

Saigon

16th February, 1954.

**CONFIDENTIAL**Cambodia - Military Situation

Since the 23rd December 1953 there have been several small operations against the Viet Minh. The toll on the enemy in terms of casualties and material has been very small - a total of 74 killed during December for example - but the psychological effect on the Khmer Issarak may have been greater.

At all events it has been reported that on 10th February at a ceremony at Kompong Speu, the Issarak leaders Savangvong and Chantarangsay made their submission along with their bands. These appear to have been far more numerous than we had been led to believe (see our Savingram under reference) and 5000 are reported to have surrendered. Of these 1800 will be incorporated into the Royal Khmer Army and the remainder have been invited to abandon a career of arms and to cultivate rice fields. The munitions recovered by this surrender are said to be 700 modern arms including several American bazookas, grenade throwers and mortars.

Of greater interest was the announcement that Esi (Eas) Chau allegedly the right hand man of Son Ngoc Thanh, made his submission ~~to~~ on 8th February and returned to Son Ngoc Thanh's hiding place with terms for his surrender. It is however too early to comment on this report. No information as to the conditions offered by the government is available, but it is safe to say that Song Ngoc Thanh could not be fobbed off with a colonelcy in the Royal Khmer Army such as other Issarak leaders have accepted, and it is likely that the negotiations will be protracted.

The Sihanouk Plan for mobilising the forces vives of the nation is now less in the news than previously and, since his return from operation Samakki, the King's attention has dwelt a great deal upon plans for creating a Cambodian air force and supplying the Royal Khmer Army with artillery. France is understood to have agreed to supply some training aircraft. Since that date the Cambodian Defence Minister and the Chief of Staff have witnessed a demonstration of a new Japanese fighter plane and are contemplating buying about ten of them. These planes are built in Japan under American licence and can be used for observation as well as for pursuit. They have a 250 h.p. engine, cruise at 200 m.p.h., have a maximum speed of 250 m.p.h. and can throttle back to 80 m.p.h. Their armament consists of 2 cannon, 8 rockets and 2 bombs of 250 lbs. They are claimed to be particularly suitable for Cambodian conditions, but are also understood to be very expensive.

The Viet Minh thrust into Laos has received some prominence in the Cambodian press, but does not appear to have inspired much anxiety. There has been one article in Cambodge (8th January) dealing with the threat to Cambodia, but its only conclusions were that all Cambodians should forget their internal quarrels and unite behind the King. "It is above all upon the units of the mobilisation of the forces vives and upon our young army that the hope of our Cambodia rests"

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Djakarta,  
27th February, 1954.

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### INDONESIAN ECONOMIC SITUATION

The present economic situation in Indonesia may be summarised as follows:-

Indonesia's balance of payments deficit for 1953 was \$US132 million, and her foreign currency reserves were down to \$US163 million. However, there is reason to believe that these estimates are optimistic and that the real position is rather worse than the Government had admitted. As no improvement is expected in her export earnings for the coming year, Indonesia faces the problem of reducing imports considerably if she is to avoid the dangers of insolvency.

The Government has announced that it will reduce the balance of payments deficit to \$US53 million this year which in effect means that imports will have to be reduced by roughly \$US80 million on last year's level. A saving of \$US26 million is expected from the reduction in rice imports in 1954, as the result of increased rice production (which went from 6.4 million tons in 1952 to 6.8 million tons in 1953). Hence the Government must reduce other imports by over \$US50 million, if the deficit which they envisage is to be achieved. However, these estimates do not allow any margin for the possibility of further falls in Indonesia's export earnings from the 1953 level.

Besides reductions in imports of consumer goods, Government spending which carried a deficit of Rp.2.5 thousand million last year, will also probably have to be reduced:

- (a) where imports are involved;
- (b) to offset the inflationary effects of reduced imports.

It seems likely that the Government's capital expenditure programme which last year was below the level which it is estimated is necessary to keep capital intact, will have to be reduced further during 1954.

There has lately been considerable public comment, clearly disturbing the Government, on the score that the ratio of the Bank of Indonesia's holdings of gold and other convertible foreign exchange reserves to its note issue and bank deposits, has been falling steadily over the last year (as the result of falling exchange reserves and an increasing note issue) is now close to the statutory 20% limit.

The way in which the Government, during the next two of three months handles this difficult economic situation must have some effect on its prospects of remaining in office. The problems which will confront Indonesian importers as the result of any severe reductions in imports; the political effects of any retrenchment which might be undertaken in the field of budgetary spending; increased costs of living especially for those Indonesians attempting to exist at a European or semi-European standard; and the fear of international insolvency with possible effects on confidence in the currency are all factors which could disturb the present political balance.

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