

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

EMIL SALIM

**November 23, 1991
Jakarta, Indonesia**

Interview by: John Lewis, Richard Webb, Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

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*[Begin Tape 1, Side A]*¹

SALIM: Well, I will sort of, you know, in discussion of these things, perhaps sometimes mix my own perceptions of the Bank and, you know, what I think is the general perception in this country.

[Interruption for coffee]

Overall I think there is a mixed feeling about the Bank. That's, you know, the overall picture, I think, that I have. Also on the one hand, you know, I think the relationship between the Bank and Indonesia has been mutually beneficial for both sides. So I always argue that, you know, it's—what do you say--we also have had, influenced the Bank. It's not only the Bank influencing us. And the reason for that is that I think Indonesia is in the eyes of the Bank an important borrower, and as always, you know, a bank would depend on its important borrower to some extent. So it's a mutual hostage relationship in a way, because at one time in the '70s—and I think it was mainly in the '70s--that the Indonesian government, especially technocrats, Professor Widjojo [*Nitisaastro*] and his group, were heavily criticized in the country for its very close relations with the Bank. And it was thought then that, you know, economic policies in this country that, you know, they were implementing, they were formulating, Professor Widjojo and the group, were dictated by the Bank. You know, to some extent--I would never say “dictated,” but definitely it has been influenced by the way the Bank think about development, but also, I think, because the major actors in economic, you know, in economic restructuring of the country, you know, were all educated, you know, abroad and particularly in the United States, so, you know, sort of . . .

LEWIS: Do you mind if I ask questions as you go along?

SALIM: Yeah, yeah, please.

LEWIS: In the middle '70s, what kinds of policies was it perceived that the Bank was pushing on Indonesia? It was not so much liberalization then was it, or was it?

SALIM: Oh, well, yes.

LEWIS: Yes?

SALIM: Yes, because in fact the initial period of liberalization started very early, in the early '70s, but then because of—you know, it was basically the [*Kakuei*] Tanaka riots in '74 that sort of changed the direction of policies again, you know. In the investments, you know, foreign investments, there were restrictions imposed since then and so on. So there was a change again from '74 on.

¹ Original transcript by Brookings Institution World Bank history project; original insertion are in []. Insertions added by World Bank Group Archives are in *italics* in [].

KAPUR: You see, when you said that they liberalized from '70 onward and then in '74 it stopped. [both speaking at once]

SALIM: Yeah. In fact, '69, '69.

KAPUR: '69. And then in '74 it stopped and backtracked.

SALIM: You know, it's not an abrupt stop, but, you know, it was a . . .

KAPUR: But the pace slowed.

SALIM: Yeah.

LEWIS: But the Bank was still urging continuing liberalization at that point or . . .

SALIM: Well, not very explicit, though. It was only in the '80s that it became very explicit, you know, in the annual reports of the Bank.

LEWIS: What was it Widjojo was—what policies was he being instructed about from the Bank as say, whoever the opposition?

SALIM: I think it was mainly in the monetary policy.

LEWIS: Monetary policy?

SALIM: Yeah, yeah, because the, you know, the decision to adopt, you know, a disciplinary fiscal policy was the decision made very early, you know, in '66, '67, and I don't think it was seen as, you know . . .

LEWIS: The Bank and Fund must have been perceived to be quite close together on these things.

SALIM: Yeah, yeah, yeah, uh-huh. But also because of Indonesia's own history so that, you know, the balanced budget principle became so important, and in fact it was the legitimacy of the New Order government or the basis of its legitimacy that it adopts, you know, fiscal discipline. It was in the monetary policy, I think, you know, because of the debate then between the monetarists and Suharto.

LEWIS: Right, right, right. Yeah. Okay.

WEBB: Was there in effect much liberalization in '69 to '74?

SALIM: Oh, yeah, yeah, yeah, yeah. It was the beginning of, you know, the growth of the Indonesian private sector then, yeah.

KAPUR: But the liberalization was more internal rather than the external side?

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SALIM: That's right, yes.

KAPUR: Not as much . .

SALIM: No, because on the external front the major changes were undertaken in '66, '67, right, you know, with the change of the government.

KAPUR: But say if you were going to trade regime, as opposed to allowing the private sector to enter, the emphasis was more on the latter than on the former?

SALIM: Yes, that's right, that's right, because it was still import substitution.

KAPUR: Exactly.

LEWIS: But the restrictions are mostly tariff not quantitative, is that right?

SALIM: That's right. Yes.

LEWIS: That was what happened in '66, '67?

SALIM: Yeah, yeah.

LEWIS: Rationalizing of the instruments.

SALIM: Yes, yeah, yeah. It was only later, you know--in fact, it was right after the second oil boom when [*inaudible*] things changing, '82, that we imposed, you know, import licensing and so on. That was later. But it was mostly in foreign investment that, you know, the policies changed dramatically in '74, you know. It's the investment climate, the world climate, and of course also because of the first oil boom the government had the resources to go itself into industrialization. And so it was through the so-called "list of investment priorities" that you limit the areas where foreign participation and also the private nationals could perform in the industrialization. It became, you know, a state-dominated industrialization process from '74 on.

LEWIS: I hope you're going to continue kind of this chronological story, but let me just interrupt again to--I'd like to know a little bit more about where you come from on this. The Centre [*for Strategic and International Studies*], your Centre has been here for some time, has it?

SALIM: From '71 on. Yes.

LEWIS: '71. And outside the government?

SALIM: Outside. It has always been outside. You know, I was with the Centre from '71 on, but then I was in charge of something else, you know, on technology and so on,

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you know, energy mostly, and it's only recently that, you know . .

LEWIS: Your support is indigenous or . . .

SALIM: Yes, yeah. It's totally from the private sector, through a foundation.

LEWIS: From the private sector. I see. I see.

KAPUR: Now, this thing that was happening in the '70s, say, you had said on monetary policies there was perception of the Bank. Now at that time the Fund [*International Monetary Fund*] was--usually the Fund is involved in monetary policy and more. And also you had institutions like the HIID [*Harvard Institute for International Development*]; their people were in here. Did it your perception that on these issues the Bank was much more influential than other external actors?

SALIM: It's difficult to say. The Fund was important very early, yeah, yeah. In the late '60s and early '70s, I think it was the Fund that was important rather than the Bank.

LEWIS: Yeah, the Turkish gentleman, Mr. Kemal Siber, he's here again now.

SALIM: Oh, is he?

LEWIS: Yes. We're going to meet him next week. Yeah, we heard he was very important at that time, at the beginning. The Bank wasn't even here until '68, I guess.

SALIM: That's right. But this, you know, has something to do with the IGGI [*Inter-Governmental Group for Indonesia*]. So in fact a discussion on the role of the Bank and the Fund cannot be sort of separated from, you know, the function and the continuous, you know, functioning of the IGGI because . .

LEWIS: But the way you spoke about it, it seems as if one first of all thinks about the Bank in terms of influence on the government. Is that right or not? Which was Devesh's question.

SALIM: Yeah, well . . .

LEWIS: How would you characterize the Harvard group? It certainly influences . . .

SALIM: Oh, yeah. It's quite influential, but I think their influence--you know, I don't know much about the early '70s.

LEWIS: Right, okay.

SALIM: But I think their influence have become more stronger in the '70s, late '70s, early '80s.

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LEWIS: The Harvard group?

SALIM: Yes. I don't know, you know, because I don't exactly know . . .

LEWIS: But they are really advisors to the government, almost the government's hired advisors . . .

SALIM: That's right, yeah.

LEWIS: . . . whereas the Bank is an agency interfacing with the government which has some kind of weight to it. I suppose that's part of it.

SALIM: No, but you know the way why I said it appears to be more important in the late '70s, early '80s, than now is because, you know--so it became known that the major policy decisions and reforms that were related to the deregulation and so on, starting with the introduction of the new tax system in '84, were in fact drafted by the Harvard group. At least that is, you know, the perception.

LEWIS: Malcolm Gillis and so on, yeah, yeah, yeah.

SALIM: That's right. That they are the ones. Because Ali Wardhana—you know, he was finance minister for so long and then the coordinating minister for economic affairs--is known to rely heavily on the Harvard group . . .

LEWIS: I see. I see.

SALIM: . . . as a source of sort of, you know, advice, and not only a source of advice, but he also asked them to in fact draft. So the plans towards deregulation, you know, what you should do in these various fields, is apparently done by this group for Ali Wardhana. You know, I have no problems, but, you know, it was . . .

LEWIS: You started off by saying there is sort of a mixed, mixed view of the Bank, and you told us that they were somewhat controversial in the middle '70s, that they've had some influence on macro policy. What's the rest of the mixture?

SALIM: Oh, you know, one is the concern, but the other one is, you know, well—you know, it has been beneficial also, and this should be seen through, you know, the working of the IGGI because it really assures the transfer of resources. You know, basically the--I think it was known that the decisions in the annual IGGI meetings are very much influenced by the annual reports of the Bank, also in terms of, you know, the amount of funding and so on and basically the justification given for it. And it appears to the bilateral donors, you know, much more credible than if, you know, that kind of study would be done by the Indonesian government. So . . .

LEWIS: Okay. That's quite clear. So you're saying that the most noteworthy thing the Bank has done is to assist resource transfers?

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SALIM: Yeah, yeah.

LEWIS: And part of that has been its sort of intellectual guidance of that process.

SALIM: Oh, yes. It was a learning process. That's right. And, you know, one of the examples to show that, you know, while the Bank has an important influence in the way we think about development, but, you know, their advice can only, you know, were only taken when the economic managers of the country thought we are ready to do it. And the one example is on, relates to the industrial report of the Bank on Indonesia, you know, which was in the mid-'70s.

LEWIS: Mid-'70s?

SALIM: I was away then, but there was a four or six volume report on the Indonesian industries. It's trade and industry, basically, and it was the first attempt towards liberalization and deregulation. It--the report was--what do you say?--not "refused" but in the case of the Bank it was not, you know, approved by the Indonesian government.

LEWIS: It was not approved?

SALIM: No, it was not approved, but, you know, draft copies were circulating around.

LEWIS: I see. This was, you say, middle '70s?

SALIM: I think it was in the middle '70s.

LEWIS: Bernie [*Bernard R.*] Bell was gone by then, wasn't he?

SALIM: Oh, yeah, yeah. He wasn't here anymore.

WEBB: And what was the gist of the report?

SALIM: It's liberalization. And it's moving from import substitution to, you know, export orientation.

LEWIS: Yeah, I see, I see. And the government wasn't ready for that yet?

SALIM: No, no.

WEBB: Well, this was soon after the financial riots.

SALIM: No, no, not very soon. I think it was '78 or '79. Sorry.

LEWIS: I see, I see.

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SALIM: Yeah, '78, '79. And you can find an interesting discussion on it in the *Far Eastern Economic Review*, if you can still find it there [several speaking at once]

LEWIS: At that time?

SALIM: Yeah, yeah. Because it was, as usual, it was leaked out.

LEWIS: You say that was just before the second oil shock?

SALIM: Yes, it was, the second. And then, you know, again it was the second oil shock that sort of delayed all this economic . . .

LEWIS: Yes, yes.

KAPUR: In the--around the middle '70s or so--I'm not sure if I have the years right--Pertamina was involved in this big sort of--I'm not sure the word "scandal" is right.

SALIM: Yeah, yeah. No, it was early '70s also.

LEWIS: Early '70s?

SALIM: Yeah, because the Pertamina so-called "crisis" took place in '74--'73, '74. [all speaking at once]

LEWIS: Oh, really?

KAPUR: And then the central bank was forced to redeem all the debt.

SALIM: Yes, yeah, yeah. And reschedule and you know sort of negotiate, yes.

KAPUR: Was all that completely internally resolved or did any external--did the Bank or the Fund play a role? Did anyone outside play any role in trying to resolve that? It was rather messy.

SALIM: I don't know. No, I can't tell you, you know. I don't know enough of it, you know, to be—in the process when it was resolved.

KAPUR: Do you recall the financial implications of that crisis?

SALIM: Oh, yeah. It was big. You know, in fact, the figures suggested that it was ten billion.

LEWIS: Ten billion.

SALIM: Yeah, yeah. And then it was reduced to one billion only, negotiated by [Johannes B.] Sumarlin then on behalf of the Indonesian government.

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LEWIS: Negotiated by?

SALIM: Sumarlin, the now finance minister, was the one in charge of the negotiations.

LEWIS: I see. I see.

SALIM: The background of it, of course, is, you know, the fight inside the government between Pertamina and BAPPENAS [*Badan Perencanaan Pembangunan Nasional, National Development Planning Board*], the planning board, because, you know, already in the early '70s people begin to ask, you know, "In fact, where is the planning done?" because more of the development resources are managed by Pertamina rather than by the central planning board.

You know, Pertamina at that time, because of--you know, it was very powerful and the chairman was so close to the president, you know, and it had, you know, all the big ideas about development. And in fact it was Pertamina that bring Professor Doctor [*Burhanuddin J.*] Habibie back from Germany. So, you know, they had all these big schemes on development.

LEWIS: Went for big projects, I guess.

SALIM: And big projects, yes, and they had the resources because they delayed--through their power they were able to delay the transfer of the proceeds to the central government.

WEBB: These were projects to industrialize, diversify, shipping . . .

SALIM: It was including industrialization, even agrobusiness, they were involved in a very big agrobusiness project in South Sumatra.

WEBB: Was this entirely at the level of the president of Pertamina or also the minister?

SALIM: No, it was only—the president of Pertamina himself, yes, went directly to the president.

LEWIS: And [*Mohammad*] Sadli was the minister? He was out of it, sort of.

SALIM: That's right, yeah, yeah. One time he even made the statement, "It's time to be able to X-ray Pertamina." You know, as the minister, you know, he made that public statement!

KAPUR: So it's not clear if the Bank played any role in that whole thing or even in alerting the government of Indonesia to the dangers.

SALIM: No, but, you know, if one can find the references—I think it's mostly in the

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Indonesian newspapers--there were allegations made (but only Professor Sadli can confirm this) that the change in the terms of the contract with the foreign oil companies that, I think, took place either in '74 or '75, that cost big—you know, on the part of, you know, foreign, the contractors, the oil contractors--was done at the advice of the Bank. There was, you know, sort of—and it was quick then because we reassert sort of our portion in the production share of contracts, you know. It increased from 65 to 85 or so.

LEWIS: Oh. So the Bank would advise Indonesia to . .

SALIM: To take more.

LEWIS: . . increase its share like the Gulf oil states were doing, I guess.

SALIM: Is it?

LEWIS: I think so. I think that they also--they either nationalized or they claimed their share.

SALIM: Oh, yeah. No, no, nationalization in our case already started in the '60s by this person who headed Pertamina, and that's why he was so strong, because he was the hero, you know.

LEWIS: He's the one who's now head of the Red Cross?

SALIM: That's right, Ibnu Sutowo. He was the one that sort of introduced the production-sharing contract and so on.

WEBB: But was that after the change of government or . . .

SALIM: Which one? Oh, before, before—'63, '64.

WEBB: So he overlapped two leaders.

SALIM: Yes, yes.

LEWIS: But he was quite close to the present president?

SALIM: Yes.

LEWIS: That's interesting. The Bank had advised, if it's true, advised Indonesia to increase its claims on the foreign oil companies, so it was not acting like an agent of the North at that point.

SALIM: No, no, that's right.

LEWIS: When you said that the present finance minister negotiated the reduction from

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ten billion to one billion, who was he negotiating with?

SALIM: Oh, first of all was this shipping magnate. I—do you recall his name? He's a Greek.

LEWIS: A Greek? [*Aristotle*] Onassis?

SALIM: No. Not . . .

LEWIS: The other one. I see. There was another.

SALIM: Yeah, yeah.

LEWIS: And he had borrowed resources from them or . . .

SALIM: Pertamina was going to establish a big, you know—what do you call it--tanker service, yeah, yeah, yeah, yeah, including the giant tankers.

LEWIS: I see. Ah, yes, that's right.

SALIM: So and, you know, I don't know what the terms of his borrowing was but . . .

LEWIS: He entered into obligations, very large obligations . . .

SALIM: Yes, because the market then slumped. So he had a problem. Also he--I think the agreements of the firm was done when the price was very high, so . . .

LEWIS: Probably right after the run-up, '74 or '75, along in there someplace, yeah.

SALIM: That's right.

KAPUR: What was your sense of—I mean, up until now you sort of were talking about the Bank's policy advisors on financial and industrial issues, but if you look at where the majority of [*inaudible*] focus is agriculture. What--is that a mixed bag, would you say, the Bank's role or advice or influence on issues in the agricultural sector?

SALIM: It is so much, I think, confined to physical infrastructure in the case of, you know, the Bank's--and not only Bank's but also bilateral ODA [*official development assistance*]. It's all physical infrastructure, you know, irrigation and so on. And I think of course they were useful, but if--I think the Bank's influence in, you know, the totality of the agricultural policy has been very minimal.

LEWIS: Huh.

SALIM: Oh, yeah, yeah, because it still is a very regulated sector of the economy.

LEWIS: How about things like extension and research, agricultural education?

SALIM: Oh, yeah. That's being done, you know, definitely, but . . .

KAPUR: But on the policy issues, do you feel that . . .

SALIM: Yeah, it's a policy which is very limited.

LEWIS: Any other donors more active in that sector?

SALIM: Agriculture?

LEWIS: In agriculture, yeah.

SALIM: Oh, Japan is, but also, you know, purely infrastructure: irrigation, dams and so on. U.S. AID [*Agency for International Development*] also at one time in the mid-'70s, I think, put an emphasis on agriculture.

LEWIS: There must have been--Indonesia has had quite a significant agricultural growth rate, I think, faster than population?

SALIM: Oh, yeah, yeah.

LEWIS: And you must therefore have shared in the so-called "green revolution"?

SALIM: Yes.

LEWIS: That didn't--there weren't--outside agents didn't have much to do with that?

SALIM: No, [*inaudible*]. I don't know how it came about, yeah, but this person called Mears, Leon Mears--have you heard of him?

LEWIS: Leon Mears?

SALIM: Leon Mears.

KAPUR: Myers?

SALIM: It's like Myers: M-double E-R-S.

LEWIS: Meers. Then that's the way you pronounce it, all right. I don't think I have. Who is he here--under which auspices? The Bank or . . .

SALIM: I thought he was the Harvard group.

LEWIS: He could be. We don't know. We don't know the . . .

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SALIM: He was, I think, a very influential advisor to--it might be BULOG, the logistics bureau.

WEBB: To who?

SALIM: BULOG is the logistics bureau, which, you know, is another very powerful--used to be; no longer, it was, you know, like Pertamina, the other one was BULOG.

LEWIS: How do you spell that?

SALIM: B-U-L-O-G. Bureau Oversight and Logistics. It regulates the rice market.

LEWIS: Oh, I see. [both speaking at once] The rice marketing board, huh?

SALIM: That's right, yes, but not only rice.

LEWIS: Agricultural commodities marketing board, okay. And this chap . . .

SALIM: It's headed by, you know, also a very powerful general, like Ibnu Sutowo, and is very close to the president, even until today. It's still the same man, Bustanil Arifin.

LEWIS: There is a tremendous continuity of senior people in this country.

SALIM: Oh, yeah.

LEWIS: They just sort of stay in place.

SALIM: That's right. Yeah.

LEWIS: That's combined with--I think, for so large a country and one with so many sophisticated people, an extraordinary--it seems to me, at least--incidence still of external advisors. You have a number of people in the finance ministry, BAPPENAS; now we hear this.

SALIM: Yeah, that's right.

LEWIS: The people, I guess, the senior people, the technocrats, are comfortable with that, with these advisors. How about looking at it from an Indonesian point of view from outside: is that troublesome to you, that there are still so many external advisors here? Is it a good thing?

SALIM: I think—you know, I have no problems, basically, but we wish to see it more, you know, more transparent which is not, especially the Harvard group.

LEWIS: They sort of get back in there and then you don't know what they're doing?

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SALIM: That's right, you know, yeah, yeah. No, no no, they are very secretive.

LEWIS: I see. They don't interact with people?

SALIM: No, no, no, not enough, not enough.

KAPUR: So they meet with who then?

SALIM: Yes, with just two or three people, yeah, yeah, yeah. The criticism in the country is that, you know--at two levels. One is this direct advice to the technocrats ad, you know, there is the feeling, especially in the universities and so on, the faculty of economics here, which produced the technocrats, thought that they should be included in the process, participate in the process. That is not done, I think, and that's why, you know--I think when I said "transparency" is that you know what the advice is and that you can, you know, be informed in discussing those policies. But maybe it cannot be done openly because, you know, this is--it's not only the economic field; it's all policies of the government which is not transparent, in fact! But especially in the case of economic policies it is known that you have a lot of, you know, advice from the outside, from, you know, expatriates, foreign experts and so on, so that creates . . .

Second is at the more formal level. The rates applied in the various projects of the Indonesian government to foreign and national consultants are different, so you discriminated, you know, the locals are discriminated against.

LEWIS: In terms of rates of pay?

SALIM: That's right, yeah, yeah.

LEWIS: How about in terms of interaction with the nonofficial, say, academic research community? Is the Bank any different from the Harvard group? Do the people, Bank economists get out into seminars around the universities?

SALIM: Yes, they do, but perhaps not enough, you see. It's the annual missions, the various missions, that I think come and talk to a lot of people. But, well, even in the case, if Mari is here, you know, Mari Pangestu, my colleague, you know she has very intensive relations with the Bank because she is involved in many of their studies as a consultant.

LEWIS: She's a member of . .

SALIM: Yeah, yeah, she is head of the economics department here.

LEWIS: I see. Where did you do your training, by the way?

SALIM: Oh, I did my Ph.D. at the Rand graduate school.

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LEWIS: Oh, we heard that from somebody. Very interesting. Yes.

SALIM: In Santa Monica.

LEWIS: Yes, I know, and who's the fellow in charge of economics there?

SALIM: Charles Wolf.

LEWIS: Yeah, yeah. And she did hers?

SALIM: Davis, U.C. [*University of California*] Davis.

LEWIS: Oh, U.C. Davis. But she's not an agricultural economist?

SALIM: No, no, macro. Monetary.

KAPUR: They've got one of the best Marxist economics departments.

LEWIS: U.C. Davis?

KAPUR: John Roemer.

SALIM: Oh, yes. Does it still have an appeal now?

LEWIS: It must feel kind of lonely.

KAPUR: You know, cycles of history, obviously.

WEBB: You know, one has a lot of circumstantial evidence that the Bank must be doing something, helping. Indonesia has done relatively well and there has been a close relationship with the Bank, but it's hard to go beyond that circumstantial evidence. It's hard to find more concrete, more specifics to identify just how the Bank has helped-- except for the money. The money is obvious; it's there. One has [*inaudible*] policy ideas or project design, project orientation, training at lower levels perhaps? Do you have a sense of any of that? Is there something that would help us to understand the Bank's more day-to-day work here?

SALIM: No, I don't. I don't know; I don't know. And I, you know, very much rely on secondary, also, sources.

Somebody in the mid-'70s came and did an evaluation on the World Bank projects in Indonesia. Have you seen a report? In the '70s. James something?

LEWIS: James something? Was he from the Bank?

SALIM: No, outside. He did a critical review of the Bank's performance in Indonesia.

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It was in the *Wall Street Journal*. Have you seen it? James . . .

KAPUR: I remember this because [*Robert S.*] McNamara [*inaudible*] in the president's files. This was specifically, I thought, related to one project, the transmigration.

SALIM: Not only. No, he also—they also talked—you know, he went around and looked. Basically it's an evaluation of how successful the basic human needs approach is--or was—you know when it changed from infrastructure, physical infrastructure, you know, into the more . . .

LEWIS: He must have come in the late '70s, then, sometime?

SALIM: Yeah, yeah. Maybe '77.

LEWIS: That would be about right because they had the big world ILO [*International Labour Organization*] conference in June of 1976, and that was when the, sort of, the phrase got spotlighted. The Bank started talking in terms of basic human needs even after that, although McNamara was talking about . . .

SALIM: Yeah, yeah. It—you know, those projects that goes directly to the people.

LEWIS: Integrated rural development.

SALIM: And also, you know, in the cities it's the kampong development projects [several speaking at once]

KAPUR: Everybody trying to [all speaking at once]

SALIM: That's right. Yes, yes.

WEBB: And also the transmigration.

LEWIS: We should try to look up that.

SALIM: Yeah, you know because they asked--at least, you know, the one I remember was on this kampong development project. You improved the physical nature of these kompongs. It increased the value of the land. People are moving out, you know, because they sell it and then go out to live again in, you know, poor environments. So the improvement of the environment is not valued, and many other, you know, interesting things.

But I think the transmigration was one of the most controversial involvement of the Bank. Later only; not at the beginning. It was later because it was one of the largest projects ever, 1.6 billion.

LEWIS: Was it controversial outside the government in Indonesia at the beginning?

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SALIM: It was controversial outside of the country, and the pressures came from outside of the country. Australians, people in the Netherlands criticized.

LEWIS: I see. But here in Indonesia, the Jakarta people were happy?

SALIM: No. Maybe when we criticize it it's because, you know, the way so much money, you know, was being managed in a very questionable way by the Indonesian side and that the Bank keeps, you know, giving money to a project we are not very, you know, comfortable with--not because of the nature of the project but because of its management.

LEWIS: I see.

KAPUR: I mean, the outside criticism focused . .

SALIM: On the policy.

KAPUR: . . on the nature of the project . .

SALIM: Yes, that's right.

KAPUR: . . and the internal ones criticized because a lot of money but sort of vanished.

LEWIS: Speaking of money vanishing, do you feel that the Bank has not been sufficiently aggressive in attention to corruption problems?

SALIM: It has never been made an issue of it.

LEWIS: Never made an issue.

SALIM: No, at least not in the open, no, not in the open.

KAPUR: Is it your sense that it is a serious enough issue to have made an issue of it?

SALIM: No. You know, not in the magnitude, say. It is serious because it's widespread, yeah, but, in terms of magnitudes of, I don't, you know . . .

LEWIS: It's something one can live with, probably?

SALIM: Yeah, yeah.

WEBB: One area that the Bank is very happy with and just self-congratulatory is population policy, the reduction figures [inaudible] The Bank has been a consistent supporter of . .

SALIM: BKKBN [*Badan Koordinasi Keluarga Berencana Nasional, National Family*

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Planning Coordinating Board].

WEBB: This might be too far away from your own area. Do you feel--is the Bank's influence visible there besides the money?

SALIM: It's not generally seen that way. No. I don't know enough, but, you know, in the country I don't think, you know, people would give the credit to the Bank.

LEWIS: Right. Well, that might be a good thing. That might be a success story, as far as the Bank is concerned, because I don't know how politically sensitive family planning, population control is here. Is it a politically sensitive subject or . . .

SALIM: No more. It was in the past, you know, because of religious opposition, but . . .

LEWIS: Yeah, that's what I mean. No more?

SALIM: No more, and it was not a big problem because the Muslims accepted. It was the Catholic Church . . .

LEWIS: Yes, I understand.

SALIM: . . . that, you know, at one time--but, you know, the Catholic Church is a small church anyway [in Indonesia].

LEWIS: So they don't--I think it's true also in Pakistan, for example, that they were able to put in a rather forceful single-track sort of family planning program for awhile in the '60s that was not much . . .

In India, where I was, it was very politically sensitive partly because of rivalries between the communities, that the Hindus would think the Muslims were out-procreating, you know, and that sort of thing. I felt it was a very tricky area for an outside donor to get into very overtly.

SALIM: That's right, yeah. But I think, you know, all donors did sort of contribute to the family planning project. It is one of . . . [both speaking at once]

LEWIS: Yeah, probably for a while. In the '60s and '70s AID was the most vociferous, I suppose.

Is there within the country a very active concern about the population issue, or is it sort of a second-order, third-order kind of development concern?

SALIM: Well, it changes. Well, it has always been, but it's more a concern of the government rather than the people.

LEWIS: The government. I see. They recognize it as a priority; it's one of the things

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that they sort of push and people accept it?

SALIM: Yeah.

KAPUR: Is your sense that the sort of export-led model of development that the Bank has sort of advocated [inaudible] very well. Has it affected [inaudible] poverty?

SALIM: Maybe. There is very little empirical studies done so far, you know. What has been released by the central bureau of statistics is only the percentage of the population under the poverty line, which they have just released. You know it is even declining now, much better, but it's not the relative poverty, which I think is growing, the gap definitely is growing.

LEWIS: Do you think that the unequal distribution is growing . .

SALIM: Growing, but . . .

LEWIS: . . but the whole thing is moving up.

SALIM: . . that's right. It's moving up, yes, so less people are under the poverty line, but, you know, the gap between the rich and the poor . . .

LEWIS: How often do they make this observation?

SALIM: I think every three years now.

LEWIS: Every three years.

SALIM: It's based on—you know, in fact, it's based on an expenditure survey and therefore, you know, there are some qualifications when you do that. But it cannot be used to see the relative inequalities because the top is not covered by the survey. It is from [inaudible]

LEWIS: If you see the city, one thinks there must be some--the top must be doing very well.

SALIM: Oh, yeah.

WEBB: It's a long [inaudible] you have 20 to 25 years of not bad growth in [inaudible] Policies have varied, of course, but then very recently you have, like everywhere in the world, you have liberalization being pushed, but most of the time in those 25 years in Indonesia, how would you characterize the economic policies? Is it moderate protectionism or strong protectionism?

[End Tape 1, Side A]

[Begin Tape 1, Side B]

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SALIM: So it was a big change. For instance, the very open exchange regime was introduced, you know, from the very beginning.

WEBB: In the early '70s.

SALIM: Yeah, the late '60s.

LEWIS: Late '60s: '66, '67.

KAPUR: But that's more because things three, four years before that had become so bad? [all speaking at once]

LEWIS: It was a radical change.

SALIM: It was very--and it came, you know, in fact, it changed with the introduction of the foreign investment law which was in fact the first one enacted after the change. So it was immediately seen that, you know, the way we have to sort of go about it now is, you know, to bring in resources from outside, and, you know, it's private resources.

LEWIS: There was quite a switch of policies when people, you know, Dick [*Richard N.*] Cooper and Larry [*Lawrence J.*] White were here and so on.

WEBB: I'm aware of the switch because it was so bad before, but I'm wondering where it came out? At what level?

KAPUR: The more absolute sense.

SALIM: Oh, it was, you know, in a way a protectionist policy, definitely, yeah, yeah, you know, but not excessive, I think. It increased--protectionism increased since '74, from '74 and then up to like '82, '83.

LEWIS: But development strategy involves a lot more than trade regimes; there's [*inaudible*] It involves saving, investment, macro management, allocation, human capital development--all this stuff has been evolving, I suppose.

SALIM: Yeah, yeah. It's some, you know, lacking, like you mentioned before human resource development. I think it's recognized as one of the areas which has not been given sufficient attention to, and also spatial, you know, sort of . . .

So, you know, fiscal policy, okay; monetary policy, okay; trade, industrial policy, but not spatial and human resources development.

LEWIS: And if you're giving a report card to the Bank from what you know, you feel they have not done very much in human resource development. Have they been helpful in education?

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SALIM: Yeah, but, you know, I think it's like—what?—pouring, you know, water into the ocean.

LEWIS: Are you thinking about primary education? A drop in the bucket, probably.

SALIM: Yeah, yeah, anything. And the problem is because on our side we cannot organize ourselves. That's the problem. So, you know, assistance from the outside . . .

LEWIS: Even in universities?

SALIM: Not in general. You know, you can see at the University of Indonesia, of course, the I-U-C programs of the Bank, you know, which was financed of the Bank. It works in some universities, but it's very . . .

LEWIS: I-U-C is what?

SALIM: It's the Inter-University Center.

LEWIS: Oh, I see.

SALIM: So the idea is to develop the curriculum, staff, and so on, so pooling of resources, you know, so the faculty of economics of all the state universities is coordinated at the faculty of economics here, social sciences in Yogyakarta and so on. So you are pooling resources, and it's all financed by the Bank.

LEWIS: Really?

SALIM: Yeah.

WEBB: You just said something that I found very surprising. All the time when we talk to people trying to understand why Indonesia has done relatively well, we're told that Indonesia has, somewhat like Japan and other East Asian countries, societies very good at organizing themselves, but you just said, "We can't organize ourselves." [Laughter] So what's the true story?

LEWIS: There's a related question that comes out of the same conversation about how, traditionally, how high a priority have you had in this society on education. You know, this is one of the things that's pointed out in Korea, Japan, that maybe it's something to do with the East Asian culture. It's been a very high priority, Confucian or whatever. Is the same sort of thing . . .

SALIM: Not traditionally, but it's—no, not traditionally, but it's growing, you know. It is growing, the awareness is growing. And it differs from one region to another region. There is, you know, one particular region which stands out most, you know, as being very conscious about educational problems, and that is North Sumatra, you know, the

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Tapanuli people.

LEWIS: Aceh?

SALIM: No, Tapanuli. The Batak people.

LEWIS: I see.

SALIM: Yes, they give a lot of emphasis on education, and it's only in the last 25 years that now you see at the higher echelon people in the government now are all Batak people. You know, not all, but, you know, all of a sudden.

LEWIS: I see. That is a . . .

SALIM: Oh, yeah, their mobility, social mobility, is very fast. The legal profession . .

LEWIS: Is it a much stronger secondary education or . . .

SALIM: All the way, all the way. They want to go to the top. Very strong.

LEWIS: Is it an ethnic or cultural or is it sort of a regional thing?

SALIM: It's ethnic as well as cultural, you know, and they are Christians.

LEWIS: They're Christians.

SALIM: Yeah, Christians. It was only a hundred years ago that, you know, the area was opened up. A hundred years ago they still, you know . . .

KAPUR: They were *[inaudible]*

SALIM: Yes, that's right, yeah, yeah, and they were still cannibals then.

LEWIS: Were they?

SALIM: Yeah, yeah.

LEWIS: Batak.

KAPUR: It's a bit like Papua New Guinea opening up.

SALIM: Yeah, but you know in Papua New Guinea there is no social structure whereas in the Batak area it is very strong. It was primitive, but, you know, they have a sort of functioning social structure.

LEWIS: They now occupy quite senior positions in the government?

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SALIM: Yeah, and also in the legal profession because they talk very well. *[Laughter]* They can argue very well! Yeah, yeah.

LEWIS: That suggests that there is not much discrimination here in terms of different communities, ethnic groups and so on?

KAPUR: The popular thinking used to be that the Javanese used to dominate . . .

SALIM: Yeah, yeah, because it's, you know, 60 percent of the population.

WEBB: When you said you can't organize education yourself, to come back to that, were you referring specifically to . .

SALIM: To education, particularly to education.

WEBB: It's not a general problem?

SALIM: Well, again, you know, to compare with Japan, of course, we are so different, and we always tend to say, you know, Japan, being so homogeneous *[inaudible]* it's not compared to Japan; we are a very heterogeneous society and therefore it's more difficult to organize. Also because of, you know, the geographic nature of the country, islands that are also difficult to organize, it seems. And at least, you know, in Indonesia we think that the only institution that can organize itself still is only the military, you know, so far. The bureaucracy doesn't have a long history in Indonesia because under the Dutch, as perhaps distinct from the British, yeah, you know there were no--you know the civil servants were not trained. It was only under the three years of the Japanese occupation that we begin to organize ourselves. Yeah. But not previously. A modern bureaucracy was only set up in the early '40s. The Dutch had run the country through, you know, the traditional—what do you call--you know, through the sultanates and so on.

LEWIS: So this set of technocrats who seem to have on the economic side been running things in a very cohesive, brotherly way and quite competent way, so we are told, they're all about the same age. They're all getting fairly old now. Is there any concern from the outside about whether the bureaucracy is producing successors to these people or . . .

SALIM: Yeah, well, the successors—well, the recruitment, let's say, continues to come from the universities. So it's not done in the bureaucracy.

LEWIS: I see. From the universities?

SALIM: Yeah, yeah, yeah, by the technocrats.

KAPUR: There's no civil service exam *[inaudible]* which are recruited from . .

SALIM: Oh, there are, but not for the top *[both speaking at once]*

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LEWIS: It's the leaders that are coming in the side-door entry.

SALIM: Yeah.

LEWIS: And some of these people still in the university are sort of recognized as potential successors to Ali Wardhana and . . .

SALIM: Oh, yes. And they are all in BAPPENAS. BAPPENAS keeps, you know, drawing people from the outside, from universities, not only in Jakarta now but also Gadjah Mada.

WEBB: BAPPENAS really is a planning center. I don't know any other country where-- I mean, every country has a planning office, but I don't know where there's one that really has an influence that makes, that really determines much, but it seems to have a substantial influence.

SALIM: Yeah.

KAPUR: Which is the most powerful, the finance ministry or BAPPENAS?

SALIM: In fact it's very difficult to separate them.

KAPUR: Maybe that explains its success, it's very close . . .

SALIM: Yeah, yeah, they have very closely—and, you know, one of the--I think the key to the success is that, you know, at least even until now although, you know, the cohesion, the strengths of the technocrats is not as they were in the '70s and, you know, their control over the economic sector has weakened. For instance, you know, the industries department is no longer under their purview, but maybe it has never been. It was BAPPENAS, the finance ministry, the central bank, and trade to some extent, but these three were always in their hands, you know, and that's the key: it's done by the group.

LEWIS: I would guess the answer to Richard's question is that the reason BAPPENAS seems to be the, still the sort of leader is because Widjojo is there.

SALIM: Yes. Definitely.

LEWIS: I mean, he's recognized as [both speaking at once] and that's where he's chosen to plant his flag [both speaking at once]

SALIM: Definitely, you know, so you cannot ignore, I think, the role of the person, yeah, which is Widjojo, and also because BAPPENAS at the same time that it is a planning bureau is also an office of--you know, an OMB [*U.S. Office of Management and Budget*]. Office of management and budget, that's right. So it's very much involved

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in the implementation, and it can only do so because it works very closely with the finance ministry.

LEWIS: Yeah, probably OMB is a pretty good analogy, right.

WEBB: Is there any one idea or policy that you identify with the Bank, not exclusively but where the Bank had a lot to do with it?

SALIM: One particular? It's difficult to say, but I, you know, I think it's industrial restructuring, maybe, if there is.

LEWIS: Industrial restructuring?

SALIM: Mm-hmm. You know, very clearly it can be identified, you know, as a direction of policy which could not have been undertaken without some—I don't know; you call it "pressure"--but without the involvement of the Bank. So I don't want to say, you know, ideas. There are many ideas, but this particular direction, you know, of industrial restructuring could not have been undertaken . .

LEWIS: In favor of comparative advantage, you mean?

SALIM: That's right. Yes. And the reason is because of so much, you know, there is so much interest group in the country, and without, you know, the direct involvement of the Bank there's no way, you know, we could have done it.

WEBB: Do you know how the Bank has applied pressure on it?

SALIM: Oh, one way is to make it explicit in the annual reports over a number of years. And then it began, you know--I think it was sometime in the early '80s—you know, the Bank, the mission that they sent, you know, understand that in the country there are a few, you know, who have begun to sort of propose this idea but that, you know, Indonesians could not get through it because we have to face, you know, a big wall. And they offered themselves; you know, in the conversations we had with the members of the mission, they said, "Please use us" to, you know, to . .

LEWIS: The big wall was within the government?

SALIM: Oh, yeah, yeah, yeah.

KAPUR: Or the local industrialists?

SALIM: That's right. Yeah, yeah, but they all used their particular government, you know, connections, too. Yeah. So they make themselves available. They said, "Please use us." And in fact because of that I think the Bank had many sort of supporters from outside, you know, from the people—you know, from people [*inaudible*] but some people--who were willing to provide the Bank with very detailed information, you know,

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on how an industry [*inaudible*] People were willing to talk to World Bank people, and it was then, you know, put in the report.

LEWIS: In terms of contrary influence, would that have been coming from the Japanese for big capital-intensive projects? I mean, we've had a chance in Thailand to think the Japanese were pushing very much in that region against the sort of comparative advantage approach, labor-intensive stuff. You don't have the same . .

SALIM: Not here, no. Not here.

LEWIS: So there's no outside actor who was really . .

SALIM: Not pushing in that direction, but, you know, once there is indication that, you know, we want to go there, it was the Japanese who immediately grabbed the opportunity. Also the Germans.

LEWIS: For the industrial restructuring?

SALIM: Oh, no, no, no, previously. On the import substitution [both speaking at once] and the Krakatoa Steel. Yes. They were German. Yeah, yeah.

WEBB: That was a World Bank-financed project?

SALIM: No.

WEBB: No?

SALIM: No, it was initially a Soviet-financed project. It was taken over by the Germans. Yeah, yeah. It was a Russian project initially.

KAPUR: This industrial restructuring, do you remember any names of the World Bank . .

LEWIS: People who came on those missions, said "use us"? No?

SALIM: I cannot recall. No. But they were relatively young, you know, so I can't remember.

LEWIS: Do you remember any World Bank-financed projects that have been particularly bad? We've heard some reference to, I think, a South Sumatra power project.

SALIM: I don't know the details, no. Yeah, but maybe transmigration is one.

LEWIS: Transmigration, yeah, would be.

SALIM: That maybe one, and then smaller ones. You know, you talk to some people in the department of education who have been involved in all this. And, you know, it was-- in the past I heard a few times, you know, mentioning that, "In fact we don't want it, but we were forced to accept these projects by the Bank." Yeah, yeah. So it happened also, but maybe in terms of amounts they are very small.

WEBB: Who would be able to tell us about things like that? Would people in the government admit or talk openly about . . .

SALIM: No, but those who are no longer in the government might, you know, yeah.

WEBB: Is there someone in public works, for example, agriculture?

SALIM: Mm-hmm.

LEWIS: You've given us a lot of information.

WEBB: You've been extremely helpful.

SALIM: I'm only an observer from, you know, quite afar.

LEWIS: We're meeting with a few--we've met with one NGO [*non-governmental organization*] group, the Legal Aid Society, and at least I'm going--I think I may go to a few more of them next Wednesday. Are there other outside--is it important for us to go talk to people in the universities to get perspectives from outside the Bank? Are there particular people?

SALIM: How about, yeah, yeah, at the faculty of economics?

LEWIS: Faculty of economics?

SALIM: How about Dorodjatun, is he on your list? Professor Dorodjatun Kuntjoro-Jakti.

WEBB: T-O-R-O?

SALIM: D-O. Dorodjatun.

KAPUR: Sumitro is [*inaudible*]

SALIM: No.

KAPUR: I don't know who is this man.

SALIM: Oh, he is the ayatollah. [*inaudible*; interviewee seems to have moved away from the recorder to get something] economist.

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LEWIS: He's what?

KAPUR: He's the ayatollah.

LEWIS: The ayatollah, huh.

KAPUR: Who does he work with?

SALIM: Oh, he's no more. He's retired. He is in the mid-70s.

LEWIS: Who is this? Suyono [*Sastrodarsono*]?

SALIM: Sumitro Djojohadikusumo. He was our first finance minister.

LEWIS: Oh, yes, yes. He was the one who was everybody's professor.

SALIM: The eminent professor.

LEWIS: He was back in Sukarno's time.

SALIM: He was in exile and came back only in '68 or so and became a minister again and now is an in-law of the president.

LEWIS: Oh, he is?

SALIM: Yes.

LEWIS: Well, he's the one who has a bunch of sons, isn't he?

SALIM: Two.

KAPUR: One of whom is married to . .

SALIM: A daughter of the president.

LEWIS: How to recover your status.

SALIM: How about Doctor Sjahrir? Is he on your list? Sjahrir, S-J-A-H-R-I-R. What is his--Economic and Financial Institute.

Are you going to see Professor [*Mohammad*] Sadli?

LEWIS: We saw him last night. He's the only one that I know from past work. We had a very good conversation with him last evening. I forgot to ask him for some papers that he's written, apparently.

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WEBB: He told us more about ASEAN [*Association of Southeast Asian Nations*] and [*inaudible*]

SALIM: Oh, yes, because that's what he is doing now, yeah, yeah.

[End of Tape 1, Side B]

[End of Interview]