noted that preliminary discussions took place in October 1972 in Jakarta.

In the determination of the boundary between West Irian and Papua New Guinea and in the negotiations on a border regime, the Committee recognises the importance of the active participation of representatives of the Government of Papua New Guinea.

Australia's role in resolving these two matters is to ensure that relations between Indonesia and the new state of Papua New Guinea are established on a firm and harmonious basis and that Australia in discharging its responsibilities maintains the respect of and cordial relations with both countries.

Border delineation

The border area between West Irian and Papua New Guinea comprises the land boundary, the northern sea bed boundary, and the southern sea bed boundary.

In 1895 an agreement was made between Holland and the United Kingdom defining the boundary between Dutch New Guinea and Papua. In 1936 an exchange of notes took place between Australia and Holland on the question of the boundary between Papua New Guinea and what is now West Irian. In this exchange of notes it was agreed that each country would accept a monument built near the northern coast as showing the border. The monument marking the 141st meridian is in fact some 200 yards west of it (141° 01' 10" east). In 1966-67 a joint Australian Indonesian survey team placed markers along the meridians indicated in the 1895 agreement and the 1936 exchange of notes to give a guide to the boundary. The markers are themselves becoming *de facto*

adopted as the boundary by the indigenous people on the borders. It is understood that Indonesia will accept the markers at least north of the Fly River Bulge as an actual boundary when negotiations are entered into.

South of the Bulge there are two unresolved issues: (a) acceptance of the markers and, (b) location of the southernmost point of the boundary. The boundary was defined in the 1895 agreement by referral to a river mouth (that of the Bensbach River) which has moved both seawards and westwards since 1895. Problems of navigation of the border rivers will need to be solved as part of the border regime.

As to the northern sea bed boundary, agreement was reached in May 1971 on the location of the border up to 28 miles north of the land mass (projected from the land boundary) but neither party had agreed on the final extent of the sea bed boundary.

It was stressed before the Sub-Committee that it would be desirable for agreement to be reached on this matter prior to the United Nations Conference on Peaceful Uses of the Sea Bed proposed for 1973.

In evidence before the Sub-Committee it was stated that the definition of the southern sea bed boundary poses more problems. The difficulties stem from reaching agreement as to the actual point at which the southern land boundary ends. The May 1971 agreement fixed the sea bed boundary to a point outside the Indonesian 12-mile territorial sea but agreement could not be reached on the joining of this point to the end of the land boundary. Basically Australia takes its measurements from the high-water mark while Indonesia measures from the low-water mark prolongation of the land boundary. Another area for negotiation concerns the drawing of base-lines for territorial sea claims. The area involved is mainly mud flats.

It appeared in evidence before the Sub-Committee that the delineation of the land boundary posed fewest problems and that other problems such as river navigation and border crossing are more appropriately the subject of a border regime which would normally be negotiated after the boundary has been set and, it is to be hoped, prior to the independence of Papua New Guinea.

The Committee recognised that the extent and definition of the sea bed boundaries do pose problems but the differences of approach should be negotiable.

Border crossing

Along both sides of the border of 499 miles approximately defined by 14 markers there are about 25,000 people. They belong to clans some of which have traditional lands spanning both territories. In referring to 'crossers' in this report it is not intended to include those who move to and fro within their traditional lands. Nevertheless, the delineation of a border which may dissect traditional lands, will require special arrangements to preserve the rights of the clans affected.

Border crossing with intent to take up residence has been stimulated by comparatively higher economic prosperity in Papua New Guinea. There has also been some border crossing for politically motivated reasons.

In 1971, 303 people were known to have crossed into Papua New Guinea from West Irian apparently with intent to take up residence and 246 to have returned. In 1970 the figures were 382 and 244. In the future there might be a change in the number of crossings due to economic development. For example, there may be a major mining project in the mountains near Ningerum; a joint Japanese/Papua New Guinea Forestry project near Vanimo is contemplated. It is important that both Papua New Guinea and Indonesian authorities recognise this possible development and move to reduce points of friction that may arise.

In West Irian there are reputed to be some politically dissident groups. At the moment the groups do not constitute a problem in the context of West Irian/Papua New Guinea relations, but again the potential for friction should be recognised.

Since 1969 Australia has had an arrangement with the Indonesian authorities for regular liaison meetings at various points with Papua New Guinea authorities and for regular radio contact. There are monthly liaison meetings between senior Indonesian and Papua New Guinea officials in Djajapura and Vanimo and there are daily radio contacts between Djajapura and Vanimo. It has also been informally agreed that there should be no crossing by Australian and Indonesian authorities.

Australia applies the principles of the United Nations Convention of Refugees and the Declaration on Political Asylum in considering applications by border crossers to be permitted to remain in Papua New Guinea (although Australia is not a party to these Conventions). There are at present 500 'permissive residents' in Papua New Guinea. Those allowed to remain are initially located in two camps, one at Yako near Vanimo and one at Manus. They stay in these camps until they are settled with jobs found for them. The permissive residents are quarantined for two weeks in Yako and Administration Officials, during this time, ascertain their reasons for crossing the border.

Migration policy (within the framework of existing policy) excluding security aspects is already within the powers of the Papua New Guinea Ministers. The A.E.C. takes decisions as to whether or not to allow a crosser to remain in Papua New Guinea where no serious claim to refugee status arises. The Commonwealth retains responsibility where obligations are incurred under international conventions and international relations and especially where refugee status is claimed by a crosser. Where the question is a borderline one it is considered by the Commonwealth Ministers for External Territories and Foreign Affairs. It is noted that in the final communique following the Constitutional talks in Port Moresby in August this year the Minister for External Territories and the Chief Minister stated that in matters involving Commonwealth responsibility the Commonwealth would follow the practice of consulting with the A.E.C.

In each case consultation exists with Indonesian authorities.

The border regime

The concept of a border regime generally embraces such matters as navigation of border rivers, land rights, customs, quarantine, health, border crossing, visas,

hot pursuit, lighting, piloting and dredging of rivers etc. The Committee noted that preliminary discussions on delineation of the border between Papua New Guinea and West Irian and on identification of the issues involved in the border regime had taken place in Djakarta in October 1972.

As with border delineation the Committee believes that it is highly desirable that the border regime question should be resolved at the earliest possible time. From evidence before the Sub-Committee it appeared that no substantive negotiations have yet taken place with Indonesia on this matter. It is therefore suggested that discussions be initiated as quickly as possible.

The question of land rights of the indigenous people living in border areas is seen to be particularly important. Because of various methods of landholding used by the indigines and because of the existence of clan lands spanning the border it is thought that an equitable solution taking in these tribal land rights will need to be reached by negotiation with all parties concerned; especially including the clans involved.

Involvement of Papua New Guineans

While Australia is at present responsible for the international relations of Papua New Guinea, the Committee believes that it is essential for the Papua New Guinea authorities to be active participants in the discussion on the delineation of the border and the negotiation of a border regime.

Australian/Indonesian relations after Independence

The Committee sees advantage in tripartite consultation and understandings covering matters of mutual interest, particularly trade, development assistance, and security relations. These discussions and negotiations will be facilitated by the decision of the Indonesian Government to establish representation in Papua New Guinea.

APPENDIX 1.

AUSTRALIAN TRADE WITH INDONESIA EXTRACTS FROM A STATEMENT PREPARED BY DEPARTMENT OF TRADE AND INDUSTRY

Introduction

There have been many dramatic changes in the pattern of international trade since the Second World War. Colonial influences have receded with the advent of national independence in many countries and old economic and trading blocs have given way to new relationships.

For Australia's part, no change has been more spectacular than the growth of her trading partnerships with Asian countries.

There are indications that trade between Australia and Indonesia will continue to expand. In the past, the two countries have been slow in exploiting their geographical proximity and much of the recent increase in trade is due to greater efforts by Australian business interests, arising from increased aid to Indonesia.

Economic situation

The Suharto Government inherited from the previous regime a legacy of economic chaos: an economy bankrupt externally, a production sector fettered by controls, an economic climate unfavourable to private initiative and run-away inflation which reached 1500 per cent in a single year. The economic policy-makers of the Suharto Government tackled these problems with strict credit controls, a policy of balanced budgets, the dismantling of many restrictive economic controls, the encouragement of the private sector (including foreign investment) to take a greater part in the economy, and reached agreement with creditors on short-term re-scheduling of foreign debts. At the fall of the Sukarno regime, these debts amount to \$US2,500 million.

By the end of 1969 it was clear that strict adherence to the balanced budget policy, the assurance of sufficient supplies of essential goods, especially food, and the control of food prices, had resulted in the restoration of a considerable degree of confidence in the ability of the Government to maintain economic stability.

Since 1969, the emphasis of Indonesia's economic policy has turned from stabilisation to development. The development budget was increased from 19 per cent of the total budget in 1968 to 36 per cent in 1971. Exports rose by 12 per cent in 1969 and again in 1970. Inflation is now running at about 7-8 per cent p.a. compared with 600 per cent in 1966. Further, some relaxation in the formerly tight credit policy, together with a substantially expanded budget, has

resulted in encouraging signs of longer-term economic development. This situation has been favourably influenced to a large extent through the introduction by the Government of a Five Year Development Plan (REPELITA) which came into effect in April 1969. Priority was directed to agriculture and the achievement of self-sufficiency in rice by increasing production 50 per cent by 1973. Other targets included large increases in the production of export crops such as rubber, tea, coffee and palm oil, fertilizers and textiles and the development of infrastructures through the improvement of railways, roads, ports and telecommunications.

In the first three years of the program most targets have been achieved and in some cases exceeded. While the improved export earnings have been due to an extent to rises in international oil prices, the discovery of several promising new oilfields encourages the view that foreign exchange generated by oil exports could rise still further in the years ahead.

Despite this progress Indonesia still faces great economic problems. Rapid population growth will continue to consume the greater part of any increases in national income and the years of neglect of both infrastructure and the productive apparatus will take time to repair. A program of family planning has begun but this will make little impact for many years to come. Unemployment and underemployment are still high and the inefficient inflated public service remains a critical problem.

At the same time the considerable problems associated with servicing Indonesia's very large external debt cannot be ignored. While the pre-1966 debts have been generously re-scheduled, large amounts (believed to be in excess of \$90 million annually) will have to be met throughout the 1970's. Thus, debt servicing will remain a heavy burden on Indonesia's limited reserves and Indonesia will consequently remain very dependent on substantial aid funds from abroad.

The question is, now that relative stability has laid the basis for growth: will Indonesia have the resources and administrative capacity to move forward in the development stage. The Suharto Government must clearly show that its promises can be fulfilled in the real terms of rising income per head.

Australia's trade relations with Indonesia

Prior to the Second World War

Two commodities have dominated the commercial scene since regular trading between Australia and Indonesia began in the early years of this century: oil from Indonesia and flour from Australia.

In the decade before the First World War, Australia imported 45 per cent of its petrol requirements, along with some kerosene and other petroleum products, from the Netherlands East Indies. The Netherlands East Indies shared with the United States the Australian oil market until the Second World War. Averaging between \$A6m and \$A8m p.a. the Netherlands East Indies exports of oil represented slightly less than half of Australia's oil imports during the twenty years between 1922-23 and 1941-42, when Japanese occupation cut off further supplies.

However, the oil trade had some unique characteristics compared with most

other commodities in that it was controlled by a few large international oil companies, such as Shell and Caltex. It was a matter of inter-company economics which dictated that oil be exported to neighbouring countries wherever possible and was in no way associated with the conscious policies of governments or colonial administration.

The flour trade dates back to the early years of this century and by 1910 Australian flour millers had acquired the major share of the Netherlands East Indies market. Australian flour sold well not only to the many Dutch civil servants and their families, but also to the substantial Chinese population and middle-class indigenes, modelling their tastes upon Western patterns. Sales up to \$A2m p.a. were recorded in the inter-war years and often exceeded 100,000 tons p.a. Other foodstuffs including butter, preserved and dried milk, biscuits and fresh fruit were also significant exports; in fact, foodstuffs normally represented some 90 per cent of exports from Australia between the two wars and became the mainstay of regular shipping services between the two countries. Naturally the market for temperate, western-style food was not a broadly-based one and depended on a small, relatively sophisticated clientele, rather than upon the bulk of the Indonesian people.

Several other items of trade deserve to be identified. Tea, rubber and kapok were imported from the Netherlands East Indies in significant quantities in the inter-war years, and were admitted either duty-free or under rates that showed no discrimination in favour of British Commonwealth goods. Sugar was an important item of export from the Netherlands East Indies to Australia, but imports fell from \$A9m in 1920-21 to an insignificant figure with the growth of the Australian sugar industry in the mid 1920's and the consequent embargo on all sugar imports. Coal exports from Australia in 1923-24 were worth \$A200,000 but developed no consistent pattern. Small consignments of leather and manufactured goods from Australia were also being made.

The pattern which emerges would seem to be one of small but apparently well-established and complementary trade. Further examination, however, reveals that the basis was more tenuous. The bulk of the trade was carried on by international oil companies on the one hand, acting on the basis of concessions and licences with little regard to the will of governments, and on the other hand by Australian exporters responding to the tastes and palates of a very small and atypical segment of the Netherlands East Indies population.

The 1930's saw, however, the first organised effort in Australia to broaden trade relations with the Netherlands East Indies. An Australian selling mission called the Showboat Delegation had visited Java on a general cruise of the East in 1933. Considerable interest was generated in the trip in both Australia and the Netherlands East Indies, particularly as it concentrated on manufactures instead of the customary foodstuffs. It was partly as a result of this interest, as well as the development of a consciously aggressive trade promotion policy on the part of the Australian Government, that one of Australia's first overseas Trade Commissioner posts was established in Batavia, in 1936.

Events after the Second World War

In 1945, the Netherlands East Indies Civil Administration, temporarily based in Brisbane, made considerable food purchases in Australia through NIGIEO, the

sole purchasing authority for the Netherlands East Indies Government, for its domestic reconstruction program. Further, and larger, food purchases were made in 1946 but these supplies were not shipped direct to the Netherlands East Indies. Australian waterside workers were participating in a world-wide labour ban on Dutch shipping in protest against Dutch reluctance to grant independence to the Netherlands East Indies. The volume of food awaiting transport soon outgrew storage space and certain consignments of food were shipped to Colombo, Ceylon and Hong Kong. From there they were diverted to the Netherlands East Indies.

From 1 January 1947, NIGIEO ceased to operate and merchants in the Netherlands East Indies once more were permitted to deal on a direct commercial basis. In April of that year, a delegation of Commonwealth Officers visited Indonesia to discuss both the Dutch and the Indonesian authorities but the Dutch decided to reject Australian overtures in the light of action by Australian labour against their shipping interests. Trade relations resumed on a limited scale in 1948 but it was not until after the The Hague Conference in the latter half of 1949, which resulted in Indonesian independence, that trade relations were fully restored and formalised in a bilateral trade arrangement.

On acquiring independence, Indonesia also acceded to the GATT as a full member in her own right. Earlier, during the 1947 Geneva tariff negotiations, Australia had granted concessions on coffee, gums, bananas, sago and palm oil to Benelux on behalf of Indonesia, but did not grant concessions on the more important tea, petroleum, oils, kapok and rubber. Australia, for her part, secured reductions in duty on sheet lead and leather, and the binding of existing duties on her major exports flour, prepared foodstuffs and metals.

Trade arrangements

Notwithstanding the fact that the post-war climate laid stress on multilateral liberalisation in the field of trade, and that Australia and Indonesia were both members of GATT, it was believed that a simple MFN-type bilateral arrangement would help stimulate trade between the two countries, and provide a formal means of regular consultation.

It was in this spirit that Australia and Indonesia signed the first Trade Arrangement which became operative in October 1950. The Arrangement took the form of agreed minutes of discussions between the two delegations to which were attached schedules of selected commodities. Both countries agreed to issue appropriate export and import licences up to the estimated values or quantities appearing in the schedules of selected commodities. Provision was also made for non-discriminatory treatment in import licensing administration for all other commodities. Under the Arrangement Australian exports had an estimated total of \$A7.5m and Indonesian exports a total of \$A10m exclusive of oil. In September 1951 the Arrangement was renewed for a further twelve months and the Trade Commission Post, Djakarta, vacated in 1942, was again filled. There is little doubt that the Arrangement was instrumental in restoring pre-war levels of trade.

By the middle of 1952 some of the less important items of trade on both sides were being adversely affected by Australian import restrictions, introduced in March 1952, and certain restrictions imposed by Indonesia later that same year. The overall effect of these impediments to trade was heavily against Indonesia,

whose non-oil exports to Australia fell by more than half in 1952-53 while imports from Australia continued to rise, mainly due to some increased flour sales. For these reasons the Trade Arrangement was allowed to lapse temporarily in 1952.

A new Trade Arrangement was negotiated in 1953 which lasted with renewals until 1958. It included a statement of the commodities, the export of which each country desired to expand, but without any commitment as to value. No attempt was made to tackle the problems of import restriction (as Australia could not discriminate in favour of Indonesia) nor of the non-commercial (price cutting and dumping) practices of third countries. Both these problems were hindering expansion of trade particularly affecting rubber and tobacco on the one hand, and flour on the other. Nevertheless, the mid 1950s saw bilateral trade advance to record levels (\$A13.6m in 1956-57; a figure not exceeded until 1967-68). This period was also significant from Australia's point of view in that metals and metal manufactures began to assume a small but noticeable place in exports.

Following talks between the Minister for Trade and Industry and Dr Widjojo, Indonesian Minister for National Development Planning, during the visit of President Suharto in February 1972, it was agreed that Ministerial Trade Talks would be held later this year. The talks will discuss ways of further improving trade relations between Australia and Indonesia. These will be the first of regular meetings at the ministerial or senior official level to explore opportunities for expansion of trade between Australia and Indonesia.

Australia-Indonesia Trade Agreement

In 1959 a Trade Agreement was signed between Australia and Indonesia (see Attachment A). The Agreement, while broader in scope than the former Arrangements, was still mainly a simple MFN agreement incorporating some special provisions.

Article 4 recognises that shipping services are central to the maintenance of existing trade levels as well as being vital for the expansion of future trade.

In *Article 5*, flour was acknowledged as the mainstay both of Australia's exports to Indonesia as well as of an adequate shipping service. On Indonesia's part, tea and rubber rated a special mention in this article.

Article 7 set up a Joint Committee to resolve any problems arising in respect of either flour, tea or rubber. The Committee was also empowered to 'discuss any matters arising from this Agreement or in connection with trade between the two countries'.

It is interesting to note that Australia's intention to diversify into the manufactured goods area is expressed quite clearly in the Schedule to the 1959 Agreement. Of the 20 items in List B of the Schedule, (examples of goods and commodities in which Australia was interested in expanding exports to Indonesia), fourteen are secondary industry manufactures or partly finished metal products. For Indonesia's part, all items in List A of the Schedule are of a traditional or primary nature.

The Agreement was to be valid for one year from 1 July 1959 and was subject to yearly review and renewal.

Australian flour regularly represented between 70 per cent and 85 per cent of total exports to Indonesia during the period 1950-51 to 1961-62, therefore

any fluctuations in the volume or price of flour were reflected strongly in the overall export figures. Chronic problems faced flour exporters to Indonesia from the mid-fifties, as competition from United States PL.480 surplus disposals or from EEC subsidised flour, eroded the dominant Australian position each year to varying, often serious, degrees. Compounding this problem was Indonesia's difficult balance-of-payments situation which was forcing her to spend less on imports in general and on flour in particular. Flour exports did improve in 1960-61, after being very low during the two previous years, and the first year of the Agreement. In that year, whilst the bulk of Indonesia's imports were under PL.480, Australia received 4/5ths of the Indonesian Government's commercial allocation of 112,000 tons. The year 1960-61 was a particularly healthy looking year for Australian exports, as flour exports were not the only one to improve. An easing of Indonesia's import restrictions in August 1960 led also to useful increases in sales of motor vehicles, machinery and also of dairy products. However, within two years, by 1962-63, flour exports had become almost insignificant.

The first formal consultations of the Joint Committee established under the Agreement were held in May 1960, the Committee's main task being to decide whether to recommend a 12-month extension to both Governments. Australia, which had viewed with increasing concern the progressive decline in the value of flour exports from \$A11m in 1955-56 to \$A2m in 1959-60 pressed the Indonesians for both predictability and a greater share in the trade. Indonesia pointed to its balance-of-payments difficulties and said she was reluctant to continue large commercial purchases when aid and subsidised flour were readily available. In responding, the Australian delegation suggested that small regular shipments of flour would in many ways be preferable to large irregular ones as the shipping services already established would thereby be protected from serious disruption.

For Indonesia's part, oil exports to Australia which had grown progressively in the 1950s reached \$A57m in 1964-65 and began, more than ever, to carry the falling non-oil exports which dropped from a peak of \$A12.5m in 1958-59 to \$A7m in 1964-65. It should also be remembered that Indonesia—in company with most developing countries with oil concessions—does not regard oil sales to be part of the country's exports. The drop in non-oil exports to Australia was characteristic of Indonesia's export situation in general and this was reflected in its steadily worsening balance-of-payments position. Decline in Indonesia's trade is no doubt attributable in some degree to the advent of the 'Big IX' state trading organisations set up in 1961. Private traders were not excluded from the field, but there is no doubt their activities were hedged by these giant, yet inexperienced, state trading organisations, at least until a more competitive situation was introduced between the private and public trading sectors in mid 1963.

The diversification of Australian exports which had been so sorely needed in the 1950s and which was officially accepted in the 1959 Agreement, was paying off by 1961-62 when manufactures began to fill the void left by flour. Non food exports further rose, to \$A4.6m in 1962-63 and to \$A6.64m in 1963-64, despite the generally low permitted level of Indonesian imports.

Deterioration of the economic situation in Indonesia continued for most of the 1960s. As the Trade Agreement came up for renewal each year Australia realised there was no possibility of obtaining any recasting of the Agreement without being strongly pressed to grant concessions contrary to the requirements of the GATT. It was more for its contribution to general trade relations that the Agreement was maintained from Australia's side, as economic advantages seemed clearly out of the question. One commercial advantage did continue, however, and time has shown it to be significant: the channels of communication on trade were kept open.

Recent developments

When the Government of President Suharto assumed office in 1968, the Indonesian economy was in a critical state. Export earnings had fallen to about \$US500 million per year, overseas debts had reached some \$US2,500 million and international reserves had virtually disappeared. Apart from a general neglect of Indonesia's export industries there had been a serious deterioration of economic and physical infrastructures. The decline in world prices for its major export commodities further reduced the availability of foreign exchange necessary to purchase essential imports and a substantial proportion of the scarce foreign exchange had to be utilised to import basic foodstuffs for the ever increasing population.

The climax came in 1965-66 when Indonesia was unable to meet its international debts, inflation was running at a rate of 600 per cent per annum and the country was virtually bankrupt.

Then began the long haul back to economic stability. The following strategy was employed:

- (a) rehabilitation of the productive capacity of traditional exports and, where justified by market conditions, an expansion of that capacity;
- (b) diversification of the commodity composition of exports;
- (c) the addition of greater value within Indonesia through further processing of export commodities;
- (d) the development of new trade directions wherever profitable opportunities to do so could be identified;
- (e) The strengthening of the infrastructure serving exports including a reorientation of the role of several ports to better serve new trade directions and design of new port facilities based upon recent development in port and shipping technologies;
- (f) improvement in the economy's trade instrumentalities, including improved trade financing facilities, entreport and bonded warehousing, free trade areas, and improved marketing and development institutions for important products;
- (g) an active search for co-operation with other major producers of their products with a view to achieving co-ordination of production and price policies serving the mutual interests of the primary producers; and

- (h) drafting of general economic policies, including monetary, fiscal, and exchange rate policies, designed to restore appropriate relative prices within Indonesia and reasonable relationships between Indonesian and world prices.

Aid

The donor countries of the Inter-Governmental Group on Indonesia (I.G.G.I.) began major aid programs to Indonesia in 1967, with commitments increasing from \$US200m in 1967 to \$US670m in 1972-73. This reflects the donors' growing confidence in the ability of the Indonesian Government to bring its economic machinery into order and Indonesia's increasing ability to absorb aid effectively.

Eleven Western donor countries, the International Bank for Reconstruction and Development, and the Asian Development Bank, combine to give aid through the I.G.G.I. mechanism. About two-thirds is provided by the two major donors, the United States and Japan. In the initial stages, the United States was the largest single donor, but in the current financial year Japan's non-food aid commitment (\$US150m) exceeds that of the United States (\$US138m). The trend towards an increased share being provided by Japan, *vis a vis* the United States is expected to continue.

In the first years of the aid program the aid flows largely took the form of program aid—balance-of-payments support—which played a major role in achieving price stability by financing imports of necessary consumer and producer goods. With some stability already achieved, the implementation of the First Five Year Plan (REPELITA I) began on 1 April 1969. The first Plan has been directed towards stabilisation and rehabilitation, with high priority being given to agriculture and infrastructure. The Second Five Year Plan (REPELITA II) is expected to have a continuing substratum of rehabilitation, with industrialisation receiving particular attention, but with greater concentration on development.

The I.G.G.I. countries met in December 1971 and April 1972 to consider, *inter alia*, Indonesia's aid requirements for its 1972-73 financial year, i.e. the period up to 31 March 1973. Indonesia submitted a request for commitments for \$US670m for this period. The program aid requests declined from \$US370m last year to \$US320m, thus reflecting the increased output of rice and the expected further expansion of rice production in 1972. The trend of continued emphasis on development is also evident in that the project aid request rose from \$US270m to \$US350m.

Both the International Monetary Fund and the World Bank endorsed the Indonesian request for external assistance to the value of \$US670m for 1972-73 as being necessary to provide for the projected growth of imports, to allow for some build-up of exchange reserves and to complement, through the generation of counterpart funds, the domestic resources available for the development program. All donor countries at the meetings accepted the request as being a realistic assessment of Indonesia's aid requirements for that period.

(*Australian Aid to Indonesia*; See Appendix 2)

Departmental Measures to Assist Trade Development

As outlined above the help provided by friendly countries, coupled with the determination of the Indonesian Government to place its house in order, has created a new business climate which has attracted increased attention from Australian businessmen.

The Department of Trade and Industry has actively fostered business interest in the Indonesian market and the more significant aspects of departmental activity in this field are outlined below:

Trade Commissioner Service

A strong Trade Commissioner Post is maintained in Djakarta with a complement of five Australia-based officers—a Senior Trade Commissioner, a Trade Commissioner, two Assistant Trade Commissioners, and a Trade Officer, plus two locally engaged Marketing Officers and Market Research Officer.

The number of Australian business visitors being serviced by the Post has increased from approximately 100 in 1966 to more than 800 per year at present.

The Trade Commissioner's office distributes an Indonesian language edition of 'Austral News' entitled 'Warta Australia'. This publication is doing much to build Australia's image in Indonesia as a supplier of manufactured goods which are important to Indonesia's continued economic growth.

Australian Trade Display

The first Australian Trade Display in Indonesia was held in Djakarta in April 1971. One hundred and four Australian companies representing 160 manufacturers exhibited a wide range of products.

The results of this Display were encouraging. Actual sales at the Display amounted to \$550,000 and the participants in the Display estimated that sales valued at some \$6 million would result directly from the Display in the following 12 months.

Trade Mission to Indonesia

The Department also arranged a trade mission to Indonesia which visited Djakarta at the time the Display was being held.

The mission was divided into three groups: a consultants group and two manufacturers groups. Members of the mission reported that their investigations revealed substantial commercial opportunities for Australian manufacturers and professional consultants in Indonesia.

Seminars

The Department has staged a continuing series of seminars on Indonesia in association with various industry organisations such as the Australian Metal Trades Export Group.

A further series of seminars is being conducted in each of the capital cities this month (May 1972). Officials from the Department and businessmen familiar with the Indonesian market will lead the discussion at each seminar.

Export Development Council, Indonesia Panel

In August 1966, the Export Development Council established a Panel to examine Australia's trade with Indonesia. This Panel lapsed in January 1970. However, early this year the E.D.C. established a new Panel to study Australia's trade and business relations with South East Asia. The Panel has decided to concentrate initially on Indonesia and will examine prospects for the expansion of two-way trade between the two countries during the next ten years. The Panel will also study the scope for Australian investment in Indonesia.

Australia/Indonesia Business Co-operation Committee

Following a highly successful seminar 'Indonesia-Trading Partner' at the Australian National University in August 1971, the Associated Chambers of Manufactures of Australia initiated a move to establish an Australia/Indonesia Business Co-operation Committee.

The Committee has now been formed with, at present, some 110 Australian companies as members. Its main objective is to develop bi-lateral trade and co-operation between the two countries. The Department will assist the work of the Committee as required.

Future promotional activity

Following the success of the Trade Display and trade mission in 1971, a second Trade Display is being planned for April 1973 in which sixty companies are expected to participate.

It is also planned to send three specialised trade missions to Indonesia:

Electrical, Electronic and Communications Trade Mission, September 1972.

Earth Moving, Road Making and Heavy Transport Equipment Trade Mission, November 1972.

Building Materials Trade Mission, June 1973.

Each mission will be limited to six or seven members, in order that they may receive a high degree of individual servicing, and will spend a minimum of two weeks in Indonesia so that examination in some depth can be made of the commercial opportunities arising from the heavy injection of aid funds into Indonesia and to develop commercial contracts with Indonesian businessmen.

Increase in Australia's exports to Indonesia

The various activities listed above reflect in part the growth in Australia's exports to Indonesia:

	1968-69	1969-70	1970-71	First 6 months 1971-72
	\$Am	\$Am	\$Am	\$Am
Total exports (f.o.b.)	20.7	35.3	39.0	22.1
Export financed with aid funds (c.i.f.)	10.7	13.6	13.0	..
Estimated net commercial exports	10.0	21.4	26.0	..

Not only has the value of Australian exports increased in recent years but the range of products supplied has also broadened considerably. Australia has become a producer and competitive exporter of many of the manufactured goods which Indonesia has traditionally looked to other countries to provide.

Investment

One practical way in which Australia can contribute towards Indonesia's economic emancipation is investment in new industries, preferably on a joint venture basis. Although a net capital importer itself, Australia has now many industries which are capable of expansion overseas.

Furthermore, the Indonesian Government has established a legal basis for foreign investment with an Act of Parliament (*Foreign Investment Law No. 1, 1967*). It is a declaration of good faith and encouragement by the present Indonesian Government. The Foreign investment law requires that the new enterprise be incorporated and domiciled in Indonesia; that as many of the workforce as possible should be Indonesians and that local equity should be admitted eventually. The law allows tax concessions for two to five years, unrestricted remission of profits, exemption from import duties and sales tax in certain circumstances, management under the control of the owner of the overseas investment and repatriation of capital.

About 30 Australian firms have already established enterprises in Indonesia and several others have opened representative offices in Djakarta. Currently there are about ten important Australian firms investigating the possibility of investment in Indonesia for a wide range of products.

Imports

Crude oil has always figured prominently in Indonesia's exports to Australia, representing in recent years more than 90 per cent of Australia's total purchases. The export of oil to Australia has enabled Indonesia to have a consistently favourable balance of trade with Australia; an almost unique distinction among Asian countries. With the discovery of oil in Australia and the rapid development of this new resource, Australia's dependence on imported crudes has diminished. Present indications are that, by 1975, Australia will achieve a 70 per cent self-sufficiency.

As a result of these discoveries, Indonesia's exports of oil to Australia have been dropping rapidly (from \$49m in 1969-70 to \$23m in 1970-71) with the result that, in 1970-71, Australia achieved a favourable trade balance with Indonesia for the first time since 1915-16. The possible solution to this problem will lie in Indonesia's concentrating on other products which it can export to Australia. Timber, natural rubber and tea would seem to be most likely ones. However, as Australia is currently purchasing these commodities from other Asian sources the success of Indonesian exports to obtain a share of the Australian market for these or other commodities will depend largely on their competitiveness.

Conclusion

Given continued political stability in Indonesia, Australian exports to that country are destined to grow. The future for Indonesia's exports to Australia is more difficult to predict. It is evident, however, that the rate of growth of trade between the two countries will depend upon the rate of economic development of Indonesia itself.

**TRADE AGREEMENT
BETWEEN
THE COMMONWEALTH OF AUSTRALIA
AND
THE REPUBLIC OF INDONESIA**

The Government of the Commonwealth of Australia and the Government of the Republic of Indonesia, being desirous of promoting and expanding mutually beneficial trade relations between Indonesia and Australia, have agreed as follows:

ARTICLE 1

The two Governments agree to take all appropriate measures to facilitate trade between the two countries, particularly in respect of the goods and commodities specifically mentioned in lists 'A' and 'B' attached to this Agreement.

Nothing in this Agreement shall be deemed to preclude trade in goods and commodities not mentioned in the said lists.

ARTICLE 2

The two Governments agree that the exchange of goods and commodities shall be subject to, and effected within, the scope of the general import/export regulations in force in each country during the validity of this Agreement.

ARTICLE 3

The two Governments agree to grant each other treatment no less favourable than that accorded to any other country in accordance with the existing provisions of the General Agreement on Tariffs and Trade.

Each Government guarantees to the other the application of the said treatment particularly in respect of customs rules and formalities, customs duties, taxes and charges of any kind, regulations of import and export of goods and commodities, as well as the procedure governing import and export licences.

ARTICLE 4

The Government of each country recognises that adequate and efficient shipping services are essential to the maintenance of present trade between the two countries and to the expected expansion of mutual trade. Moreover, the Government of each country recognises that the maintenance of adequate shipping facilities to service both Indonesia's and Australia's exports is dependent on the preservation of a high level of two-way trade.

ARTICLE 5

The Indonesian Government recognises the importance of the trade in flour between the two countries to the maintenance of adequate shipping services.

It is the expectation of the two Governments that on the basis of quality and terms and conditions of delivery Australia will continue to be an important supplier of flour to Indonesia. Through the formal consultation machinery established in this Agreement, it is the intention of both Governments to work towards greater predictability in the flour trade.

The Australian Government recognises the importance to Indonesia of its exports of tea and rubber to Australia. It is the expectation of the two Governments that on the basis of non-discriminatory access to the Australian market whereby the share of the market is determined on commercial considerations Indonesia will continue to be an important supplier of tea and rubber to Australia. The formal consultation machinery in this Agreement will be used to resolve any problems that may arise in connection with these commodities.

ARTICLE 6

The Government of each country expressed concern at the obstacles and uncertainties in international trade which confront primary exporting countries and the effects of these difficulties upon its external payments position.

The two Governments agree that there is an urgent need to find means of producing a greater degree of stability and predictability in international trade in primary products and they undertake to give sympathetic consideration to international action designed to improve the conditions of international trade in primary products of direct interest to either country.

ARTICLE 7

In order to facilitate the implementation of this Agreement the two Governments agree to consult together, upon the request of either, to discuss any matters arising from this Agreement or in connection with the trade between the two countries. For this purpose they will form a Joint Committee which will meet at the request of either Government.

ARTICLE 8

This Agreement shall be deemed to have entered into force on 1 July 1959, and shall remain in force until 30 June 1960.

The two Governments agree that before 31 May 1960, they will discuss the scope and operation of this Agreement with a view to extending the period of its application or to replacing it with a new Agreement.

In witness whereof the undersigned, duly authorised by their respective Governments, have signed the present Agreement and have affixed thereto their seals.

Done in duplicate in the English language at Djakarta on 17th day of December 1959.

For the Government of the
COMMONWEALTH OF AUSTRALIA
(L. R. McINTYRE)

For the Government of the
REPUBLIC OF INDONESIA
(SOEWITO KOESOEMOWIDADGO)

LIST 'A'

Examples of goods and commodities in which Indonesia is interested in expanding exports to Australia:

- Tea
- Coffee
- Timber
- Tobacco
- Kapok
- Vegetable fibres other than kapok
- Rubber
- Rubber latex
- Spices
- Sago and tapioca
- Oil seeds and nuts
- Molasses
- Hoods for hats
- Canes, rattans and bamboo
- Gums
- Turpentine
- Bauxite
- Manganese ores
- Miscellaneous—including essential oils, vanilla beans, fruits and handi-crafts such as wood carvings and Batik piecegoods.
- Crude oil (addition negotiated 1962 Review)

LIST 'B'

Examples of goods and commodities in which Australia is interested in expanding exports to Indonesia:

Milk, preserved, sweetened

Milk, dried full cream

Milk, powdered skim

Butter and cheese

Casein

Wheat flour

Malt, including roasted and torrifed barley

Iron and steel bar, plate, sheet, pipe, tube and wire

Structural steel

Copper and copper-based alloys

Zinc, all forms

Lead, all forms

Industrial chemicals

Tallow and stearic acid

Drugs and pharmaceuticals

Building materials and builders hardware

Motor vehicles and parts

Plant and special equipment including

industrial and agricultural plant and machinery

Railway equipment

Radio, telecommunications and electronic equipment.

Djakarta, 16 September 1964

No. 0764/64/02.

Excellency,

I have the honour to acknowledge receipt of Your Excellency's Note of 1 September 1964 reading as follows:

'I have the honour to refer to the Trade Agreement between the Commonwealth of Australia and the Republic of Indonesia, which was signed in Djakarta on 17 December 1959.

The operation of the Agreement was extended until 30 June 1963, by Note exchange on 6 September, 1962. It was agreed that the two Governments would, prior to 31 May 1964, discuss the scope and operation of the Agreement with a view either to extending the period of its application or to replacing it with a new Agreement.

Following recent discussions between our two Governments, my Government now formally wishes to propose that the period of application of the agreement as amended by the notes exchanged subsequent to its original signature, be extended to 30 June 1965 and that discussions take place prior to 31 May 1965, regarding the scope and operation of the Agreement, with a view either to extending the period of its application or replacing it with a new agreement.

If the Government of the Republic of Indonesia agrees with this proposal, I have the honour to suggest that my present Note and Your Excellency's confirmatory reply, be deemed to constitute and evidence an agreement between our two Governments to that end.'

My Government agrees with the proposal in Your Excellency's Note on behalf of the Government of the Commonwealth of Australia, that the period of application of the Agreement be extended to 30 June 1965 and that discussions take place prior to 31 May, 1965.

I agree with your suggestion that Your Note and this reply be deemed to constitute and evidence an Agreement between our two Governments to that end.

Accept, Excellency, the renewed assurances of my highest consideration.

Minister for Foreign Affairs
(Dr Subandrio)

His Excellency K. C. O. Shann
Ambassador of Australia
DJAKARTA

ATTACHMENT B

(1) AUSTRALIAN TRADE WITH INDONESIA

Selected years 1901 to 1938-39

(\$'000)

Year	IMPORTS						EXPORTS			
	Tea	Rubber	Kapok	Sugar	Other (mostly oil)	Total	Flour	Butter	Other	Total
1901	..	..	120	1,750	..	1,870	160	23	210	393
1905	12	..	46	370	100	528	186	53	100	339
1910	205	67	157	628	361	1,418	382	128	286	796
1915-16	495	28	250	1,224	1,224	3,679	366	267	497	1,130
1920-21	1,127	212	410	9,028	6,822	17,599	689	750	3,700	5,139
1925-26	3,576	485	791	..	7,538	12,390	1,950	949	1,428	4,327
1930-31	2,032	160	240	..	5,588	8,020	1,070	750	1,054	2,874
1935-36	2,233	247	344	..	7,030	9,836	1,231	712	618	2,561
1938-39	3,700	300	800	..	11,600	16,400	1,300	600	900	2,800

Source: Commonwealth Statistician, *Overseas Trade Bulletin*.

(2) AUSTRALIAN IMPORTS FROM INDONESIA

1948-49 to 1964-65

(\$'000)

Year	Tea	Coffee	Tobacco	Molas- ses	Rubber	Kapok	Wood and Wicker	Oil	Other	Total
1948-49	..	..	100	..	..	400	..	21,600	100	22,200
1949-50	700	..	200	..	..	300	..	28,100	200	29,500
1950-51	1,300	400	400	100	2,700	700	..	36,700	800	43,600
1951-52	1,500	500	200	300	4,000	600	400	42,300	1,300	51,100
1952-53	1,400	100	200	200	400	600	200	39,700	300	43,100
1953-54	1,300	1,100	100	100	900	2,100	400	37,500	400	43,900
1954-55	1,000	400	100	200	300	1,300	500	40,800	500	45,200
1955-56	4,000	300	100	200	100	1,400	300	37,900	500	44,800
1956-57	7,800	300	100	200	..	1,200	300	42,000	800	52,700
1957-58	5,200	200	..	500	..	1,400	200	47,500	1,200	56,200
1958-59	8,400	200	..	700	..	1,500	300	50,500	1,400	63,000
1959-60	3,300	100	..	700	..	800	200	53,200	600	58,900
1960-61	5,400	100	..	600	..	1,400	100	48,000	600	56,200
1961-62	4,700	100	100	..	..	200	..	47,200	700	53,000
1962-63	4,300	100	..	..	..	200	..	52,300	1,100	58,000
1963-64	2,900	300	100	..	..	..	..	51,200	800	55,400
1964-65	4,200	200	200	..	..	..	100	57,000	2,300	64,000

Source: Commonwealth Statistician, *Overseas Trade Bulletin*.

(3) AUSTRALIAN EXPORTS TO INDONESIA
1948-49 to 1964-65
(\$'000)

Year	Flour	Dairy Products	Machinery	Iron and Steel	Vehicles	Other	Total
1948-49	..	..	..	..	..	2,600	2,600
1949-50	300	..	..	..	..	700	1,000
1950-51	4,900	100	..	..	..	1,600	6,500
1951-52	5,600	100	..	..	..	2,200	7,900
1952-53	8,400	300	..	..	..	1,400	10,100
1953-54	11,100	200	..	..	..	1,800	13,200
1954-55	6,000	300	..	..	..	1,100	7,400
1955-56	11,000	300	400	..	100	1,600	13,400
1956-57	7,000	1,000	400	1,400	1,000	2,800	13,600
1957-58	4,000	800	400	900	..	2,000	8,100
1958-59	2,400	200	200	300	100	1,100	4,300
1959-60	2,000	500	200	400	1,000	2,300	6,400
1960-61	5,800	800	600	..	2,000	1,100	10,300
1961-62	1,400	100	300	..	800	4,500	7,100
1962-63	400	200	300	..	1,300	3,000	5,200
1963-64	300	900	600	..	600	6,200	9,600
1964-65	700	300	900	..	1,000	4,500	7,400
1965-66	200	300	100	..	600	4,100	5,300

Source: Commonwealth Statistician, *Overseas Trade Bulletin*.

AUSTRALIAN TRADE WITH INDONESIA
1966-67 to 1970-71

<i>EXPORTS TO INDONESIA</i>	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>
	\$A'000	\$A'000	\$A'000	\$A'000	\$A'000
Rice, milled	8	1	..	2,127	7
Flour	1,750	4,470	4,051	4,766	3,964
Communication equipment	80	1,747	10	262	128
Vehicles and parts	367	1,518	2,847	3,049	7,034
Machinery (except electric)	228	733	1,659	2,110	4,068
Plastic materials	7	241	51	35	61
Milk, preserved, etc.	181	377	531	80	1,271
Sugar	2	380	23	4	8
Canned meats	145	252	21	105	21
Chemicals, drugs, medicinal preparations	90	336	663	1,340	2,540
Building board	51	156	200	348	473
Iron and steel	28	233	831	3,952	2,380
Other metals and metal manufactures	403	292	4,400	906	1,798
Prefabricated buildings	2	60	..	113	716
Plant for large projects	30	5	239	407	..
Commonwealth Government exports equipment	277	535	170	1,735	547
Shipping and aircraft stores and equipment	1,438	1,010	1,323	866	987
Ships, boats and other floating structures . . . . .	..	1	697	6,731	469
Zinc, unwrought	149	..	24	238	1,461
Electrical machinery other than ammunition equipment	17	72	78	373	1,033
Butter	69	65	117	496	783
Petroleum and products	975	31	64	78	625
Pigments, paints and varnishes	2	22	70	407	423
Other unclassified (non-trade)	139	228	588	244	2,562
Other	500	1,105	1,738	3,594	5,717
	6,938	13,870	20,665	35,266	39,076
<i>IMPORTS FROM INDONESIA</i>	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>
	\$A'000	\$A'000	\$A'000	\$A'000	\$A'000
Coffee	147	303	391	625	421
Tea	2,350	2,394	3,402	3,906	5,413
Petroleum and petroleum products	53,505	53,392	55,652	43,737	15,649
Sisal	262	13	101	36	39
Wood, timber and cork	11	14	61	156	434
Other	344	214	349	422	566
	56,629	55,430	59,956	48,882	22,522

APPENDIX 2

AUSTRALIAN AID TO INDONESIA STATEMENT PREPARED BY THE DEPARTMENT OF FOREIGN AFFAIRS

Indonesia has been a recipient of Australian aid since the inception of the Colombo Plan. Today Indonesia occupies a special position and receives the largest share of Australia's bilateral aid disbursement outside that provided to Papua New Guinea. In the 1971-72 financial year, aid expenditure on Indonesia amounted to \$17.8m.

In 1967-68 Australia trebled the level of its aid following the Indonesian Government's urgent request for international help in restoring the economy and in rehabilitating essential services and production facilities after the downfall of the previous administration. The size of the aid program has expanded steadily in each year since then as the following table shows (in \$A000's)

		1952-53 to 1967-68	1968-69	1969-70	1970-71	1971-72 (Revised estimates)
Special aid . . . . .	..	4,750*	5,920	7,880	7,721	9,949
Economic Development (Capital and technical assistance projects)	9,170	400	1,200	1,550	2,285	2,683
Food Aid Convention/International Wheat Agreement . . . . .	..	..	3,540	4,000	4,178	4,275
Technical Assistance	6,640	820	840	1,200	1,327	900
Total	15,810	5,970	11,500	14,630	15,512	17,807

* Includes flour to the value of \$2.58 million provided through the 'BE' system.

In 1970 the Prime Minister announced that Australia would provide aid to Indonesia during the period 1 July 1970 to 30 June 1973 to the extent of \$A53.8m. This pledge was designed to help Indonesia plan its development and also to facilitate administration by Australia. The allocation of aid resources between the various forms of assistance is designed to meet Indonesia's specific aid requirements as accurately as possible and to co-ordinate with the programs of other donors.

The Government's decision, announced by the Prime Minister during his recent visit to Indonesia, to undertake a second three-year aid program of \$A69m, on a grant basis, in the period July 1973 to June 1976 to follow the existing pledge will assure the Indonesian Government that Australian aid will continue to grow as it has in the past. It will also enable Indonesia to formulate its development plans confident of the Australian contribution.

Special aid

Since 1966 Indonesia has needed international support to supplement its low foreign exchange reserves and to maintain an adequate level of essential imports. It has also required additional sources of revenue, originally to help offset inflationary pressures arising from deficit financing and, since 1968, for direct budget support.

To meet Indonesia's requirements, the International Monetary Fund in consultation with aid donor countries, recommended a new form of aid in 1966, the so called B.E. ('Bonus Export') aid program. Since 1970 this has been known as D.K. ('Devisa Kredit') aid. The program consists of loans and grants made available by donor countries to enable Indonesia to maintain adequate levels of essential imports. Importers purchase with local currency the right to use D.K. aid and the counterpart derived from these transactions is credited to Indonesia's development budget.

In 1967-68 Australia introduced B.E. ('Bonus Export') aid as evolved by the I.M.F., into the aid program for Indonesia. The private sector, which was severely disrupted during the period of economic instability, uses almost all of Australia's D.K. aid. The Government's commodity needs are met through a commodity aid package which was also added to Australia's aid program in 1968-69.

Together these two programs constituted the Colombo Plan 'Special Aid' item in the aid vote. Following Australia's accession to the Food Aid Convention of the International Grains Agreement in 1968-69, 'Special Aid' was widened to provide payment of the freight costs on FAC food aid.

D.K. aid

The goods eligible for D.K. aid financing are determined by Australia in consultation with the Indonesian Government and other aid donors. The Indonesian import categories 'most essential' and 'essential' form the basis of the D.K. list. Australia has endeavoured to ensure that the goods imported with Australian D.K. aid will, as far as possible, make a direct contribution to development, particularly through the production facilities in the private sector.

The commodity composition of the Australian D.K. program has varied slightly from year to year reflecting Indonesia's priority needs and has comprised mainly essential raw materials for industry including aluminium, steel, tin and zinc products; machinery; transport equipment; spare parts and chemicals in 1970-71 the main items, by value, were:

	\$A,000
Truck chassis	769
Tinplate	673
Zinc and zinc products	584
Cupro-nickel blanks	491
Aluminium products	416
Machinery and equipment	369
Steel and steel products	384
Chemicals	380

Motor vehicles	.	.	.	.	.	.	247
Copper products	.	.	.	.	.	.	227
Milk powder	.	.	.	.	.	.	129

Australia has spent a total of about \$A24.4 million on D.K. aid since 1967-68 as follows:

1967-68	.	.	.	.	.	.	4,750,000
1968-69	.	.	.	.	.	.	3,462,000
1969-70	.	.	.	.	.	.	5,022,000
1970-71	.	.	.	.	.	.	5,234,000
1971-72	.	.	.	.	.	.	5,970,000

(to nearest \$1,000)

Commodity aid

Commodity aid helps to meet the Indonesian Government's import requirements whereas the D.K. program is primarily designed to service the private sector's needs. Goods for inclusion in the commodity aid package are purchased using Australian Government purchasing procedures.

Australia has spent a total of \$7.6m on this form of aid since 1968-69. The composition of the package, which is determined in the light of the Indonesian Government's priority needs has varied from year to year, as is shown in the following table:

<i>Year</i>	<i>Total expenditure \$'000</i>	<i>Commodities</i>
1968-69	1,796	Fertilisers, cable and conduit
1969-70	1,707	Fertilisers, rice, cable and conduit; Landrovers
1970-71	1,137	Rice; fertilisers
1971-72	3,260	Fertilisers; steel products

Project assistance

In the first half of the 1960's Australian project aid was largely confined to road and bridge construction in eastern Indonesia, installation of an Aero-nautical Fixed Telecommunications Network (AFTN) and to the supply of buses for the Djakarta municipal public transport service.

In response to the new Indonesian Government's requests in 1966 for foreign assistance to help restore essential infrastructure facilities, Australia expanded project aid activities. By the end of the 1971-72 financial year Australia was undertaking some 16 capital and technical assistance projects, only two of which, (the AFTN (1962) and the Djakarta bus project (1958)) had begun before 1968.

While rehabilitation of the infrastructure has been afforded priority in the Australian aid program there is now an increasing focus on development projects which will make a more direct contribution to the more efficient exploitation of Indonesia's natural resources.

The individual projects currently being undertaken in Indonesia and their present stage of implementation are described in some detail in the Annex.

Technical assistance

Australia provides technical assistance to Indonesia in the form of expert services associated with economic development projects, training and aid for scientific research and educational institutes.

Experts

All Australian project aid in Indonesia is run in close co-operation with the Indonesian authorities who provide personnel help to carry it out. In this way advanced technological skills are passed on to Indonesia. Experts for projects are selected, *inter alia*, for their ability to train counterpart staff, since training either on the job or on specialist courses in Australia, is accorded a high priority in Australia's project aid activities. Australia at present maintains 33 aid experts in Indonesia. The number is expected to increase to about 100 in 1972/73.

At present two teams of experts are engaged in the telecommunications field. The largest team, seven Engineers, four Technical Officers and an Administrative Officer, is attached to the Australian Telecommunications Mission Headquarters in Bandung. A Senior Technical Officer and a second Administrative Officer are located in Djakarta, while two Senior Technical Officers are stationed in Palembang and Tandjungkarang, Sumatra. With the commencement of work on a microwave system being supplied and installed under World Bank-financed contracts and more telephone exchanges for Sumatra during the next nine months, the total number of both long and short-term experts attached to the ATM in Java and in Sumatra is expected to rise to thirty-one.

A team of five Australian Engineers, Technical Officers and an Administrative Officer are stationed in Djakarta on the Aeronautical Fixed Telecommunications Network. A team of five diesel mechanics and body builders is engaged on the rehabilitation of the Djakarta public bus fleet.

In 1972/73 it is expected that short-term experts and advisers will make approximately 50 visits to Indonesia under the Australian aid program. The purpose of these visits will be to report on the needs of various scientific and educational institutions; to undertake feasibility studies for projects related to Indonesia's economic development and to follow up aspects of projects at present in progress.

In close co-operation with the Indonesian Government, Australia continuously reviews its project aid to ensure that it is appropriate to Indonesia's priority development needs and our own capacity and technological resources.

Training in Australia

The provision of training in Australia has always been an important element of our aid program in Indonesia. By the end of March 1972, 1,838 Indonesian students had received awards under the Colombo Plan since Indonesia first started to receive this aid in 1953. Until about five years ago, the bulk of awards were used for undergraduate study with particular emphasis being given to engineering, science and education. In the last few years the Indonesian Government has

afforded a lower priority to undergraduate training and has given increasing attention to shorter-term specialised training (including post-graduate academic study) and practical experience.

The areas of training which have involved the largest numbers of Indonesian students have included agriculture, communications, health, various aspects of public administration, education and English language as is shown in the following table:

INDONESIAN STUDENTS AND TRAINEES IN AUSTRALIA 1966-1971

<i>By year and by course</i>						
<i>Students</i>	1966	1967	1968	1969	1970	1971
Secondary education . . . . .	..	..	..	..	2	..
Humanities	7	1	2	1	2	1
Education	14	1	4	7	17	24
Fine Arts	23	21	23	16	13	14
Law . . . . .	..	..	..	2	..	..
Social Sciences	2	2	..	2	1	2
Economics and related subjects	23	15	8	4	1	..
Natural Sciences	29	28	18	18	23	28
Engineering	140	121	97	86	72	51
Medical Sciences	17	26	15	12	11	11
Agriculture	37	33	27	23	27	33
Other . . . . .	..	2	..	..	..	..
Total students	292	250	194	171	169	164
<i>Trainees</i>						
Economic Planning, Surveys, etc.	4	3	11	6	5	2
Public Administration	7	5	11	14	16	25
Power Transport and Communications	4	20	50	29	30	50
Industry, Mining and Handicraft	6	11	19	20	21	36
Trade, Banking, Insurance, Tourism	8	2	5	5	11	15
Agriculture	1	5	9	6	25	26
Health Services	19	12	14	17	12	30
Education	7	7	3	22	69	76
Social Services, Community Development and Labour Relations	2	1	4	9	8	6
Other . . . . .	..	5	..	2	1	..
Total trainees.	58	71	126	130	198	266
Total award holders	350	321	320	301	367	430

In response to the Indonesian authorities' wish to accelerate the development of educational standards and administration two special courses are being conducted in Sydney at the University of New South Wales and Macquarie University for Indonesian educationists. Indonesian students also participate in the International Training Courses arranged especially for overseas trainees. These courses have a practical bias and are short-term, covering a variety of fields.

Scientific research and educational institutes

Australia has over the years received a number of requests for aid to various aspects of agriculture. In late 1971 a preliminary survey was made of the scope for using the considerable expertise of the CSIRO to assist in the development of Indonesia's agricultural resources through the aid program.

Indonesia afforded a high priority to the development of a livestock industry which would not only satisfy domestic protein requirements but would also promote the expansion of a research laboratory at the *Animal Husbandry Research Institute* at Bogor under the auspices of the aid program. The CSIRO will undertake a research project mainly directed towards animal breeding and nutrition.

A mission from the CSIRO is visiting Indonesia in June-July 1972 to draw up a complete project program, including estimates of costs.

Equipment worth more than \$200,000 is being provided by the Australian Government for the *Animal Diseases Research Institute* at Bogor and the *Animal Virus Institute* at Surabaya. Fellowships under the Colombo Plan have been awarded to selected Indonesian staff from these institutes to come to Australia for training in improved techniques in the production of vaccines.

Plant quarantine plays an important role in reducing the extent of crop losses caused by the introduction of plant pests and diseases. In the first phase of a program which may extend over four years, Australia is providing essential equipment and special facilities estimated at \$112,000 to strategically placed quarantine stations throughout Indonesia. In addition it is envisaged that Australian specialist advisers will be assigned to Indonesia to instruct Indonesian quarantine officers in the installation and use of the more sophisticated items of equipment, and to assist with training in post-entry quarantine operations and fumigation techniques. Training awards enabling Indonesian officials to study Australian methods and procedures at first hand also form part of the project.

The *Australian-Asian Universities Co-operation Scheme* which was formally established in 1969 provides a Government-supported framework for assistance from Australian universities to selected universities in Indonesia, Singapore and Malaysia, primarily in the field of agriculture. About three-quarters of the expenditure of \$200,000 on the scheme in 1971-72 was in Indonesia.

The scheme provides for the attachment of Australian university staff to Indonesian universities, fellowships for Indonesian university staff in Australia (the first group commenced their courses in the 1972 academic year), and the supply of laboratory equipment and publications. A most successful feature of the AAUCS program has been the series of concentrated short courses for Indonesian lecturer groups, by Australian lecturing teams.

The core of the program in Indonesia is assistance, especially in animal husbandry, to the agricultural faculties of three universities in East Indonesia, at Malang (near Surabaya), Den Pasar (Bali) and Makassar (Sulawesi). Assistance is also being given, or is planned, to two leading Indonesian universities (at Bogor and Jogjakarta), in the fields of agricultural economics, forestry and demography.

Following a survey of the facilities of the *Bio Farma Institute*, Bandung, by officers of the Commonwealth Serum Laboratories (CSL), Australia agreed to supply engineering and laboratory equipment, books and periodicals, horses for serum production and laboratory animals for the Institute which provides vaccines and sera for Indonesian public health authorities. CSL officers visit Bio Farma periodically to help set up the new equipment and to demonstrate new laboratory techniques. The cost of this equipment is estimated at \$250,000 and installation should be completed by the end of 1972.

Also in the medical field, equipment is being supplied to the *Rumah Sakit Dokter Tjipto, Djakarta*, for a four-bed intensive care unit. Doctors who have returned to Indonesia after receiving intensive care training at St Vincent's Hospital, Melbourne, now run the unit which will be expanded to eight beds this financial year.

During 1971-72, the Australian Government has been supplying woodwork machine tools, drawing machines, visual aid equipment and text books to the value of \$24,000 for the *Vocational Training Centre* run by the Indonesian Department of Public Works and Power at Jogjakarta in central Java. The centre conducts courses aimed at improving the technical and administrative skills of employees. As part of the project two Australian advisers, one in curriculum planning and one skilled in machine shop practice visited the training centre to assist with the reorganisation of curriculum and to supervise the installation of and to instruct in the operation of new equipment. A group of four Indonesian technical teachers from the school have come to Australia for training during the year.

Food aid

Until 1967-68 Australia provided food aid to Indonesia mainly to help alleviate food shortages created by natural disasters. In 1967-68, however, in response to Indonesian needs and requests for increasing amounts of food, Australia began to include food as an integral part of the aid program. Since 1968-69 the aid has been provided, mostly in the form of flour, under the Food Aid Convention of the International Grain Agreement (now the International Wheat Agreement). In the 1971-72 financial year, at Indonesia's request, Australia shipped wheat instead of flour following the establishment of a flour milling industry in Indonesia.

The f.o.b. value of Australian wheat and flour aid has been about \$4m annually. The terms of the Food Aid Convention provide for the gifts to be on f.o.b. terms, but as noted in the paragraph on special aid, Australia has made special provision for paying freight.

In the past, Australia has provided rice as aid to Indonesia at special request. The amounts involved have been relatively modest, 6,500 tons valued at \$800,000 in 1969-70 and 5,000 tons valued at \$582,000 in 1970-71. Freight was paid on both shipments.

AUSTRALIAN AID PROJECTS

Australian telecommunications mission

In April 1968, a team of Australian Engineers made a preliminary study of Indonesia's domestic and international telecommunications needs. The second phase of the Mission detailed planning of a microwave system linking the Indonesian capital, Djakarta with Medan in North Sumatra. The planning included the preparation of international tender documents for the supply of the microwave equipment and the construction of the system which is to be financed by an International Development Association credit of \$US12.8m.

The third and current phase of the Mission's activities includes further planning for the Indonesian national telecommunications network, the supervision of the installation and acceptance of the trans-Sumatra microwave system, and the supervision of construction and the installation of exchange equipment at a number of telephone exchanges throughout Sumatra. The Australian Government will supply cross-bar switching equipment, telephone cable, some conduit, and telephone instruments for these centres.

The Mission has also been involved in the rehabilitation of the Djakarta telephone cable network since 1969. The Indonesian Government has recently requested Australian assistance with the provision of a coaxial cable link from the Djakarta microwave terminal to the Gambir telephone exchange. This link, a distance of 6.1 kilometres, will cost approximately \$US121,500.

It is expected that the total cost of Australia's present commitments to the development of Indonesia's telecommunications will be \$7,280,000 by the time all work is completed.

Rehabilitation of the Indonesian State Railways

Under a five-year \$A5,587,000 program of assistance to the Indonesian State Railways, the Australian Government is supplying steel track, fastenings, bridging materials and other equipment for the rehabilitation and maintenance of railway sections in Java and South Sumatra. Two hundred and fifty sets of air-brakes for freight wagons and bogie swing links for passenger cars are also being supplied. During the final period of the program, 1973, materials valued at an estimated \$1,062,000 will be supplied. Senior Engineers from the Commonwealth Railways visit Indonesia periodically to assess the progress of this project.

Djakarta bus project

Between 1958 and 1962 Australia supplied 250 buses for use by the Djakarta Transport Authority. In 1969 the Indonesian Government decided to improve the condition of the vehicles remaining in service and formally sought Australian assistance in restoring them to economic running standards.

For the past two-and-a-half years a team of Australian mechanics and body builders has been engaged on the rehabilitation work, and mechanical and body spare parts costing \$180,000 have been supplied.

The team has also assembled from a 'completely-knocked-down' condition 16 new buses supplied to the Djakarta Transport Authority by the United Kingdom. The on-the-job training and experience being passed on by the Australian team to their Indonesian counterparts, supplemented by special training courses in Australia for mechanics and body builders, is designed to ensure the future maintenance of the bus fleet after most of the Australian personnel return to Australia in November 1972.

Tjilatjap

The Governments of both Australia and Indonesia have co-operated in plans for the rehabilitation and development of the port of Tjilatjap in South Central Java and the establishment of an industrial estate there, as a joint undertaking involving both Governments and Australian and Indonesian commercial interests.

In 1969 the Perth-based Australian Indonesian Manufacturing and Trade Operations Company (AIMTO) developed a plan to establish an industrial estate at Tjilatjap as a joint commercial venture. However, amongst several factors affecting the success of this proposal was the need to rehabilitate the port and harbour facilities which had been damaged and fallen into serious disrepair since World War II.

It is against this background that the Indonesian Government asked Australia in early 1970 to make a preliminary survey of the Tjilatjap area including a study of the industrial estate proposals. Following this study, Australia advised the Indonesian Government that it would help with improvements to wharves and godowns, dredging of berthing areas and inner harbour approaches and with developing the Technical School in Tjilatjap. Australia also offered the services of a town planner.

Since then Australia has commissioned feasibility studies for the individual project proposals. The surveys' recommendations, which provide for total aid expenditures of about \$1.8m, are currently being considered by the Indonesian Government. We expect to begin work in Tjilatjap during 1972.

AIMTO has also submitted its proposals for the development of an industrial estate in Tjilatjap to the Indonesian Government. Detailed negotiations between AIMTO and the Indonesian Government are in progress.

The new public and private investment currently planned for Tjilatjap is designed to increase the level of economic activity and to improve living standards in South Central Java by widening employment opportunities and increasing technical skills and to be of benefit to the Indonesian economy as a whole as manufacturing leads to import substitution.

Seraju River Basin development

The Seraju River Basin in South Central Java often experiences droughts in the dry season and flooding at other times of the year. In September 1971 the Indonesian Directorate-General of Water Resources sought Australian assistance

in the preparation of an integrated plan for the development of the basin, using the findings of an expert team commissioned to determine the optimum allocation of the Basin's water resources between agriculture, town water supply and electricity generation. The plan is to include feasibility studies, where these are economically or technically justified, for the most promising areas of the basin's resources to enable the Indonesian Government to obtain international financing for project implementation.

As the first phase of this study Australia has sent a small Foreign Affairs-Snowy Mountains Engineering Corporation team to evaluate the potential of the basin and to determine water use requirements. Australian assistance to the second phase, which is concerned with the project feasibility studies, is to be considered in the light of the team's findings. These are expected to be available in October-November 1972.

Bogor water supply

In January 1970 a Sydney firm of Consulting Engineers, Messrs Vallentine, Laurie and Davies, briefed through the Commonwealth Department of Works, began the planning and design of an enlarged and improved water supply system for the West Java city of Bogor. The cost of piping, treatment plant, and control equipment such as meters, stop-cocks, valves and gauges, together with consulting services, to be supplied by Australia, is expected to be more than \$A2.5m. The project is scheduled for completion in 1973. The improved water supply will cater for the needs of Bogor's population up to 1990. Work is at present being carried out on the survey and design for a water supply scheme and for amplification works to 1980.

Den Pasar water supply

A similar project at Den Pasar, capital of the tourist resort island of Bali, commenced in January 1971, under the direction of the Melbourne consultants, Messrs Scott and Furphy, again briefed through the Commonwealth Department of Works. Investigations of surface water potential and ground water resources have been completed and pipes and equipment are now being supplied. The Australian contribution to the cost of this project is approximately \$2.5m.

Aeronautical Fixed Telecommunications Networks (AFTN)

This scheme, which was started in 1962, is designed to link all the major aerodromes in Indonesia by radio telephone and teleprinter channels through the construction of nine telecommunications stations throughout the country. Later features added to the project are to modernise and improve telecommunications installations at Djakarta for the operation of the external links with Singapore, Perth, Darwin and Sydney at full international standard.

Eight of the internal stations have already been commissioned, and the project's current activities are centred on the operation and maintenance of the internal network and the design and installation of new equipment for the Djakarta terminal.

Australia's assistance to the project is planned to be progressively phased out from the end of 1973 as the Indonesian Civil Aviation Department assumes full responsibility for the network's operations.

Expenditure to date on this project is approximately \$4m.

Kalimantan roads project

In October 1971, the Snowy Mountains Engineering Corporation completed an appraisal of road projects on the Indonesian Government's list in Sumatra, Bali, Sulawesi and Kalimantan. This was followed by discussions in early 1972 between SMEC, BAPPENAS (National Development Planning Agency), Bina Marga (the Indonesian Department of Public Works) and the International Bank for Reconstruction and Development (IBRD). A road project in Kalimantan was selected for Australian assistance, utilising the 'day labour' method of construction which provides substantial benefits in the field of training.

The initial phase of the road works program in Kalimantan is expected to begin before the end of 1972 and will comprise a feasibility study for a major road in West Kalimantan together with an assessment of the province's requirements, leading to a master plan for road development; a twelve-month program of road rehabilitation to demonstrate modern road construction techniques; and consultants on road maintenance advising Bina Marga as well as back-up assistance.

Windmills

Many places in East and Central Java do not have adequate domestic water supplies and deep ground-water resources are seen as an alternative, particularly for smaller communities. In view of this, the Indonesian Government asked Australia to supply and install windmill pumps at selected sites in these provinces.

A feasibility study has established that windmill pumps can be used satisfactorily for village needs but are inadequate for irrigation requirements primarily because of low wind speeds. The study, which is currently being considered by the Indonesian Government, has recommended that Indonesia undertake test drilling with a modern drilling rig provided by Australia at a cost of about \$180,000. In addition it is proposed that Australia provide initially up to ten windmill pumps for village communities in East Java as well as technical assistance for the operation of the rig and for installation of the windmills.