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NOTE OF A DISCUSSION AT LUNCH BETWEEN THE PRIME MINISTER AND THE  
ECONOMIC MINISTERS OF THE INDONESIAN GOVERNMENT: WEDNESDAY 10 APRIL

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## Present:

H.E. Ali Wardhana (Coordinating Economic Minister)	The Prime Minister
H.E. J.B. Sumarlin (Minister for Planning)	H.E. Mr. A.E. Donald
H.E. Radius Prawiro (Minister for Finance)	Sir Antony Acland
H.E. Hartarto (Minister for Industry)	Mr. F.E.R. Butler
H.E. Subroto (Minister for Mines and Energy)	Mr. Ingham
H.E. Suyono Sosrodarsono (Minister for Public Works)	Mr. J.M. Vereker
H.E. Roesmin Nurjadin (Minister for Communications)	Mr. C.B. Benjamin
H.E. Achmad Affandi (Minister for Agriculture)	Mr. Mackilligin
H.E. Rachmat Saleh (Minister for Trade)	
H.E. Ginandjar Kartasasmita (Minister for Domestic Production and Investment)	

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The Prime Minister welcomed the Indonesian Ministers. She first referred to the general background against which specific problems had to be considered and drew attention to two features - political attitudes, which it was the task of politicians to influence, and developments of the world economy in the 1970s, particularly the growth of inflation which had broken the Bretton Woods system. There was a need for more stability in both political and economic terms and this was most likely to be achieved through an open trading system, although she acknowledged that politics often played a part in the placing of contracts. Maritime countries, which both Britain and Indonesia were, tended to be more outward-looking. Her own interests as Prime Minister of Britain were in trade, security and in the support of other countries like Indonesia which were committed to freedom and

/ democracy



democracy, sound finance, and the promotion of the well-being of their people.

Mr. Wardhana opened his remarks by congratulating the Prime Minister on her speech at the previous night's banquet, and in particular her emphasis on cooperation and investment for the future. Indonesia's biggest problem was in providing employment for all its people. Over their present five-year plan their labour force would increase by 10 million, and unemployment was already high. They therefore had to give first priority to agricultural development as a means of providing employment within Indonesia's limited resources. Thereafter their priority was to develop industries which supported agriculture, particularly agricultural equipment and fertiliser. Production of fertiliser in Indonesia had increased from 100,000 tonnes to 4½ million tonnes in the last fifteen years and, from being the largest rice importer in the world, Indonesia had become the largest producer and now had surplus stocks of 2½ million tonnes. They were also the largest exporters of plywood and regretted that the EC quota did not allow greater exports to the Community. The Indonesian Government also had to provide the basic social services of health and education for their people and develop an economic infrastructure which, in the case of a country made up of 13,000 islands, included a heavy emphasis on sea communications and port facilities. They had left the development of mineral resources for the private sector.

The Prime Minister asked whether the Indonesian Government made inward investment easy instead of obstructing it as Japan did. Mr. Kartasasmita said that Indonesia was trying to reduce the bureaucratic obstacles to investment and a policy of streamlining controls had been announced. But, since investors still enjoyed fiscal advantages, development permits had to be retained. Investment in Indonesia had been lower in 1984 than in previous years, but this was attributed partly to the world recession and partly to the flight of capital to the United States.

/The Prime Minister



The Prime Minister added that it also no doubt had something to do with the weakness of commodity prices.

Mr. Wardhana said that the declining price of oil was also a problem for Indonesia which had forced them to rephase a large amount of projects in 1983. Indonesia was too dependent on oil which provided two-thirds of both its foreign exchange and its Government revenue. The Prime Minister said that the next two years would be difficult for oil prices. She did not see world trade expanding particularly fast at present, although Europe was likely to take up some slack by the slowing of American growth. Indonesia clearly needed sustainable growth with as little economic distortion as possible.

Mr. Subroto asked the Prime Minister for her views about a dialogue between oil producers and consumers to stabilise prices.

The Prime Minister recalled that distortions in the market had been caused by the very sharp increases in OPEC oil prices in the 1970s when they had a monopoly of production. This had stimulated exploration for new supplies of oil, including those in the United Kingdom's North Sea and there should not be surprise now at the unwinding of the distortions. She could not therefore see the problem as being solved by discussions between producers and consumers but there was scope for using the revenue from the fat years to sustain producers during the lean years. Even now, the use of oil was exceeding the rate of new discoveries and it was essential to look ahead to alternative sources of energy, including nuclear, solar and other thermal methods.

Summing up the discussion, the Prime Minister said that she had been struck by the similarities between many of the interests of the United Kingdom and Indonesia. She hoped that her visit would lead to closer cooperation in the future, based on genuine understanding of each other's problems.

F.R.B.



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10 DOWNING STREET

*From the Principal Private Secretary*

15 April, 1985.

I enclose a note of a discussion between the Prime Minister and the Economic Ministers of the Indonesian Government over lunch on Wednesday, 10 April.

I am sending copies of this letter and its enclosure to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Michael Reidy (Department of Energy), and Michael McCulloch (Overseas Development Administration).

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

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