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KONFRONTASI AND AUSTRALIA'S AID TO INDONESIA DURING THE 1960s

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Abstract

Australia's relationship with Indonesia became strained after Indonesia's declaration in 1963 of 'confrontation' (*konfrontasi*) with Malaysia. During 1964-65, Australia was engaged in a covert war against Indonesia, but it continued to give aid to the country. This ambiguity in Australian foreign policy was consistent with the government's principle of maintaining a firm but friendly attitude towards Indonesia. A second reason was that government was keen not to abandon an important aid project in Indonesia, the Aeronautical Fixed Telecommunication Network. The project remedied deficiencies in Indonesia's civil aviation communications system and would benefit Qantas flights through Indonesian airspace. Continuation of aid would keep lines of communication with Indonesian officials open that would otherwise be closed.

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1. Introduction

Recent studies explored diplomatic and security aspects of 'confrontation' (*konfrontasi*) in 1963-65 between Indonesia and Malaysia, supported by a coalition of the UK, Australia and New Zealand.¹ Some focused on Australia's involvement in *konfrontasi*, its impact on Australia's foreign policy more generally, and on Australian military operations in Malaysia and the political repercussions of Australia's involvement in the conflict.² Other studies examined Australia's foreign aid program during the 1950s and 1960s and a few focused on Indonesia.³ However, none discussed the implications of *konfrontasi* for Australia's budding foreign aid program, and none explained in detail why the Australian government continued its aid to Indonesia, despite hostilities between Australian and Indonesian forces in Malaysia during 1964-65.

Only Woodard offered a brief explanation where he considered Australia's handling of *konfrontasi* as 'a case-study of best practice in crisis management'.⁴ Aid to Indonesia served a humanitarian purpose and had to continue, because part of Australia's strategy was to keep the lines of communication with Indonesia open, while using international diplomacy to avert a military escalation of the conflict. Plausible, but it ignores that Australia's biggest aid project in the 1960s, the Aeronautical Fixed Telecommunication Network (AFTN) project, did not directly serve a humanitarian purpose.

¹ Easter, D. *Britain and the Confrontation with Indonesia, 1960-1966* (London, 2004); Jones, M. *Conflict and Confrontation in Southeast Asia, 1961-1965: Britain, the United States and the Creation of Malaysia* (Cambridge, 2002); Llewelyn, J. 'Diplomatic Divergence: The Japanese and British Responses to Indonesia's Confrontation of Malaysia 1963-1966', *Asia-Europe Journal*, 4 (2006), pp.583-605; Poulgrain, G. *The Genesis of Konfrontasi: Malaysia, Brunei, Indonesia 1945-1965* (Bathurst, 1998); Subritzky, J. *Confronting Sukarno: British, American, Australian and New Zealand Diplomacy in the Malaysian-Indonesian Confrontation, 1961-5* (London, 2000).

² Dee, M. *Australia and the Formation of Malaysia: 1961-1966* (Barton: 2005); Dee, M. *Not a Matter for Negotiation: Australia's Commitment to Malaysia 1961-1966* (Barton: 2005); Dennis, P. and J. Grey, *Emergency and Confrontation: Australian Military Operations in Malaya and Borneo 1950-1966*. (St Leonards, 1996); Edwards, P. and G. Pemberton, *Crises and Commitments: The Politics and Diplomacy of Australia's Involvement in Southeast Asian Conflicts 1948-1965* (Sydney, 1992); Lee, D. 'The Origins of the Menzies Government's Policy on Indonesia's Confrontation of Malaysia', in F. Cain (ed.) *Menzies in War and Peace* (St. Leonards, 1997) pp.72-98; Lee, D. and M. Dee, 'Southeast Asian Conflicts' in D. Goldsworthy (ed.) *Facing North: A Century of Australian Engagement with Asia, Volume 1: 1901 to the 1970s*. (Melbourne, 2001) pp.262-309; Woodard, G. 'Best Practice in Australia's Foreign Policy: "Konfrontasi"', *Australian Journal of Political Science*, 33 (1998) pp.85-99; Woodard, G. *Asian Alternatives: Australia's Vietnam Decision and Lessons on Going to War* (Carlton: 2004).

³ Arndt, H.W. 'Australian Economic Aid to Indonesia', *Australian Outlook*, 24 (1970) pp.124-139; Jarrett, F. *The Evolution of Australia's Aid Program* (Canberra, 1994); McCawley, P. 'Australian Aid to Indonesia' in D. Anderson (ed.) *Australia and Indonesia: A Partnership in the Making* (Sydney, 1991) pp.35-43; Murphy, T.I. *The Origins of Australian Aid Policy* (PhD Thesis, Murdoch University, Perth (WA), 1990); Oakman, D. *Facing Asia: A History of the Colombo Plan* (Canberra, 2004); Wilkinson, A.E. *The Politics of Australian Foreign Aid Policy* (PhD Thesis, Australian National University, Canberra, 1976).

⁴ Woodard, 'Best Practice', pp.94-95.

This paper argues that *konfrontasi* changed the ways in which Australia's aid program in Indonesia was construed, which in turn contributed to a re-consideration of the role of aid in Australia's foreign policy more broadly. The next section establishes some broad features of Australia's modest aid program in Indonesia in the 1950s and 1960s. This is followed by a brief discussion of the West New Guinea (WNG) issue. Its resolution caused the Australian government in 1962 to look for ways to expand aid to Indonesia beyond the Colombo Plan in an effort to cement friendly relations. Section 4 discusses how *konfrontasi* thwarted that effort. By focusing on the AFTN project, sections 5 and 6 elaborate why Australian aid to Indonesia continued despite Indonesia's belligerent stance. The last section discusses the rapid expansion of Australia's aid program in Indonesia beyond the Colombo Plan, following the end of *konfrontasi* in August 1966.

2. Australia's aid program in Indonesia in the 1950s and 1960s

One of the pillars of Australian post-war foreign policy was the development of friendly and cooperative relations with countries in Asia. Foreign aid was part of that effort, particularly the bilateral aid given under the Colombo Plan. Australian governments gave foreign aid for a mix of reasons; altruism, anti-communism and diplomatic manoeuvring, although altruism was publicly emphasised. The humanitarian motive received bipartisan political support in Australia, which precluded calls for a justification of aid policies.⁵

Projects and programs were selected on a case-by-case basis, depending on initiatives taken by Australian diplomatic missions to initiate projects that seemed to meet current needs and Australia's capacity to support and capability to supply. Until the establishment of the Australian Development Assistance Agency in December 1973, the Commonwealth Department of External Affairs (DEA) – in particular the Directorate of Colombo Plan Supplies (1952-63) and the Directorate of External Aid Procurement (1963-74) – acted as a repository of experience and a source of advice and encouragement, while the Department of Education administered student exchange programs. The Treasury and the Cabinet set the upper limits on expenditure.⁶ The opportunity cost of aid resources was not considered, and efficiency and effectiveness of the delivery mechanisms were seldom reviewed.

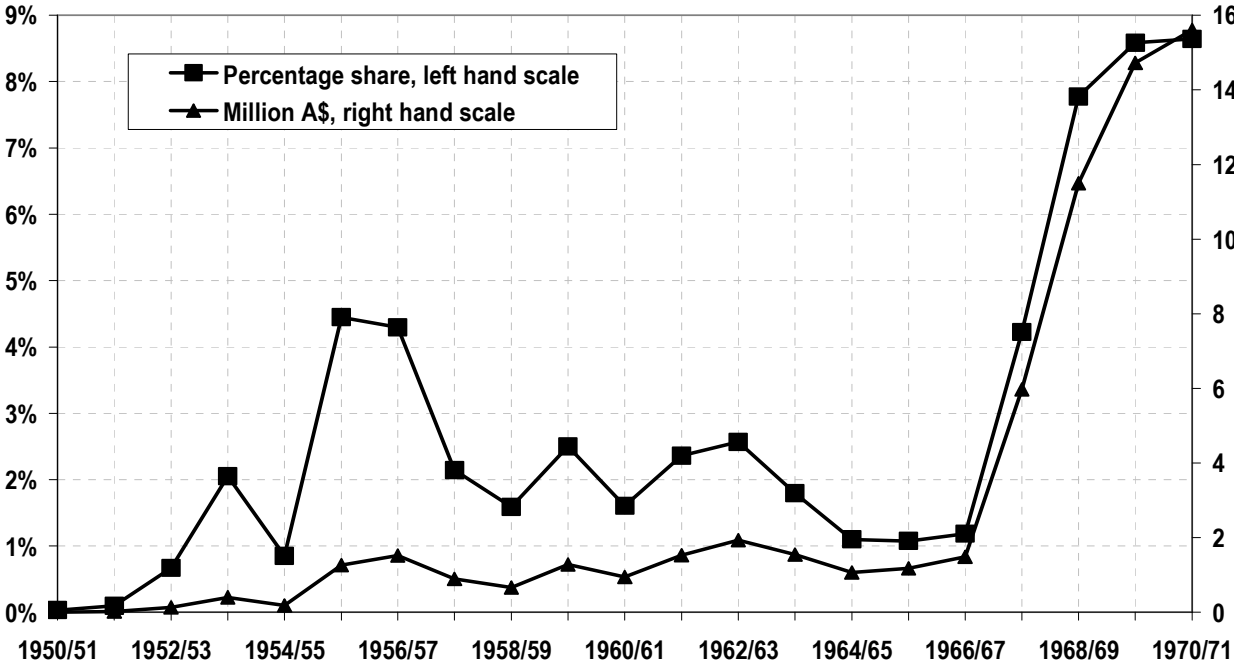
Despite geographical proximity, Australia's prewar relations with Indonesia had been marginal. The 1942-45 Japanese occupation of Indonesia made Australia acutely aware of its Northern neighbour. It supported Indonesia's independence in 1949. During the 1950s, Australian foreign ministers and diplomats successfully built goodwill in Indonesia towards Australia until the bilateral relationship became strained during the WNG dispute (see below). Australian food aid to Indonesia was distributed through agencies of the United Nations (UN) and remained piecemeal until Indonesia joined the Colombo Plan in 1953. Australian aid increased, but remained modest

⁵ Wilkinson, *Politics of Australian Foreign Aid Policy*, p.92.

⁶ Corbett, D.C. 'Australian Aid in South and Southeast Asia.' (Canberra, Australian Institute of International Affairs, unpublished paper, 1965) p.4; Arndt, 'Australian Economic Aid', pp.130-31.

compared to aid Indonesia received from other donors, particularly the United States and later the USSR.⁷ Figure 1 shows that Indonesia received 2 to 3 percent of Australia’s total aid during the 1950s. Australia’s aid reached Indonesia in two ways: (1) multilateral programs, such as the Food and Agriculture Organization and the World Bank; (2) projects under the Colombo Plan. The latter took two forms: government-to-government gifts of equipment, and technical assistance and training of Indonesian students and technical personnel in Australia. Unlike other countries, Australia did not provide low-interest, long-term credit.

Figure 1: Australia’s Aid to Indonesia, 1950/51 - 1970/71



Source: Calculated from Australian Development Assistance Agency, *Australian Official Development Assistance: Financial Statistics 1945/46-1974/75* (Canberra, 1975)

⁷ Mahajani, U. *Soviet and American Aid to Indonesia 1949-1968* (Athens (Ohio), 1970).

Table 1: Australian aid programs for Indonesia, 1953/54 - 1967/68

	Duration	A\$ 1,000	Share
A. Projects			
Aeronautical fixed telecommunications network (AFTN)	1962-68	2,373.4	13.9%
Road construction in Sumba, Nusa Tenggara province	1962-66	1,517.4	8.9%
Buses for the Ministry of Communications, phase 1 (100 buses)	1956-57	1,246.8	7.3%
<i>Idem</i> , phase 2 (100 buses)	1960-61	1,356.2	8.0%
<i>Idem</i> , phase 3 (50 buses)	1961-62	664.1	3.9%
Radio Indonesia, including 10 transmitters, studio and speech input equipment	1956-58		
	1962-64	691.3	4.1%
Rescue operations	1967-68	483.6	2.8%
Tractors (24) and trucks (86) for road construction	1962-66	405.8	2.4%
Road construction in Minahasa, North Sulawesi province	1962-63	204.5	1.2%
Radio equipment, incl. transmitters (25) and receivers (5) for the Ministry of Civil Aviation	1953-58	190.9	1.1%
Trucks (15) and cranes (2) for harbour development	1953-54	156.6	0.9%
Agriculture and workshop equipment	1956-57	104.6	0.6%
Telecommunications, including transmitters for shipping	1959-63	94.2	0.6%
Sub-total A		9,490.1	55.8%
B. Technical co-operation			
Training		5,623.3	33.0%
Experts		1,261.5	7.4%
Equipment		643.4	3.8%
Sub-total B		7,528.3	44.2%
Total		17,018.4	100.0%

Source: Compiled from *Australia in Facts and Figures*, No.100 (December 1968): pp.19-21.

The most prominent project was the phased donation of Melbourne-produced Leyland buses and spare parts to the Indonesian Ministry of Communications for the improvement of Jakarta's public transport, as Table 1 shows. The AFTN project in the 1960s remedied deficiencies in the Indonesian civil aviation communications system by improving communications between Indonesia's main domestic airports and linking the Indonesian system with airports in Darwin, Singapore and Manila. It had advantages to international airline operators flying through Indonesian airspace, particularly Qantas. Expenditure on AFTN continued into the 1970s, largely in the form of training of Indonesians in the operation and maintenance of the initial network. Road construction in Nusa Tenggara, the province closest to the Australian mainland, was the third biggest project. It involved the use of Australian road building materials, machinery and expertise.

3. West New Guinea and the need to expand aid to Indonesia

By the late-1950s, Australia was forced to reconsider its relationship with Indonesia. WNG had remained under Dutch control after Indonesia's independence in December 1949. Australia

supported the Dutch in WNG because of its own security interests. But when animosity between The Netherlands and Indonesia about WNG mounted, this stance clashed with Australia's aim to maintain good relations with Indonesia. For instance, in 1957 the Australian government readied itself for the consequences of a vote in the United Nations about WNG, which was likely to be negative for Indonesia. Preparations were made to halt ongoing Colombo Plan projects, although Indonesian students in Australia would be allowed to stay to finish their studies.⁸

Australia's WNG policy carried the risk of being pulled into a conflict with Indonesia. Concern about a conflict was initially mitigated by the credo of Australian military superiority. But Indonesia accelerated its military build-up in 1959. It concluded an agreement with the USSR in 1960 to purchase on credit heavy arms valued at US\$800 million. These started to arrive in 1961, and in December 1961 Indonesia's President Sukarno ordered the 'liberation' of WNG. It then dawned on Australian officials that the USA and UK would not support Australia against Indonesia over WNG.⁹

Australia's WNG policy took a turn in January 1962. New US President J.F. Kennedy considered WNG as a potentially dangerous Cold War focal point in Southeast Asia. With the escalation of the conflict in Vietnam, Kennedy sought to avoid a second flash point in the region. He refused to support The Netherlands – a NATO ally – over WNG. When this American viewpoint became known, Minister of External Affairs Sir Garfield Barwick persuaded the Australian government that the contradictory policy of keeping the Dutch in WNG and securing friendship with Indonesia was not tenable, and that the WNG issue could only be settled peacefully by agreeing to a transfer of sovereignty to Indonesia.¹⁰ The Australian government followed the US government, which pressured the Dutch into an August 1962 agreement for the transfer of WNG to Indonesia in May 1963. Good relations with Indonesia came first, as Australia's long-term interest lay in a prosperous, stable and preferably non-communist Indonesia, both for its own sake and as a bulwark against perceived communist expansion.

During 1962, the Australian government sought ways to cement its newly defined relations with Indonesia. It had decided in 1959 to increase Australia's expenditure on aid projects in Indonesia. Figure 1 shows an increase when two Colombo Plan aid projects, the AFTN project and road construction in Nusa Tenggara – approved in 1960 and 1961 – came on stream. But increasing the aid effort depended on proposals for new projects from the Indonesian government. With other projects in Indonesia nearing their end, Australian officials became interested in new aid options.

Finding new projects became pressing as Indonesia's balance of payments problems mounted during 1962 and the country's foreign exchange earnings were insufficient to finance debt repayments. The US government, Indonesia's biggest aid donor, had sent a mission to Indonesia in

⁸ National Archive of Australia, Canberra, (NAA), A1838/269 TS2020/2/4, Colombo Plan - Policy towards countries - Indonesia.

⁹ Doran, S.R. *Western Friends and Eastern Neighbours: West New Guinea and Australian Self-Perception in Relation to the United States, Britain and Southeast Asia, 1950-1962* (PhD thesis, Australian National University, Canberra, 1999) pp.133-155

¹⁰ Barwick, G. *A Radical Tory: Garfield Barwick's Reflections and Recollections* (Leichhardt, 1995) pp.175-76.

August 1961 to identify opportunities for US foreign aid. The mission's report reached the US government in February and the Indonesian government in July 1962.¹¹ The report contained recommendations for new aid projects, but the US government was unwilling to commit to new aid beyond current commitments ending in March 1963. It insisted that the Indonesian government first work out an economic stabilisation package with the IMF and provide guarantees that US aid would not be used as indirect reimbursement to the USSR for military deliveries, and that Sukarno would promise not to make further expansionary claims.

The Australian government considered ways to increase non-Colombo Plan aid to Indonesia. Early 1963, an option was to extend government guarantees to the Export Payments Insurance Corporation (EPIC) to allow it to extend its export credit insurance to projects under the national interest clause of the EPIC Act. These projects failed to attract credit guarantees, because of the high short-term commercial risk in Indonesia. The projects proposals included: Ansair's intention to assemble buses in Indonesia, Clyde Engineering's proposal to supply railway rolling stock to Indonesia, A.E. Goodwin (Sydney) tender for to supply locomotives and spare parts to the Indonesian State Railways, and the a plan from G.H. and J.A. Watson Pty Ltd to supply floating cranes and dredges for harbour development in Indonesia.¹² None of these companies had formally applied for EPIC credit insurance under the national interest clause of the EPIC Act, but as soon as an application would be received, a political decision had to be made.

The Secretary of the Department of External Affairs (DEA), Arthur Tange, instigated discussion at DEA and summarised the situation in June 1963:

'Apparently Australian businessmen are actively seeking out orders from Indonesian state corporations which, within the uncertain limits of Indonesian planning, are trying to place orders on long-term credits. The Trade Department says that it feels that Australian businessmen could adversely affect Australia-Indonesia relations. They could give the Indonesians an impression that we could give sponsored credits if deals could be consummated at the commercial level, but eventual official action might not permit such credit being available.'¹³

The economic reasons to provide 'national interest' support were minimal, because further trade prospects of Australian companies in Indonesia were deemed small, as few Australian firms could compete with European and Japanese suppliers. Hence, the political arguments dominated. As Tange wrote, Australia's interest was in a strong nationally unified Indonesia. Economic collapse would encourage the development of the Indonesian communist party, the PKI, at a time when the Indonesian regime was showing increasing signs of instability. Additional Australian economic support would not turn the Indonesian economy around, but could encourage the USA

¹¹ Humphrey, D.D. *et al. Indonesia: Perspectives and Proposals for United States Economic Aid* (New York, 1963); Aandstad, S.A., *Surrendering to Symbols: United States Policy towards Indonesia 1961-1965* (PhD thesis, University of Oslo (Norway), 1999) pp.35-43.

¹² NAA, A1838/2 752/1/17 PART 1, various papers, pp.3-4, 48 and 55.

¹³ NAA, A1838/2 752/1/17 PART 1, 'Australian Economic Policy towards Indonesia', draft paper, A. Tange to A. Westerman (Department of Trade) and R. Wilson (Department of Treasury), 28 June 1963, p.100.

and European countries to take a more positive approach to Indonesia. The options for additional aid were: (a) grants under the Colombo Plan, but the problem was that Indonesia had not proposed new projects; (b) tied government-to-government long-term loans, which would take time to negotiate; (c) supplier's credit through EPIC as national interest projects, which would possibly encourage applications from Australian companies.

The Indonesian government hosted an IMF team in November 1962 and reached a 'stand by' arrangement for economic stabilisation with the IMF in May 1963. It indicated readiness to adopt a number of economic reforms, and arranged to receive a US\$50 million IMF loan. In a parallel effort, the US government lobbied governments of Western countries for new aid initiatives. It prepared a meeting in September 1963 of a consortium of Western countries to establish a Development Advisory Committee (DAC) on Indonesia to coordinate US\$250 million non-Colombo Plan aid.¹⁴ Australia was invited to participate and increase its aid commitment to Indonesia by US\$5 million in 1964, possibly in the form of PL480-like¹⁵ supplies of flour – after Indonesia's imports of Australian flour had decreased – and EPIC credit for 'national interest' projects. When the British government informed its American counterpart that it would not take part due to Indonesia's mounting opposition to the formation of Malaysia (see below), the USA asked Australia to increase its aid commitment by US\$10 million, a five-fold increase of its aid to Indonesia.

In July 1963, EPIC received three formal applications for 'national interest' projects, which required a Cabinet submission and a political decision. Tange's paper was the basis for the submission, which was now tied to Indonesia's opposition to the formation of Malaysia. The first of three recommendations was: '... immediately following the inception of Malaysia, Australia make a loan of £A 1 million to assist in tiding over Indonesia's current foreign exchange crisis, and in the implementation of Indonesia's economic reform programme.' The other recommendations were that Cabinet approve an increase of project aid to Indonesia above what the country received under the Colombo Plan, and that 'sympathetic examination be given to the prospects for using export credit guarantees as a means of increasing Australia's trade with Indonesia and of assisting that country's economic development'.¹⁶ Hence, the Australian government was about to increase bilateral aid to Indonesia beyond its Colombo Plan commitments. For the first time it also sought to offer an untied 'soft' loan as part of its aid effort.

Initiatives to expand aid to Indonesia were cut short by three developments: Indonesia's increasing opposition in August 1963 to the formation of the Federation of Malaysia; President Sukarno's unwillingness to impose budgetary and administrative discipline as required by the IMF; and a determined PKI campaign to discredit Indonesia's economic ties with the USA and other Western nations, reducing Indonesian reluctance to request support for new aid projects.

¹⁴ Aandstad, *Surrendering to Symbols*, pp.125-30.

¹⁵ PL480 was the US food aid program, established in 1954.

¹⁶ NAA, A1838/2 752/1/17 PART 1, 'Aid to Indonesia', Draft Cabinet Submission, August 1963, p.248.

4. Malaysian Federation and *Konfrontasi*

Indonesia's relations with Malaya had been ambivalent since Malaya's independence in 1957, because of continued British military presence and Malayan and Singaporean support for a secessionist movement in Sumatra. Still, when the federation of Malaya, North Borneo, Sabah and Brunei was first raised in 1961, Indonesian Foreign Minister Subandrio indicated approval. The subduing of secessionist uprisings in Sumatra and Sulawesi in 1961 and the resolution of the WNG issue in 1962 turned Indonesia into a united, self-assertive and militarily strong country bubbling with nationalist vigour. In addition, President Sukarno was increasingly keen to divert attention away from domestic problems; the growing economic chaos, the need for the government to make hard decisions about economic reorganisation, and the looming clash between the military and the PKI.

In December 1962, Indonesia allegedly supported a revolt in Brunei against the inclusion of Northern Borneo in the Federation. British forces quashed the revolt, upon which President Sukarno declared the Malaysian federation 'unacceptable' in January 1963. Subandrio described Indonesia's attitude to Malaysia as one of '*konfrontasi*'. Indonesia regarded Malaysia as a neo-colonial creation by the British, and as a security risk in Southeast Asia. This stance placated Indonesia's communists, who opposed the Federation, which they believed was aimed against communists in Malaya and an effort to maintain Western influence in region. It also mollified the Indonesian military, which was eager to show off its prowess and avoid cuts to military expenditure that had bloated unsustainably during the WNG campaign. However, it thwarted efforts to secure American foreign aid, as the USA supported Malaysian federation. The Indonesian government demanded consultation with all countries in the region about the formation of Malaysia.

The Australian government supported the Federation of Malaysia when it was first mooted. But while the British government decided on an uncompromising response towards Indonesia's *konfrontasi*, by cancelling its aid program in Indonesia in January 1963, the Australian government tried to avoid antagonising Indonesia. For instance, it postponed its response to a British request for assistance in the defence of Malaysia under the 1957 Anglo-Malayan Defence Agreement, which Australia had joined in 1959.¹⁷ It was reluctant to sign such an agreement with Malaysia as long as the USA had not guaranteed that the ANZUS agreement would include the activity of Australian forces in Malaysia. Consequently, it chose a policy aimed to appease Indonesia.¹⁸ In February 1963, Cabinet resolved that no initiatives should be undertaken '... which might lead to the point where Australia came to be seen by Indonesia as a standing adversary. The objective in relations with Indonesia must be to achieve the greatest available degree of mutual understanding.'¹⁹

Barwick obtained Cabinet support to facilitate a diplomatic solution to Indonesia's opposition. This took the form of talks between ministers of Malaysia, Indonesia and The

¹⁷ NAA, A1838 3034/7/1/1 Part 1, 'Discussion notes on Australian attitude to Malaysia', February 1963.

¹⁸ Goldsworthy, D. *Losing the Blanket: Australia and the End of Britain's Empire* (Carlton, 2002) pp.145-52.

¹⁹ NAA, A4910/1 C3739, Cabinet decision no.632, 5 February 1963.

Philippines during May-August, leading to agreements about Malaysia in Manila in July 1963.²⁰ In the meantime, the Australian government sought a guarantee from the USA that the ANZUS Treaty would apply in case of an attack on Australian forces deployed in Malaysia. It received some guarantees, such as in June 1963 from visiting US Under-Secretary of State, W. Averell Harriman.²¹ But it remained unclear whether this would indeed imply the involvement of US forces.²²

In August 1963, Barwick wanted to give Indonesia time to 'unwind' after the Manila agreements. He informed the US government that the Australian government would not yet decide on a request to contribute to the Western aid consortium for Indonesia that was due to meet in September. The Australian decision would be '... greatly influenced by the behaviour of Indonesia and in particular by whether or not the present guerrilla and subversive activities across the border into the Borneo territories continue.'²³ The State Department responded that it would press on with the DAC effort to keep the Indonesian economy afloat.

The declaration of the Federation of Malaysia on 16 September 1963 was followed by street protests and the burning of British and Malayan embassies in Jakarta. Malaysia broke off diplomatic relations with Indonesia, and Prime Minister R.G. Menzies declared the next day that Australia's commitment to the Anglo-Malayan Defence Agreement would extend to Malaysia. Although Barwick still argued on 21 September 'the important thing is to keep your bridges up, not break them down'²⁴, it became difficult to support Malaysia while maintaining amicable relations with Indonesia. The Australian government was caught between its commitment to Malaysia and the continued reluctance of the USA to openly underwrite Australia's possible military involvement in Malaysia against Indonesia. Still, on 25 September, Menzies announced that new aid plans to Indonesia were cancelled. He also pledged new military assistance to Malaysia, although he did not commit Australian forces beyond those already stationed in Malaya.²⁵

President Kennedy clarified the US stance on the Malaysia issue on 3 October during a visit by Australian Treasurer Harold Holt to Washington. He offered qualified and limited support for Australian forces in Malaysia, but included a statement that US forces would not be committed to Malaysia.²⁶ Kennedy was keen to prevent Indonesia from becoming pro-communist. Hence, despite Menzies' reaction to the events in Jakarta, the possible risk of Indonesia declaring war meant that the Australian government had no choice but to appease Indonesia where possible, while at the same time supporting Malaysia.

²⁰ Woodard, *Asian Alternatives*, pp.77-78.

²¹ NAA, A4910 C3812, 'Report of meeting with A. Harriman, US Under-Secretary of State', 7 June 1963.

²² Edwards and Pemberton, *Crises and Commitments*, pp.263-67, 280-82.

²³ NAA, A1838/2 752/1/17 Part 1, DEA to H. Beale (Australian Ambassador in Washington), 23 August 1963, p.249.

²⁴ *Sydney Morning Herald*, 21 September 1963.

²⁵ NAA, A1838 TS682/21/1 Part 15, Cabinet decision no.1040, 24 September 1963.

²⁶ *Foreign Relations of the United States 1961-1963, Vol.XXIII Southeast Asia* (Washington DC, 1995) 'Memorandum of conversation', 2 October 1963, pp.730-34. This stance was subsequently confirmed in a paper presented to the Australian ambassador, and during a visit by Barwick to Washington.

The UK urged the USA to halt aid to Indonesia, but the USA only cancelled new aid plans for Indonesia. With its commitments in Vietnam escalating, the US government remained inclined towards appeasement of Indonesia. President Kennedy's brother brokered a Malaysia-Indonesia ceasefire in January 1964, followed by Malaysia-Indonesia negotiations that broke down in March. Consequently, the US-sponsored economic stabilisation program in Indonesia came to nothing. When the Americans tried to force Indonesia to compromise with the threat to withhold aid, Sukarno announced that the USA could 'go to hell' with their remaining aid, nullifying the appeasement effort. The ensuing downscaling of US aid accelerated Indonesia's economic downslide in 1964, which in turn weakened the position of moderates in Indonesian cabinet at a time when both the Indonesian military and the communists felt strengthened. Political radicalisation was a consequence, including the hardening of Indonesia's stance towards Malaysia.

The Australian government continued to tread carefully, amongst others by continuing its foreign aid program in Indonesia. Barwick was concerned about the possibility of risking remaining Australian influence in Jakarta if Australia sent more troops without overt Indonesian provocation.²⁷ Indonesia never threatened outright war against Malaysia, because, unlike the WNG case, the USA supported the Federation of Malaysia and openly expressed concerns about encroaching communism in Southeast Asia. Despite the hitherto qualified and limited US support of Australia's role in Malaysia under the ANZUS agreement, the growing US commitment in South Vietnam demonstrated that Indonesia could not exclude the possibility of US military support to Malaysia.

The Indonesian military attempted two raids on West Malaysia during the second half of 1964. In November, Australia and Indonesia appeared to be on a 'collision course', as a spokesman of the Indonesian Embassy in Canberra observed.²⁸ Subandrio threatened that the issue could escalate if Australia would increase its military commitments in Malaysia. Still, that month the Menzies government approved the activation of military plans if necessary in response to Indonesian activities.²⁹ The plans involved the deployment of Australian air force and navy, in cooperation with British and New Zealand forces, in response to any Indonesian attack on Singapore or Western Malaysia. The stand-off intensified in January 1965 when Indonesia withdrew from the UN over the election of Malaysia to the UN Security Council, and the Indonesian military started a build-up of troops along the border in Borneo. The UK immediately sent military reinforcements. In February 1965, an Australian battalion joined British and Malaysian troops in operations against infrequent Indonesian insurgents during March-September 1965. The first Australian casualties were reported in March 1965, more followed later that year, including 15 deaths.³⁰

²⁷ NAA, A1838 270/1/1 Part 2, G. Barwick to E. Harrison (Australian High Commissioner in London), 16 December 1963.

²⁸ *The Canberra Times*, 12 November 1964.

²⁹ Subritzky, *Confronting Sukarno*, pp.134-37; Lee and Dee, 'Southeast Asian Conflicts' pp.176-77.

5. Australia's aid to Indonesia, the AFTN project

In 1964 and 1965 the question whether aid to Indonesia should be continued or stopped became pertinent. Public demands for ceasing aid to Indonesia increased after September 1963 when Australia promised military assistance to Malaysia, and especially after the increasing deployment of Australian troops in Malaysia in March 1965. Australian officials had already considered this issue. For example, when the IMF ceased standing credits and the USA withheld further aid to Indonesia at the end of September 1963, governments of other countries and also Australia reviewed aid programs in Indonesia. That month Barwick ruled that new requests for aid '... should be examined in the light of circumstances, and should take the form of human relief or of technical assistance.'³¹ However, no new Indonesian requests for aid were received.

Australia's commitment to the AFTN project was sensitive, due to the possibility that the Indonesian air force could use it. The origin of the project was the poor state of Indonesia's aeronautical communications network in the late-1950s. Indonesia initially called for international commercial tenders for the supply of up-to-date telecommunications equipment for radiotelephone links between airports in various parts of Indonesia and with Australia and Singapore, but then concluded that it had insufficient foreign exchange to proceed. In March 1960 it turned to the Australian government for assistance under the Colombo Plan.

The Department of Civil Aviation (DCA) supported the proposed project, arguing that it would assist Indonesian civil aviation, but also international civil aviation companies, such as Qantas, flying through Indonesian airspace. Prime Minister Menzies agreed to further examination, whereupon two DCA officers were sent to Indonesia to determine the form, scope and phasing of the project. They confirmed that Indonesia's civil aviation communications equipment was inadequate and failed to satisfy international standards. They recommended that Indonesia be given adequate facilities and based their proposal on a simplified form of the AFTN that was in operation in Australia. The plans for the project were drawn up by DCA and the Department of Supply, and the project outline was approved as a Colombo Plan project in 1961.

The project involved the construction of nine stations in Bandung, Jakarta (Tangerang and Kemayoran), Makassar, Ambon, Surabaya, Medan, Palembang, Pangkalpinang, Banjarmasin, and Denpasar. The Department of Supply delivered for instance cables, masts, antennae, 30 transmitters, test and maintenance equipment, an ionospheric recorder, and electricity generators, while DCA supplied expert engineers to install the equipment in Indonesia. Indonesia contributed in 1963 Rp350 million (A\$275,000) for the purchase of vehicles and land on which the stations would be erected, and the letting of building contracts. The project involved close cooperation with the Indonesian Department of Air Communications, particularly its Civil Aviation Service.

³⁰ Dennis and Grey, *Emergency and Confrontation*, p.338.

³¹ NAA, A5827/1 Volume 18/AGENDUM 597, Cabinet submission No.797, 'Australian Colombo Plan Aid to Indonesia', 22 January 1965, p.5.

Various problems plagued the project. For instance, items shipped from Australia went missing, due to 'the inability of the Indonesians to store and secure this equipment for any length of time'.³² Despite the political problems encountered since 1963, the project progressed well. In September 1963, the Indonesian Civil Aviation Service expected buildings to be finalised in the second half of 1964, after which tower construction and equipment installation could start.

In early November 1963, DEA intended to withdraw the supervising engineer from the AFTN project and halt the supply of further materials from Australia, possibly because elections for the House of Representatives had been called in Australia for 30 November and the government was keen to keep aid to Indonesia out of the political campaign. This caused consternation at the project and the Australian embassy in Jakarta. Supervising engineer R.S. de la Lande responded: 'Withdrawal of the supervising engineer and the non-arrival of further materials will be interpreted by the Indonesians as a suspension of the project – their probable reaction will be to seek supply of a similar AFTN system and experts from German, Japanese or Russian sources. [...] The Indonesians are very keen to push on with the AFTN project at all costs.'³³ DCA also protested, and DEA changed its mind. Although the manufacture and procurement of equipment would continue normally, supplies would be held in store until after the elections, when Barwick would make a decision.³⁴

After the elections, Barwick ordered a review of the Australian aid program in Indonesia.³⁵ He concluded that Australia should complete its residual Colombo Plan commitments, except where there were technical or non-political reasons for not doing so. Consequently, the Radio Indonesia, food technology research and horse serum projects were completed. Barwick decided to continue the road construction project, asking DEA to consider moving it from West Timor to an island further away from the Australian mainland (the project indeed shifted to Flores in April 1964). Regarding AFTN, the review mentioned:

'Once established the AFTN will fill a gap in air safety. It will be of benefit to international as well as Indonesian domestic airlines and. Because of its value to Qantas, the Department of Civil Aviation has taken a keen and active interest in its progress. [...] It is also preferable for Australia to provide the equipment rather than Soviet Russia, Communist China or an Eastern Bloc country. Not only will we know where the equipment is but to some extent the Indonesians will continue to depend on us for spare parts and technical advice. [...] The only objection which could be raised against this project is that in a state of war the equipment could be used for military purposes. However, it is designed for civil purposes and in terms of flying

³² NAA, A1838/287 2036/15/16 PART10, R.J. Armstrong (Australian Embassy in Jakarta) to A. Tange, 9 September 1964.

³³ NAA, A1838/308 2036/5/16/1 PART1, 'Report on probable effects of withdrawing the project supervising engineer and suspension of antenna system materials supply', R.S. de la Lande, 4 November 1963.

³⁴ NAA, A1838/308 2036/5/16/1 PART1, L.J. Arnott (Assistant Secretary DEA) to Australian Embassy Jakarta, 18 November 1963.

safety will be of considerable benefit to Australia. I therefore recommend that we complete this project.’³⁶

But Barwick wrote in the sideline: ‘Go slow’. DEA relayed this instruction to other departments and overseas representations. As it happened, *konfrontasi* caused shipping problems, as transshipment in Singapore was no longer possible and there were insufficient direct shipping capacity between Australia and Indonesia for the AFTN goods stockpiled in the stores of the Department of Supply. Although Barwick formally approved the delivery of these goods in January 1964, they could not reach Indonesia until June.

In 1964, the delivery of towers, cables and equipment was well behind schedule, and the AFTN commissioning date was postponed to 1965. Unaware of the ‘go slow’ instruction, project leader P.B. Blair noted in his progress report: ‘It is most unfortunate that delays have been caused due to lack of shipping and the heavy manufacturing commitments of Australian Amalgamated Wireless, and it is hoped that the supply situation will improve in the near future as it appears the limiting factor for the completion of the project is the supply of equipment, material and experts from Australia.’³⁷

While the USA ceased all aid in June 1964, the Australian government continued aid to Indonesia. DCA and the Australian Embassy in Jakarta even argued for a revision of the ‘go slow’ policy. DCA believed that it would otherwise be better to tell the Indonesians that Australia would not currently continue the project.³⁸ Not doing so would prolong the unsafety in Indonesian airspace from which international airlines would suffer. Australia’s Ambassador in Jakarta, Keith Shann, urged for clear signs of Australia’s commitment to the project, stating that the Indonesians might otherwise decide to seek support for the project elsewhere. If so, he argued, they

‘...may be expected to take a decision in a mood of bitterness [...] In that case our prospects of future cooperation with the Department of Air Communications would be negligible. [...] I would not rate Qantas’ future here very high if we were to antagonise the Department of Air Communications. The Indonesians will get their AFTN one way or another. Let’s get the credit for it, and the large sums we have spent, rather than a kick in the stomach.’³⁹

DEA hesitated to revisit the ‘go slow’ instruction because of the possibility that AFTN could be used for military purposes. This issue was investigated in great technical detail in June 1964 by D.H. Eltringham (Director of Telecommunications and Electronics).⁴⁰ He noted that this

³⁵ NAA, A1838/308 2036/5/16/1 PART1, ‘Colombo Plan: Aid to Indonesia’, J.K. Waller (First Assistant Secretary DEA) to G. Barwick (Minister of External Affairs), 9 December 1963.

³⁶ *Ibidem*.

³⁷ NAA, A1838/308 2036/5/16/1 PART1, ‘AFTN project progress report 7 December 1963 – 25 March 1964’, P.B. Blair (Head OIC-AFTN project), 25 March 1964.

³⁸ NAA, A1838/308 2036/5/16/1 PART1, D.G. Anderson (DG of Civil Aviation, Department of Civil Aviation) to A. Tange, 19 June 1964.

³⁹ NAA, A1838/308 2036/5/16/1 PART1, K. Shann to A. Tange, 1 July 1964.

⁴⁰ NAA, A1838/308 2036/5/16/1 PART1, D.H. Eltringham (Director of Telecommunications and Electronics) to the Director of External Aid Procurement, DEA) 17 June 1964.

suggestion depended on the adequacy of Indonesia's current defence services communications system. AFTN was designed for civil aviation and did not have a security coding facility. However, it would be possible to get around that by ordinary language coding, or by fitting automatic security devices. A more important consideration was that the Indonesian airforce had been in the process of having a communications network installed by British firm International Air Radio Ltd, but that the British government had terminated the work soon after the start of *konfrontasi*. The current state of that project was not known.

Available information was put in a memorandum for new Minister of External Affairs Paul Hasluck in August 1964. It concluded: 'If ... the Indonesian Air Force commandeered the A.F.T. network and we accept the view that the network will be completed, if not by us, then by someone else, then there would be some merit in our having supplied it because we would have details of the system, be able to listen in to Air Force messages and be in an advantageous position to destroy the system if there was a need to do so.'⁴¹ It also mentioned that public presentations should emphasise the relevance of the project to Qantas, and Australia's interest in airline safety internationally and within Indonesia.

Hasluck revoked Barwick's 'go slow' order, and ordered a review the AFTN project in February 1965 for three reasons:

- '(i) The fact that early completion of the project would add to the efficiency and safety of commercial airline operations in and over Indonesia. No international carrier operates routes over Indonesia more frequently than Qantas;
- (ii) Evidence that the Dutch, and possibly the Japanese, were prepared, if not anxious to complete existing telecommunications projects, including the Australian one, should other donors withdraw from the field;
- (iii) The view of our Ambassador in Djakarta that we should either complete the project promptly or tell the Indonesians immediately that we did not propose to carry on with it. To continue to 'go slow' seemed likely to encourage the Indonesians to approach other donors in a mood of bitterness towards Australia that could have reduced to negligible proportions the possibilities of future cooperation with the Indonesian Department of Air Communications, with whom it remains desirable to ensure good relations in the context of Qantas' operations.'⁴²

When Australian troops in Malaysia had their first confrontation with Indonesian troops in October 1964, the question of the possible military value of the AFTN project returned. The interdepartmental Joint Intelligence Committee examined the issue on 14 October 1964 and stated:

⁴¹ NAA, A1838/308 2036/5/16/1 PART1, 'Colombo Plan – Indonesia – A.F.T.N. Project', P. Shaw (Acting Secretary DEA) to P. Hasluck (Minister for External Affairs), 25 August 1964, p.5

⁴² NAA, A5827/1 Volume 18/AGENDUM 597, Cabinet submission No.597, 'Australian Colombo Plan Aid to Indonesia', 22 January 1965, p.3.

'The Committee noted that the AFTN, to the extent that the locations of AFTN terminals would be close to major air force bases, could be used to pass military traffic. The following points, however, were also noted by the Committee:

- (a) While the AFTN would be extremely reliable it would, as supplied, be of limited carrying capacity and its stability for military purposes would be limited;
- (b) Indonesia already had in being a reasonably adequate network for military communications. The AFTN if put to military use would effect some improvement in such facilities.
- (c) Indonesia already had on order from the Netherlands, communication equipment for the Indonesian Air Force which would make AURI independent as regards communications. The Indonesian Navy also appeared to be getting adequate communications equipment. Indonesia would therefore be unlikely to divert AFTN to use by these forces.
- (d) If Australia did not supply the network a similar project would be undertaken by another country. The intimate knowledge to be acquired by providing, installing, and possibly maintaining the network would in this case be lost to Australia.'⁴³

The committee concluded: '... while some additional military facility would accrue to Indonesia should she divert the project to military purposes, the resulting disadvantage to Australia would be outweighed by the advantages of providing and installing the equipment.'⁴⁴ The Cabinet decided on 26 January 1965 to continue current policy and aid for the AFTN and road construction projects and for Indonesian Colombo Plan students in Australia, but that no new projects would be considered. 'Cabinet took the view that abrupt discontinuance of Colombo Plan Aid to Indonesia involved a risk of adverse repercussions without yielding any balancing advantage to us.' The inconsistency in Australia's foreign policy was explained with the need '... to preserve our contacts with Indonesia in such directions as are open to use in the hope that this may produce opportunities to work towards peace and stability in the area'.⁴⁵

A few days later, the Prime Minister's Department noted that the political grounds for continuing aid to Indonesia were slender: 'The possibility that Indonesia may take a more fundamental anti-Western position in association with Communist China in the next months and mount a serious threat to Malaysia offers little prospect that a position defending Colombo Plan Aid to Indonesia will look other than appeasement.'⁴⁶ It also noted that the dilemma of ceasing aid was that it would cause difficulties to Qantas' overflying rights and to the Irian Border Marking Program in which both countries cooperated. Continuation of the border marking program was

⁴³ NAA, A1838/308 2036/5/16/1 PART1, H. Dunbar (Secretary of the Joint Intelligence Committee) to the Head Intelligence Coordination Branch, 15 October 1964.

⁴⁴ NAA, A4940/1 C4095, folder 'Indonesia - Australia Colombo Plan Aid', documents contributing to Cabinet submission No.597.

⁴⁵ NAA, A1209/115 1965/6228, Cabinet meeting 26 January 1965.

⁴⁶ NAA, A4940/1 C4095, folder 'Indonesia - Australia Colombo Plan Aid', PM's Department note, 26 January 1965.

deemed important, because: 'If we can achieve this it would remove a source of pretexts by Indonesia for action against East New Guinea.'⁴⁷ In addition, there was a generally shared feeling that aid to Indonesia would have to continue as it would help Australia keep the lines of communication open.

6. Australia's aid to Indonesia at the height of *Konfrontasi*

The apparent contradiction between Australia's commitment to assist the defence of Malaysia and at the same time continue aid to Indonesia to maintain friendly relations was frequently raised in the media. The possibly precarious role of the AFTN project was also public knowledge, when *The Australian* revealed that '... some Australian defense experts are uneasy. They say that the AFTN installations could easily be converted to military use'.⁴⁸ Public opinion in May 1964 favoured sending troops to support Malaysia against Indonesia by 61 percent, with 22 percent opposed, while in November 1964 public opinion still favoured continuing aid to Indonesia by 46 percent, with 41 percent against.⁴⁹

The Senate elections of November 1964 confirmed support for the Menzies government, but public opinion and the media seemed to be turning against the idea of both supporting Malaysia and giving aid to Indonesia.⁵⁰ MPs raised voices to demand a halt to aid to Indonesia. The government's response was in all cases that the Colombo Plan aid was a civil aid program, and that the AFTN project would establish a communications network from which Qantas would benefit.

The apparent inconsistency in Australian foreign policy did not concern Indonesia. At a time when the PKI was gathering strength, the Indonesian government started to nurture the 'Djakarta-Peking Axis', and Sukarno told the USA to 'go to hell' with their aid, the Indonesians continued to tolerate the Australian stance. Shann observed in May 1965:

'[...] we are not regarded, even by the PKI, as really true-blue NEKOLIM [New Colonialist-Imperialists, PvdE]. The ordinary Indonesian regards us with reasonable affection. [...] We are not a great power. We do not threaten Indonesia. Were it possible to persuade the United States and United Kingdom to give up on Malaysia or Vietnam, what on earth could we do? [...] It must also be useful for Indonesians to show they can get on with some of their neighbours, particularly if one of them is white and anti-Communist. [...] Or expressed in other words, the Indonesians have not yet made up their minds whether it is our support for their independence struggle or our present opposition to their international policies which is the aberration.'⁵¹

⁴⁷ *Ibidem*.

⁴⁸ *The Australian*, 27 November 1964.

⁴⁹ Social Science Data Archives, Australian National University, D0316 *Australian Gallup Poll*, 1 May 1964, D0319 *Australian Gallup Poll*, 21 November 1964, <http://ssda.anu.edu.au/polls/index.html>.

⁵⁰ For instance, *The Sydney Morning Herald* (9 January 1965): 'Aid to Indonesia is no longer justifiable.'

⁵¹ NAA, A1838/280 3034/10/1 PART25, 'Australia and Indonesia – What Next?', K. Shann to R. Menzies (Acting Minister for External Affairs), 12 May 1965.

Still, criticism of Australia in the Indonesian media and in statements of Indonesian leaders and officials hardened in June-July 1965. Fighting in Borneo intensified, reports came in of anti-aircraft fire directed at civilian aircraft including Qantas flights, Qantas suspended operations in Indonesia, and the tone in Indonesia-Australia relations worsened, possibly because of 'attempts to present a picture of the country being encircled and threatened by hostile "imperialist" forces'.⁵² In Australia the belief spread that it had to prepare for Indonesian military aggression aimed directly against Australia.

Still, there were no signs that Indonesia wanted to suspend the Australian aid program. For instance, Shann reported a conversation in July with Coordinating Minister for Public Works and Energy, Suprajogi, who

'... said that neither he nor President Sukarno regarded present Australian aid under the Colombo Plan as being subversive in any way. He referred to the Flores road project and said that President Sukarno had agreed that it was a good project and should continue. These are perhaps indications that there does exist continuing high level support for our aid as well as an appreciation of the problems faced by Australia in keeping the aid program alive.'⁵³

Australia continued to walk a thinning line with Indonesia, having to cop insults about its role in Malaysia in the Indonesian press and even from Indonesian dignitaries, while not being able to respond in the same tone. Indonesians did not appreciate Hasluck's public address in which he stated that Australians may find Sukarno's prolonged revolution strange as it protracted the economic plight of the country.⁵⁴ Shann cabled from Jakarta:

'I think I should say, as I have before, that we should be clear in our own mind as to what will happen if derogatory references are made to Indonesia's deity [Sukarno, PvdE]. There will be a violent reaction here, resulting in very real and unpleasant trouble for the Embassy, and complete lack of co-operation in any matter we may take up with the Indonesians. The Indonesians will demonstrate their displeasure in numerous ways – students, Qantas, housing, power supplies, dispensations, clearances, appointments, borders, Ambon [war grave issue, PvdE] etc. We are pretty exposed and vulnerable, and the balance of our relationship is delicate.'⁵⁵

Soon after this episode, a new phase in the bilateral relations started, following an abortive coup in Indonesia on 30 September 1965.

⁵² NAA, A1838/280 3034/10/1 PART26, 'Indonesian attitude to Australia, June-July 1965', undated memorandum, p.17.

⁵³ *Ibidem*. The meeting was on 28 July 1965, see NAA A1838/308 2036/5 PART7, K. Shann to DEA (31 July 1965).

⁵⁴ In a public speech on 2 September 1965, Hasluck said: 'It is hard for people with our own type of historical development to see these matters [the prolonged revolution, rather than economic reconstruction in Indonesia, PvdE] through the eyes of President Sukarno for we have not seen revolution in the way he sees it, but I do suggest that a revolutionary leader does find it both easier and perhaps more congenial to continue the revolutionary phase instead of facing the new and immense difficulties of reconstruction. He has chosen a lesser role than the one he might have taken ...' NAA, A1838/280 3034/10/1 PART26, p.220.

7. Australia's aid to Indonesia, 1966-70

For several weeks after the coup it remained unclear what had happened and what the consequences would be for bilateral relations. Indonesian incursions into Malaysia dwindled. But the Indonesian government did not revoke *konfrontasi*, which made it difficult for the Australian government to reconsider its aid commitments. Existing aid projects continued and progress with AFTN actually picked up pace until the facility was opened by Hasluck on 8 November 1968.

Other imperatives impacted on Australia's aid program. In October 1965, reports started to reach the Australian embassy in Jakarta of serious food shortages in several regions of Indonesia, at a time when the country had insufficient foreign exchange to import required food supplies. And in November, the Indonesian government approached ambassadors for emergency credit for the purchase of rice.⁵⁶ Although there was sympathy for food aid to Indonesia, Australia remained reluctant to consider increasing aid until Indonesia had revoked its policy stance, called off *konfrontasi*, and had taken steps towards a program of economic reform or stabilisation.

In March 1966, President Sukarno delegated supreme authority to General Soeharto to restore order and facilitate government. Soeharto appointed a new Cabinet, which soon started efforts to get the economy back on the rails. The most urgent aid requirement was food to meet acute rice shortages in Indonesia. Shann pressed the point: '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.'⁵⁷ Former Indonesian Minister of Agriculture, Ismail, asked Shann informally whether the Australian government would help by guaranteeing rice shipments from Thailand costing US\$10 million; a hefty sum, given the past levels of Australian aid. Ismail suggested that the USA would perhaps act as a guarantor for Australia if it was unwilling to act alone. The reason for this unusual request, according to Shann: 'They do not want any possible American identification with such matters yet.' In April 1966, the Australian government offered US\$200,000 for rice to be distributed in flood-stricken Central Java.⁵⁸

In May 1966, the Indonesian government sought to start discussions about rescheduling of foreign debt and attracting new foreign loans and new aid from the West, after it had become clear that further aid from Eastern Europe and China would not be forthcoming. The country's foreign exchange position was precarious.⁵⁹ Indonesia's government first approached US

⁵⁵ NAA, A1838/280 3034/10/1 PART26, K. Shann to DEA, 4 September 1965, p.220.

⁵⁶ NAA A1838/308 2036/5 PART7 K. Shann to DEA, 16 December 1965.

⁵⁷ NAA, A1838/280 3034/10/1 PART27, K. Shann to DEA, 22 March 1966, p.109.

⁵⁸ At the same time the US government offered US\$8.2 million credit and the UK government US\$2.8 million credit for food purchases. Mahajani 1972: 31

⁵⁹ Panglaykim, J. and K. Thomas, 'The Road to Amsterdam and Beyond: Aspects of Indonesia's Stabilization Program', *Asian Survey*, 7 (1967) pp.689-702.

representatives, but the American response was that further discussions would best be done multilaterally, rather than bilaterally.⁶⁰

The Australian Cabinet discussed Indonesia's aid requirements on 26 May and revoked its decision not to increase Colombo Plan aid. However, it concluded that the IMF and IBRD would first have to assist the Indonesian government in getting the economy back on track, before Australia would consider significant additional commitments following the receipt of Indonesian aid requests.⁶¹ In June, Australia joined a consortium of countries including the IMF for multilateral discussions about Indonesia's foreign exchange problems and the required aid effort. It met in Tokyo in September 1966 and was referred to as the 'Tokyo Club'.

On 11 August 1966, Hasluck witnessed the signing in Jakarta of an accord between Indonesia and Malaysia to end *konfrontasi*. In discussions about interim emergency assistance, he offered to supply raw materials and spare parts under the Colombo Plan. Australia remained reluctant to expand its aid at short notice. It perceived that the effective rule of the new Indonesian government was still shaky, and that the Indonesian economy was still unstable, making the outcomes of any aid effort uncertain. As Gordon Jockel, First Assistant Secretary at DEA, described it:

'It is not a matter of replacing bad policies by good policies, but more fundamentally a matter of finding ways of putting the government in a position where it has some control over the economic life of the country. [...] For a long time to come we may have to think of aid for Indonesia in political terms, in terms of supporting and sustaining the people we want to help, rather than in terms of producing a stronger economy and getting measurable economic improvement. [...] The government should consider further injections of short-term aid in an amount substantially larger than the Colombo Plan programme. This programme, like the new spare parts programme, would best be related to bedrock, rehabilitation assistance e.g. parts and transportation. [...] We need to be satisfied that our aid is not being diverted to wasteful or corrupt ends. [...] We should need to be satisfied about Indonesian intentions before being happy about the United States entering into large, long-term commitments.'⁶²

After offering interim aid, the Australian government waited for Indonesia's agreement with IMF and IBRD about stabilisation of the economy in late 1966, and the conclusion of Indonesia's meetings with the 'Tokyo Club' about the rescheduling of debt repayments in December 1966. Pledges of new aid had to wait until the next 'Tokyo Club' meeting in Amsterdam in February 1967, where it met as the Inter-Governmental Group for Indonesia (IGGI).

⁶⁰ NAA, A1838/280 3034/10/1 PART27, Australian High Commission in London to DEA, 19 May 1966, p.241.

⁶¹ NAA, A4940/1 C4095, documents in preparation of Cabinet Submission No.215, 26 May 1966; NAA A1838/308 2036/5 PART8, cabinet submission 'Economic assistance to Indonesia' 16 May 1966.

⁶² NAA, A1838/280 3034/10/1 PART28, 'Indonesia: Working paper on Australian policy', G.A. Jockel to P. Hasluck, 25 August 1966, pp.149-150.

In December 1966, Australian exporters resumed interest in Indonesia and approached EPIC for trade insurance cover. Under the current arrangements, EPIC did not issue credit insurance for trade with Indonesia. Given the number of applications, EPIC proposed that the Australian government liberalise its policy and allow EPIC to extend trade insurance cover to a greater volume of transactions.⁶³ The government agreed, as this would shore up Australia's trading interests and signal support for the Indonesian administration, but bilateral trade relations remained marginal.

Australian emergency grant aid reached Indonesia in early 1967. Altogether, Australia pledged a provisional US\$500,000 in foreign currency grants and commodity aid of US\$200,000. The government did not want to give too much too soon, but also not too little too late. It considered several potential new aid projects in Indonesia, such as road equipment repair, fleet repair, dredges repair, railway sleepers etc, and concluded: 'The demand for assistance for Indonesia is virtually unlimited and the above list represents only small segments of the most pressing areas of need.'⁶⁴ The IMF sanctioned foreign currency grants to Indonesia, which were used through the *Bonus Ekspor* (BE) system.⁶⁵ They were a fast form of aid disbursement for the purpose of addressing balance of payments problems and exchange rate stabilisation. Under this system of 'tied aid', donations of foreign currency were sold for Rupiah on the foreign exchange market to Indonesian importers of essential commodities and spare parts from donor countries, like Australia.

A more substantive aid effort was prepared during the IGGI meeting in Scheveningen (The Netherlands) in June 1967. On the basis of an Indonesian 'wish list' of projects, IGGI members pledged aid. In the end, IGGI put together an aid package for Indonesia of US\$188 million for emergency balance of payment credit assistance and project aid. Australia pledged US\$5 million for 1967-68, a considerable amount given its current Colombo Plan commitment to Indonesia of A\$1.3 million.⁶⁶ In all, Australia would provide A\$5.2 million in emergency aid and A\$507,000 in Colombo Plan aid for economic and technical assistance in 1967/68. Figure 1 shows that this was the start of a considerable increase of Australia's aid to Indonesia. Most new aid took the form of BE assistance and emergency food aid, because project aid had a considerable lead-up time. At the IGGI meeting in April 1968 in Rotterdam, Indonesia again submitted a list of projects. Australia was specifically asked to support urgently needed spare parts for the Jakarta buses, a telecommunications survey, dredging of the port of Banjarmasin, and railway equipment. Australia doubled its aid pledge to Indonesia to A\$12.7 million for 1968/69, most of which BE credit for the purchase of Australian flour and rice. During the three years of 1968/69-

⁶³ NAA, A1838/280 3034/10/1 PART28, 'Report of interdepartmental meeting on credit insurance cover – Indonesia', 8 December 1966, pp.273-289.

⁶⁴ NAA, A4940/1 C4095, documents in preparation of Cabinet Submission No.83, 14 February 1967.

⁶⁵ Miyamoto, I. 'The Real Value of Tied Aid: The Case of Indonesia in 1967-69', *Economic Development and Cultural Change*, 22 (1974) pp.436-452; McCawley, 'Australian Aid', p.37.

⁶⁶ NAA, A4940/1 C4095, documents in preparation of Cabinet Submission No.295, 14 June 1967.

1970/71 Australia allocated almost A\$47 million, more than 2.5 times the amount spent during 1953/54-1967/68.⁶⁷

The annual IGGI meetings became opportunities for donor countries to express their growing confidence in the ability of the Soeharto government to bring Indonesia's economic house in order and the country's increasing ability to absorb aid effectively. In 1970, Australia followed other countries in giving 3-year indications of its aid commitments in order to facilitate forward planning of Indonesia's development program.⁶⁸ A range of new Australian aid projects came on stream during the 1970s, including assistance to Indonesia's state television broadcaster TVRI, a program to rehabilitate buses for public transport in Jakarta, and the donation of steel rails and bridging material for the rehabilitation of worn sections of railway track on trunk routes in Java and South Sumatra.⁶⁹ The share of project aid increased and from 1974-75 it comprised more than 50 percent of aid to Indonesia. The annual IGGI meetings replaced the Colombo Plan meetings as the international forum to discuss and coordinate aid projects in Indonesia. The Colombo Plan program continued to bring Indonesian students to Australia, but it quickly became of minor importance to Australia's aid to Indonesia. Indonesia became Australia's biggest aid recipient after PNG, even though Australia remained a small aid donor in Indonesia.

8. Conclusion

During 1961-1966, the decolonisation of WNG and *konfrontasi* required the Australian government to consider its relations with Indonesia and the role of its aid program. While aid to Indonesia had previously been a matter of altruistic benevolence and *ad-hoc* selection of aid projects, in 1962 the government sought ways to use its aid program as a tool to cement Australia's relations with Indonesia. But it soon became clear that a short-term increase of aid would only be possible outside the Colombo Plan framework that had hitherto been the conduit for Australia's foreign aid program.

The *konfrontasi* episode showed that foreign aid could at best be a very subtle tool in foreign policy. Australia's modest capacity of provide aid, meant that it could not use foreign aid to force concessions from the Indonesian government in its stance towards Malaysia. Despite antagonism in Indonesia towards Australia's support of Malaysia and despite opposition in Australia, the Australian government continued its aid program in Indonesia. This was consistent with its principle of maintaining a firm but friendly attitude towards Indonesia. At a time when it remained unclear whether the USA would extend the ANZUS agreement to the commitment of Australian forces in Malaysia, continued aid was an indication of goodwill towards Indonesia. It

⁶⁷ Australian Development Assistance Agency, *Australian Official Development Assistance: Financial Statistics 1945/46-1974/75* (Canberra, 1975) p.72.

⁶⁸ NAA, A5869/1 182, Cabinet submission no.182, 'Australian Aid to Indonesia', March 1970.

⁶⁹ Wilkinson, *Politics of Australian Aid Policy*, pp.253-64.

allowed Australian officialdom a constructive avenue for ongoing discussion with Indonesian authorities, where such avenues no longer existed for the UK after September 1963 and the USA after March 1964. Additional benefits of Australia's stance were that it kept control over the AFTN project, which would not only benefit Indonesian but also Australian air traffic, and that it facilitated continued air traffic to and from Australia through Indonesian air space.

Indonesia's belligerent stance towards Malaysia and its erratic economic policies precluded an expansion of Australia's aid program during 1963-1965. The regime change in Indonesia during 1965-1966 laid the foundations of a new phase in Australia's aid to Indonesia, both in terms of the organisation and the size of the aid program. The consortium approach to coordinating international aid to Indonesia in 1967 and Australia's role in it became a feature that would last the next 30 years. New forms of bilateral aid, particularly 'tied aid' for the purchase of essential commodities allowed a rapid expansion of Australia's aid program until new aid projects started after 1970. This approach to aid to Indonesia also enabled the Australian government to go beyond the Colombo Plan framework to seek a greater degree of integration of its foreign aid program and its foreign policies in the 1970s.