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'SEND THEM A SHIPLOAD OF RICE': AUSTRALIA'S FOOD AID TO INDONESIA, 1960S-1970S

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'Send Them a Shipload of Rice': Australia's Food Aid to Indonesia, 1960s-1970s

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Abstract

This paper asks why it took 10 years since a major famine in Indonesia in 1957 for Australia's food aid to increase in greater amounts, and why food aid was so significant In Australia's foreign aid to Indonesia during the late 1960s and 1970s. Indonesia's reluctance to apply for food aid under the Colombo Plan is the reason for the delay. A combination of humanitarian, commercial and international relations interests converged to shape Australia's rapidly growing food aid to Indonesia after 1966. Food aid contributed to alleviating food shortages and famines in Indonesia. It also supported Australian firms in regaining their share in the growing market for wheat-based products in Indonesia, and in building market share for Australian rice exports, in competition with US producers and the US PL480 food aid program. Food aid also allowed Australia to expand its foreign aid program to Indonesia rapidly after 1966, in support of the government of new President Soeharto and improved bilateral relations.

Keywords: Australia, Indonesia, international relations, food supply, food aid

JEL codes: F14, F35, N55, N57, O19

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'Send Them a Shipload of Rice': Australia's Food Aid to Indonesia, 1960s-1970s

In 1957, and on several other occasions during the late 1950s and 1960s, Australian newspapers reported that people in parts of Indonesia were suffering from famines.¹ The reports triggered public responses, which were concisely summarised in a letter to the editor of *The Age* newspaper in December 1957: 'Send them a shipload of rice'.² During the 1950s and 1960s, Australia had a program of foreign aid to Indonesia, but Australian shipments of food aid did not start to arrive in significant quantities until 1967. Why did it take 10 years for Australia to send food aid to Indonesia, at a time when it was a major exporter of wheat flour and a budding rice exporter?

The publicity accompanying Australia's aid program associated food aid with the alleviation of famine and malnutrition in Indonesia. However, a study of deliveries of international food aid to Indonesia found that it were not directed to famine areas in Indonesia, but were handled by private companies in Indonesia that sold imported foodstuffs on the instructions of Indonesia's food logistics agency or its Department of Trade.³ If so, how did Australia's food aid contribute to alleviating famine and malnutrition in affected parts of Indonesia since 1967?

Australia's relations with Indonesia in the 1950s-1970s have been the subject of several studies. They focused on the key international relations issues between both countries at the time. For example, Doran studied Australia's involvement in Indonesia's take-over of West Papua, Dee analysed the 1965-1966 'confrontation' episode that resulted in clashes between Indonesian insurgents and Australian armed forces in the defence of Malaysia, and Najjarine and Henry examined Australia's support for regime change in Indonesia following the failed coup against Indonesia's President Sukarno in September 1965.⁴ Oakman, Wilkinson and Corbett outlined the development of Australia's foreign aid program. It was relatively small during the 1950s and 1960s, and largely disbursed aid for humanitarian reasons as part of the intergovernmental Colombo Plan that coordinated foreign aid between member

E.g. Sydney Morning Herald (SMH, 18, 22 and 30 December 1957, 1 November 1964, 20 September 1966), The Age (17 February 1964), Canberra Times (19 December 1957, 17 February 1964, 19 and 22 September 1966).

² W.K. Fethers to the editor of *The Age* (30 December 1957).

P. van der Eng, 'International Food Aid to Indonesia, 1950s-1970s' in J. Touwen and A. Schrikker (eds.) *Promises and Predicaments: Trade and Entrepreneurship in Colonial and Independent Indonesia in the 19th and 20th Centuries* (Singapore, 2015), 244-258.

E.g. S. Doran, 'Toeing the Line: Australia's Abandonment of 'Traditional' West New Guinea Policy', The Journal of Pacic History, 36 (2001), 5-18; M. Dee, Not a Matter for Negotiation: Australia's Commitment to Malaysia 1961-1966 (Barton, 2005); K. Najjarine, Australian Diplomacy towards Indonesia 1965-1972: An Examination from the Australian Archival Record. PhD thesis, University of Western Sydney, 2005; A.H. Henry, The Gatekeepers of Australian Foreign Policy 1950-1966 (North Melbourne, 2015).

countries.⁵ Van der Eng investigated the role of Australia's foreign aid program to Indonesia during the 1950s and 1960s, particularly during the years of 'confrontation'.⁶ No study has explained in any detail why Australia was tardy in extending food aid to Indonesia when it needed this type of aid the most.

The purpose of this paper is to answer the two questions above. The answers will clarify the organisation of Australia's food aid during the 1950s-1970s, and the multiple factors that shaped the food aid program in addition to the aim of famine alleviation. To that end, the next section will provide a brief outline of Australia's foreign aid program during the 1950s-1970s to explain the aid-related policies that shaped it. The following section then explains why Indonesia until 1967 was a minor recipient of Australia's foreign aid. It also elaborates why Australia did not deliver food aid to Indonesia until 1967, despite problems with famine and malnutrition there, and how Australia's aid program to Indonesia expanded since 1967. The next section analyses the organisation of Australia's food aid to Indonesia. It places this aid effort in the context of the US PL-480 food aid program to Indonesia that threatened to undermine the market share of Australian wheat in Indonesia. The last main section then links Australia's food aid to Indonesia with the position of Australian wheat exports to Indonesia, particularly during the 1970s.

Australia's foreign aid, 1950s-1970s

In the 1950s, Australia was still a minor foreign aid donor. It had just 8.3 million people in 1950. Its standard of living was high, but the size of the economy allowed only a modest foreign aid program compared with the main aid donors in Europe, the USA and also Japan. Australia's aid program expanded, as Figure 1 shows, from 0.2 per cent of GDP in the early 1950s, to 0.4 per cent in the early 1960s, and 0.5 per cent in the early 1970s.

[Figure 1 about here]

Most of Australia's development aid benefited territory of Papua and New Guinea (TPNG), also after it gained independence in 1975. Behind TPNG, Australian aid benefited India, Pakistan and Ceylon during the 1950s, and took the form of aid under the Colombo Plan. Consequently, most Australian aid reached recipient countries as project aid; aid for specific projects, such as the construction of infrastructure

D. Oakman, Facing Asia: A History of the Colombo Plan (Canberra, 2004); A.E. Wilkinson, "The Politics of Australian Foreign Aid Policy", PhD Thesis, Australian National University, Canberra, 1976; J. Corbett, Australia's Foreign Aid Dilemma: Humanitarian Aspirations Confront Democratic Legitimacy (New York, 2017).

P. van der Eng, 'Konfrontasi and Australia's Foreign Aid Program in Indonesia during the 1960s', Australian Journal of Politics and History, 55 (2009), 46-63.

facilities. These tended to have a relatively long lead time related to design and construction. They also depended on submissions by recipient countries of projects for aid funding.

A 1964-65 inter-departmental review of Australian foreign aid redefined the principles of the aid program.⁷ Among the outcomes was that Australian foreign policy objectives were to have primacy in the selection of projects, that Australian trade benefits would have to be considered, and that aid was to be intensified and focused on South and Southeast Asia.

In 1966, Australia joined the Development Assistance Committee of the Organisation for Economic Cooperation and Development, which monitors international aid flows.⁸ A reason to join was Australia's intention to develop closer relations with major Westerns aid donors. The expertise of Australia's aid officials in the then Department of External Affairs (DEA, renamed in 1970 Department of Foreign Affairs, DFA) improved, which contributed to the greater professionalism of aid delivery. Figure 1 shows that these changes were associated with a quickly increasing commitment to foreign aid in the late 1960s.

In 1972, a Parliamentary Joint Committee on Australia's Foreign Aid recommended that greater attention be given to the quality of aid, particularly its social impact. It also recommended a more systematic evaluation of aid programs and the unification of the aid delivery that had been dispersed over different government departments. Combined with the rapid increase in the size of Australia's foreign aid, it led to an effort to bring more coherence in the aid program. In 1973, the Australian Development Assistance Agency (ADAA) was established as an autonomous agency for aid planning and delivery, run by professionals with aid delivery experience, rather than diplomats. In the 1970s Australia's foreign aid decreased relative to the size of the economy, as Figure 1 shows. The aid program continued to grow in absolute terms, but its character changed. Until the mid-1970s, many aid projects centred on promoting modernisation in aid-recipient countries, while others supported infrastructure development. Following the 1972 recommendations, greater emphasis was placed on aid projects that advanced social welfare and rural development.

Australian aid to Indonesia

The recommendation of the 1964-65 review to align the aid program and foreign policy objectives was relevant to the development of Australia's relations with Indonesia since the mid-1960s. Since Indonesia had joined the Colombo Program in 1953, Australia's

⁷. Corbett, Australia's Foreign Aid Dilemma, 20-22

⁸ Wilkinson, *Politics of Australian Foreign Aid*, 221-230.

Ph.J. Eldridge, Indonesia and Australia: The Politics of Aid and Development since 1966. (Canberra, 1979), 28-29.

Th.W.D. Davis, 'Foreign Aid in Australia's Relationship with the South: Institutional Narratives', The Round Table, 100 (2011), 394, 396-97.

aid to Indonesia remained modest in the 1950s, compared with the aid Indonesia received from the USA and the Soviet Union¹¹ and also compared with Australia's aid to TPNG and South Asia. On average, Indonesia received just 1.8 per cent of Australia's aid during 1950-66.

Australia's aid reached Indonesia through (a) multilateral programs, such as those of the Food and Agriculture Organization (FAO) and the World Bank; (b) projects under the Colombo Plan, mainly in the form of technical assistance and the training of Indonesian students and technical personnel in Australia; (c) government-to-government gifts of Australian equipment under the Colombo Plan. In effect, the choice of aid projects depended on the Australian embassy in Jakarta identifying projects in dialogue with Indonesian authorities, and then persuading the Indonesian government to submit project proposals to the annual meeting of Colombo Plan member countries. The most prominent project was the 1962-68 Aeronautical Fixed Telecommunication Network (AFTN) project to improve communications between airports in Indonesia and with Singapore and Australia. Australia's aid to Indonesia was modest, because it depended on the Indonesian government submitting potential projects to annual Colombo Plan meetings.

Figure 1 shows that this changed after 1966, when the share of Indonesia in Australia's aid program increased rapidly. A closer inspection of aid to Indonesia in Figure 2 reveals that 64 per cent of Australia's aid to Indonesia during 1966-74 took the form of commodity aid, particularly food aid.

[Figure 2 about here]

Australia had previously supplied food aid to India, Pakistan and Ceylon; on average about A\$6.6m annually during the 1950s and 1960s, mostly wheat flour, but also milk powder. These countries experienced food shortages, but most of this food aid served other purposes. In particular: (1) Australia had its own foreign exchange shortages in the 1950s and early 1960s, which limited its ability to transfer funds internationally and required it to offer foreign aid in the form of Australian goods and commodities; (2) resolving the fact that aid-recipient countries also had foreign exchange shortages that limited their commercial food imports; (3) evading the complex foreign exchange restrictions in aid-recipient countries. With the cooperation of local authorities, Australian food aid was sold in local markets and the local currency earnings were credited to the accounts of Australian High Commissions in South Asia to cover local embassy expenditures and particularly the local salary components of Australia-supported aid projects. For example, in 1952 Australia earmarked the sale proceeds of a donation of wheat and flour to India and Ceylon for the Tunghabhadra

¹¹ A. Shakow, Foreign Economic Assistance in Indonesia 1950-1961 (Tokyo, 1964).

¹² Van der Eng, 'Konfrontasi'.

irrigation and power supply project, and the establishment of a tuberculosis clinic.¹³ It did not make such arrangements for food aid with Indonesia until 1966.

During 1966-74, Australia's food aid to Indonesia increased quickly and exceeded earlier food aid to South Asia by far. One reason is the significant improvement in Australia's relations with Indonesia. These relations had deteriorated after Australia supported the creation of Malaysia in 1963 and Indonesia embarked on a policy of 'confrontation' against Malaysia during 1964-65. Australia ceased making new aid commitments but continued existing aid projects and diplomatic relations with Indonesia. A second reason for concern in Canberra was the growth of popular support for the Communist Party of Indonesia and the increase of the party's influence on President Sukarno and his government.

Another reason for the change was the perilous state of Indonesia's economy during 1965-67, due to an accumulation of economic mismanagement under President Sukarno since 1959. The economic situation worsened until inflation in 1965 was close to 400 per cent, rising to over 1,000 per cent in 1966. Foreign exchange earnings from exports decreased in 1966 and 1967, which enhanced the urgency for the Indonesian government to re-schedule the country's US\$2.3b foreign debt, in order to qualify for new loans to pay for desperately needed imports, particularly food.

The failed coup against President Sukarno in September 1965 was a turning point in bilateral relations. The post-coup situation remained fluid throughout 1966.¹⁷ Nevertheless, Indonesian officials were no longer restricted by the official propaganda that had hitherto repeated Sukarno's claims that rice self-sufficiency was nigh, and therefore that Indonesia would not have to apply for food aid.¹⁸ In October 1965, reports reached the Australian embassy in Jakarta of food shortages in several regions of Indonesia, and a month later the Indonesian government approached various ambassadors in Jakarta with requests for emergency credit for the overseas purchase of rice.¹⁹ Australian authorities expressed sympathy for the notion of food aid to Indonesia, but were reluctant to make new aid commitments until Indonesia had formally called off 'confrontation' and had taken steps towards a program of economic stabilisation and reform.

15 Henry, *The Gatekeepers*, chapter 9.

¹³ Australia in Facts and Figures. (Canberra, March and June 1953).

¹⁴ Van der Eng, 'Konfrontasi'.

H.W. Arndt and J. Panglaykim, 'Indonesian Economic Problems in 1966', *Intereconomics*, 9 (1966), 22-26.

K. Najjarine, 'Australian Perceptions of PKI Involvement in the 1965 Attempted Coup in Indonesia', Australian Quarterly, 76 (2004), 26-34 and 40.

P. van der Eng, 'All Lies? Famines in Indonesia during the 1950s and 1960s." Unpublished paper, Asian Historical Economics Conference, Hitotsubashi University, Tokyo (Japan), 13-15 September 2012. https://fdocuments.us/document/20120916-famine-in-indonesia-1950s-60s.html [accessed 23 December 2019].

National Archives of Australia (NAA), A1838 2036/5 PART 7, K. Shann to Department of External Affairs (DEA) (16 December 1965).

In March 1966, President Sukarno delegated supreme authority to General Soeharto, who appointed a new government that started work to stabilise the economy. The most urgent need was for food imports to overcome regional rice shortages and contribute to achieving economic stability (see below). Two months later, the Indonesian government initiated discussions with potential aid donors about rescheduling foreign debt to attract new foreign loans and new foreign aid in order to resolve the country's precarious foreign exchange position.²⁰ It first approached US representatives, who responded that further discussions would best be done multilaterally rather than bilaterally.²¹

The Australian government decided in May 1966 to increase Colombo Plan aid to Indonesia. However, it made new aid commitments conditional on the Indonesian government working with the International Monetary Fund (IMF) and the World Bank to stabilise the economy. A month later, Australia supported the consortium approach to coordinating aid to Indonesia, based on a model that aid donors had first developed in 1958 to coordinate aid to India. In multilateral approach was expected to facilitate a consistent and constructive dialogue with the new Indonesian government about the economic recovery process and the role of donor countries. It was also an opportunity for Australia to be involved in the process of political and economic change in Indonesia. A consortium of donor countries met with representatives of the Indonesian government, the IMF and the World Bank in Tokyo in September 1966 to discuss Indonesia's balance of payments problems and the required aid effort.

Another obstacle to increasing Australian aid to Indonesia was removed when on 11 August 1966 Foreign Minister Paul Hasluck witnessed the signing in Jakarta of an accord between Indonesia and Malaysia to end 'confrontation'. During sideline discussions about interim emergency assistance, Hasluck offered to supply some raw materials and spare parts under the Colombo Plan.²⁴ The Australian government remained reluctant to expand aid at short notice. Apart from continued economic instability, a concern was that the new Indonesian government did not yet have full political control over the country, making the outcomes of any new aid effort uncertain.

The Australian government received internal policy advice to expand its aid commitment to Indonesia, as an expression of Australia's support for the new government of Indonesia. This expansion had to take the form of aid that could be delivered in the short

²⁰ J. Panglaykim and K. Thomas, 'The Road to Amsterdam and Beyond: Aspects of Indonesia's Stabilization Program', *Asian Survey*, 7 (1967), 689-702.

NAA, A1838 3034/10/1 PART 27, Australian High Commission in London to DEA (19 May 1966), p.241.

NAA, A4940 C4095, documents in preparation of Cabinet Submission No.215 (26 May 1966); NAA, A1838 2036/5 PART 8, cabinet submission 'Economic assistance to Indonesia' (16 May 1966).

²³ S. Akita, 'The Aid-India Consortium, the World Bank, and the International Order of Asia, 1958-1968', *Asian Review of World Histories*, 2 (2014), 217-48.

NAA, A4311 692/10 'Colombo Plan Aid to Indonesia' L. Mcintyre to P. Hasluck (2 Aug. 1966); NAA, A4359 111/5/5A Embassy Jakarta to DEA (13 September 1966).

term and in amounts substantially larger than would be possible under the Colombo Plan. However, policy advice to the Australian government was that aid would only be delivered if there was some guarantee that aid would not be 'diverted to wasteful or corrupt ends'.²⁵

Australia waited for Indonesia to conclude a formal agreement with the IMF and World Bank to stabilise the economy, before participating in the multilateral meeting in Paris in December 1966 about the rescheduling of Indonesia's debt repayments. Effectively, this meeting aimed to exclude the Soviet Union and Central European countries from the multilateral support effort for Indonesia, for fear that Western aid to Indonesia would otherwise benefit those countries through Indonesian debt repayments. Pledges of new aid had to wait until the multilateral donor group met as the Inter-Governmental Group on Indonesia (IGGI) in Amsterdam in February 1967. The first Australian emergency aid reached Indonesia in early 1967, and altogether Australia pledged US\$0.7m in aid to Indonesia for 1967. It considered several potential new aid projects in Indonesia, such as road equipment repair, naval fleet repair, dredges repair, supply of railway sleepers *etc.*, but concluded that such project aid would take time to become effective, and therefore that bilateral emergency aid and commodity aid were the best options for the moment. Place of the part of the moment.

The IGGI meeting in Scheveningen (The Netherlands) in June 1967 prepared a more substantive aid effort to Indonesia. Based on an Indonesian 'wish list' of projects, IGGI members pledged aid and put an aid package of US\$188m together for emergency balance of payment credit assistance and project aid. Australia pledged US\$5m for 1967/68; considerably more than its commitment to Indonesia under the Colombo Plan of A\$1.3m.²⁹ In all, Australia provided A\$5.2m in emergency aid and A\$0.5m in Colombo Plan aid that year.

Figure 2 shows that 1967 was the start of a considerable increase of Australia's aid to Indonesia. At the next IGGI meeting in April 1968 in Rotterdam, Indonesia again submitted a project 'wish list'. It specifically asked Australia to supply urgently needed spare parts for Jakarta buses, a telecommunications survey, dredging of the port of Banjarmasin, and railway equipment. Australia doubled its aid pledge to Indonesia to A\$12.7m for 1968, and during 1968-70 Australia allocated almost A\$47m; more than 2½ times the total amount spent throughout 1953-67. By 1968-69, Indonesia overtook India as the largest recipient of Australia's non-TPNG bilateral development assistance.

NAA, A1838 3034/10/1 PART 28, 'Indonesia: Working paper on Australian policy', G.A. Jockel to P. Hasluck (25 August 1966) 149-150.

²⁶ U. Mahajani, Soviet and American Aid to Indonesia 1949-1968 (Athens OH, 1970) 32-33.

²⁷ G.A. Posthumus, *The Inter-Governmental Group on Indonesia (I.G.G.I.)* (Rotterdam, 1972).

NAA, A4940 C4095, documents in preparation of Cabinet Submission No.83 (14 February 1967).

NAA, A4940 C4095, documents in preparation of Cabinet Submission No.295 (14 June 1967).

Australian Development Assistance Agency (ADAA), Australian Official Development Assistance: Financial Statistics 1945/46-1974/75 (Canberra, 1975)72.

Until 1975, most of the increase in Australia's aid to Indonesia comprised food aid, which then gave way to project aid.³¹ Due to the rapid increase in international aid to Indonesia, the annual IGGI meetings replaced the annual Colombo Plan meetings as the international forum to discuss and coordinate foreign aid projects consistent with priorities in Indonesia's five-year development plans.

By 1975, Indonesia's balance of payments position had improved significantly as a consequence of the significant increase in revenues from oil exports due to rising international oil prices. Emergency assistance and import support in the form of food aid no longer had priority in the aid program. In addition, the capacity of Indonesian authorities to supervise development projects had improved. Consequently, Australia started to support an increasingly diverse range of projects in Indonesia, both in response to the new priorities established in Australia in relation to foreign aid, and to new development ambitions in Indonesia's five-year plans.

In the 1970s, Australia's aid program in Indonesia was dominated by a few projects involving the rehabilitation of infrastructure and communications, comprising Indonesian public utilities. An example was the major Australian Telecommunications Mission project, which expanded the experience with the AFTN project of the 1960s. Major projects in transport and navigation included the upgrading of Indonesian railways, preparations for the development of a port and industrial estate in Cilacap, and a major road construction project in West Kalimantan province. Another major project in the late 1970s involved an A\$12m Australian contribution to electric power distribution networks in some 20 cities in Sumatra and Kalimantan, which was linked to a larger commercial venture in this field. In addition, Australia initiate similar urban water supply projects in Bogor, Denpasar, Cilacap and Tanjung Karang.

During the 1970s and 1980s, Australia was the second largest food aid donor to Indonesia after the USA. It contributed about 5 per cent to total foreign aid to Indonesia, making it Indonesia's fifth largest aid donor after Japan, The Netherlands, France and Germany. All of Australia's development aid to Indonesia were grants, rather than a combination of grants and concessional loans.

Food aid to Indonesia

Figure 2 showed that food aid was the most important component of Australia's increasing aid to Indonesia during 1967-74. Food aid remained significant during the late 1970s and early 1980s. Table 1 shows the quantities of rice, wheat and flour that Australia exported to Indonesia and the proportion that was exported as aid. In the late 1960s, all of Australia's exports of rice and flour arrived in Indonesia as aid, decreasing during the 1970s.

³¹ Wilkinson, Politics of Australian Foreign Aid Policy, 253-264.

[Table 1 about here]

One reason why such large proportions of Australian food exports arrived in Indonesia as food aid was the general concern about famines and widespread malnutrition in Indonesia. After reports about regional famines in Indonesia in 1957, other but often sketchy reports about regional famines in Indonesia appeared in later years. This led to further calls in the media for Australia to provide emergency food aid. Particularly the 1966 Lombok famine with an estimated 50,000 deaths resonated in Australia.³²

A formal reason for the Australian government's reluctance to provide food aid to Indonesia was that it had not received a request from the Indonesian government. In addition, in 1966, the details of the Lombok famine and its causes were imprecise, and there were no guarantees that local authorities in Indonesia would be able to deliver food aid to where it was needed. Nevertheless, members of parliament in Australia were sensitive to this issue.³³ They voiced concerns among their constituents about the famine and the government's reluctance to respond.

The failed coup in September 1965 soon led to informal requests to potential aid donors, including Australia, for food aid to alleviate regional food shortages in Indonesia. For example, in November 1965 government representatives approached foreign ambassadors in Jakarta to discuss emergency credit to purchase foreign rice.³⁴ Although Australian officials were sympathetic to providing food aid, the Australian government remained reluctant to increase aid until Indonesia had revoked its 'confrontation' policy towards Malaysia and had embarked on a program of economic stabilisation and reform.³⁵

In March 1966, Indonesian officials made further representations to potential food aid donors, including Australia. Ambassador Keith Shann summarised the reasons: 'Clearly what the Indonesians have in mind is this: They must have immediate supplies of rice, to eat and, just as important, to keep prices, all of which [keep] the rice standard, the basis of Indonesia's economy, relatively stable.'³⁶ For example, Shann was informally asked whether the Australian government could help by guaranteeing payments for rice shipments from Thailand costing US\$10m, together with the USA. Although only a guarantee, the amount was a hefty sum compared with past levels of Australian aid. As an indication of goodwill, the Australian government instead offered

³² For example, Sunday Mail (28 August 1966); The Herald (13 September 1966); Sydney Morning Herald (12 October 1966).

³³ E.g. *Hansard The Senate* (13 and 20 September 1966), *Hansard House of Representatives* (13 September 1966)

³⁴ NAA, A1838 2036/5 PART7, K. Shann to DEA (16 December 1965).

³⁵ Van der Eng, 'Konfrontasi'.

³⁶ NAA, A1838 3034/10/1 PART27, K. Shann to DEA (22 March 1966) 109.

Indonesia US\$0.2m to purchase 1,600 tons of rice from Thailand for distribution in flood-stricken Central Java in May 1966.³⁷ Likewise, Japan offered 10,000 tons of Thai rice.³⁸ A condition of this offer was that that the Indonesian army would disburse these deliveries, in the expectation that this would prevent rice donations from being siphoned off at different stages in the distribution chain.

Like other aid donor countries, the Australian government wanted to wait with larger commitments of food aid until it had received formal requests from the Indonesian government. A major issue was that aid donors could not yet be sure that food aid to Indonesia would be distributed in appropriate and transparent ways that would minimise graft. As the Australian government was reluctant to commit to food aid to Indonesia beyond the A\$0.2m of emergency aid, volunteers organised private collections of rice aid for Lombok in Australia.³⁹

To allay the concerns of donor countries about the distribution of rice, the Indonesian government created the National Logistics Command (Komando Logistik Nasional), an organisation aligned to the Indonesian army, in April 1966. It took responsibility for the transportation and distribution of rice aid in famine-hit areas in Central Java. It demonstrated its logistical and organisational capabilities, and its ability to distribute food aid in an equitable way. A year later, the Indonesian government converted the organisation into the new food logistics agency, the Board for Logistical Affairs (Badan Urusan Logistik, Bulog). Bulog was also tasked with purchasing rice domestically for rice price stabilisation and rice distribution to deficit areas. It had difficulties meeting the domestic purchase targets, which meant that rice imports continued to be its main source of rice for domestic distribution.

Following the two IGGI meetings in 1967, aid donors agreed to work with Bulog to make arrangements for the delivery and distribution of new food aid. Bulog's association with the Indonesian army offered donor countries a guarantee that food aid would be delivered where it was needed, and would be accounted for in a reasonably transparent manner.

Apart from humanitarian concerns about famine and malnutrition, a possibly more significant reason for Australia to step up food aid to Indonesia was the resumption of US aid to Indonesia in 1966.⁴⁰ That year, the US government arranged the shipment of 100,000 tons of Thai rice as US food aid to Indonesia. The US was expected to re-start its PL480 commodity shipments to Indonesia shortly after. This PL480 program created overseas markets for surplus US farm produce through export

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NAA, A4940 C4341, Press statement by J.G. Gorton (27 March 1966); NAA, A1838 555/7/14/2, Draft press statement, Australian embassy Jakarta (5 May 1966). At the same time the US government offered US\$8.2m credit and the UK government US\$2.8m credit for food purchases (Mahajani, 'Soviet and American Aid', 31).

³⁸ NAA, A1838 1585/1/23, Australian Embassy Tokyo to DEA (30 March 1966).

³⁹ For example, *Sydney Morning Herald* (20 and 21 September 1966); *Canberra Times* (26 September 1966, 5, 12, 13 and 15 October 1966); *Australian Women's Weekly* (19 October 1966).

⁴⁰ Canberra Times (26 March 1966).

subsidies. Recipient countries purchased this surplus produce on concessional US government credit. The local currency revenues from the sale of this produce either benefited the government coffers in the recipient country or covered local expenses related to US development projects.

Indonesia had received some PL480 shipments during 1956-64, mainly raw cotton, tobacco and small amounts of rice as emergency aid in 1963 and 1964.⁴¹ Australia was concerned about the effects of the US PL480 program. For example, as soon as PL480 shipments to India had started in 1956, the Australian government was alerted to the potential consequences of this program for its wheat flour exports to Indonesia, where Australia had a 78 per cent market share.⁴²

Australian concerns mounted, when in 1958 and 1959 French and Italian suppliers undercut Australian firms and dumped excess wheat flour in the Indonesian market, followed by a similar challenge from US firms in 1960, also undercutting Australian flour exports to Indonesia. Australian intentions to protest against these developments under GATT rules, as well as proposals to lobby the Indonesian government to bring part of Australian flour shipments to Indonesia under the Colombo Plan, acame to nothing. Indonesia continued to play Australian wheat exports off against implicitly subsidised PL480 flour exports in the early 1960s.

The case of India loomed large for Australia. India had become a major recipient of PL480 food aid after 1956, particularly of wheat and flour. In all, US\$3.1b worth of commodities reached India under the PL480 scheme until 1965.⁴⁵ Most of this aid was sold in India and the rupee proceeds supported US aid projects in India for infrastructure development. But it was clear in Australia that this PL480 aid allowed importers in India and exporters in the USA to establish relations that benefited the subsequent placement of commercial orders. US exporters successfully leveraged PL480 aid to India during 1956-65 to grow their share in India's markets for flour and wheat at Australia's expense.⁴⁶

Indonesia received just US\$115m as PL480 aid during 1956-65.⁴⁷ Nevertheless, there was concern in Australia that US exporters would eventually upscale PL480 food aid deliveries to Indonesia, at the expense of Australian suppliers. This increase did not happen during 1961-65 because foreign exchange shortages – as well as Indonesian government rhetoric about an imminent but still elusive rice self-sufficiency – caused Indonesia to reduce its flour imports to just 32,000 tons in 1965.

E.N. DeBlois, '12 Years of Achievement under Public Law 480.' ERS-Foreign No.202. (Washington DC, 1967), 91 and 110.

⁴² NAA, A1838 752/1/8 PART 1, P.C. Spender to J. McEwan (26 April 1956).

⁴³ NAA, A1838 752/1/8 PART 2, J. Lurey to J.W. Cunes (14 March 1960).

⁴⁴ NAA, A1838 752/1/8 PART 1, 'Colombo Plan: Flour for Indonesia' (7 May 1959).

⁴⁵ Akita, 'Aid-India Consortium', 238.

⁴⁶ For an explanation of how this strategy worked, see Van der Eng, 'International Food Aid'.

⁴⁷ US Overseas Loans & Grants (Greenbook), available at https://explorer.usaid.gov/reports#tab-greenbook [accessed 23 December 2019].

On several occasions Australian representatives objected to the use of PL480 aid, fearing that in due time other countries would use similar schemes to subsidise agricultural surplus exports. Such objections were based on the knowledge that Australia's economy and public income was simply too small to engage in similar practices. For that reason Australia was very supportive of a multilateral approach to regulating food aid, which took the form of the 'Food Aid Convention' of the 1967 multilateral International Grains Arrangement (IGA). The convention obliged signatory countries to provide minimum amounts of wheat and coarse grains as food aid every year, which created the institutional framework enabling other donor countries to counter the PL480 growth. The countries of the European Economic Community (EEC, particularly France, Germany and Italy) and Australia and Canada subsequently emerged as aid donors of agricultural produce.⁴⁸ Signing IGA bolstered the view in Australia that its government should explore ways to use food aid to secure its markets in less-developed countries, such as Indonesia.

These developments coincided with the formation of IGGI in 1967 and the international coordination of aid to Indonesia. A major issue facing IGGI was how to offer emergency support to Indonesia for the purpose of mitigating its balance of payments problems. The conventional way of disbursing foreign aid in the form of project aid was not suitable, as projects tended to have a long lead-up time.

The solution took the form of the IMF's endorsement of foreign currency grants by donor countries to Indonesia through the *Bonus Ekspor* (BE) arrangement.⁴⁹ BE was aid that could be disbursed quickly to allow Indonesia to address its balance of payments problems and stabilise its exchange rate. Under this system of 'tied aid', the Indonesian government sold BE certificates for rupiah to Indonesian importers. Certificate holders could use them to import specific essential basic commodities such as food and equipment spare parts from specified aid donor countries. The proceeds from the sale of BE certificates benefited the Indonesian treasury. In this way, food aid became an important part of the instantaneous aid of IGGI donor countries to Indonesia.

In Australia's case, most of its new commitments of aid to Indonesia took the form of BE assistance for food purchases and emergency food aid, particularly of Australian wheat flour, wheat and rice as Table 1 indicated. This commitment was part of Australia's effort to counter the effects of the rapid growth of PL480 food aid to Indonesia during 1966-75. To the extent that food aid took the form of BE assistance,

⁴⁸ The biggest providers under the 1967 IGA 'Food Aid Convention' were scheduled to be the USA (1,890 thousand tons), the EU (1,035 thousand tons), Canada (495 thousand tons), and Australia, UK and Japan (225 thousand tons each) (J.H. Parotte, 'The Food Aid Convention', *IDS Bulletin*, 14 (1983), 12).

⁴⁹ I. Miyamoto, 'The Real Value of Tied Aid: The Case of Indonesia in 1967-69', *Economic Development and Cultural Change*, 22 (1974), 436-52.

D.G. McClelland, et al. 'Food Aid in Indonesia.' USAID Impact Evaluation, No.4. (Washington DC, 1997).

the rupiah proceeds were also used to finance the local costs of bilateral aid projects that Australia pursued in Indonesia.

Food aid and food exports

Since 1967, IGGI met annually to coordinate foreign aid to Indonesia. Its discussions focused on Indonesia's annual requests for bilateral and multilateral project aid, but commitments of food aid were discussed as well. In addition, Indonesia received unscheduled emergency food aid during occasional regional famines, coordinated by the World Food Programme. Except PL480 food aid, Indonesia received most food aid as bilateral grants of rice, flour and wheat. Occasionally it also received relatively small quantities of other food products as such products became available in donor countries for food aid. Examples are bulgur, processed fish, infant food, butter, skimmed evaporated milk, other dairy products, vegetable oil, sugar and pulses for human consumption, and coarse grains (maize, oats, barley and sorghum) mainly used as animal feed. During the 1970s and 1980s, the key donors of food aid to Indonesia were the USA in the case of rice, and USA, Australia, Canada and the EU in the case of wheat and wheat flour.

A major precondition for the rapid expansion of food aid to Indonesia after 1967 was the existence of Bulog; a single and ostensibly effective food logistics agency to which aid donors as well as private sector exporters and importers could turn to make a case for rice aid, and after 1972 also other food aid. Bulog had been established for the purpose of channelling rice aid into Indonesia in ways that were accountable to donor countries. However, Bulog also facilitated contacts between rice exporting companies in donor countries and rice importing firms in Indonesia. Rice exporting firms used opportunities to lobby agencies and/or politicians in donor countries to influence the decision making process that allowed for specific rice shipments to be financed as BE aid. In turn, in Indonesia, importing companies lobbied the Department of Trade (in the case of wheat and flour until 1972) and Bulog (in the case of rice, and after 1971 also wheat) for the allocation of import permits to such shipments. Depending on their success of facilitating rice transactions as food aid, pairs of exporters in donor countries and importers in Indonesia extended their relations to commercial transactions.

This system was gradually finessed during 1967-72, especially by US exporters of PL480 rice, flour and wheat to Indonesia, Initial Australian concerns about the possibility that PL480 shipments would again push Australian flour out of Indonesia's market and obstruct the recovery of the 'commercial flour network' and 'normal

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⁵¹ Van der Eng, 'International Food Aid'.

trading' of flour in Indonesia had no effect.⁵² Australian representatives were concerned that non-BE food aid would spoil the market, because private importers would hold off placing commercial orders in the hope of qualifying for below-cost deliveries.

While Australian authorities tacitly allowed BE aid to Indonesia to be used in support of Australian flour exports, especially aid-administering DEA was very reluctant to extend this practice to rice. Lobbying for Australian rice to be supplied as food aid had already started in 1966 when news spread that Australia would purchase emergency rice in Thailand to be delivered as food aid to Indonesia. Australian rice wholesalers soon asked why they had not been invited to tender for this delivery. DEA received unsolicited offers of rice for shipment to Indonesia as food aid, which it withstood with the argument that the IGA food aid convention excluded rice. The more significant reason was that DEA was not convinced that Australian rice growers – unlike wheat growers – were able to sustain exports of relatively large quantities of rice to Indonesia, and therefore that there was a need to build market share there.

But rice wholesalers persisted. The reason was that Australia's rice production increased quickly during the 1960s from 118,000 ton in 1960 to 260,000 ton in 1969 due to high crop yields and increased mechanisation. While most Australian rice was consumed domestically, by the late 1960s rice growers and their agents were looking for new export opportunities, because two export destinations were due to disappear. Traditional customers in the UK and the Ryukyu Islands were expected to drop away after the UK had become an EEC member and the Ryukyu Islands would revert back to Japan in 1972, as agricultural protection in the EEC and Japan would impede Australian exports. ⁵³ In addition, during the 1960s supplies from Indonesia's traditional suppliers in mainland Southeast Asia decreased due to the Vietnam War, the revolution in Burma and drought in Thailand. These developments created opportunities for other rice exporters, especially in the USA and also China and Australia.

The Ricegrowers' Co-Operative Mills Ltd (RCOM) in Australia sought ways to enter the Indonesian market during 1968-69. Its representatives discussed rice exports as rice aid to Indonesia with Bulog on several occasions.⁵⁴ In Australia, the company also contacted Primary Industries Minister J.D. Anthony several times with requests to allow Australian surplus rice to be offered to Indonesia as food aid.

Apart from doubt that Australian producers would be able to sustain supplying rice to Indonesia, DEA was also reluctant to support an overt link between aid and exports because it had been opposed to such practices by other countries. Shann at DEA wrote: 'We spent a lot of our time around the world berating other people for behaviour

NAA, A4359 111/5/4 PART 1, M. Loveday to DEA (11 July 1968), DEA to Embassy Washington (13 July 1968), DEA to Embassy The Hague (25 July 1968), DEA to Embassy Jakarta (31 July 1968).

G. Lewis, The Growers' Paddy: Land, Water and Co-operation in the Australian Rice Industry to the 1990s (Sydney, 2012), 238-44.

NAA, A1838 2020/1/32/8 PART 1, G. Freeth to J.D. Anthony (21 January 1969 and 10 July 1969), K.C.O. Shann to G. Freeth (4 and 10 September 1969).

of this kind, notably the Americans and more recently the French, in Egypt and the Philippines. If it became public that the Government was privy to a deal of this kind we would find ourselves in considerable difficulties if we presumed to criticise others for what we were now apparently doing ourselves.'55 Nevertheless, political expediency led the DEA to approve 6,500 tons of rice aid in response to a formal Indonesian request. Due to the urgency of mobilising rice for shipment to Indonesia, RCOM was awarded the aid contract without tender. Following the approval of this deal, the company informed DEA that it had received a Bulog-approved commercial order for 14,000 tons of rice.⁵⁶

Despite DEA's reluctance, the effect of Australian food aid was to support rice exports to Indonesia. Australia's rice aid did not increase much as Table 1 shows. The main reason was that the ability of RCOM to supply an exportable rice surplus depended on the significant variability of rice production in Australia. Thus, the implicit practice of linking food aid and commercial food shipments had become established by 1970. It continued during the 1970s and 1980s, albeit within internationally accepted boundaries of annual bilateral aid commitments and successors of the IGA Food Aid Convention.⁵⁷

Australia had of course been delivering flour and wheat as BE aid to Indonesia, staring in 1967. But the Australian side consistently argued that those shipments were in essence commercial transactions, because – unlike PL480 deliveries – Australia's BE food aid did not involve concessionary credit. It required payment in full on delivery, albeit in rupiah rather than a convertible currency. Either way, BE aid since 1967 helped Australian producers to resume their prime position in the Indonesian market for wheat by the mid-1970s.

This development involved some soul searching in Australia, because Bulog had been under a cloud since its establishment. Already in 1968, Indonesia's new Trade Minister informed the Australian ambassador informally of existing suspicions of Bulog's machinations to argue that the agency be disbanded.⁵⁸ In 1969 irregularities in Bulog's rice purchase program led to proposals in the Indonesian parliament to dissolve the agency.⁵⁹ But the agency continued its operations, despite ongoing reports in the Indonesian media of corruption at Bulog, duly reported by the Australian embassy to DFA.⁶⁰ Australia and other donors of rice aid – and after 1971 also wheat aid – to

⁵⁵ NAA, A1838 2020/1/32/8 PART 1, K.C.O. Shann to N. Hope (2 October 1969).

NAA, A1838 2020/1/32/8 PART 1, Inward Savingram No.56 (14 October 1969); Canberra Times (24 October 1969).

⁵⁷ See for example a request from Bulog to defray the cost of a commercial shipment of rice from Australia with food aid. NAA, A4359 111/5/5 PART 12, Embassy Jakarta to DFA Aid Section (2 June 1976), and the combined arrangement of a commercial rice order and rice aid, R.C. Manning (ADAA) to Development Assistance Counsellor Jakarta Embassy (6 October 1976).

⁵⁸ NAA, A4359 111/5/4 PART 1, M. Loveday to DEA (5 August 1968).

⁵⁹ NAA, A1838 2020/1/32/8 PART 1, F.R. Dalrymple to DEA (23 July 1969).

For example, Suara Merdeka (15 June 1977), Sinar Harapan (6 September 1977), Kompas (8 September 1977).

Indonesia worked with Bulog as a one-stop agency. The tacit benefit of working with Bulog was that it helped to maximise the placement of commercial orders for Australian rice and after 1971 also Australian wheat. Bulog also did what it could to maximise rice imports. For example, in 1969 Australian officials suspected that Bulog exaggerated Indonesia's need for rice aid by downplaying the optimistic rice harvest estimates of Indonesia's Department of Agriculture. Bulog used its gloomy rice outlook to justify its issue of additional rice import permits.

The trend towards increasing imports of flour and wheat in the form of aid and commercial transactions (as shown in Table 1) was reinforced by two other developments. Firstly, rice crop failures in Thailand caused a massive shortage of rice on international markets during 1972-73, which caught Bulog by surprise. It was unable to secure enough contracts with overseas rice suppliers to cover Indonesia's import requirements. At a time when international rice prices increased quickly, Bulog increased its requests for rice imports as food aid, but both it and potential aid donors found it difficult to secure sufficient rice supplies. ⁶² This episode steeled the Indonesian government's resolve to pursue rice self-sufficiency and reduce its dependence on international rice markets through a 'green revolution' in rice agriculture. The windfall public revenues from Indonesia's oil boom helped to pay for the large input subsidies that spurred this 'green revolution'. Although it took until 1985 before Indonesia briefly achieved rice self-sufficiency, it reduced Indonesia's reliance on imported rice, and therefore on rice as food aid.

Secondly, Indonesia's demand for wheat flour increased significantly. In 1968 the Indonesian government had decided to bring about a long-term shift from rice to wheat products in Indonesia's consumption pattern, given that wheat-based products were selling at $\frac{2}{3}$ rd the price of rice in global markets. Based on a sharp rise of food prices during 1967, the Indonesian government saw increasing reliance on flour imports and wheat-based food products as a way to dampen sharp rises in food prices. The appetite of the Indonesian consumers shifted increasingly to wheat-based processed foods, as the trend in wheat imports in Table 1 shows. Like Australian rice wholesalers earlier, wheat wholesalers were in the 1970s looking for opportunities to increase wheat exports, and partial delivery of wheat exports as food aid helped their cause in Indonesia. By the late 1970s, Australia regained its prime position in Indonesian wheat imports, with a share of 62 per cent, as Table 1 reveals.

NAA, A1838 2020/1/32/8 PART 1, Inward Savingram No.56 (14 October 1969), No.57 (22 October 1969), No.60 (7 November 1969).

NAA, A1838 2020/16/1 PART 1, Inward Savingram No.59 (20 July 1973) and 'Rice situation', R. McGovern to DFA (6 November 1973).

⁶³ NAA, A1838 752/23 PART 3, Inward Savingram No.33 (6 August 1968).

⁶⁴ G. Whitwell and D. Sydenham, A Shared Harvest: The Australian Wheat Industry, 1939-1989 (South Melbourne, 1991), 229-85.

Conclusion

Until 1966, Australia's ability to provide food aid to Indonesia was constrained by the fact that Indonesia did not ask for food aid under the Colombo Plan program and was largely unresponsive to offers of food aid. Following the 1964-65 interdepartmental review of Australia's foreign aid program, it was in principle prepared to commence food aid to Indonesia. In addition, the Australian government wanted to demonstrate its goodwill and support towards the new Indonesian government that emerged in the course of 1966 and assist it in stabilising the Indonesian economy. However, support was conditional on Indonesia ending its 'confrontation' against Malaysia in August 1966, agreeing to an economic recovery package with the international consortium of countries that formed IGGI in 1967, and on creating what aid donors considered a reasonably transparent and accountable way to distribute food aid.

As soon as these conditions were met, several factors coalesced to result in a rapid increase of Australia's food aid to Indonesia. (1) Australia's food aid and food trade to Indonesia were implicitly linked as the US PL480 program was perceived as a potential threat to the share of Australian wheat exporters in Indonesia's market for wheat flour. (2) Food aid could be presented as part of the solution to addressing humanitarian concerns about malnutrition and famine in Indonesia. (3) Food aid could be more easily absorbed by the Indonesian economy as balance of payment support, while project aid would take time to be designed and implemented. (4) As a commodity producer, Australia could mobilise ready supplies of flour, and to a lesser extent rice. (5) The Indonesian government in 1968 decided to maximise the substitution of rice for wheat in Indonesia's consumption pattern in order to help control domestic food prices.

The consortium approach to organising foreign aid to Indonesia was an important part of economic stabilisation and recovery in Indonesia after 1966, which in turn bolstered the Soeharto presidency after 1967. It also facilitated improved relations between Indonesia and aid donor countries, including Australia. Australia's minimal and largely passive role in the international consortium that coordinated foreign aid to India since 1958, contrasts with its active role in the formation of IGGI. Australia was an active participant in the annual IGGI meetings that coordinated foreign aid to Indonesia. The fact that Indonesia's new government had directed the country away from the brink of communism and economic disaster, and the fact that Australia was a potentially major supplier of food as aid and exports to Indonesia both motivated Australia's role in IGGI. It was one of the stepping stones towards the remarkable improvement of bilateral relations, compared with 1964-65. A 1968 visit by Prime Minister John Gorton to Indonesia, and a 1972 visit of President Soeharto to Australia marked this improvement.

0.55% Other & multilateral 250 **⊠**Other bilateral 0.50% ■Indonesia 225 □PNG 0.45% As % of GDP (rhs) 200 0.40% 175 0.35% 150 125 0.30% 100 0.25% 75 0.20% 50 0.15% 25 0.10%

Figure 1: Australia's Foreign Aid, 1950/51-1990/91 (million A\$, 1970/71 constant prices, financial years)

Note: rhs= right hand scale.

1958/59

1962/63

1966/67

Sources: Australian Development Assistance Agency, Australian Official Development Assistance: Financial Statistics 1945/46-1974/75 (Canberra, 1975) and Australian Development Assistance, Annual Review (1974-1990). The series were deflated with the implicit GDP(E) deflator calculated from the Australian National Accounts ABS 5206.0, available online at www.abs.gov.au [accessed 18 August 2015], linked for the 1950/51-1960/61 to the implicit GDP deflator calculated from N.G. Butlin, 'Selected Comparative Economic Statistics 1900-1940: Australia.' Source Papers in Economic History No.4 (Canberra, 1985), rebased to 1970/71.

1970/71

1974/75

1978/79

1982/83

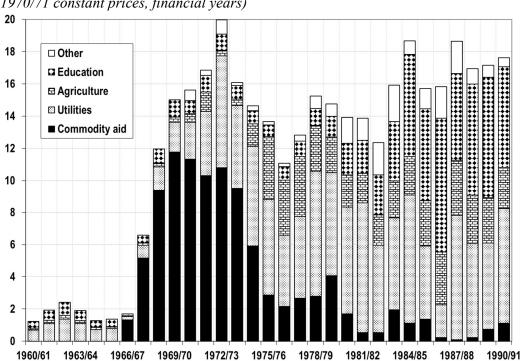


Figure 2: Australia's Foreign Aid to Indonesia, 1960/61-1990/91 (million A\$, 1970/71 constant prices, financial years)

Note: No disaggregation of non-commodity aid for 1960/61-1969/70, but expenditure allocated to categories on the basis of the 1950/51-1969/70 average shares. The data refer to grants only, and exclude mixed credit loans for infrastructure development. *Sources:* See Figure 1.

Table 1: Australian-Indonesia Trade and Aid of Rice and Wheat, 1965-1989 (five-year averages, calendar years)

	1965-69	1970-74	1975-79	1980-84	1985-89
Australia's export to Indonesia:					
Rice aid (ton)	3,911	4,400	4,908	1,862	5,040
Total rice export (ton)	3,911	7,611	33,321	12,701	3,770
% Rice as aid	100%	58%	15%	15%	>100%
Wheat & flour aid (ton)	43,695	41,180	28,739	15,400	46,370
Total wheat & flour export (ton)	32,376	130,219	519,496	450,141	717,711
% Wheat & flour as aid	>100%	32%	6%	3%	6%
Indonesia's imports of:					
Rice (ton)	309,227	552,575	1,546,155	888,544	85,628
% from Australia	1.3%	1.4%	2.2%	1.4%	4.4%
Wheat & flour (ton)	241,391	481,387	836,874	1,535,744	1,626,748
% from Australia	13.4%	27.1%	62.1%	29.3%	44.1%

Notes: 1965-69 aid calculated as the difference between exports to Indonesia reported by Australia and imports from Australia reported by Indonesia, because Indonesian trade statistics excluded products imported by Indonesia as aid.

Source: Calculated from 1970-1989 food aid data from FAOStat, http://apps.fao.org/default.htm [accessed 13 March 2015, now defunct] and 1965-1989 food trade data from UN Comtrade, http://comtrade.un.org [accessed 18 August 2015].