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Mr. William N. Morell
 Director
 Office of Research and Reports
 Central Intelligence Agency

APR 14 1967

Dear Bill:

Indonesia's progress toward economic and political stability is encouraging. As is always the case, as present problems recede or lose their urgency, new problems arise. Indonesia is, of course, the major nation of Southeast Asia and I believe the time has now arrived when we must consider more carefully the effect of its rehabilitation on the world economy, particularly commodity markets.

If, as we hope, Indonesia moves rapidly to restore production of its export sector to earlier levels and its infrastructure is rehabilitated to the point where its exports are moved easily and rapidly to the ports, world supplies of certain commodities will obviously be increased. The question is how much and what impact will this have on world price levels.

We in EA need to know considerably more about these questions. Foreign exchange earnings from rubber and tin, for example, are vitally related to our political, strategic and economic concerns, not only in Indonesia but even more so in Malaysia and only to a somewhat lesser extent in Thailand. Already a recent softening of rubber prices has been attributed in part to an estimate of the International Rubber Study Group of increased availabilities of rubber in Indonesia this year. There was a softening of copra prices in the Philippines because of expectation of increased supplies from Indonesia.

Indonesia is a leading producer of rubber and tin. Prices of both commodities are already so weak they have produced major problems for the producers and for our disposal program. The demand for such raw materials is also notoriously inelastic, particularly in the short run. Thus, relatively small increases in the available supply on world markets has a disproportionate negative impact on prices.

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Another factor may be operating concurrently which may cancel out much of the impact of Indonesia's full return to world commodity markets; the termination of our rubber and tin stockpile disposal program scheduled for the next two or three years.

Restoration of Indonesian agriculture may also have an appreciable effect on world sugar and rice markets. Recalling that Indonesia was once an important exporter of sugar, we checked with our Economic Affairs Bureau about the possibility of getting a United States quota for Indonesia or at least getting it a share of the shortfalls in quotas of other countries or increases in global quotas allowed from time to time by the Department of Agriculture. This would have the same effect as a substantial increase in aid without being subject to appropriation. Our Economic Affairs Bureau assures us, however, that the countries eligible for quotas are spelled out in the Sugar Act. It would be necessary to amend the Sugar Act to include Indonesia which would open up that Pandora's Box again. Thus, this idea seems to be a nonstarter but one which we are keeping in mind when sugar legislation is opened up again if Indonesia's performance continues along present lines.

With regard to rice, Indonesia is not likely in the foreseeable future to become an exporting nation, but a restoration of its agriculture could certainly cut down its rice imports which would have the same effect on the world rice shortage.

These are complex and difficult questions of which we must know much more for policy planning purposes if we are to avoid disagreeable surprises. They should be thoroughly researched and projections made based on the most likely sets of assumptions for at least the remainder of this decade. I believe ORR is the only organization in the Government with the resources to handle this research. Working out price elasticities and making worthwhile projections, considering all the vast uncertainties involved, require fairly sophisticated economic analysis. I am sure there is a considerable body of material available not only in CIA but in our Economic Affairs Bureau, Agriculture, Commerce and Interior.

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I like the way that we have managed to meet together from time to time and to surprise each other with our separate paths to agreement that certain things were clearly worth doing. All of the foregoing represents a kind of report on a skull session that Woody Woodbury, Claus Ruser and I have had on research useful from the standpoint of our present and future operations. Why not consider it as a kind of agenda for a session that you, [REDACTED] and the three of us can hopefully have rather soon. We may want to focus a bit on how precisely we should define actual research requirements. Your views on this would be as valuable as ours, of course. And on something ambitious as these projects might turn out to be, I should probably let INR know what we are up to.

STATINTL

Sincerely,



Robert W. Barnett
Deputy Assistant Secretary
East Asian and Pacific Affairs

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