

The United States and Suharto: April 1966- December 1968

206. Memorandum From Donald W. Ropa of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, April 18, 1966.

SUBJECT

The Current Indonesian Situation

The agreement to sell 50,000 tons of PL-480 Title IV rice to the Indonesian Government was signed yesterday and publicly announced today. This limited resumption of aid marks a turning point on the road back to cooperative relations now that Sukarno's power has been circumscribed. The change in the Djakarta atmosphere and the break with many of Sukarno's discredited policies continue to be reflected in the economic realism, a lessening of tension over Malaysia and the unabated drive to root out Communist influence from the ministries that have so far characterized General Suharto's new administration.

The Sultan of Djogjakarta has frankly outlined the chaotic state of the Indonesian economy and mapped goals for encouraging private enterprise and rehabilitating agriculture, textile and agricultural implement factories, and transportation. He has promised no easy solutions and called on the private sector as well as the government to practice simplicity in daily living.² There are other indications that the government may be preparing to return seized U.S. rubber estates to their owners.

Indonesia has moved to restore diplomatic relations with Singapore, which may portend a long range series of measures to ease the Malaysia confrontation, even while publicly reiterating that the policy of confrontation is continuing. The Singapore Government has welcomed the Indonesian decision to normalize relations and has moved to reassure the Government of Malaysia by declaring that it would

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VI, 11/65-5/66. Secret.

² In an April 22 memorandum to Rostow entitled "Forward Planning in the Far East," Ropa stated that the "short and long term prospects for Indonesia are not encouraging, and the new administration's version of economic realism may not produce results satisfying to younger elements seeking more rapid and radical solutions." Ropa saw "seeds of serious internal trouble" such as "undertones of Moslem theocracy" which could adversely affect development. Ropa suggested more attention to the "stirrings beneath the surface of the anti-Communist political momentum now at work." (Ibid., Files of Bromley K. Smith, Planning Talks)

consult on all matters where Malaysia's defense interests were affected. While the Tunku's initial reaction was relatively calm, he has subsequently attacked the move to normalize relations as a measure designed to further Indonesia's policy of confrontation. Lee Quan Yew is taking additional private steps to assure the Tunku that the normalization will not be directed against Malaysia. The Tunku remains suspicious over Sukarno's continuing influence on the confrontation policy, and this has tempered moves on his part that might contribute to a reduction in tensions. Meanwhile, Foreign Minister Malik is proceeding with plans to return Indonesia to the United Nations and rejoin other international bodies despite Sukarno's public denial that this would take place.

Internally, the unabated drive against remaining Communist sympathizers in government ministries has been augmented by the initiation of a concerted campaign against the Chinese residents in Indonesia. The sacking and burning of the Chinese Communist Embassy and related pressures against the Chinese without official Indonesian restraints indicate to our Embassy that the new leaders in Indonesia may be attempting to force Peking to break relations with Indonesia.³

These events are indicative of the gradual movement now taking place on a broad front to reverse Sukarno's policies. Sukarno continues to be isolated and insulated from the policy decisions that are being taken by the Suharto administration, and the evidence continues to accumulate that this latest in the successive military efforts to circumscribe Sukarno's power is finally succeeding.

Our policy continues to be one of restraint in projecting more expansive aid, while we continue to monitor the measures being undertaken by Indonesia to rationalize economic policies. We continue to believe that too rapid an acceleration in restoring our aid program would work against the economic reforms that are considered essential.

D. W. Ropa⁴

³ The Office of Current Intelligence of the CIA prepared an intelligence memorandum, SC No. 00763/66A, April 1, entitled "Peking's Setback in Indonesia," which suggested that the elimination of pro-Communist elements from power in Djakarta and the reversal of Sukarno's pro-Chinese policies represented the most serious recent setback for China. In OCI No. 1352/666, April 29, the Office of Current Intelligence suggested that the PKI would probably survive as an underground organization, but its effectiveness as a national political force would be virtually nil. (Johnson Library, National Security File, Country File, Indonesia, Vol. VI, 11/65-5/66)

⁴ Printed from a copy that bears this typed signature.

207. Memorandum From James C. Thomson, Jr., of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, May 4, 1966.

SUBJECT

The VP's Inquiry about Cotton for Indonesia

This is a murky subject on which State sounds bureaucratic but is probably right, for the time being.

We do have a sizeable cotton surplus, and it would be good for us and for them if we were to unload some of it on the Indos. The two possible routes are (1) PL 480 Title IV, and (2) commercial sales, with CCC guarantee of an Indo letter of credit.

Prior to the recent PL 480 rice deal, we resisted both possibilities on the say-so of Suharto/Nasution (who didn't want their struggle with Sukarno complicated by any visible U.S. government involvement).

Our present aim is both to meet bona fide Indo emergency needs *and* to push the Indos toward doing more than living off the dole (ergo, tidying up their house, planning, organizing multilateral aid, etc.).

So far, State has been reluctant to follow up too closely on the rice deal with a cotton deal; but the prediction is that a PL 480 cotton deal is probable within the next two months. (See attached overly caustic Deptel 1325 to Djakarta.)²

As for CCC guarantee of Indo letters of credit: the Bank of Indonesia is still patently and totally bankrupt, and a CCC guarantee of a bankrupt bank would be *de facto* foreign aid—which Agriculture is so far anxious to avoid.

In addition, while the PL 480 route permits a fair profit to U.S. rice brokers and shippers, under USDA supervision, the CCC route permits rather exorbitant profits to Indo middlemen and (if they can collect) U.S. dealers. Some dealers, I am told, actually prefer the PL 480 safe-and-sure arrangement. But there are obviously conflicting viewpoints here.

James C. Thomson, Jr.³

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VI, 11/65-5/66. Secret.

² Dated April 29. (National Archives and Records Administration, RG 59, Central Files 1964-66, AID (US) 15-1 INDON)

³ John De Luca signed for Thompson above Thompson's typed signature.

208. Editorial Note

At the 557th Meeting of the National Security Council on May 10, 1966, Ambassador to Vietnam Henry Cabot Lodge stated: "the recent overthrow of the Communists in Indonesia is a direct result of our having taken a firm stand in Vietnam." For the complete account of the report of the meeting, see *Foreign Relations, 1964-1968*, volume IV, Document 135.

According to a memorandum from Deputy Director of Central Intelligence Richard Helms to Walt Rostow, May 13, President Johnson asked for a study analyzing the relationship between the Indonesian crisis and U.S. determination in Vietnam. (Johnson Library, National Security File, Country File, Indonesia, Vol. VI, 11/65-5/66) Helms submitted to Rostow for the President an Intelligence Memorandum, OCI No. 0815/66, May 13, which stated: "we have searched in vain for evidence that the U.S. display of determination in Vietnam directly influenced the outcome of the Indonesian crisis in any significant way." The Central Intelligence Agency's Office of Current Intelligence concluded that the Indonesian coup "appears to have evolved purely from a complex and long-standing domestic political situation." The memorandum did acknowledge, that "in a strategic sense, it is possible—though there is no evidence for this—that US determination in Vietnam did indirectly have some influence in shaping events in Indonesia." The memorandum suggested that without US intervention, most of South Vietnam would have been in Communist hands and China would have dominated Southeast Asia. Such a situation would have encouraged Sukarno to accelerate his program to the point where the Army leaders would have had to accede to his power. Still, the memorandum ended with the statement that "no Indonesian leader among those now in ascendancy has ever given any indication that he viewed the situation in this way." (Ibid.)

209. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, May 27, 1966, 0505Z.

3294. Ref: Embtel 3261 (Notal).²

1. My scheduled hour meeting with General Suharto May 26 ran 20 minutes overtime, with General Suharto taking lead on each of rubrics mentioned reftel. Though Suharto understands English fairly well if spoken clearly and slowly (which I did) he insists on use of interpreter which almost halved amount of ground we could cover.

2. US-Indo Relations. Suharto, who seemed buoyant and confident, spoke of success in crushing Communists and other gestapo elements but there is still a job to be done. Many Communist cadre still at large. His government determined stamp out communism, establish law and order, and give full expression to Pantjasila which Suharto mentioned several times as being the key philosophy and uniting factor amongst Indonesians. Main danger government faced was economic. One only had to travel through central and east Java, he continued, to see grinding poverty of that area (in some places people growing rice in earthen pots to scrounge a few extra liters of rice per year). Unless something could be done to alleviate suffering of people, door would be open for resurgence of communism. At this point Suharto outlined his scheme for relieving Java population pressures and increasing Indonesian export earnings by transporting people from Java to Borneo to cultivate rice and develop forest industries, a project which General Tasmin had already described to DefAtt, and which we have reported. Like Tasmin, Suharto made pitch for US support for this project even going so far as to add his hope that we could furnish some LST's since building port facilities too time-consuming and costly.

3. I replied there were a number of things we would both have to consider in connection with this proposal. First there was the problem of resuming a US aid program in Indonesia: so far his government had not asked us for any aid and if it did, our administration would have to go to Congress to request funds for program for Indonesia. It would, of course, be in both our interests that such request be against background of improving relationships and improved handling of Indo economic problems. Secondly, we would both have to consider kinds

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, POL INDON-US. Secret. Repeated to Bangkok, Canberra, CINCPAC for POLAD, Kuala Lumpur, London, Manila, Saigon, Singapore, and DOD.

² In telegram 3261 from Djakarta, May 23, Green reported he had an appointment with Suharto and listed the topics for discussion. (Ibid.)

of assistance most useful to Indonesia. I was most sympathetic to Java's poverty problem. We had supported at one time, until Sukarno told us to go to hell, a successful food for work project. In my personal estimation, such project might have a high priority in meeting the problem he mentioned. As far as Kalimantan's development concerned, he might also wish to keep in mind advantages of assistance from foreign private capital in opening forest and other industries. Support might well come in larger amounts and more quickly from foreign private rather than foreign government sources.

4. Suharto replied that opportunities for expanded agricultural production in central and east Java were very limited. I questioned this but acknowledged there was also need for development of Kalimantan and other outer islands. We agreed these were all things we should talk about more.

5. Containment of China through SEA Cooperation. Discussion of this topic revolved almost entirely around confrontation issue, with Suharto attempting to defend Indonesian policy along conventional GOI lines of argumentation but ended with a firm statement of Indonesia's intention now to bring confrontation to close. He expressed hope that Bangkok talks would provide satisfactory solution based on Manila Agreement, but that this would require give and take on both sides. Sole reason Suharto advanced for GOI desiring end of confrontation was in order pave way for closer association with neighboring countries against menace of Communist China. However, he argued this point with real conviction.

6. I said we welcomed ending of confrontation for reasons he cited as well as others. As far as Peking concerned, it had ever since late summer 1963 greatly welcomed Indonesian confrontation policy which served to divide and weaken areas over which Peking sought to extend domination. I referred to intelligence reports about how Chen Yi, on visit to Indonesia in Aug. 1965, had pressed for continuation of confrontation and non-recognition of Singapore and Malaysia. Peking seemed genuinely concerned at that time that Indonesia might be tiring of confrontation policy, and in any event Peking wanted to isolate Singapore from Malaysia and Indonesia in order to weaken its economy and promote rise of the Barisan socialists. I said Suharto had earned much respect around the world for the way he is seeking good relations with all Indonesia's neighbors in this area. This would serve Indonesia's best political, economic, and strategic interests. I trusted nothing would be allowed to happen to interfere with accomplishment of settling matter so much in Indonesia's interests and so contrary to objectives of Peking.

7. Ways and Means of Ending Vietnam War. Suharto spoke very briefly on this subject, emphasizing GOI's desire to see end of war in

Vietnam. He pointed out that Indonesian mission to Hanoi last year had returned with impression that Hanoi had divided feelings as between Peking-oriented communism and Vietnam nationalism. Suharto asked what I thought the chances were of a peaceful solution.

8. I described Peking as seeking to keep war going in order to undermine economic and political order so as to pave way to extending Chinese hegemony over that area. Peking also seeking to bring about humiliating defeat of US and force withdrawal of American power from Southeast Asia thus leaving area exposed to Peking dominance. I didn't think USSR would be helpful in bringing about peace. Even though it might well desire to see hostilities ended, it feared being labeled by ChiComs as soft and revisionist which evidently Moscow feels would weaken its position with certain Communist parties. Key to peace lay with Hanoi, and it was our policy to make peace attractive to Hanoi while at the same time aggression prohibitively costly. We are using minimum of force to this end but we will not be deterred from using such force as is necessary to uphold our commitments and help protect South Vietnam and, indeed, many other countries from Communist aggression from North. I also gave brief account of current events in South Vietnam drawing on gridiron report and other materials.

9. Suharto reiterated his government's hope that peace could come to Vietnam and to all of Southeast Asia. I said I hoped his government could make this point with Hanoi, since it is up to Hanoi to respond to the many overtures from our side supported by countries all around the world.

10. Suharto once again said that he hoped negotiations for ending confrontation would work out satisfactorily so as to pave way for closer unity with its neighbors including Thailand and Laos. I said I hoped we could keep in touch on these matters. I would be glad to furnish him with information or briefing materials and we would be most interested to have his views at any time.

11. *Comments:* Significantly, Suharto emphasized Pantjasila rather than Sukarno as Indonesia's unifying force and he did not refer to Sukarno once either directly or indirectly. I was disappointed he devoted so much time and emphasis to his Kalimantan project. He must know my views on this since Malik had already taken it up with me. However, it is a project dear to Suharto's heart, and, since Suharto is key figure in Indonesia, we will have to give considerable thought to anticipated future pressures for assistance in this project.

12. It was a useful overall exchange, most heartening for Suharto's clear awareness of Peking's threat to SEA. He referred throughout to China as "the enemy." This does not mean Indonesian willingness to abandon non-alignment but it does imply broader Indonesian associa-

tion with countries that can be of assistance to Indonesia strategically as well as economically.

Green

**210. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹**

Washington, June 8, 1966, 2:35 p.m.

Mr. President:

State is anxious that you read the attached paper on Indonesia.

It's an excellent summary of the evolution of Indonesia and our policy since October 1 of last year.

The operational point is this (see pp. 4-6): if they get Sukarno out soon, we may well face the following aid issues:

- Further emergency aid (P.L. 480).
- Multilateral debt rescheduling.
- Basic long term assistance (mainly European, Japanese, multilateral, but perhaps some U.S. bilateral).
- Conceivably, some very small military assistance for training and civic action.

Forward planning on this has been remarkably good, even to keeping key Congressional leaders informed. Thus far, they have been sympathetic.

The town wished you to be informed.

No decision required, unless you wish to give guidance.

Walt

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [1 of 2]. Secret. The memorandum indicates the President saw it.

Attachment

Paper Prepared in the Department of State

INDONESIA

Background

1. Last October 1 the Indonesian Communist Party associated itself with elements of the armed forces to stage a take-over of the Indonesian Government which was promptly suppressed by the Army. Between October 1 and the middle of March of this year the Communist Party was virtually eliminated as an effective political organization, perhaps as many as 300,000 Indonesians were killed—the great bulk of whom we believe were in fact associated with the Communist apparatus. Political power gradually shifted from President Sukarno and his Palace clique toward the Army, the Muslim political parties, and anti-Communist students.

2. In February and March Sukarno attempted to seize full power again, was unable to do so, and was forced to accept a new cabinet which was controlled by the Army and by political moderates. By the end of March there was a new government dedicated to economic and social reform, most of Sukarno's foreign policy had been publicly challenged or was being ignored, and the triumvirate of General Suharto, the Sultan of Jogjakarta and Adam Malik took effective, though not yet complete, power.

Present Situation—Domestic

3. In the past two months the new leaders have moved with surprising speed to consolidate their power and to start on the long process of putting together the almost totally shattered Indonesian economy. The Communists seem to be effectively out of power, but Sukarno remains as a President still having the capacity to limit and interfere with the activities of government. The government has, despite this, instituted new export incentive programs, started to funnel Indonesia's export earnings through the Central Bank, and succeeded in at least slowing down price inflation of rice and certain other basic commodities. The economy is still in a chaotic condition, and the leadership feel that unless they can succeed in providing adequate food and clothing to the population their efforts to develop a rational political system cannot succeed.

Present Situation—Foreign

4. Although still limited by the continued presence of Sukarno, the new government has made very substantial changes in foreign policy. It has announced to its own people that it intends to re-join the

United Nations and other international organizations at some time in the fairly near future. It has entered into a preliminary agreement seriously intended to end confrontation with Malaysia and Singapore.² It has attempted to restore normal working relations with all western countries and with Japan, has started to close out its mischief-making presence in Africa, and has virtually broken relations with Communist China. In Bangkok last week, Indonesian representatives joined in expressions of interest in a loose-jointed grouping of Southeast Asian states to include initially Malaysia, the Philippines, Thailand, and Indonesia.

5. The new regime has completely put an end to anti-American expressions in Indonesia. Although it continues publicly critical of our Viet-Nam policy, Malik has privately expressed some understanding of our position, and there have been some reciprocal propaganda attacks between North Viet-Nam and Indonesia. In another aspect significant to the U.S., the regime has decided against further efforts to take over American petroleum company facilities which produce and export crude oil, and seems to be negotiating in good faith for the purchase of the one remaining American refinery (STANVAC).

Probable Future Developments

6. The leaders' intentions are to continue to whittle away at Sukarno, using as a next step the mechanism of the "People's Parliament," which is due to meet for about three weeks starting in mid-June. The leaders intend to use this session to remove Sukarno's life-time tenure on the presidency, to remove his special powers so that he will become the figurehead, to secure formal approval of a settlement with Malaysia, and in general to put the country's up to now rather nominal legislative process firmly behind the new leadership. Having accomplished these things, hopefully by mid-July, the intention is to install a new working cabinet free of the last of Sukarno's henchmen, and then to move full scale into economic rehabilitation. Other basic decisions such as the dates for re-joining international organizations will probably be deferred until this time.

7. Despite its apparent willingness to cease its aggressive policies in the area—which the new regime recognizes as essential to external assistance among other factors—we should not expect the new leaders to be anything but intensely nationalistic, non-aligned, and "Afro-Asian" in their orientation. Nonetheless, the contrast between these

²Telegram 2645 from Bangkok, June 3, contains a summary account of the talks between Indonesian and Malaysian Delegations headed by Malik and Razak, which resulted in the draft agreement to end confrontation. (National Archives and Records Administration, RG 59, Central Files 1964-66, POL 32-1 INDON-MALAYSIA)

policies and those of Sukarno, or those that would have been pursued by the totally Communist-oriented regime that appeared to be in prospect, is dramatic. All in all, the change in Indonesia's policies has been a major "break" in the Southeast Asian situation, and a vivid example to many other nations of nationalist forces rising to beat back a Communist threat.

U.S. Interest and Objectives

8. Our traditional interest in Indonesia has been to keep the country out of the hands of Communists and out of the potential control of Communist China. As the Sukarno regime moved more and more under Communist and Chinese influence prior to October 1965, the United States inevitably became the number one officially pronounced enemy of the Sukarno regime, and was billed as the only threat to Indonesia's national security because of the presence of American forces in the Philippines, the South China Sea, Viet-Nam, and Thailand. The marked pro-Communist trend in Indonesia—accelerated in mid-1963—undoubtedly rested in part on the conclusion that the U.S. was losing ground in Southeast Asia. Conversely, although the U.S. had no direct part whatever in the anti-Communist takeover that began in October, unquestionably the fact that we were standing firm in Viet-Nam reinforced the courage of the anti-Communist leaders; to put it differently, without our evident determination, they would have been very much less likely to have acted.

9. Our basic interest in Indonesia still derives from its tremendous size, its population of more than 100,000,000, its location between the Pacific and the Indian Ocean, and between Australia and the mainland, as well as from its potential usefulness as a productive and influential state which could serve as a unifying and constructive force in the area. Our objective should be to help as we can in the development of a responsible, moderate and economic-minded regime. Only such a regime can prevent the resurgence of some form of extremism and, over time, play a useful part in the area.

U.S. Actions to Date

10. Until late March, our major policy on developments in Indonesia was silence. The anti-Communist leaders wanted no cheers from us. This policy remains generally sound, particularly in the light of the wholesale killings that have accompanied the transition (even though it is perfectly clear that a Communist takeover would have been at least as bloody). Nonetheless, we have recently been quietly pointing out that we take a favorable view of the new regime and have also been noting that its succession would have been less likely without our continued firmness in Viet-Nam and in the area. We should continue to applaud and claim credit only to this extremely limited extent.

11. While continuing this public position, we have throughout made it privately clear that we are ready at the right time to begin making limited material contributions to help the new leaders get established. Our AID programs had been entirely terminated in Indonesia, but we have (in mid-April) agreed to sell them 50,000 tons of rice under PL 480 Title IV (dollar repayment) on terms of 4-7/8 per cent interest with five years repayment. We are now beginning action on a Title IV sale of 75,000 bales of cotton on more generous terms, 3-1/2 per cent interest with 15 years repayment. We have quietly made it known we will support their efforts to reenter international organizations, and that we will participate in multilateral efforts to reschedule their debt at an appropriate time. We have encouraged other free world countries to extend emergency assistance to Indonesia in order to help the new regime establish itself in the period before the questions of debt rescheduling, stabilization and development can be dealt with.

Future U.S. Actions

12. If the new leadership succeeds in effectively removing power from Sukarno during the next month, it will then turn its efforts toward the economy. There are a number of points at which U.S. assistance will be needed.

a. *Further Emergency Aid.* There will be a probable need for further short-term assistance to keep the economy going prior to multilateral decisions on long-term problems. Our role in this can be played by further transactions under Public Law 480. While we have been providing assistance under Title IV on concessional terms, we should plan to switch to Title I (local currency repayment) if the political situation stabilizes, in order not to add further to Indonesia's already overwhelming foreign exchange debt.

b. *Multilateral Debt Rescheduling.* Indonesia has a foreign debt of more than \$2.5 billion. Approximately \$170 million of this is owed to us, and about \$1 billion to the Soviet Union, mostly military. Debt servicing requirements this year may amount to about \$450 million, which is more than probable gross foreign exchange earnings for the same period. Since Indonesia is already in default on both private and government accounts, rescheduling is obviously necessary. We have been in close touch with Indonesia's free world creditors, have made it clear that we regard it as essential that rescheduling be multilateral, and that we would like to see some other country, such as Japan, or an international organization, play the leading role in organizing the rescheduling exercise. The Sultan of Jogjakarta and various of his and Malik's representatives have recently visited Japan and obtained a commitment for credits of \$30 million as emergency aid. The Sultan plans to visit Western European countries in July. Other representatives plan to visit the USSR and EE countries. It now seems probable that

the Indonesians will be ready for formal multilateral consideration of the debt in late July or August. The probable Indonesian proposal will be along the lines of a five-year moratorium—which among other things defers such knotty issues as the priority status of military as compared to economic debts. We should be prepared to participate, and to agree to rather generous terms provided we do so in a framework taking account of interests of all creditors.

c. *Basic long-term assistance.* Beyond emergency aid and debt re-scheduling, Indonesia is going to need both technical assistance and further credits if the country is going to get back on its feet. However successful their performance in restoring integrity to the Central Bank, cutting government deficit financing and promoting production and exports, it is quite likely that by the fall of this year the ability of the new government to preserve its authority will depend upon access to substantial foreign credits to rehabilitate both industry and agriculture, as well as to restore the badly damaged communications and transportation systems. Much of this needed credit can be obtained from Japan, from Western Europe, and very probably from such international organizations as the IMF, the IBRD, and (later) the Asian Development Bank. We have already made it clear that we expect long-term assistance to be on a multilateral basis, and the willingness of other sources to contribute substantially will be affected by the U.S. contribution. Hence, we believe we should be prepared to pledge significant amounts, and the need for such pledges may arise sometime in the fall if the constructive trend in Indonesia continues at its present pace. Hence, it is conceivable that we will need substantial 1967 AID funds, both for direct assistance and for channeling through the Asian Development Bank. The debt situation will foreclose the Export-Import Bank as a source of additional assistance, and our only other channel would appear to be additional PL-480 commodities on concessional terms amounting to assistance.

d. *With respect to military assistance,* the Indonesian Army is excessively large and amply equipped for internal security. We should not consider resuming any military assistance programs except for a possible small-scale training effort largely for the sake of personal ties with key military figures of the future. There is the additional possibility of civic action projects, on which the Indonesians are already tentatively approaching us for technical help in the development of the resources of the underpopulated outer islands. This kind of project might make sense in the total picture, for limited MAP and AID funding.

U.S. Government Organization With Respect to Indonesia

13. Up to this point, the Indonesian problem has been effectively handled on a normal inter-agency basis. Moreover, we have kept in touch with key leaders of Congress, who appear to understand the

situation and its possible implications. The fact that any major assistance would be on a multilateral basis would have particular appeal in many Congressional quarters.

14. Nonetheless, in view of the impending dimensions of the problem in the next six months, it now appears wise to initiate more extensive consultations with the Congress, and it may be wise to designate a specific group within the Executive Branch—perhaps as a subcommittee of the Senior Interdepartmental Group—to keep the problem under very close review.

211. Memorandum Prepared for the 303 Committee¹

Washington, June 17, 1966.

SUBJECT

Supply of Additional Communications Equipment to Key Anti-Communist Indonesian Army Leaders

1. Summary

The purpose of the original operational proposal approved by the 303 Committee on 17 November 1965² was to assure during a period of national turmoil emergency communications capabilities for selected Indonesian Army officers. This system was to provide adequate communications between these anti-Communist officers and subordinate headquarters in areas most susceptible to dissidence and rebellion.

On 26 February 1966, representatives of an intelligence organization responsible to General Nasution and attached to the former Armed Forces Staff (SAB), requested that High Frequency (HF) communications equipment be provided for a special link between that intelligence organization, General Nasution and General Suharto. [*less than 1 line of source text not declassified*] were diverted for this purpose from the stocks assembled [*less than 1 line of source text not declassified*] in Djakarta to establish the emergency communications system.

¹ Source: National Security Council, Special Group/303 Committee Files, Subject Files, Indonesia. Secret; Eyes Only.

² See Document 175.

With the concurrence of Ambassador Green, General Suharto was advised on 12 May of the availability of [less than 1 line of source text not declassified] for use in communication with his principal commands. He was asked to designate communications officers to supervise receipt of this equipment. General Suharto expressed enthusiasm and arranged for Indonesian army technical personnel to be available for briefings on the equipment by [less than 1 line of source text not declassified] communications specialists. Discussions were held on 2 and 3 June between these [less than 1 line of source text not declassified] personnel and Assistant to the Chief of Staff SUAD IV (Logistics) General Hartono, Director of Army Communications, General Suhardjono, and his Deputy Colonel Soerhadji. Suhardjono asked why only [less than 1 line of source text not declassified] were being provided, since actual establishment of a full net of reliable communications with all 17 Military Areas (KODAM) and other key headquarters would require a total of [less than 1 line of source text not declassified].

This request for additional equipment has the support of the U.S. Ambassador to Indonesia, and is concurred in by the State Department's Bureau of Far Eastern Affairs.

The factor of risk in delivery has been considerably lessened by the substantial diminution in both numbers and authority of leftist and pro-Sukarno elements in the Indonesian Government. Nevertheless, delivery will be accomplished through [1 line of source text not declassified], and appropriate security measures will be observed when making deliveries to the ultimate recipients. The Indonesians still cannot ostensibly or actually purchase this equipment in the U.S. without seeking exception to the U.S. export license controls, and inferring a more intimate relationship with U.S. Government officials than is desirable at this juncture. Exposure of this activity might provide President Sukarno and residual leftists in the Indonesian political scene with embarrassing ammunition to use against General Suharto and his associates.

2. Problem

The requirement is to provide on an urgent basis, the present Indonesian Army leadership with sufficient additional [less than 1 line of source text not declassified] to enable secure voice and CW communications with all major subordinate commands. This equipment will provide a system of communications between anti-Communist military leaders for use under conditions of unrest and rebellion, at a time when normal communications channels may be manned or usurped by politically unreliable personnel.

3. Factors Bearing on the Problem

The equipment described for previous 303 Committee consideration was not provided to the Indonesians as originally recommended.

The [less than 1 line of source text not declassified] proposed has been so recently developed that the protection of the relationship between the United States Government and the Indonesian Army could not be assured.³ The scope of the emergency communications system was restricted to [less than 1 line of source text not declassified] alone.

a. *Origin of the Requirement:* The request for supplementary equipment was made [less than 1 line of source text not declassified] by General Suhardjono, Director of Indonesian Army Communications, and was endorsed by the U.S. Ambassador to Indonesia.

b. *Pertinent U.S. Policy Considerations:* On 17 November 1965, the 303 Committee approved the provision of emergency communications equipment to key anti-Communist Indonesian Army officers.

c. *Operational Objectives:* Despite the apparent ascendancy of General Suharto and his political and military associates, substantial fragmentation is evident within political pressure and military organizations. An undeterminable proportion of this fragmentation is taking place at the behest of President Sukarno and his adherents. Should an open break take place between the Suharto and Sukarno elements, an emergency communications system with all major military headquarters will be of the utmost importance in assisting the Indonesian Army to prevent a return to the pro-Peking policies of President Sukarno. This communications system will provide for effective troop deployment, and will assist in assuring the security of moderate Indonesian military and civilian political elements.

d. *Equipment:* The specific equipment required to satisfy General Suhardjono's request is:

[10 paragraphs (10 lines of source text) not declassified]

Of the needed equipment, none is in stock. Some can be readily procured, but [less than 1 line of source text not declassified] will probably require some form of U.S. official procurement priority.

e. *Risks Involved:* Revelation of the United States role in this program could provide President Sukarno and his political affiliates with an exploitable excuse for crisis. Caution will be exercised in all aspects of implementing this program to assure a minimum of risk of revelation. [3 lines of source text not declassified] Covert delivery to the intended recipients has been arranged.

³ A request of January 14 was denied by the 303 Committee. McGeorge Bundy "stood by his guns" and suggested that "he had never been able to make his point successfully to CIA that denial was not the equivalent of political denial." Bundy felt sure, despite the assurances of Green and others, that Japanese communications equipment was far better than the latest equipment available on the U.S. market. (National Security Council, Special Group/303 Committee Files, Minutes, 1/20/66) The denied proposal made to the 303 Committee, January 14, is *ibid.*, Subject Files, Indonesia.

f. *Training*: The [less than 1 line of source text not declassified] communications specialist to whom the request for additional equipment was broached, will provide such additional training in the use of the equipment and the establishment of the network as may prove necessary.

g. *Funding*: The overall cost of the additional increment of [less than 1 line of source text not declassified] is estimated at [less than 1 line of source text not declassified]. Funds are available [less than 1 line of source text not declassified].

4. *Coordination*

This operational proposal has been endorsed by the U.S. Ambassador to Indonesia and has been concurred in by the State Department's Bureau of Far Eastern Affairs, which recommends approval.

5. *Recommendation*

That the 303 Committee approve this proposal.⁴

⁴ On June 24 the 303 Committee approved this proposal. There was a general agreement, according to the minutes, that the current circumstances were different than in January 1966, given the decimation of the PKI. (Ibid., Minutes, 6/24/66)

212. Memorandum From Donald W. Ropa of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, July 9, 1966.

SUBJECT

Where We Are in Indonesia

The outcome of the much-heralded MPRS (Consultative Congress) session was largely as predicted, although Sukarno once again eluded the net of those who wanted to put him permanently out of business.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2]. Confidential. The following handwritten note appears on the memorandum: "BKS [Bromley K. Smith]; Note NSC suggestion. DR [Donald Ropa]." There is a check mark through Rostow's name.

Our Embassy assesses *the MPRS decisions as a substantial step forward* in the long process of de-Sukarnoization, but it acknowledges that even the marginal room for political maneuver left Sukarno will keep the political pot simmering.

Marshal Green has promised us three stock-taking appraisals at this juncture: (a) an assessment of short-term prospects over the next three months; (b) implications for U.S. policy; and (c) Embassy recommendations on next moves in the assistance field. The first of these is in, and this is attached in case you have not seen it.²

On the economic front. Green believes Indonesia can rock along the next three months without a serious economic crisis on the basis of ad hoc measures and the \$60 million in emergency foreign exchange credits received from Japan, Germany, Britain and the U.S. He considers it essential, however, that in this time frame *the Indonesians finally clarify their own thinking*, improve their economic planning apparatus and move into a position where they can effectively attack their deep-seated economic problems.

Both Malik and the Sultan have sent letters to Secretary Rusk via Widjatmika which ask that our AID programs be declared applicable again (*in effect a request for a Presidential determination on Indonesian aid*), present a shopping list of urgently needed goods valued at \$495 million, and raise the question of Malik and possibly the Sultan meeting personally with the President, Vice President and Rusk in September following Malik's trip to Moscow.

We have told Widjakmika that *Malik would be welcome* (without discussing dates or committing a session with the President), we want to be helpful on aid, particularly in multilateral debt rescheduling, *but much still depends* on the formation of a strong and effective government capable of using outside assistance.

Meanwhile, the IMF team has completed its preliminary survey, Indonesia has formally applied for re-admission to the IMF and IBRD, and substantive agenda discussions among Indonesia's creditors are tentatively set in Tokyo on July 12.

For our part, at Green's earlier urging, *we are moving to resume the participant training program* on a modest scale, separating this out from broader questions of aid resumption. Even *this, however, will require a Presidential determination* under 620 (j) of the Foreign Assistance Act of 1961 and Section 118 of the Appropriations Act of 1966. *But it makes good political sense* to prepare the Congressional atmosphere in this

² Telegram 107 from Djakarta, July 7. (National Archives and Records Administration, RG 59, Central Files 1964-66, POL 2-3 INDON)

manner for the later resumption of larger aid. (A memo on this is in preparation.)

On the political front. The key is the complexion of the new cabinet now in formation. Green believes prospects are good that Suharto will prevail with a streamlined group *dominated by capable technicians*. We should know in two to three weeks. Green anticipates a *more forceful Suharto* now that the MPRS has confirmed his powers, but tension involving Sukarno and the political parties is probable.

You have asked about *political development* in Indonesia. I have some preliminary observations in preparation and have asked both CIA and INR for their appraisals of the shape of political forces now at work.³

On the foreign front. Green sees *de facto end of confrontation, return to the UN and the re-building of Indonesia's ties to the non-Communist world* as controlling objectives. However, the MPRS did not specifically endorse the Bangkok Agreement ending confrontation, Indonesia still is maneuvering around that agreement, and the *next steps are unclear*.

Recommendation

Once Green's remaining two stock-taking messages are in and digested it may then be desirable to consider placing *Indonesia on the agenda for NSC discussion*. Earlier, this was premature. We are approaching that point now where NSC discussion might be optimally useful.

Don Ropa

³ On June 29 the CIA's Office of Current Intelligence prepared Intelligence Reference Aid No. 1586/66 on "Indonesian Youth Groups," which provided brief background information on the role of students and youth groups in the Indonesian Nationalist movement. (Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2]) On July 23 the Office, in coordination with the Office of National Estimates and the Deputy Directorate for Plans, prepared Intelligence Memorandum No. 1591/66, "Political Forces in Indonesia." This memorandum stated that the army held the ultimate power in Indonesia and although military leaders were prepared to permit a voice to non-Communist civilian political elements, they hoped to limit their activities so they did not endanger the policy developed in response to the October 1965 coup. Indonesia's Government was dominated by the triumvirate of Suharto, Malik, and the Sultan of Jogjakarta, who planned to name a cabinet before August and hold elections in 2 years. The most pressing problem in Indonesia was its poor economic situation. (Ibid.)

213. Memorandum From Donald W. Ropa of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, July 11, 1966.

SUBJECT

Limited Resumption of Aid to Indonesia—Presidential Determination

Marshall Green has now given his *recommendations for short-term assistance* to Indonesia (Djakarta Embtel 144, attached).² He argues *convincingly* for specific, limited measures designed to meet urgent economic and political requirements over the next three to four months. He believes any *recommendations for the longer haul are difficult*, subject to continuous revision, and still depend on the outcome of debt rescheduling and further evidence of how effective Indonesia is moving to solve its own problems and handle its international relations (i.e. confrontation).

Green's short-term proposals avoid involving us too deeply and prematurely while laying the groundwork for subsequent assistance. They are:

1. Resumption of participant training (recommended earlier);
2. Additional cotton sales up to 100,000 bales for third country processing, plus the supply of rice as available to help meet possible 500,000 ton shortfall;
3. Food for work under Title II, PL-480;
4. Modest amount of spares to rehabilitate previously supplied military equipment to support highly selected civic action activity;
5. Equally modest spare parts to reactivate U.S. equipment in the general economy.

Green favors a Presidential Determination forthwith to activate student and participant training; he would await the formation of the new cabinet (two to three weeks hence) to begin implementing the other proposals.

State's Position

Sympathetic, except for the military items which they believe should be deferred a while longer pending further clarification on confrontation.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2]. Confidential. There is a check mark through Rostow's name indicating that he read the memorandum. Attached to this memorandum was the following note: "Walt: Incidental intelligence re the attached—Bill Bundy says Fulbright could not have been more understanding—that there was no other course we could follow under the circumstances—and he understood and approved!! Bill [William Jordan]"

² Dated July 9, not attached. (National Archives and Records Administration, RG 59, Central Files 1964-66, AID (US) INDON)

They are advising Green to this effect, stating that the Presidential Determination is under review.

Participant Training

Indonesia's new education plans stress elimination of the influence of 10 years of PKI domination. Green sees this requiring a major effort, warranting our support, with its success representing perhaps our most important investment in Indonesia's future. The limited stable of first rate economists, who are now assuming top level responsibility, were trained at Harvard, Stanford and the University of California before the program was halted in 1964. Indonesia's ban on travel to the U.S. for study was lifted in June; there is a reservoir to draw on of 200 cases fully processed before the ban; new selection criteria and procedures pose no great difficulties.

The clear advantage of seeking the resumption of aid through a Presidential Determination that focuses primarily on the re-activation of participant training is *the probable smooth sailing it would have with Congressional leaders*. It would pave the way for other forms of aid later as feasible and desirable. State believes the favorable psychological reaction in Indonesia would be considerable.

Presidential Determination

The legislative language and history affecting the President's authority on Indonesian aid (summary attached)³ make clear that the PD is necessary for any *new* bilateral assistance. Some lawyers at AID believe participant training could possibly be resumed without a PD, but we risk compromising our longer range aid posture with Congress by going this route; in any event the legislative intent can now be satisfied.

More immediately, before proceeding with the PD, the Hickenlooper restriction must be dealt with on the expropriation without compensation of six U.S. firms in Indonesia, plus arrears of \$13 million in Indonesian debt to the U.S. private sector. The expression of Indonesia's constructive intent may be adequate here, and State is advising Green what must be done.

Options on the PD

1. We can process this separate from the forthcoming NSC discussion on Indonesia and possibly gain some time in responding to Green's request for quick action, or

³ Dated June 14. (Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2])

2. We can include the PD in the NSC discussion and relate it to that broader review of the Indonesian situation and our future policies.

Do you have a preference for either of these alternatives?

Don Ropa

214. Intelligence Note From the Director of the Bureau of Intelligence and Research (Hughes) to Secretary of State Rusk¹

No. 468

Washington, July 25, 1966.

SUBJECT

The New Indonesian Cabinet—A Setback for Sukarno

The new cabinet whose composition was announced by General Suharto on July 25 represents a major step in the campaign to ease President Sukarno out of effective power and into a figurehead role. Although Sukarno fought hard to induce the MPRS (Peoples Consultative Congress) to give him a voice in the cabinet's formation and lobbied tirelessly for his cronies and against the new leadership, General Suharto managed to retain the upper hand and name only his own people to key positions.

Only Minor Concessions to Sukarno. The Triumvirate of the previous cabinet remains intact. Suharto will himself be Chairman of the Presidium and Minister for Defense and Security; Adam Malik will be First Minister for Political Affairs and will remain Foreign Minister; Sultan Hamengku Buwono IX will retain his previous responsibilities but with the new title First Minister for Economics and Finance. The other two first ministers and members of the Presidium are Idham Chalid, leader of the NU (Orthodox Scholars) Party, for People's Welfare, and Sanusi Hardjadinata, a PNI figure (Indonesian Nationalist Party) with the industry and development portfolio. The presence of these two politicians in what is otherwise a cabinet of technicians is primarily a conces-

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67. Secret; No Foreign Dissem. The CIA's Office of Current Intelligence prepared an Intelligence Memorandum, No. 1685/66, July 30, entitled "The New Indonesia Cabinet," which provided analysis of the cabinet and biographical information on its new members. (Ibid.)

sion to Sukarno and the parties. However, the two leading Sukarno hacks from the last cabinet, Ruslan Abdulgani and Johannes Leimena, have been dropped, despite the President's desperate efforts on their behalf. The pro-Western Ambassador to Thailand, Burhanuddin Mohamed Dian, has been named Information Minister to replace Abdulgani. One of the most significant changes requires that the 24 regular ministers report directly to the Presidium, which Suharto heads, instead of to the President, who is no longer prime minister but only chief of state.

The Great Leader Apparently Submits. Taken together, these developments represent a major blow to Sukarno's position and influence, a blow which he seems to be accepting without a fight. Wire services report that the President confirmed the announcement of the Suharto slate and indicated that he would deliver a speech at the swearing-in ceremony.

215. Memorandum From Secretary of State Rusk to President Johnson¹

Washington, August 1, 1966.

SUBJECT

National Security Council Meeting, August 4, 1966

I enclose a paper on Indonesia for discussion in the National Security Council meeting on August 4, 1966.²

Dean Rusk³

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, POL 23-9 INDON. Secret. There is no drafting officer indicated on the memorandum.

² For a record of the discussion, see Document 217.

³ Printed from a copy that indicates Rusk signed the original.

Enclosure

INDONESIA

Background

1. On October 1, 1965, the Indonesian Communist Party joined with elements of the armed forces in an effort to stage a coup by assassination. Six of Indonesia's most prominent generals were killed. Loyal Army elements under General Suharto rallied and crushed the coup attempt within 48 hours. This was the beginning of one of the most dramatic political reversals in recent history. A major nation, which was moving rapidly toward a domestic Communist takeover and was intimately associated with Communist China, within three months destroyed the Communist threat and altered significantly its domestic and foreign orientation.

2. The first element in this political change was the destruction of the Indonesian Communist Party, the fourth largest in the world. The Army hunted down and executed the principal Communist leaders. In the small cities, towns and villages groups of youths, encouraged by the Army and motivated by religion, historic local grievances, and fear of their own fate had the Communists taken power, embarked on a systematic campaign of extermination of Communist Party cadres. While the exact figure will never be known, an estimated 300,000 were killed.

3. The second aspect of this political revolution was a systematic reduction of the powers of President Sukarno with the object of retaining Sukarno as the historic revolutionary figure and symbol of Indonesian unity, but depriving him of the power to govern. This process proceeded in stages. In March, Sukarno was forced to delegate extraordinary powers to Suharto, and Subandrio, Saleh, and others of the coterie of Palace followers who in the past have done Sukarno's bidding were removed from power and imprisoned. This was followed in July by a meeting of the People's Consultative Council in which General Suharto's mandate was confirmed and Sukarno was stripped of his position as lifetime President. On July 25 a new cabinet, led by General Suharto and purged of remaining pro-Sukarno figures, was formed. Sukarno remains on the scene, has a capability to obstruct and delay, but has lost the power to initiate or act.

4. Working with General Suharto and the Army were two key leaders: Adam Malik, a former newspaper man whose service as Ambassador to Moscow has modified and rationalized his Marxist orientation; and the Sultan of Djogjakarta—the only public figure with a charismatic appeal to the people of Java comparable to Sukarno's own. In addition, a new and powerful force has emerged on the Indonesian

political scene associated with the Army, but apart from it. It is composed of students who have come of age in the post-revolutionary period and are fed up with Sukarno, his empty slogans, and the economic chaos and bankruptcy which he has brought on the nation. These students, moving in huge public demonstrations, have been the cutting edge of political change.

5. On the international side there has been a rapid deterioration of Indonesia's relations with Communist China and the Asian Communist states, and a corresponding improvement in Indonesia's relations with the United States and the West. Foreign Minister Malik announced Indonesia's intention to return to the United Nations and its associated international agencies, and Indonesia has already applied to rejoin the International Monetary Fund and the International Bank for Reconstruction and Development. In June, Indonesian and Malaysian delegations met at Bangkok and reached preliminary agreement to bring an end to confrontation, and Malik has indicated an interest in Indonesian participation in Southeast Asian regional organizations.

6. These political developments took place in an economic situation of wild currency inflation, a bankrupt Central Bank, and a foreign debt of \$2.5 billion, whose annual servicing alone comes to more than the country's total annual foreign exchange earnings. The Sultan of Djogjakarta, the minister responsible for economic development, announced early in April a sensible and rational new approach to Indonesia's economic problems. Most of Sukarno's pet projects, which were consuming vast quantities of scarce foreign exchange, have been suspended, and the virtual termination of military confrontation with Malaysia has removed another major resource drain. Money was scraped up earlier this year to purchase rice from Burma and Thailand, and these imports combined with a good domestic rice crop have averted the immediate danger of a food shortage, although without imports, rice may be short in the winter months.

7. There has been, however, only modest progress in dealing with the root causes of Indonesia's economic collapse. The overall cost of living index has increased since October 1, 1965, by a factor of 12 and the amount of money in circulation by a factor of 5. Anti-Chinese riots have intimidated this important entrepreneurial community and caused an exodus of Chinese businessmen and a flight of Chinese capital. The Sultan's sensible words have not been followed by firm measures. The new cabinet inaugurated on July 25 shows considerable strength in the political and social ministries, but the overall level of professional competence of the economic ministers is low and a number of important portfolios remain in the hands of corrupt or incompetent officials. The management capacity of the swollen bureaucracy continues at a low level. It should be noted, however, that Suharto and

his associates have up to now given priority attention to the political objectives of establishing themselves in power and restricting the powers of Sukarno. These objectives have been achieved to a major degree. There is no lack of understanding of the severity of Indonesian economic straits and there appears a good prospect that economic matters will now begin to receive more high-level attention.

United States Interests and Objectives

8. Our traditional interest in Indonesia has been to keep the country out of the hands of its domestic Communists and out of the orbit of Communist China. This objective has, through the events of October 1 and their aftermath, for the time being been achieved. While protecting these major gains, our objective now is to help this populous, potentially rich and strategically placed nation—hitherto a disruptive force in Southeast Asia—overcome the inheritance of Sukarno's mismanagement, develop an effective government, and become a constructive force in the area.

Interests and Objectives of our Allies

9. We share these objectives with many of our friends. The economies of Japan and Indonesia are complementary, and Japan wishes to play a leading role in helping the Indonesian economy get back on its feet. The trading nations of Western Europe are also attracted by Indonesia's natural resources and the potential market of 100 million people. For Australia, New Zealand, Malaysia and the Philippines, an economically healthy, politically friendly Indonesia is essential to their national security. Indonesian recovery is also in the interest of the Soviet Union and its Eastern European allies, who regard Indonesia as a desirable market and source of raw materials. For the USSR as well as for the West, an unaligned Indonesia represents an Asian counterweight to Communist China.

United States Strategy and Past Actions

10. Until late March we kept silent on developments in Indonesia, a policy welcomed by the principal leaders of Indonesia's anti-Communist revolution. However, we gave them private encouragement and demonstrated our support by furnishing small amounts of urgently needed supplies. After the March cabinet reshuffle removed Sukarno's henchmen, we responded to Foreign Minister Malik's request for 50,000 tons of rice under PL-480, Title IV, on near-commercial terms. This was followed in June by a similar sale under Title IV of 75,000 bales of cotton on generous terms of interest and repayment. We have informed Malik that we are prepared to consider a further sale of cotton either direct or for third country processing. We have also encouraged other Free World countries to extend emergency assistance to Indonesia, and

Japan, the United Kingdom, Australia and West Germany have made varying amounts of emergency grants and credits available.

11. Our strategy has been to provide, and to encourage other friendly nations to provide, such assistance to Indonesia while its leaders complete the process of political consolidation and place themselves in position to deal with the tough problems of economic reform and reconstruction. We have been working closely with Japan and other countries, who share our objectives in Indonesia, to organize a multilateral approach to Indonesia's longer term problems. This will involve a rescheduling of Indonesia's foreign debt, perhaps preceded by a moratorium, followed by other measures which will help Indonesia deal with inflation and restore the shattered export industries on which the economic health of the nation depends. A preliminary meeting of the informal "Aid to Indonesia Club" met in Tokyo on July 19 and a further meeting is planned for mid-September. We and Indonesia's other friends have emphasized that the IMF and the IBRD must play a key role in this reconstruction process. An IMF mission has already visited Indonesia and the new government has issued a formal invitation for the IMF to assist in the development of a stabilization plan.

Future Actions

12. During the short-range period of emergency support we propose to take the following actions:

a. We will continue to use the resources of PL-480 and its successors to provide food and cotton to Indonesia, and may also use CCC credits for this purpose. We are considering sales under PL-480, Title I, to provide rupiahs for our internal needs in Indonesia and to avoid adding to Indonesia's already heavy dollar indebtedness.

b. As soon as we can remove certain legal obstacles to the resumption of aid arising from provisions of the Hickenlooper Amendment (Section 620(c) and 620(e) of the Foreign Assistance Act, *we intend to request a Presidential Determination*, required under Section 620(j) of the same act, that furnishing assistance to Indonesia is in the national interests of the United States. Under a Presidential Determination we propose to provide on Indonesia's request:

- i. civilian participant training in American universities;
- ii. military training in US Service Schools in skills which have a civic action application;
- iii. modest amounts of industrial raw material and spare parts to reactivate US equipment already in use in Indonesia;
- iv. modest amounts of spare parts and technical advisory service to the Indonesian military for the rehabilitation of previously supplied US equipment for use in civic action projects;
- v. text books and reference books at the university level and possibly some technical advice on aspects of an economic stabilization program and other self-help measures; and
- vi. participation, if Indonesia so desires, in regional technical assistance of institutional development programs.

13. Our actions in the longer range economic development effort are difficult to anticipate at this time, since we expect to be working with other countries under the aegis of the IMF and hopefully the IBRD in a multilateral setting. As a rough preliminary estimate, based on imperfect data and an uncertain time frame, we might wish to contribute a sum in the range of \$50 million (including PL-480) to a multinational program to provide necessary imports to rehabilitate Indonesia's production plant and to restore badly run-down communications and transportation systems. The amount may vary with the hardness or softness of debt rescheduling terms, since debt relief is a form of aid. Depending on the amount and type of funds needed, it may be necessary to ask Congress for supplementary funds to carry out this long term program. We have been in close touch with key members of Congress on this question, have mentioned this rough estimate of possible future needs, and have found them favorably inclined towards our plans for helping Indonesia. Before any such program is likely to begin, however, Indonesia and its creditors must reach agreement on debt rescheduling and Indonesia must begin to implement a stabilization plan. These in turn will require difficult Indonesian decisions in areas such as budget revenue and expenditure, exchange rates and export incentives. Commitment of our assistance would be related to and paced with Indonesian performance in these areas.

14. At some stage we may wish to consider the return of the Peace Corps. Indonesia will need a broad range of middle-level skills, and when the program is resumed, it should include the widest possible spectrum of Peace Corps activities. Its previous entrance and exit had, however, major political overtones, and until we have clear evidence that the Indonesians want the Peace Corps we mean to proceed with caution.

Anticipated Future Problems

The Army

15. The Indonesian Army now and for some time to come will control the destinies of Indonesia. The Army is a major source of strength, and appears to be solidly united behind Suharto. It has a highly motivated, well trained, professionally competent officer corps. Many officers were trained in the United States, and a number of them have considerable competence in civilian administrative skills. It is an army proud of its record in winning Indonesian independence and determined to protect the fruits of this independence. (It has put down major insurgency movements in virtually every major island of the archipelago.) It is an army that has thus far resisted the temptation of a complete military takeover: it has preferred to work with civilian

leaders and maintain its image as the servant rather than the master of the state.

16. The military is also a source of potential weakness and vulnerability. It has consumed over the past six years between 60 and 70% of the Indonesian budget, and may find it difficult to accept a more modest share. It has over 300,000 men under arms and is equipped with sophisticated modern weapons, largely of Russian origin, which it now neither needs nor can afford to maintain. It has a basic distrust of the civilian politicians, little patience with the disorder of free political exchange, and no major commitment to democratic freedoms as we know them. There is a danger that the Army may in the course of time move in the pattern of Burma to a military authoritarian state. The armed forces will wish to maintain good relations with the Soviet Union, with whom they have a still unused balance of \$110 million of the original loan for military equipment.

The Indonesian Military and the US

17. As noted above, many Indonesian officers have been trained in US Service Schools. There are, as a consequence, strong US-Indonesian service-to-service ties. We have, therefore, through our attachés in Indonesia and other direct contacts with Indonesian officers, some capability of influencing their policies and actions. This influence carries with it its liabilities. The Indonesian military, and particularly the Army, have been accustomed to turn to us, as well as the USSR, for military supplies. Indonesian officers in informal conversations have indicated an interest in resuming a military assistance program for Indonesia and have spoken of "requirements," running into hundred millions of dollars, which they hope to obtain from the United States. We will have a difficult task of deflecting these completely unrealistic expectations while continuing to maintain our personal ties and influence. In this context, the training and civic action programs proposed in previous paragraphs take on a special importance and urgency.

Unreasonable Request for Aid

18. Indonesia in the past has dealt with its economic problems by skillful use of political and economic leverage to obtain grants and loans from over 30 countries. This habit of looking to others to deal with their economic problems will persist. All preliminary proposals for economic rehabilitation place undue and over-optimistic reliance on a presumed availability of external resources. Indonesia, in short, would prefer to shift the major burden of its economic recovery onto the shoulders of its foreign friends. Malik and the Sultan have indicated their support of the multilateral approach described above, but we must anticipate in the coming months requests for substantial bilateral assistance justified almost exclusively on political grounds. We should

attempt to head them off, but if unsuccessful we should not respond favorably without the most careful scrutiny for the following reasons:

a. Favorable response to these large "emergency requests" will reduce domestic pressures and retard rather than accelerate the process of economic reform;

b. Indonesia's capable trading community and its cadre of western-trained, performance-oriented economists who are preaching the need for forceful domestic efforts to cope with the economic situation will be undercut if we respond to emotional political appeals;

c. If we grant further credits we would not only be adding to Indonesia's debt burden, but would also be projecting ourselves into political difficulties with them because of the conditions we would have to require to be reasonably certain of repayment.

19. A firm but friendly policy of responding bilaterally to short-range, small-scale emergency needs and confining major assistance to the multilateral framework carries acceptable risk for the following reasons:

a. The subsistence sector of the Indonesian economy, embracing 75% of Indonesia's 100 million population, has survived over a decade of monumental mismanagement and continues to have considerable resilience;

b. The fertility of the soil, the general availability of fruit, vegetables and root crops reduces the political pressures of hunger or dire poverty;

c. Indonesia is largely free of absentee landlords and inequitable land distribution;

d. For the time being and for the foreseeable future there is no conceivable political alternative to an Army-dominated government;

e. The political repercussions which they warn us of will operate for the foreseeable future to produce internal reform rather than overthrow of the government.

Indonesia's International Posture

20. While Indonesia has renounced its past close association with Communist China and the Asian Communist powers, we can expect nothing better than non-alignment from Indonesia. Indonesia will continue to remain publicly critical of our actions in Viet-Nam, although Malik from time to time will attempt to soften the impact of these statements by private expressions of understanding. Indonesia, when it returns to the United Nations, will undoubtedly resume its position as one of the more militant of the Asian-African bloc, and while it will no longer stand invariably with Cuba and Albania on major issues in the United Nations, we will continue to find it opposing us on many key questions.

Confrontation

21. The Bangkok Agreement laid the groundwork for termination of confrontation, but it has not yet been ratified by the Indonesian

Government. Small-scale border incursions have continued, and there are signs that some elements of the Indonesian Army may attempt to delay ratification in hopes of exacting further concessions from the Malaysians. Malik and Suharto appear sincere in their announced determination to end confrontation, but there may be further delays. In the longer perspective, as Indonesia begins to emerge from its economic difficulties we must anticipate that there will be adventurous elements in Indonesia that may revive efforts to extend control over Malaysia and the Borneo states.

Timing

22. As we approach the problem of consolidating the gains which the Indonesians themselves have achieved in the past ten months, timing is of paramount importance. We must adjust to the pace which the Indonesians themselves have set for securing their own economic and political salvation. To move too quickly, to show a greater sense of urgency in getting on with the job than the Indonesians themselves feel, will give these resourceful people the idea that they can exact concessions for the privilege of helping them. To move too slowly and to be too rigid in our responses in meeting major needs will encourage a latent threat of complete military takeover, and the emergence of an adventurist totalitarian regime. We are dealing not with an economic infant, but a sick giant with historically proven capacity for quick economic recuperation. We are dealing with a talented and resourceful population, proud, self-confident and determined to stand on its own feet. We are dealing with an island nation where the circumstances of geography and the incredible productivity of its soil tend to break problems into manageable units.

216. Memorandum From the Assistant Secretary of Defense for International Security Affairs (McNaughton) to Secretary of Defense McNamara¹

I-25425

Washington, August 3, 1966.

SUBJECT

NSC Discussion on Indonesia, 1100, 4 August 1966

¹ Source: Washington National Records Center, RG 330, OASD/ISA Files, FRC 70 A 6648, 000.1 Indonesia, 1966. Secret. Drafted by Nuechterlein and rewritten by McNaughton.

Problem.

Embassy Djakarta and the State Department have recommended the resumption of limited US economic and military assistance to Indonesia on a short-range emergency support basis. Purpose of this assistance is to encourage the Army-dominated government to take much-needed steps to put Indonesia's economic house in order. However, there is no *military* justification for a resumption of MAP for Indonesia; the proposed military assistance would be largely for political and economic purposes, to support civic action projects and strengthen US rapport with the Indonesian military through training of Indonesian military officers in US service schools.

Discussion.

The State Department has prepared a paper for the NSC meeting (Tab A)² which concludes that the new Indonesian Government has made sufficient progress in reversing President Sukarno's foreign and domestic policies to justify USG consideration of short-range economic and military assistance. State's recommendations are based on proposals contained in Embassy Djakarta's 144 (Tab B),³ which includes specific MAP funded projects. However, these actions would have to be preceded by a Presidential Determination as required under Section 620(j) of the Foreign Assistance Act and by the removal of certain legal obstacles to the resumption of aid arising from provisions of the Hickenlooper Amendment to the Foreign Assistance Act. The JCS have recommended (Tab C)⁴ a small and highly selective military assistance program that would include support for civic action projects and a CONUS training program for Indonesian officers.

We are in general agreement with the State Department paper, except that we see no *military* justification for a military assistance program at this time. The civic action proposal is essentially a political effort designed by the Indonesian Army to improve its image with the public and to avoid large demobilization. While a case can be made that economic and financial assistance to Indonesia is now in the US interest, the same is not true of military assistance. The US has little to gain by building up the Indonesian Armed Forces, which are among the best equipped of any indigenous armed force in Southeast Asia. The Indonesian Army is fully capable of maintaining internal security in the major islands and has received more equipment from the Soviet Union and the United States than it has been able to use. On the other hand, it might be very advantageous to the US to have substantial

² Not attached, but see enclosure to Document 215.

³ Not attached, but see footnote 2, Document 213.

⁴ In JCSM-473-66, July 25, attached but not printed.

numbers of young Indonesian officers study in US service schools, as well as in civilian institutions, and also for the USG to support the Indonesian Army's civic action program by providing technical advice, spare parts for engineering equipment, and perhaps some new equipment.

Conclusions.

1. There appears to be no *military* justification for a MAP in Indonesia in the foreseeable future.

2. Training (especially CONUS training) is probably a good idea. I recommend it (in US).

3. I recommend *against* other MAP items. I do *not* want a "non-training" MAP program resumed in Indonesia. The civic action program has political importance, however. I therefore urge that technical assistance, spare parts for civic action equipment, etc., be covered by AID (which may be hard legally) or through sales financed by the Indonesian budget.

John T. McNaughton⁵

⁵ Printed from a copy that indicates McNaughton signed the original.

217. Notes of the 563rd Meeting of the National Security Council¹

Washington, August 4, 1966.

The President opened the meeting by calling attention to the recent dramatic change in Indonesia's internal political situation and its foreign policy orientation. He recalled that just one year ago the NSC had met and decided to cut off most U.S. aid to Indonesia which was then rapidly moving toward becoming an out-and-out Communist state.

He asked Secretary Rusk and Mr. Helms to report to the group on recent Indonesian developments.

The Secretary noted that on his recent trip to Asia, he had met with many signs of a new mood and new confidence in Asia. He said the atmosphere was clearly attributable to two things:

¹ Source: Johnson Library, National Security File, NSC Meetings, Vol. 4, Tab 4, 8/14/66, Indonesia. Secret. Drafted by Jorden who described them as "Informal Notes."

- (1) Our obvious determination to stand fast in Viet-Nam and to help preserve the physical security of the area;
- (2) The abrupt reversal of Indonesia's course.

An important question was whether the Indonesian changes were going to stick. He thought that all things considered there was a good chance they would. There was an outside chance of a revival of Sukarnoism. There was a chance, too, of internal bickering in the armed forces that could break into open conflict. But the Secretary thought both of these chances were remote.

On confrontation with Malaysia, the prospects for an end looked promising.

The main problem was economic. He underlined the external debt problem and the need for rescheduling. He noted the large debt to the Soviets and said we had to be careful that we were not giving aid to Indonesia that merely went into repaying the Soviets.

He estimated the probable need for economic assistance from us at about \$50 million the first year.

He stressed the desirability of working through a multilateral framework in providing aid to Indonesia. He said the Japanese role would be particularly important.

Regarding U.S. policy, the Secretary said that we had deliberately moved slowly to date. This was largely a response to Indonesian desires that we not assume too great or obvious a role. We and they recognized that an excessive U.S. reaction to internal events could be the "kiss of death" to the present leadership.

In the short run, our assistance would move largely through PL-480, and he noted that we had already sold rice and cotton to Indonesia through this channel.

He said we were working on the problem of the Hickenlooper amendment, looking to a Presidential Determination that would find aid to Indonesia in our national interest. This awaits certain actions by the Indonesians.

He said it was important to get the Indonesians and the IMF to knuckle down to a comprehensive development plan for the country.

We would have to expect that we would face making a distinction between what the Indos will want and what we think they can effectively use in terms of economic aid.

The Secretary summarized his views by saying:

the problem of Indonesia is of vital importance;
we must be ready to move quickly and effectively;
we must try to speed up the multilateral approach to the problems of debt rescheduling and aid.

The Secretary said he was of the impression that the Congress was in a mood to support this general approach.

Mr. Helms said he concurred in the Secretary's description of the problem.

On confrontation, *[less than 1 line of source text not declassified]* Malaysia's Foreign Minister Razak would be going to Jakarta at the end of August. He would reach agreement with the Indos that:

- (1) Confrontation should be ended;
- (2) Full diplomatic relations would be restored as soon as there was reconfirmation of the desire of Sabah and Sarawak to remain in the Malaysian family.

Regarding the present government, Mr. Helms thought the new cabinet was the best in years. He admitted it was somewhat weak in the economic field. But he said it was behind the Triumvirate and strengthened the latter's hand. He thought the three leaders (Suharto, Malik and the Sultan of Jogjakarta) were all good men and that the administration had an aura of stability.

He underlined the economic problems, noting, for example, that 55% of the country's transport was inoperable.

The President said he thought we should follow the line recommended by Secretary Rusk. He stressed the importance of keeping Congressional circles fully informed of developments and of our thinking. He asked for the Vice President's views.

Vice President Humphrey agreed with the need for keeping Congress aware of developments in Indonesia. But he said there was a far more sympathetic mood on the Hill now. He said many Congressmen saw what had happened in Indonesia as a consequence of our firmness in Viet-Nam.

He said it was vitally important for us to encourage other countries to lend a helping hand in Indonesian economic rehabilitation. He noted he had talked with Minister Miki of Japan about this and that Japan had recently granted Indonesia a \$30 million credit.

The role of the IMF was discussed and it was noted that there was a problem of Indonesia's \$47 million debt to the Fund which would have to be solved.

The President asked for Mr. Rostow's views.

Mr. Rostow said two things were worth noting:

- (1) That Indonesia provided a chance to establish a new pattern of multilateral help in Asia;
- (2) That here was an opportunity to link multilateral assistance with the newly established Asian Development Bank.

This was a pioneer case and there was a chance to develop around Indonesian aid the Asian equivalent of CIAP in Latin America. Asians

who needed help should go to Manila, not to Paris; a new and encouraging pattern could emerge and should be encouraged.

The President asked whether this was not along the same line as the recommendations for Africa in the Korry report.²

Secretary Rusk said that the African Development [Bank] would be weaker, but that the Asian Development Bank would have real strength.

The President asked for an estimate of how much the proposed assistance was going to cost.

Mr. McNaughton thought the cost of military aid would be small—less than \$10 million.

Secretary Rusk thought that the overall cost—including PL-480 and cooperation in multilateral aid—would be less than \$100 million.

There was a brief discussion of the cost for assistance to Viet-Nam.

Mr. Gaud said the problem in Viet-Nam was less a matter of money than of priorities and Vietnamese capabilities to absorb.

On Indonesia, Mr. Gaud said that the emphasis on multilateralism could not be too great. He said that the Indonesian case provided an opportunity to give an effective answer to Senator Fulbright.

He also noted that the requirements for additional aid might be less than we think. He noted that refunding of Indonesia's large debt would free considerable funds which could take the place of external aid. He also noted that with our PL-480, the Japanese loan and other sources, some \$80 million had gone into Indonesia in recent months in short-term assistance.

The President asked what the chances were for a comeback by Sukarno.

Mr. Helms said he thought the president [*present*] leadership in Jakarta could control this.

Secretary Rusk noted that the Army and others knew their lives would be in danger if Sukarno, Subandrio and Co. returned to power. They therefore had a large personal stake in preventing any revival of Sukarnoism.

The meeting ended with Secretary Rusk commending the Korry report on Africa to the principals as one of the best jobs of its kind he had seen in a long time.

W. J. Jorden

² Dated July 22, 1966; printed in part in *Foreign Relations, 1964-1968*, vol. XXIV, Document 215.

218. Intelligence Note From the Director of the Bureau of Intelligence and Research (Hughes) to Secretary of State Rusk¹

No. 501

Washington, August 12, 1966.

SUBJECT

The Indonesia-Malaysia Accord: Possible Pitfalls Ahead²

The signing of the Bangkok Accord in Djakarta on August 11 ends Indonesia's military confrontation of Malaysia, but Indonesia's interest in dismembering Malaysia remains active and there are still obstacles to stable relations.

Terms of the Accord. The terms of the Bangkok Accord, negotiated by Malaysian Deputy Prime Minister Razak and Indonesia's Foreign Minister Malik at the end of May, are brief and simple. The tone is set by the reference in the opening phrase to "the brotherliness" between the peoples of Indonesia and Malaysia "bound together by history and culture from time immemorial." In Article One, Malaysia agrees to a reaffirmation by the people of Sabah and Sarawak "in a free and democratic manner as soon as practicable through general elections" of "their previous decision about their status in Malaysia." In Article Two, Indonesia and Malaysia agree to resume diplomatic relations and exchange diplomatic representatives. And, finally, in Article Three, both countries agree that "hostile acts between the two countries shall cease forthwith."

Secret Letters. Although Malaysia promptly accepted the Bangkok Accord, Sukarno refused to sign it. As an inducement to Sukarno, General Suharto in June proposed an exchange of secret letters with Malaysia at the time of the formal signing of the Bangkok Accord. These would delay implementation of Article Two until Article One had been carried out; in other words, de jure establishment of diplomatic relations would have to await the elections in Sabah and Sarawak. With

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Secret; No Foreign Dissem; Controlled Dissem.

² The CIA's Office of National Intelligence prepared a memorandum for the Director, August 16, entitled, "The End of 'Confrontation': The Debit Side," which concluded that although the end of confrontation would eliminate the threat of open warfare between Indonesia and the British Commonwealth and allow Indonesia to concentrate on economic affairs, it would also lead to increased Indonesian political influence in Malaysia and progressive diminution of British political and military influence. These developments would alter Malaysia's pro-Western orientation, and increase tension between Malays and Chinese. Although Indonesia gave up efforts to subvert Malaysia, it would not abandon its long-term goal of becoming the dominate power among peoples of Malay blood. (Ibid.)

considerable reluctance and after the exchange of many draft letters, the Malaysian government agreed.

It seems doubtful that the secret letters will remain secret for long. Neither government however seems to fear that public disclosure, if it occurs, will undermine its ability to portray the Bangkok Agreement as a national victory: for Kuala Lumpur a victory in bringing about Indonesian recognition of Malaysia and for Djakarta a victory in bringing about a reascertainment in Borneo.

The Promise of Reascertainment Could Cause Problems. The reaffirmation provision is one that the Malaysians found it very difficult to accept. Initially they were given to understand by the Indonesians that the requirement was pro forma; in exchange for inclusion of the commitment in the agreement, Indonesia would refrain in future from insisting that it be implemented. In subsequent negotiations, however, it became clear that the Indonesians had shifted from this position and regarded an actual reascertainment as indispensable. Present Malaysian expectations, bolstered by the language of the agreement, are that the requirement can be satisfied by a question on the ballot at the next regular election in each state that will, in effect, produce an endorsement of the existing situation.

Nevertheless, the promise of reascertainment may bring political rumblings within Malaysia. As far as is known, political leaders in Sabah and Sarawak were not consulted. Indeed the Chief Minister of Sarawak, upon hearing the rumor that the Bangkok Accord provided for a reascertainment, announced that he would not allow such a question to be put on the ballot in his state.

In addition the date of the elections could be controversial. Indonesia wants them held as soon as possible. Although Razak has said they will be held "next year," Malaysia is not necessarily prepared to act very quickly. Elections are not mandatory in Sabah until mid-1969 and in Sarawak until mid-1968. While there are domestic political reasons why an election might be held in Sabah in 1966 or 1967, there is serious doubt that electoral districts could be delineated and voter lists compiled in time for an early election in Sarawak. More compellingly, it is unlikely that Kuala Lumpur, which only this June put the present government of Sarawak into power by somewhat questionable means, would want that administration tested in an early election.

Quite apart from the question of timing, other issues may make the reaffirmation provision a troublesome one. Indonesia, where interest in dismembering Malaysia is by no means confined to Sukarno, is already supporting dissident Sabah and Sarawak politicians and is stepping up the infiltration of agents into both East and West Malaysia. Moreover, there are indications that Indonesia may request observers at the elections. If it does so, the Malaysians, recalling the problems over observers

for the UN survey in August 1963, may be reluctant to comply. There could be disagreement on this point and delay while the question is settled, or Indonesia could use the absence of observers as a pretext to denounce the results of an election just as it denounced the UN survey.

Whether either side will refrain from exploiting the ambiguities of the reaffirmation procedure to make difficulties with the other, will depend heavily on the survival of conciliatory attitudes in Kuala Lumpur and Djakarta. Kuala Lumpur must continue to see the advantages of obtaining Djakarta's full formal recognition of Malaysia's sovereignty within present territorial limits as outweighing distaste for going through even the motions of a reaffirmation and overlooking the clandestine activities the Indonesians seem intent on maintaining. Restraint in Djakarta on the other hand, may be closely tied to the calculation that prospects for substantial economic assistance from the West are significantly related not only to the termination of military confrontation but also to the maintenance of normal and amicable relations with Malaysia.

219. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, August 13, 1966, 1200Z.

749. Joint State/AID/DLG message. U.S. Short Term Assistance to Indonesia. Ref Djakarta 144.²

1. I recommend that we now proceed with implementing program of US short-term assistance to Indonesia outlined in reftel and spelled out in greater detail in follow-up messages.

2. Since sending of reftel one month ago, Indonesia has installed a new cabinet which, together with filling of subcabinet positions, has provided Indonesia with greatly improved government, especially taking into consideration Sukarno's ever-dwindling influence. Moreover, during past month, Indonesia has brought its three-year-old costly confrontation with Malaysia to a close and in other ways as well has

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, AID (US) INDON. Confidential. Repeated to CINCPAC for POLAD.

² See footnote 2, Document 213.

abandoned reckless jingoism in favor of a constructive role in international affairs. The road to resumed US assistance has been further opened by our investigation of ways to remove statutory obstacles impeding resumption such aid, such as lack of procedure to settle private claims, and I believe they now have been resolved. Claims for damages to Embassy are being paid.

3. Though GOI will continue to face problems of enormous magnitude in rehabilitating its long neglected economy and will be challenged all along the political front, the triumvirate, backed by major segments of the army, students, and population generally, will strive toward objectives which we regard as consistent with our own interests and purposes. If current momentum is sustained, Indonesia is likely during next several months to rejoin the UN and other international agencies including IMF and IBRD and to assume an ever closer relationship with its immediate neighbors (Malaysia, Australia, Thailand, Philippines) as well as retain close behind-the-scenes consultations with US officials. Given this momentum, we can see real prospects for a new and wider association of Southeast Asian countries in which Indonesia, larger in population than all the others combined, will play a fraternal role. Though less clear, we would hope to see Indonesia face up in more dynamic fashion to handling its economic problems.

4. However, we do not believe that this momentum will be sustained without adequate early evidence of assistance from other countries, especially the US. Aside from argumentation contained reftel, there is strong belief here amongst all officials, notably amongst military who likely continue to be dominant element in Indonesia for some time, that foreign aid and investment are vital and urgent. Their belief in this causal relationship has been a key factor in shaping rational official decisions. If Indonesian Government supporters believe that needed aid is unavailable, we may see government giving in to counsels of discouragement and a resurgence of the Sukarnoists who will argue that present GOI policies have been built on false expectations. Top-level Western-trained Indo economists, now hesitating over whether to participate fully in new government, will drop out if they feel US support for new government is lacking. Moreover it is inadvisable to await outcome of Tokyo talks before lending real helping hand. Even though we fully agree on desirability of multilateral approach to Indonesian assistance program this may take some time to work out. Meanwhile there are compelling needs for some assistance immediately.

5. I therefore request authorization now to discuss with Malik short-term bilateral US assistance on basis program outlined reftel and subsequent messages. We hope be forthcoming soonest, at least on educational exchange and hopefully on additional activities proposed reftel. In particular, we recommend quick action on: (a) participants

and book program; (b) authorization for negotiations for rice and cotton on PL 480 Title I basis as preferable to Title IV in view overall stabilization and debt rescheduling objectives; (c) authorization for negotiations on Title II few programs based continuation Indramaju project and initiation high-impact elements new Demak proposal; and (d) authorization for negotiations on spare parts and raw materials loan, with consideration being given both to IBRD/IDA channel (if IBRD technician can accompany IMF team and thus reach Indonesia sooner than technicians under any other possible arrangement), and to direct bilateral loan which would have advantage of restriction to US suppliers only. Additionally, we believe it would be useful sometime soon to commence negotiations on investment guarantee agreement which would be of major immediate help to our current discussions with US business representatives now visiting Djakarta as well as considered essential to long-term maintenance of American private investors position in Indonesia. We will be commenting further on this point.

6. The MAP proposal set forth reftel remains unchanged and represents a logical and manageable start in this highly important facet of assistance. Certain areas of assistance for the Indonesian military are not finite and depend in some measure on priorities which are currently being determined by the Indonesian army staff under its G-4, MajGen Hartono. In the main, it is expected that the military side of the overall assistance program will be dominated by an emphasis on civic action in its broadest sense to include schooling, spares for engineer equipment, overhaul and repair of transportation means and equipment. MAP and aid will be complementary in many areas and especially in civic action. General Suharto's outer island development plan including aerial survey is not included in present recommendations pending further study. Indications are that it remains high on General Suharto's personal list of priorities.

7. Request urgent action be taken ensure I receive instructions for discussion with Malik while current momentum resulting from signature Malaysia-Indonesia agreement is high and before his departure for Moscow (still uncertain, possibly as early as August 27), so that no obstacle is left to prevent GOI cabinet action on further forward steps in Malik's absence.

8. Country Team concurs.

Green

220. Memorandum From William J. Jorden of the National Security Council Staff to President Johnson¹

Washington, August 26, 1966.

SUBJECT

Presidential Determination on Aid to Indonesia²

Secretary Rusk recommends³ that you sign the attached Presidential Determination under Section 620 (j) of the Foreign Assistance Act. The Bureau of the Budget (Acting Director Hughes) concurs⁴ as does AID Director Gaud.

The Determination will permit State to begin talks with the Indonesians on an interim assistance program. As discussed at the recent NSC meeting on Indonesia,⁵ our hope is that long-range assistance can be worked out on a multilateral basis.

Ambassador Green hopes we can tell the Indonesians that we are ready to move ahead on short-term emergency aid for the Indo economy before Foreign Minister Malik leaves for Moscow on September 2.

Items that might be considered for action under this Determination are: (1) PL 480 food and cotton; (2) spare parts and replacements for U.S. equipment now in Indonesia; (3) participant training; (4) technical assistance, including advice, textbooks and training aids; (5) possible inclusion of Indonesia in regional development programs; (6) modest scale resumption of civic action training of the military.

State and AID estimate that such interim programs, excluding PL 480, might cost somewhere between \$12 million and \$22 million. There is *no* commitment on any of the above; the list is only illustrative.

Congressional leaders have been kept informed of Indonesian developments. The specific question of immediate, short-term aid resumption has not been posed.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2]. Secret. Rostow "OK"ed and initialed this memorandum on August 28.

² The Presidential Determination was attached to Rusk's memorandum (see footnote 3 below) and is also in the Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2].

³ Rusk's recommendation was in an August 23 memorandum to Johnson. (National Archives and Records Administration, RG 59, Central Files 1964-66, DEF 19-8 INDON)

⁴ Philip S. Hughes concurred in an August 25 memorandum to Johnson. (Johnson Library, National Security File, Files of Walt W. Rostow, Meetings with the President, Apr.-Dec. 1966)

⁵ See Document 217.

State and AID wonder whether you prefer:

- 1) to proceed with PD as is;
- 2) to sign PD but withhold announcement until key Congressional leaders and Committee chairmen can be informed;
- 3) to get a reading from key Congressmen before proceeding.

The Indonesian economy is in shambles. The new government desperately needs short-term help. It would be to our great advantage to move quickly on some of these modest but psychologically important programs before a mood of desperation sets in Djakarta. It would help greatly to be able to tell the Indonesians of our willingness to begin talking about some of these matters *before* Malik takes off for Moscow.

I would therefore recommend course 2 above.⁶

Bill Jorden

⁶ There is no indication on the memorandum as to Johnson's preference, but after consultation with key Congressional leaders, as described in a memorandum of conversation by Douglas MacArthur II, August 30, and a September 1 memorandum from Rusk to Johnson (both National Archives and Records Administration, RG 59, Central Files 1964-66, POL 19-8 US-INDON), the President approved and signed the Determination. (Memorandum from Rostow to Johnson; August 31; Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67, [2 of 2]. The signed Determination, September 1, is *ibid.*

221. Memorandum Prepared for the 303 Committee

Washington, September 20, 1966.

[Source: National Security Council, Special Group/303 Committee Files, Subject File, Indonesia. Secret; Eyes Alone. 1 page of source text not declassified.]

222. Memorandum From Vice President Humphrey to President Johnson¹

Washington, September 25, 1966.

SUBJECT

Memorandum of Conversation with Adam Malik

I met with His Excellency Adam Malik, Foreign Minister of Indonesia, at the Sheraton Ritz Hotel, Minneapolis, Minnesota, on Sunday, September 25, 1966. Accompanying Mr. Malik were his aide, Mr. Widjatmika, and General Suharto's personal advisor, Colonel Soejono.

Mr. Malik expressed his appreciation of my seeing him in Minnesota. He said that he was specifically requested by General Suharto to extend his personal greetings and recognition of my encouragement to the anti-Communist forces of his country, dating back to 1963.

Mr. Malik reported on his conversations with U.N. Secretary-General U Thant and indicated he expected Indonesia to be formally re-seated at the General Assembly by Wednesday or Thursday of this week. In response to my questions and in the course of our conversation about Indonesia's future U.N. role, Mr. Malik stated that as part of its transition from President Sukarno's leadership, which had favored the admission of Communist China to the U.N., his government's delegation this year would abstain and thus retreat from their previous position. He stated that he and his government preferred a two-China policy in the U.N.

Mr. Malik stated that his government desired to strengthen its relations with Taiwan and was, in fact, entering into an agreement for Taiwan to process cotton to provide Indonesian clothing.

Mr. Malik made clear to me his country's sympathetic understanding of the U.S. role in Asia and Vietnam. He has instructed his government's representative in Cambodia to try to open channels of communication to Hanoi. He stated that General Suharto's success in defeating the Indonesian Communist forces was directly influenced by the U.S. determination in South Vietnam. He too hoped for a negotiated settlement to end the bloodshed and commended your heroic efforts in this regard. But he made it clear that a U.S. withdrawal and a Communist victory in Vietnam would be a direct threat to his country.

¹ Source: Johnson Library, National Security File, Name File, Vice President, July 1, 1966, Vol. II. No classification marking.

Mr. Malik was uncertain as to how effective a role his government could play in Vietnam. He deeply regretted that his private conversations with President Marcos of the Philippines as to Indonesia's possible mediation role there was reported to the U.S. press by Marcos. He said this would set back their efforts for the time being.

He and General Suharto understand that with Indonesia's large population and great potential wealth they could play a major future role in Asia and the U.N. They would like to do this increasingly as a friend of the U.S. For the moment, however, they are severely handicapped by a dire economic emergency. Their own government's political stability depends upon their being able to provide food and clothing for their people.

Mr. Malik, in response to my question, agreed with the U.S. early reluctance to take the lead in helping the new Indonesian government and thus possibly provide President Sukarno with ammunition in that country's internal political struggle. Colonel Soejono, however, speaking for General Suharto, felt the concern was unwarranted. This was the only difference between the two to manifest itself. Both, however, were now eager for immediate aid.

Specifically, Indonesia requires large amounts of rice and is attempting to obtain rice not only from the U.S. but also from Burma, Thailand and some from Taiwan. They need much more from the U.S., however, than they now have reason to believe they will receive.

Indonesia's cotton need is also great and Mr. Malik referred to the U.S. overabundance of cotton. He said Indonesia is eager not only for PL 480 aid in cotton but would like to begin making commercial purchases under long-term credits.

I suggested increased uses of wheat and bulgar, but was told that there was a consumer resistance due to a lack of understanding and custom. Mr. Malik agreed that it would be in the long-term interest of Indonesia for wheat and bulgar to be increasingly introduced.

Mr. Malik emphasized that his country's urgent rice and cotton needs were also essential to feed and clothe the troops. With the ending of confrontation on the Malaysian border and to keep the military from becoming restless, it was necessary to keep the large numbers of troops in Indonesia satisfied and occupied. General Suharto intends to turn the army into a public works engineering corps to improve internal transportation problems and undertake similar projects.

Mr. Malik hoped you would recognize that his government has acted responsibly and expeditiously to help itself and to play a responsible role in the world community. He pointed to the ending of the confrontation in Malaysia and to the U.N. readmission as examples. He also assured me that his government was taking all proper steps to meet its economic problems.

Indonesia:

(1) is working closely with the World Bank and the IMF and intends to join the Asian Development Bank.

(2) is cooperating fully with the Tokyo group of creditor nations.

(3) is about to enact new legislation to encourage foreign capital investment.

(4) is eager to sign an agreement with the U.S. for an investment guarantee program.

(5) would like to begin a student, leadership, and cultural exchange program with the U.S.

(6) would like USIA assistance in providing low-cost paperback books for students in both English and Indonesian.

The conference concluded with my urging Mr. Malik to keep in very close touch with Ambassador Green in Jakarta. I assured Mr. Malik that the Ambassador had our government's greatest confidence. Mr. Malik expressed his respect and warm friendship for Mr. Green and his appreciation of Mr. Green's understanding and cooperation. He also stated his satisfaction at his meeting in Washington with Assistant Secretary of State Bundy and with the assistance already under way in food, cotton and spare parts. He expressed his hope that I would continue to maintain a personal interest in a democratic Indonesia and would continue to keep in touch with him.

223. Memorandum of Conversation¹

Washington, September 27, 1966, 12:30-1 p.m.

SUBJECT

Indonesian Economic Situation

PARTICIPANTS

Indonesian Foreign Minister Malik

Ambassador Palar

General M. Jusuf, Minister of Light Industry

Mr. A. Sani, Under Secretary for Political Affairs

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, AID (US) INDON). Secret. Drafted by Underhill and approved in S on November 26. The memorandum is Part I of III. On September 24 Bundy sent Rusk a briefing memorandum and talking points for this meeting, which Rusk saw. (Ibid., POL 7 INDON) The time of the meeting is from Rusk's Appointment Book. After the meeting Rusk hosted a lunch for Malik and his party. (Johnson Library, Rusk Appointment Book)

Colonel Sudjono
Mr. E. Tobing
The Secretary
Assistant Secretary William P. Bundy
Ambassador Green
Mr. Francis T. Underhill, Indonesian Country Director

The discussion during Foreign Minister Malik's call on the Secretary concentrated on Indonesia's economic situation and Viet-Nam. Indonesia's readmission to the UN, multilateral organizations, and Indonesia's non-aligned foreign policy were touched on briefly.²

Economic Situation

1. Foreign Minister Malik said that Indonesia's principal short-range problem was providing adequate food for its population and sufficient clothing for the Muslim Lebaran holiday in December. He acknowledged the assistance which the United States has already provided to help meet these needs. He went on to say that it was not the size of foreign assistance that was important, but rather the right kind of assistance that would help Indonesia's own productive capacity to improve. Indonesia, the Minister continued, is suffering from the legacy of the former regime and is saddled [with] economic chaos. There is also, he added, a continuing residual threat from Communist elements.

2. The Secretary noted that Ambassador Green had been discussing with the Foreign Minister various kinds of emergency assistance which the United States was prepared to furnish, and said that there was understanding and sympathy for Indonesia's problems within our government. The IMF and the creditor nations are organizing, he continued, for a cooperative effort to help Indonesia, and we are ready to do our part. The Secretary stressed that external resources could play only a marginal part in the development effort and that Indonesia itself must carry the main burden. He cited the Alliance for Progress in Latin America and United States assistance to India as examples. In connection with the Tokyo meetings, the Secretary said that in his talks with Soviet Foreign Minister Gromyko in New York

² Malik met with William Bundy and Ball on September 23. (Memoranda of conversation, both September 23; National Archives and Records Administration, RG 59, Central Files 1964-66, POL INDON-US and POL 2 INDON) In describing the discussions with Ball and Bundy to the Embassy in Djakarta, the Department stated that the meetings "covered familiar ground with Malik laying stress on economic situation and importance of interim assistance." (Telegram 53857 to Djakarta, September 24; *ibid.*, POL 7 INDON) In a September 26 meeting between Malik and Thompson and Green, Malik stated that there was probably no substance to statements made in 1965 that Indonesia would explode an atomic device. Malik assumed it would have had to have been a Chinese device, but he doubted that China would have permitted it. Malik also discussed Indonesia's relations with the Soviet Union and North Korea. (*Ibid.*, POL INDON-US)

he had expressed our views on the importance of Soviet cooperation in a multilateral solution of Indonesia's debt problems and emphasized that the creditors meeting should in no sense be considered as an anti-Soviet conspiracy. Mr. Gromyko, continued the Secretary, received these views without polemics, but gave no indication of his government's position. The Secretary noted the importance of non-discriminatory treatment of all of Indonesia's creditors and said that any settlement that would imply payment of the Soviet debt at the expense of the United States and other western creditors would give us serious political problems. Mr. Malik said that he anticipated no difficulty in obtaining Soviet cooperation; they had in fact little choice but to accept the Tokyo principles.

224. Memorandum of Conversation¹

Washington, September 27, 1966, 10:45-11:05 a.m.

SUBJECT

Indonesian Foreign Minister's Call on the President

PARTICIPANTS

The President

Indonesian Foreign Minister Adam Malik

Mr. A. Sani, Director General of Indonesian Foreign Office

Col. Sudjono, Personal Aide to General Suharto

Walt W. Rostow

William Jorden

Ambassador Green

1. After thanking the President for this opportunity to visit his office, Foreign Minister Malik described what he regarded as Indonesia's most significant steps forward in recent months: Ending of Confrontation, entering into a constructive role in Southeast Asia's regional affairs, resuming membership in the IMF, IBRD, the UN and its specialized agencies, as well as participating in the ADB.

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, POL INDON-US. Secret. Drafted by Green and approved by William Jorden on September 30. William Jorden also prepared a memorandum for the record of this meeting on September 27. (Johnson Library, National Security File, Country File, Indonesia, Vol. VII, 5/66-6/67) The meeting took place in the White House. The closing time of the meeting is from the President's Daily Diary. (Ibid.)

2. The President asked the Foreign Minister as to his views on what might be done, that is not already being done, to bring peace to Viet-Nam.

3. The Foreign Minister replied that his Government had had talks with officials of Thailand, Malaysia, the Philippines and other Asian countries regarding Viet-Nam. He felt that all these countries had a strong common stake in seeking peace for Viet-Nam. However, Indonesia believes that any role which it could play in promoting peace should be pursued quietly with minimum public notice. Indonesia would thus hope to be in a position at the right time to exert a useful influence toward resolving the conflict. Meanwhile, it was his view that South Viet-Nam and its allies were left with no alternative but to maintain a strong position in defending South Viet-Nam.

4. As to the President's specific question about what the U.S. should or should not be doing in Viet-Nam, the Foreign Minister said that his country felt it was going to be difficult to reach any peaceful solution as long as the bombings of North Viet-Nam continued. He nevertheless recognized that North Viet-Nam is sending men and supplies to South Viet-Nam so that it may be difficult for the U.S. to cease bombing of installations related to these operations.

5. The President agreed with this latter observation, commenting that the U.S. is prepared to stop the bombing if the other side halted its aggressive actions. The President then inquired whether, in the Foreign Minister's opinion, the Communists had been decisively beaten in Indonesia.

6. The Foreign Minister replied that the PKI has suffered a major setback but it still retains recovery capabilities which, if the new Government proves unable to improve economic conditions, could well lead to a resurgence of Communism. Thus, Indonesia's fundamental task is improvement of the nation's economy.

7. In response to the President's inquiry as to what is being done to cope with this problem, the Foreign Minister replied that his Government's immediate need is food and clothing for the people, reactivation of industries, infrastructure improvement, and above all, overcoming the serious inflation now gripping Indonesia. Mr. Malik referred briefly to the Government's stabilization program which is now getting underway and which envisages a balanced budget in 1967 assuming an adequate amount of new foreign aid.

8. Mr. Rostow elaborated on steps which Indonesia is taking in the field of economic recovery. He described the role of the Fund and the Bank in advising Indonesia on its stabilization program, the outcome of the Tokyo meetings on debt rescheduling, and the close cooperation we hope to achieve with other countries in regard to future assistance to Indonesia.

9. The President said that he thought it most important that close cooperation be maintained between Indonesia and those countries providing assistance in order to make most effective use of all resources, external and internal, required for Indonesia's economic rehabilitation. He believed that these efforts should relate to a specific rehabilitation and development plan drawn up in consultation with a competent, objective authority such as the IMF.

10. The President said he was watching developments in Indonesia with the greatest interest, and he extended to Foreign Minister Malik and his associates his best wishes.

225. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, October 27, 1966, 1030Z.

2007. Subject: Need for Military Assistance Program in Indonesia.

1. Events of past several months clearly indicate that "new political order" in Indonesia will be army planned, army built and army sponsored and that it is army which will remain dominant political force in Indonesia for a long time to come. We are pouching airgram which discusses army plans for the "new Indonesia" in depth.² Following is summary of our analysis:

A. Army has reached firm conclusion (which we share) that at present it alone possesses the cohesiveness and leadership necessary to establish "new political order" in Indonesia. Army also believes that failure on its part to take initiative would lead to political dissension and direct threat to Indonesia's unity. Army has set itself deadline of slightly less than two years to establish "new order," which elections scheduled to be held by July 1968 will confirm.

B. Army's basic goal during interim period is to establish stable and responsible administration. It will seek to do this by broadening popular participation in government while maintaining strong central

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, DEF 19 US-INDON. Secret. Repeated to CINCPAC for POLAD.

² Airgram A-210 from Djakarta, October 29. (Ibid., POL 2 INDON)

control. In short, it will attempt to find middle road between pitfalls of Sukarno's authoritarian regime and freewheeling political party activity of early 1950's. This task, it believes, will require tight hand on reins.

C. Even after "new order" established, army will continue to exercise what it regards as its "historical right" to remain in government arena as separate political force. Army already holds overwhelming majority of key posts in regional administration (in addition to powerful and wholly military pepelrada structure); it is also becoming increasingly evident in second echelons of central government and is moving deeper into key national enterprises.

2. We believe army's assessment of role it must play is valid and that its formula for "new order" is essentially right mixture for Indonesia. In fact, there appears to be no workable alternative short of outright military dictatorship which Suharto hopes to avoid. This means that USG must contemplate working with an army controlled government not only during two year transition period but well into "new order."

3. In addition to its essential function as architect of "new order," military must, for compelling political reasons, be given constructive role in new society. Suharto has repeatedly emphasized in his talks with me that the military must have a strong sense of mission directed towards improving conditions of life in Indonesia.

A. Useful activities must be provided for army personnel in order to help curb corruption and to prevent army personnel from engaging in hooliganism or unhealthy political activity. Constructive military outlets could also mitigate trend towards military moving into all sectors of government and economy.

B. Suharto must also produce some early and clearly visible progress towards improving people's lot in order retain their confidence and ensure his own dominant role over others who would move directly toward military junta. Civic action type projects, aside from ultimate economic impact, can yield immediate psychological profit demonstrating army's concern for public welfare. Army, which has clearest command channels, most equipment, most readily available manpower and one of largest pools of technical expertise, is in best position to undertake projects of this nature.

4. Suharto now lacks the resources, particularly equipment, to fold the military into such constructive operations in meaningful way. Meeting these requirements with Indonesia's own foreign exchange resources would cut into other vital projects and could easily create animosity toward the military for removing funds from civilian sector.

5. US assistance for Suharto's program would allow us to influence and strengthen the hands of those who will be running this country for the next several years and who, in harness with good civilian

leaders, are best qualified to do so. In short, this program would give us multiple returns on a relatively small investment.

6. I therefore urge that a modest military assistance program be instituted for Indonesia soonest. Such a program would include:

A. Spare parts, replacements and technical advice for Indonesian military civic action program.

B. Military sales program to enable Indonesian military to buy certain additional items which are compatible with their present role.

C. Selective non-combatant items to help improve morale within army and strengthen position of General Suharto and his colleagues.

D. Training program along lines already envisaged to train key Indonesian officers, especially in civic action field.

Green

226. Memorandum From the Chairman of the Joint Chiefs of Staff (Wheeler) to Secretary of Defense McNamara¹

CM-1880-66

Washington, November 1, 1966.

SUBJECT

Proposed Military Assistance Program for Indonesia (U)

1. (C) Reference is made to a letter from the Acting Deputy Under Secretary of State for Political Affairs, dated 19 October 1966, to the Secretary of Defense, that recommends a FY 1968 Military Assistance Program (MAP) of \$6 million for Indonesia.²

2. (C) As stated in the reference, there is no direct military requirement for an Indonesian MAP. Nevertheless, it appears prudent to implement a small MAP to support the civic action endeavors of the Indonesian Armed Forces. In this regard, Secretary Thompson has presented a substantial case in support of his proposal.

3. (C) The illustrative program presented by the reference is adequate for its purpose; however, the actual content of the program should be subject to CINCPAC recommendation and review by the Joint Chiefs

¹ Source: Washington National Records Center, RG 330, OASD/ISA Files: FRC 70 A 6648, 000.1 Indonesia, 1966 (091.3 Indonesia). Confidential.

² This letter is attached to a letter from Underhill to Robert A. Feary, CINCPAC's POLAD, October 24. (Ibid., RG 84, Djakarta Embassy Files: FRC 69 A 6507, Def 19 US-Indo)

of Staff. Further, to provide \$6 million in the FY 1968 MAP would in all likelihood result in the majority of the material and services being provided in CY 1968 with some items of material not being received until CY 1969. This two- to three-year delay is considered untimely and possibly detrimental to its intended purpose.

4. (C) To provide timely assistance to Indonesia, it would appear that requirements should be funded in FY 1967. It is believed that this can be done within funds that are, or will become, available to the FY 1967 MAP without reduction of individual country programs, provided add-on requirements for Laos are included in the FY 1967 Department of Defense supplemental appropriation. If this can be done, it is recommended that:

a. A \$6 million material and services program be provided under the FY 1967 MAP and that, for planning purposes, the FY 1968 MAP dollar guideline for Indonesia be established at \$6 million.

b. If necessary, Indonesia be included within the Mundt Amendment in lieu of one of the terminated countries, other than Japan.

Earle G. Wheeler³

³ Printed from a copy that indicates Wheeler signed the original.

227. Telegram From the Department of State to the Embassy in Indonesia¹

Washington, December 7, 1966.

98121. Ref: Djakarta 2565.²

1. There is general agreement here on desirability assisting Indonesian military at earliest feasible date in its civil reconstruction program. We are willing examine not only MAP but entire range U.S. assistance

¹ Source: National Archives and Records Administration, RG 59, Central Files 1964-66, DEF 19-8 US-INDON. Confidential. Drafted by Underhill; cleared in draft by Nuechterlein and by Sherwood F. Fine, Officer-in-Charge of Indonesia, AID; and approved by Berger. Repeated to CINCPAC for POLAD and Algiers for Harriman.

² In telegram 2565 from Djakarta, December 1, Green reported on a meeting with Malik on November 29 in which Malik made a "strong plea for immediate USG assistance to civic mission projects" on behalf of Suharto and the Cabinet. Green suggested that in view of the deteriorating political situation in Java, "major stakes are involved in our response to this request." (Ibid.)

capabilities, and commit available resources where they will meet Indonesian priority needs.

2. As you have pointed out to Malik and military, our readily available resources are limited, and even if committed to utmost, they could not satisfy unrealistic expectations still apparently held in some quarters, nor have significant impact on vast complex of politico-social problems in East and Central Java. For psychological and political reasons, it is important that military leaders have some tangible evidence of our backing, but it seems realistic accept from outset that we cannot provide more than token support to an effort which must be essentially Indonesian in conception and execution.

3. Necessity for small program also meets Malik's request we keep program on modest scale and examine carefully what military is already doing in civic mission field. He appears reflect growing civilian concern that any substantial direct foreign assistance to dominant clientele group could strengthen forces tending separate military from civilian society.

4. Accepting necessity and desirability for small program, basic practical problem is relating feasible U.S. contributions to Indonesian needs. As it has emerged from your conversation with Malik and the Generals reported reftel, and in previous talks with ARMA and Chief DLG, Army's civic action program is still in blueprint stage with substantial support needs expressed in general terms unrelated to specific missions and projects. All conversations have carried unspoken but clear indication that implementation is awaiting commitment U.S. resources and U.S. planning assistance and feasibility studies. Difficult to reconcile this apparent inactivity with urgency reflected in Hartono statements. Indo Army has had 16 years experience and number of conspicuous successes in independently conceived and executed civic action projects, and needs little guidance in this field. Such projects are inherently labor intensive, and despite recognized shortages, there should be sufficient hand tools and other items of equipment available to get projects underway without outside assistance. Even modest beginning should bring desired political and psychological impact. Indonesian military has in past shown impressive level professional competence in coping with logistic support of two major military campaigns in most distant islands of archipelago, and we believe it should be able to begin program of road repair, irrigation works rehabilitation and other basic civil jobs on central island of Java that would not require extensive use of motorized equipment. Believe we should continue to underline strongly your statement (para 4 reftel) that Army should press ahead with needed programs regardless of outside help.

5. Experience in U.S. supported 1963-64 civic action program provides clear evidence that U.S. assistance was most effective when it backstopped and supported established individual projects already in progress. Participation in planning, or giving feasibility advice on plans still on drawing board, carries with it implied commitment, and when we become involved in either process, Indonesians tended to shift to us both the burden of providing resources as well as the responsibility for success or failure. Necessity of small program as well as desirability require Army move ahead on its own, indicate clearly that our initial assistance should be restricted to support of projects already underway, and that we should not become involved in planning or feasibility studies.

6. On basis foregoing you may reply to Malik along following lines:

- a. We wish to do what we can to help military in its civic mission.
- b. The resources that we can make available are limited and we believe they could best be utilized in support of projects already underway.
- c. We would like to examine such projects, and in consultation with Indonesian military, attempt to relate priority needs with our capabilities to help. At an appropriate time, we would be prepared to send several military engineering specialists to survey equipment.

7. FYI—Before detailing TDY personnel, believe you should proceed soonest with plans for Chief DLG and AAO to visit on-going projects (Djakarta 2472).³ Based on their reports, we would plan send team composed of military engineering officer and non-coms to survey equipment, and such A.I.D. specialists (e.g. in Title II) as AAO considers appropriate. Other supporting evidence of Army civil activity would also be welcome, and all mission travelers should be alert to this interest.

Katzenbach

³ Dated November 25. (Ibid.)

228. National Intelligence Estimate¹

Washington, February 15, 1967.

PROSPECTS FOR INDONESIA

The Problem

To assess current trends in Indonesia and to estimate prospects over the next year or so.

Conclusions

A. Suharto and his anti-Communist military and civilian coalition are clearly in charge in Indonesia and are likely to remain so, at least for the next year or two. Although Sukarno's influence is declining steadily, he is still a major preoccupation of the regime, an obstruction in its daily work, and a source of political embarrassment. During 1967, however, he will probably be stripped of all effective political power, retaining at most the ability to offer occasional encouragement to frustrated leftist elements.²

B. With the Communist Party already destroyed as an effective force in today's politics, the neutralization of Sukarno would greatly improve the outlook for political stability in Indonesia. Nevertheless, there will still be major problems of adjustment. Civilian politicians will be in conflict with military leaders reluctant to share power. And the mass parties of the Sukarno era will have to compete for influence with resurgent and reformist political elements closer to Suharto's "new order."

¹ Source: Department of State, INR/EAP Files: Lot 90 D 165, NIE 55-67. Secret; Controlled Dissem. The Central Intelligence Agency and the intelligence organizations of the Departments of State and Defense, and the NSA prepared this estimate, which was concurred with by all members of the U.S. Intelligence Board except the representatives of the AEC and FBI who abstained because the topic was outside their jurisdiction. In a memorandum to Rusk summarizing this estimate, Hughes indicated that there was wide agreement among the USIB members with its conclusions. (Memorandum from Hughes to Rusk, February 24; *ibid.*)

² In Intelligence Memorandum No. 0794/67, February 17, "Prospects for Violence in Indonesia," the CIA's Office of Current Intelligence, Office of National Estimates, and the Clandestine Services concluded that, "Isolated armed incidents by pro-Sukarno elements are likely if Sukarno refused to resign and was deposed by congressional action." The principal areas for opposition would be East Java where Sukarno still had support among the marines, police, and the general population, and possibly Central Java, North Sumatra and even Djakarta. Long-term dissidence was unlikely. (Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Memos, 5/66-6/67) Ropa asked that the CIA send this assessment to the White House and he passed it to Rostow under cover of a February 17 memorandum. (*Ibid.*)

C. The Indonesian economy cannot quickly recover from a decade and more of ruinous mismanagement, but it is probable that economic conditions will at least cease to deteriorate and begin to improve within a year or two. If foreign assistance continues at high levels and government administration becomes more effective, an economic upturn could probably be sustained until 1970. The need for foreign economic assistance—which can only be expected to come from the US, Japan, and Western Europe—virtually assures continuation of Indonesia's new Western-leaning foreign policies.

[Here follows the Discussion section of the estimate.]

229. Memorandum of Conversation¹

Washington, February 17, 1967, 2 p.m.

PARTICIPANTS

The Vice President
Marshall Green, U.S. Ambassador to Indonesia
John Rielly, Assistant to the Vice President

Ambassador Green reviewed the situation in Indonesia that led up to the revolution of 1965. He pointed out that American experts like Guy Pauker (Rand Corporation) had concluded by 1965 that Indonesia was definitely going Communist. Sukarno had announced in 1965 that Indonesia was going to form a Djakarta-Peking Axis. The Indonesian Communist Party (the PKI) launched its coup at the time it did in 1965 because although it was steadily increasing its influence in Indonesia, it feared the death of Sukarno, who was long rumored to be seriously ill. At that time it was estimated that the PKI had 3 million members and approximately 25 million supporters in various front groups throughout Indonesia.

In the coup the PKI aimed to eliminate seven top generals in the army. They ultimately succeeded in killing five of these, but two—the most important, Nasution and Suharto—escaped. The Com-

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Memos, 5/66-6/67, [2 of 2]. No classification marking. The meeting was held in Humphrey's office in the U.S. Capitol building. Humphrey sent this memorandum to Rostow under cover of an attached March 9 memorandum. Humphrey asked, "for reasons that will be apparent in the memo," that the record of his discussion not be circulated. Humphrey hoped that Green would be able to meet with the President on his next trip to Washington.

munists had by 1965 penetrated the Air Force, Navy and some of the police. The Marines were also sympathetic. The Army was the staunch bulwark against the PKI, although certain parts of the Army had also been penetrated. Given this pattern of infiltration, the situation in Indonesia in 1965 was fragile and precarious. Had there been an external threat to Indonesia from the North, and had the United States not taken a strong position in Southeast Asia by that time, the PKI would have been strengthened. The generals who ultimately triumphed would have been gravely weakened in the estimate of Ambassador Green.

The reaction to the coup launched by the PKI was indeed a bloody one and most reliable estimates indicate that 300 to 400 thousand Indonesians were slain. The manner in which the generals of the Army were slain inflamed the peasants and the people. A special corps of PKI women had been trained to slash the generals to death—which they did. When photographs of the slain generals were circulated around the Island, the reaction against the local Communists was intense. They were already unpopular because of their harassment of religious groups such as the Moslems, and because they had taken over much of the power in local areas. The result was a blood bath in which many of the Communists were killed.

By November and December of 1965 the Army consolidated its position. But it decided to let Sukarno stay around. Sukarno made a counter-bid for power in January, February and March of 1966. It was at that time that the students went into the streets to demonstrate against Sukarno. During this period of demonstration the United States Embassy was attacked on March 8, 1966. At this time Suharto made a very shrewd move in the opinion of Ambassador Green. He informed Sukarno in March that his life was in danger because the students were marching on the Palace. He, Suharto, could not protect Sukarno's life unless Suharto was given full powers. Only then did Suharto get full powers. But he nevertheless did not remove Sukarno at that time in part because he feared a reaction in Java where Sukarno had a strong following. Also Sukarno provided a common enemy which welded all groups together.

By early 1967, however, Suharto and his colleagues had decided that it was time to get rid of Sukarno. They will try to remove him soon, but hopefully he will resign voluntarily before the meeting of the top leadership now scheduled for March 8th. Sukarno will fight back and of course will allege that many of those against him are implicated in a CIA plot. That is his standard routine. In the view of Ambassador Green, Sukarno is not likely to survive this time.

Viewing the members of the present Government, Ambassador Green commented that the Sultan of Djakarta is a nice man, but not too powerful. Suharto is astute and clever and works hard at governing

Indonesia. Malik is one of the cleverest men he had ever met. He is particularly clever in tactics. Malik single-handedly brought an end to the confrontation on Malaysia and brought Indonesia back into the United Nations. However, he has no independent political base. He has a good relationship with Suharto, but he is nevertheless fearful of too great a military influence in the Government. This is a problem for him as Foreign Minister because too many of the Ambassadorships are going to military men, which weakened his own position in the Foreign Ministry.

There is an important problem of keeping the military happy in Indonesia. Because assistance was discontinued by most external powers, the Indonesian Navy has had to mothball the fleet. Many other installations have been cut back. The consequence is that there are many military men available who have to get jobs. Suharto knows that he has to modify the military set-up, but he doesn't want the military to absorb too much power itself. He is purging the Air Force slowly and is moving gradually to make certain of the loyalty of the Army. He wants to have an absolutely sure base in the Army first before moving to "purify" the rest of the armed forces. He also realizes the need at some point to form a political party, but he wants to develop a stable base in the Army first.

Suharto is intent on setting up civic action programs to divert the energies of the military in solving the problems of his own country. On May 26th Suharto asked Ambassador Green for assistance to do a long list of things in the civic action field. Ambassador Green suggested that foreign enterprise could do many of the things that Suharto suggested his own military do. He stated that some military assistance however is desirable, perhaps \$6 million plus another \$2 million for spare parts. In his view, as he reported it to Suharto, the Indonesian military should concentrate on the food problem. The military have grandiose ideas of what is needed. Nevertheless, although we cannot respond to their full request, we can give some assistance. In dispensing aid, timing is extremely important. He sensed that the Indonesian military are becoming impatient because we have not responded to their recent requests.

Responding to the Vice President's question, Ambassador Green said he talked to President Johnson about Indonesia in September of 1966. The Vice President described his contacts with the Indonesians going back to 1949. Malik was one of those who had visited the United States at that time. The Vice President had managed to keep in touch with Malik and some of his friends over a long period of time. The Vice President had talked to Prime Minister Sato of Japan about Indonesia when he visited Japan in January of 1966. He stated that he hoped Japan could be ready to help if needed, because the United States

would not be able to move in there for political reasons. The Vice President said he had had further discussions about Indonesia when he went to Thailand in February of 1966, where members of his party had contacts with representatives of Suharto.

The Vice President said he understood perfectly well why a man like Suharto must keep the military happy. We must understand this fact and he was sure that the President was sensitive to it. He knew that the President had a very high regard for Ambassador Green and great admiration for the role he has played there in the last year and a half. He noted the great timidity in the United States Government on the question of Indonesia and a lack of interest in some circles. There had been a National Security Council meeting in the summer of 1966 on this subject, the meeting called chiefly at the request of Walt Rostow and the Vice President.

The Vice President said that he readily agreed with the Ambassador that the timing of our action is important just as the timing of inaction is important. He appreciates the "low posture" which the Ambassador and the United States Mission has taken in Djakarta in the past year and a half. If the Ambassador believes that further action is now needed, he must really press his case here in Washington. In the Vice President's view, he should make the case directly to the President. The President is very much interested in Indonesia, both for itself and also as a dividend of the stand that the United States is taking in Vietnam.

The Ambassador pointed out that United States influence is apparent in Indonesia and that our AID programs have borne fruit. For example, General Suharto regularly consults five economists in preparing for major economic decisions. All of these economists were trained in United States universities, three at Berkeley, one at Harvard and one at MIT. Similarly, our military training program has proved to be a great success and many of the people who both launched the coup and are in key positions of power today, were trained in the United States.

Ambassador Green stated that Indonesia must first deal with the resolution of its debt problem. Then we can focus on the foreign aid problem. There is a question of how much Indonesia can absorb at this time.

The Vice President agreed that the economic and social development program needs careful appraisal. We must not rush into a bilateral program before we have explored the possibilities of channelling aid multilaterally, before the consortium of nations has made its appraisal. Nevertheless, we must not lose sight of the fact that Suharto must take care of the Army. We must have a civic action program to put them to work and keep them busy. For this modest amount of goods and

money is needed, and can do a lot of good in helping Suharto at this time.

Ambassador Green stated that Secretary McNamara had resisted this previously but was now prepared to change his mind. McNamara had sent out a team which would be bringing back an evaluation shortly.

The Vice President said he hoped the Pentagon would do better in regard to Indonesia than it did on Laos. It had taken an unconscionable amount of time to get aid in Laos and he hoped that this would not be true of Indonesia. Ambassador Green noted that nothing had been delivered yet in the civic action field although he expected something would be. As of this date, they are waiting for the report of the Pentagon team. He added that in his view the State Department had never fully understood the need for civic action assistance, such as quartermasters' supplies, and spare parts.

Discussing the AID program there the Ambassador stated that what is most important is not only how much we give but the way we give it. When we have a large AID staff and a large USIA staff this results in a huge presence which breathes down the neck of Indonesians. They feel they are being treated like a client. The Ambassador's policy has been to reduce the United States presence generally, not only with AID but with USIA and other agencies. He advocates having no libraries under USIA auspices. Given the situation there and the staff presence that would be necessary, this would be counter-productive. He would rather spend the money on the books and place them in Indonesian libraries leaving them with the responsibility.

In general, he would place more responsibility on the Indonesian Government. We have ways of checking up on them in the end. He said that Administrator Bill Gaud and his Deputy-designate Rud Poats agree. But the lower echelons of AID have other habits acquired over a long period of time. The question of style, of how one does this is so important. It is not just a question of policy. He believes that the success that the United States has had in Indonesia is due to the fact that we cut down on our profile. Also there were very few if any statements here by United States public officials about Indonesia. During the past year and a half he has tried to have his Embassy be just one more Embassy in Djakarta.

We are now starting again with a new slate. In his view we should have some aid but we want to begin right. He has four AID officials now and he hoped to go up to not more than 13. He definitely wants to hold it down.

The Vice President stated that this certainly coincided with his approach and that of the President of trying to emphasize a multilateral approach to foreign aid, trying to get others to help share the burden.

Ambassador Green concurred, stating that our overwhelming presence in countries like Indonesia invariably creates resentment. Another reason why they have been successful in the past year and a half is because Indonesia has been spared the usual influx of visitors from the United States and other countries.

Ambassador Green stated that he was aware of the desire in February of 1966 of some officials in Washington (the Vice President included himself in this) to begin assistance to Indonesia then. The Ambassador stated that he was inclined to favor it at this time, but he was counseled by Malik "not yet." He checked it out and found that Nasution and Suharto concurred in that recommendation at that time. In May Malik informed him that the time was right and that they wanted aid. Ambassador Green reported that they were able to put together an emergency package and they got it out there on time. It made a terrific impact because it was on time.

The Vice President repeated that he hoped that the Ambassador would have a chance to talk to the President before he departed for Djakarta. He said he would contact Walt Rostow in this regard and if he had an opportunity would talk to the President about it himself.

**230. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹**

Washington, February 20, 1967.

SUBJECT

Aid to Indonesia

Agriculture (Secretary Freeman) and AID (Bill Gaud) have asked your approval to pledge up to \$40 million of additional PL-480 and

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Memos, 5/66-6/67. Confidential.

up to \$20 million of additional Support Assistance for Indonesia in 1967.² Their request has been endorsed by the Budget Bureau (Schultze) and Treasury (Joe Barr).³

This proposal is based on an estimate that Indonesia will require \$210-\$240 million in total aid this year if it is to carry out its stabilization program. Our portion of the total would be no more than one-third, up to a maximum of \$85 million.

We have already committed \$36 million in AID and PL-480 funds this year. The remaining \$49 million would be a mix: \$30-\$40 million in PL-480 and \$10-\$20 million in support assistance. The amount, commodity composition and terms will be worked out in the inter-agency review.

AID funds will be limited to procurement in the United States to minimize any adverse effect on our balance of payments.

As you know, the new Indonesian leadership has been fighting an uphill battle to undo the damage of Sukarno's years of misrule. They have worked closely with the IMF in laying out their plans for the future. Our specialists consider those plans to be realistic.

But they do need help, from us and from others.

The potential aid donors will be meeting in Amsterdam on February 23-24. This is a follow-up to the debt re-scheduling conference in Paris last December.

Our delegation wants authority from you to discuss this with the Indonesians and others on the basis of a pledge from us of up to one-third of the total requirement, i.e. no more than \$85 million (of which \$36 million has already been committed).

The Amsterdam meeting is not, strictly speaking, a pledging session. But our State and AID officials believe that this vital aid program will not move as it should if we can make no pledges or talk in terms of what we can be expected to provide. They consider it most important that they have the authority as outlined above.

I asked for a reading of sentiment on the Hill. Bill Bundy discussed the Indonesian problem on January 18 with the Foreign Affairs Committee. He reports that the members viewed with understanding our efforts to help Indonesia and to take part in lending support to the new leadership. Ambassador Green had a 90-minute session with the Foreign Relations Committee on January 30. He said the members welcomed the multilateral approach in meeting Indonesia's needs and endorsed our participation in a program to afford Indonesia critically

² In a joint memorandum of February 16. (Ibid.)

³ In a memorandum of February 18. (Ibid.)

needed assistance. In separate sessions, Senator Mansfield, Congressman Morgan and Congressman Zablocki voiced full agreement to our giving timely assistance to Indonesia.

I believe the requested authority should be granted on the basis of the Agriculture-AID memorandum.

Walt

Proposals approved

Disapproved

See Me⁴

⁴ Johnson wrote the following note: "W[alt]—Check out House & Sen Leadership. Also For Rel Com & For Affairs. Top 3 on each side and report reactions. L." In a memorandum to the President, February 23, Jordan reported that Katzenbach and Bundy spoke with Congressional leaders who were all in favor. The leaders were told that the United States was trying to convince Japan and the Europeans each to match the U.S. one-third offer. (Ibid.) Johnson wrote the following note on Jordan's memorandum. "O.K. on assumption Japanese and Europeans go 2/3 to match our 1/3. We will go on that basis. L."

231. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, February 21, 1967.

SUBJECT

Talk with Ambassador Marshall Green

On your instructions,² I had a useful talk with Marshall Green. He underlined the following in discussing Indonesia today:

1. Our efforts in *Viet-Nam* had a definite and favorable impact on developments in Indonesia. General Suharto could not have reacted

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Memos, 5/66-6/67. Confidential.

² In a February 20 memorandum Rostow asked the President if he wished to meet with Ambassador Green for "a quick but thorough outline of the problems we now face." Johnson instructed Rostow to "debrief him & give me 1 page memo on high points." (Ibid.)

as he did to the Sukarno-Communist coup if a serious threat from the North had existed. Our involvement in Viet-Nam is part of our total posture in the area—with favorable effects in Indonesia and elsewhere. However, we should avoid public discussion of the effect on Indonesian internal developments.

2. On *Communist China*, recent developments confirmed the Indonesian view that Peking's policy was wrong and "ideological absurdity" (Maoism). The Indonesians feel more secure. They also have more confidence in us, because only we really oppose Peking's policy.

3. *Sukarno* will be out of power, probably soon. Suharto has wisely followed the constitutional path in cutting back Sukarno's power. Sukarno has destroyed himself.

4. The *new government* is working for the people. Suharto and Co. feel they *have* to win; their lives are on the line. Failure will mean their destruction. The Communists will try to pay back the blood debt. Green sees some risk of the military overriding the civilians politically, and will advise against this course.

5. The government is pursuing a pragmatic economic policy.³ Green notes that the five leading economists in Indonesia on whom Suharto and his colleagues rely were all trained in the U.S.

6. Main problems of the new regime:

- to maintain the unity of the new order;
- to get going on economic progress.

Green notes progress is debt-rescheduling. Now, we should push economic assistance. (The plan for U.S. help, in cooperation with other donors, is on your desk;⁴ it will be discussed at Amsterdam later this week.)

Green thinks the proposal is minimal. It is important we be forthcoming with the Indonesians: (1) to give them needed assurance; (2) to stimulate others to help more.

Indonesia faces severe problems; prices have been rising. There is rising popular discontent. Any evidence we are going to help will be heartening in Djakarta.

Green was pleased that we are moving fast in the civic action field through MAP. This is "relatively minor, but crucial."

The Ambassador has two concerns about the immediate future:

³ In Intelligence Memorandum RR IM 67-8, February 1967, "Prospects for Economic Development in Indonesia," the CIA concluded that the economic situation in Indonesia would improve over the next 2 to 3 years. The speed of recovery depended "not only on the level of foreign aid but also on the progress in establishing an orderly state administration and a more stable environment for private enterprise." (Ibid.)

⁴ Document 230.

1) Can we give enough fast enough to help the Indonesians out of their current troubles?

2) Can we help in ways that will minimize frictions and maximize our political advantage?

The Ambassador would like to see less red tape in aid administration. He would put heavier responsibilities on recipient governments rather than looking over their shoulders at every turn. He understands Congressional pressure on this, and that we cannot make one country an exception. He notes that present procedures require large AID missions, which he considers self-defeating politically.

Overall, Green thinks:

- there have been tremendous changes in Indonesia;
- things are going to get better;
- Indonesia is a vitally important “swing” country in Asia;
- the important thing is to consolidate the gains that have been made—to not let things slip backward.

The Japanese Government wants to play a more important role in Indonesia. There is resistance in the Finance Ministry and the Diet. He is worried Japan won't do as much as it should. He will consult with the Japanese on his way back to Djakarta.

There is significant Japanese private interest in investment. The Indonesian and Japanese economies are complementary.

The *Australians* should be doing more in Indonesia.

The *Dutch* are playing the most constructive role of all the Europeans.

During his leave, Green spoke to 30 important private groups around the country, audiences up to 500. He spoke “off the record” for the most part, and was able to stress the importance of our Viet-Nam action for Indonesia and for Asia. He strongly supported our policy in Viet-Nam.

He leaves tomorrow morning, unless you wish to see him.

Walt

232. Memorandum From Secretary of Defense McNamara to
President Johnson¹

Washington, March 1, 1967.

SUBJECT

Effectiveness of U.S. Military Assistance to Indonesia

General Suharto's assumption of the powers of the Presidency has dramatized the significant shift in Indonesia's political orientation that has been taking place during the past sixteen months. This shift began on October 1, 1965, when the Indonesian Army, led by General Suharto, put down a Communist-inspired coup d'etat and then proceeded to eliminate the three million member Indonesian Communist Party (PKI) as an effective political organization. Having crushed the PKI, the Army turned to the more difficult job of stripping President Sukarno of political power and reorienting Indonesian foreign policy away from close association with Peking and toward accommodation with its neighbors and the United States. This process appears now to be entering its final stage; the Indonesian Army is nearing complete control of the Indonesian Government.

I believe that our Military Assistance Program to Indonesia during the past few years contributed significantly to the Army's anticommunist, pro-U.S. orientation and encouraged it to move against the PKI when the opportunity was presented. That the PKI was acutely aware of this instinctive opposition in the Army is shown by the fact that five of the six Army generals assassinated by the PKI on that fateful October 1 had received training in U.S. Army schools and were known friends of the United States. Moreover, after the Army had put down the revolt, the key jobs went to U.S.-trained officers. Suharto himself is not U.S.-trained, but all thirteen top members of his staff, the group that now governs Indonesia, received training in the United States under the Military Assistance Program. In my judgment, our decisions to invest roughly \$5 million to bring some 2100 Indonesian military personnel to the United States for training, and to continue the program even

¹ Source: Washington National Records Center, RG 330, OSD Files: FRC 72 D 2468, Indonesia, 1967, 091.31MAP. Secret. Drafted by Steadman. Rostow transmitted this memorandum to the President under a March 3 memorandum, in which he noted that, "the 'New Order' leaders in Indonesia have given high priority to military civic action. They regard Ambassador Green's assurances of expanded MAP and our help in debt rescheduling and new foreign aid as votes of confidence, which they are, in their efforts to bring order out of chaos." There is an indication on Rostow's memorandum that the President saw it. (Johnson Library, National Security File, Country File, Indonesia, Vol. VII, Memos, 5/66-6/67)

during the bleak years 1963-65 when Sukarno was carrying on confrontation against Malaysia and working closely with Peking, have been very significant factors in determining the favorable orientation of the new Indonesian political elite.

Our total MAP to Indonesia from 1950 through 1965 was \$63.2 million. Roughly \$59 million was given in the years 1959-1965. Two-thirds of this (\$40 million) went to the Army and included over 100,000 small arms, some 2,000 trucks and other vehicles, and tactical communications equipment. When Sukarno began his confrontation against Malaysia in 1963, we eliminated from the program items that contributed to Indonesia's offensive capability, but we continued to supply small arms for support of the Army's internal security capability.

In 1962 we expanded the MAP to include engineering equipment for the Army's civic action program. A total of \$3 million of such equipment was delivered between 1962 and 1964. The civic action program was the brainchild of General Nasution (now Chairman of the Consultative Assembly) and General Yani (one of the generals killed by the Communists in October 1965) who believed the Army needed programs that would improve its image with the Indonesian people vis-à-vis the PKI. Another aspect of the civic action program was to bring key younger Army officers to the United States for training (at Harvard, Syracuse, and several other institutions) to prepare them for high level management responsibilities. This training proved to be of great value when the Army assumed control of the government.

We suspended shipments of new equipment to Indonesia in September 1964. In March 1965 we cancelled the remainder of the program, except the training of those Indonesians already in the United States. Roughly \$23 million for equipment, services, and training was cancelled, and the funds were subsequently recouped. However, we maintained close contact with the Indonesian Army leadership through our military attachés and our Defense Liaison Group, which was retained on a skeletal basis even after the termination of MAP.

In September 1966, when the Army had isolated Sukarno and formally ended confrontation against Malaysia, we resumed the military training program for Indonesian officers (at a cost of \$400,000 in FY 67). The primary emphasis of this training is on increasing the civic action capability of the Indonesian Armed Forces. During this past week, we have decided to increase the FY 67 MAP by \$2 million in order to provide spare parts for previously supplied engineering equipment and also some new equipment—all for the civic action program. In FY 68 we plan to give Indonesia \$6 million in MAP, primarily for support of the civic action program.

It would be presumptuous to claim that our military assistance and training were solely responsible for the anticommunist orientation

of the Indonesian Army, or even that they were the major factors in causing the Indonesian Army to turn against the PKI and swing Indonesia away from its pro-Peking orientation. Nevertheless, I firmly believe that these programs, together with our continued sympathy and support for the Army, encouraged its leaders to believe that they could count on U.S. support when they turned on the PKI and, later, against Sukarno. Our firm policy in Vietnam has also played a part in forming Army attitudes favorable to our objectives in Southeast Asia. A year and a half ago, Indonesia posed an ominous threat to the U.S. and the Free World. Today, the prospect is dramatically altered for the better. General Suharto's government is steering Indonesia back toward a posture that promises peace and stability in Southeast Asia.

Robert S. McNamara

233. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, March 15, 1967, 1105Z.

4287. Subject: Post-MPRS Political Situation.

1. MPRS session just concluded represents what is probably significant turning point for Indonesia. Not only has all effective power been formally removed from Sukarno² but of even greater importance for future of this country, basis has been laid for more healthy relationship among political elements. Civilians stood up and fought for what they believed in and military, to its credit, let them do so and in fact met many of their demands. Victory of civilian forces and "hawks" within military was not, however, so lopsided as to encourage them in future to challenge executive without good cause. Through it all, Suharto again showed his sincere dedication to democratic means (at any point he could have moved in and imposed solution), his ability to juggle

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15 INDON. Secret. Repeated to Bangkok, Canberra, CINCPAC for POLAD, Hong Kong, Kuala Lumpur, Manila, Medan, Singapore, Surabaya, Tokyo, and Wellington.

² According to telegram 4239 from Djakarta, March 13, Suharto was sworn in as Acting President at 10:45 p.m. on March 12 after the People's Consultative Assembly—Provisional (MPRS) accepted by acclamation that afternoon a decree withdrawing Sukarno's mandate. (Ibid.)

political forces and his skill in gaining consensus for his actions. These traits will be invaluable as he tackles difficult tasks ahead. Following is our estimate of major political steps in months ahead as Indonesia moves toward elections scheduled for mid-1968.

2. We do not foresee an early crystallization of political forces into lasting coalitions on order of that evolving in MPRS session. On contrary, we expect constant shifting of political alliances as issues succeed each other. Moslems may at points be pitted against secularists and Christians. Two giant Javanese parties (NU and PNI) may form tactical and temporary alliances against outer-island organizations. Political parties will find themselves united at times against military with action fronts in swing position. Finally military itself will probably divide occasionally on certain issues with each faction picking up different civilian allies. This type of political kaleidoscope suits well Suharto's political technique. He works largely as "loner" and in anti-Sukarno campaign proved himself adept at juggling political forces.

3. Sukarno, of course, represented only first of many issues which will eventually determine nature of new regime. In his speech accepting MPRS mandate, Acting President Suharto placed most emphasis on general elections as culminating test for new order. We suspect that both political and economic activities will now focus in large part on this distant event.

A. First on agenda for parliament is government's electoral package (bills on parties, parliament's composition and election system). These bills will probably stimulate heated debate. NU will join PNI in fighting single-member constituency system, and parties as whole will probably seek maintain unaffiliated functional group representation in general and military contingent in particular at present level. MP's attached to action fronts may side with military on some of these issues. We expect that customary Indonesian compromise will be reached involving perhaps combination of single member constituency and proportional representation systems.

B. Parties will press hard for portfolios in cabinet, which are important source of funds and patronage needed to wage election campaign. Although Suharto may be forced to give a little, we suspect that he will maintain principle of "working cabinet" leaving parties largely restricted to representative bodies. Cabinet reshuffle may well occur within next few months but will probably be aimed more at increasing cabinet's efficiency than satisfying political party demands. Such figures as Malik and Sultan seem safe, although latter may be bolstered by appointment of qualified technicians to some economic portfolios.

C. Suharto in particular and armed forces in general are also "running" in coming election. Their showing, as Suharto is well aware, depends on success of Ampera cabinet. We can expect NU, PNI and

other parties to attempt discreetly exploit any lack of progress in economic sector, particularly if they have been unsuccessful in obtaining cabinet posts. Suharto will thus continue concentrate on his economic program, increasing pressures on foreign governments to contribute. Ironically, lack of progress in this sector may well prolong cabinet's life as Suharto and military will be unwilling face election unless and until adequate progress has been made.

D. We expect election to be postponed for six months or year at least, ostensibly on administrative grounds, and few should genuinely object. Postponement will apparently require reconvening of MPRS, probably month or two before present election deadline (July 1968).

4. General Suharto's primary political base will remain the armed forces and we believe that he will [do] more to strengthen his hold over military services.

A. Changes in top navy and police leadership is high on agenda. Suharto perhaps hopes that Navy Minister Muljadi, Marine Commandant Hartono and Police Minister Sutjipto will fall of their own weight once their underlings assess their failure to influence significantly outcome of MPRS session. After cooling off period, Suharto might personally take hand in their ouster and perhaps ask Adam Malik to cough up more Ambassadorial positions.

B. Suharto may also seek reduce political power of army hawks. He is especially wary of allowing regional commanders to build up powerful political bases in non-Javanese areas. General Dharsono is doing just that in West Java as is General Solichin in South Sulawesi. They may be assigned to staff positions along with Kostrad Chief of Staff Kemal Idris and RPKAD Commander Sarwo Edhie. These shifts will probably be done gradually and in manner not unduly harmful to their military careers or alarming to their supporters.

C. Pressures will continue, especially from political parties, to persuade Suharto to relinquish one or both of his military portfolios. We suspect that he will not do so at least until he has accomplished measures mentioned above.

5. Students may pose occasional problem for Suharto. Military will now wish to put them back into classes but they are understandably reluctant to disband successful action front organizations. Accustomed to regarding themselves as voice of people's conscience and cognizant that some cause is necessary to keep their organizations intact, students may be tempted to take to streets again to protest unpopular measures. In this eventuality they would be pitted directly against the military and we do not rule out clashes such as occurred on October 3. This threat, however, will probably subside with time.

6. Suharto's long range concern is latent threat from left. Additional military operations against isolated neo-PKI forces in Java as

that conducted against Mbah Suro (Djakarta 4183)³ will be undertaken, either at Suharto's command or at initiative of individual army commanders. PNI also continues to worry Suharto. He may make another big effort to clean up this party, perhaps dictating further changes in its leadership, Suharto's overall goal is not tonjoiveanese [*to increase Javanese?*] secularist voice to balance rising Moslem-outer island coalition.

7. We do not foresee any significant changes in GOI foreign policy, which has proceeded for most part unobstructed by struggle with Sukarno.

8. In sum, Suharto's expert handling of leadership question has placed him in good position to face multitude of problems which have been awaiting termination of anti-Sukarno campaign to surface. Statements of support voiced at Amsterdam meeting and indications of US willingness to mount modest civic action program have proved to be well timed expressions of free world interest which may encourage Suharto's government to move forward.

Green

³ Not found.

234. Letter From the Ambassador to Indonesia (Green) to the Deputy Assistant Secretary of State for East Asian and Pacific Affairs (Berger)¹

Djakarta, April 25, 1967.

Dear Sam:

Many thanks for your letter of March 31² which set down in helpful and stimulating style a series of formulations on the emerging Indonesian political scene. We seem to be on the same wave length but with enough tonal variations to stimulate further exchanges.

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15-1 INDON. Secret; Official-Informal.

² Berger's letter has not been found, but the substantive points he made are repeated by Green.

In the interests of easy reference I have repeated each one of your lettered paragraphs together with my comments on that paragraph.

a. Suharto has shown an uncommon political wisdom and shrewdness, as well as remarkable sense of timing in handling Sukarno and other main problems of the last twenty months (confrontation, UN, the trials, etc.). He is the dominant personality on the Indonesian scene and we see no one of comparable stature who could lead Indonesia in the difficult months and years ahead.

Comment: Suharto had to be pushed by Malik on handling confrontation, returning to the UN, and other matters, although the handling of Sukarno was completely in accordance with Suharto's guiding genius. I agree that Suharto has an inborn political sense which has made him *the* man for the job these past 18 months, and I see no one who is now capable of replacing him or who in fact aspires to do so.

b. His next effort must be to put together a more effective and honest government to deal with the economic mess and to lay the foundation for Indonesia's political future.

Comment: I agree. However, we should not expect wholesale cabinet changes which would open up new problems of political party representation in the cabinet. It would be in Suharto's style to avoid this until after elections, meanwhile making changes from time to time in cabinet and sub-cabinet positions to remove the more obvious corruptionists or incompetents. But I see no cleansing of the Augean stables on the heroic Herculean scale.

c. An early return to "normal politics", i.e., to more or less the old political parties, to an election based on them, and to a government created from them, would solve no problems in Indonesia. It would not give Indonesia effective government, would only lead to disgust with the democratic process, produce more chaos, and probably end in a complete takeover by the military.

Comment: Concur. I am sure that elections will not be held until Indonesia's rehabilitation is well under way and Suharto is certain that the outcome of the elections will not overthrow the "new order" or seriously challenge its progress. On the other hand I do not see Suharto removing the old parties. He may in fact seek a political solution that involves efforts to gain support of old parties or major elements thereof for his "New Order".

d. For Malik to assume that he can build a new political party on a civilian base with any chance of success, is sheer romancing. He is not that strong politically, nor is he likely to become so in view of his enemies and opposition in religious, military, national and political circles.

Comment: This may underrate Malik's potential and also contradicts to some extent the thrust of your paragraph h. Malik has

been counted out before, only to bounce back to a position of prominence. He may be weak as an organizer but I can conceive of a number of circumstances under which he might rather quickly emerge as a prominent political force within a coalition of progressive elements.

e. For the military to withdraw from a major and active role in political life would be as disastrous for Indonesia as for the military to take over all power. However, it is not likely that the military will either want to give up power, or dare to give up power, even if they so desire. On the contrary, the greater danger is that the military will push for more and more power. The problems for Suharto are to keep a strong rein on power, enlist civilian cooperation, resist the pressures toward exclusive military power, and weld a military-civilian team to govern Indonesia.

Comment: I fully agree.

f. In short, the key to the future, to political stability, to effective government, to a successful transition to elected government, is in Suharto's hands. If he can make a success of the next year or two his government becomes the embryo of the successor government, and he becomes the natural person to lead the subsequent government. Whether Suharto realizes it or not, it would seem that this would eventually require the creation of a new political party which only he can lead. (This was the experience of General Papagos in Greece in 1952, and General Pak in Korea in 1963.)

Comment: This is a possibility but there are others. Ed Masters, for example, has suggested that Suharto may feel he can find a civilian base for his government in a cleansed PNI. I rather suspect that Suharto has not yet made up his mind on how to organize political forces in order to insure perpetuation of his New Order. Most signs at present would tend in the direction of his trying to achieve this crucial goal through a combination of (a) guaranteed seats in the Parliament for his military and Action Fronts on whose support he can absolutely count, and (b) trying to gain the support of as many of the political parties or factions thereof as possible. The political party element is nevertheless likely to maintain a relative independence, being prepared to vote either for or against government bills in accordance with party interests.

As to your parenthetical comment about the Greek and Korean examples, I am not sure how relevant Suharto would consider them to be. Would he be willing to take the risk which Pak took in 1963 when Pak would have lost to a more united opposition? I doubt it.

g. A new political party must have military support and a civilian base. It must be able to draw in the new, young, eager, progressive civilian and military forces who want change. It must also draw on

the younger and more progressive elements of the old nationalist and religious parties.

Comment: It would be ideal if the new party would attract the support of those groups you mentioned, but this is Indonesia where actual performance would likely fall far short of that ideal. Comments on paragraph f. above also relevant.

h. Malik is the natural leader of the young civilian progressive elements, but he cannot get very far without Suharto and military support. He must therefore aim at an alliance under Suharto. If Suharto begins to think of Malik as a competitor, or if Malik is unwilling to play a supporting role to Suharto, we see little possibility of a collective leadership emerging that combines the essential and most hopeful political elements, or one that offers promise of avoiding the dangers.

Comment: I agree. To all appearances Malik realizes he needs Suharto more than Suharto needs him. Yet Malik aspires to eventual greater power than he now has, and if he is frustrated in achieving such power there may be some question of whether he would be content to remain in harness with Suharto. At present relationships between Suharto and Malik are good and one would hope that the inevitable reactivation of politics will not destroy their remaining in harness together. One step that might be helpful in preserving such a relationship would be to name Malik as First Minister under Suharto, which would in effect make Malik Suharto's Deputy for all affairs, including economic. (You will recall that Hassan mentioned this idea to me and that I said I thought the idea very sound.)

i. One question is whether Suharto sees the shape of the future and his role in it. We suspect that he already does. But if he does not, it seems from here that he must eventually come to see his role, and the course he must follow, because we see no alternatives that offer a better hope for Indonesia. The second question is whether Malik understands it and is prepared to play a subordinate role.

Comment: These are both key questions on which I can only grope for answers. In the economic field Suharto has acted as a pragmatist, being single-minded and determined in the field of stabilization, making no typical Javanese concessions or engaging in *musjawara*. In the political field, however, he seems quite typically Javanese in his approach, judging his position after allowing the various political groups to show their hands and then looking for the most comfortable point between extremes, provided that that point is not inconsistent with his own longer range goals. So far, Suharto's political strategy has also involved; first, gaining the full united support of the Army; secondly, winning the support of the other three Armed Services, or at least neutralizing armed force elements like the KKO which were more loyal to Sukarno than to Suharto.

As Suharto moves towards the promised elections, his tactics for insuring continuation of his new order will be clarified. Right now, he lays primary stress on improving the economic climate, but beyond that, he may not yet have formulated any definite ideas. Since he cannot afford to let the Sukarnoists back in, and since he has shown himself to be highly adept in political strategy this past year, I am reasonably certain he will come up with a plan of action best suited to gaining his goals of retaining power while also maintaining as much unity as possible amongst the highly diverse and squabbling political groups and elements that for so long have plagued Indonesia. It seems to me that Suharto's style will continue to be marked by efforts to minimize abrasions and divisiveness, but I do not think he will carry compromise so far as to endanger continuation of basic New Order policies and programs. The penalty would be too great.

Just one or two additional points:

1. Suharto seems increasingly relaxed and to be enjoying his new role as Acting President. I regard this as an additional reason why he may want to stay on in power. He has some weaknesses (e.g. keeping on too many second-rate military cronies; lack of adequate direction on the Chinese resident issue) but he has strengths that are peculiarly relevant to leadership of a united Indonesia in the post-Sukarno era.

2. You mention the complicated relationship between Suharto and Nasution. I believe that Nasution will be content to play second fiddle to Suharto, and he seems to have little potential for effective organization including those from the most extreme nationalist and religious groups. If this analysis is wrong and Nasution should make a bid for power, I fully share your views about where we should stand.

3. With further reference to paragraph h., I do not rule out the possibility that Malik might lead a party which supported Suharto's New Order and in that capacity Malik might continue on in Suharto's post-election government as a principal deputy.

The above amplifies Djakarta 5027³ on Suharto's performance as Acting President, a telegram that was in part inspired by your much appreciated letter.

Sincerely yours,

Marshall

³ Dated April 22. (National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15-1 INDON)

235. Telegram From the Department of State to the Embassy in Indonesia¹

Washington, June 27, 1967, 11:27 a.m.

216750. Subject: Suharto Call. Ref: Djakarta 6291, 6289.²

1. Strongly endorse your view that main objective of your forthcoming conversation with Acting President should be to form basis for frequency and continuing exchanges of views. If Suharto at any point has doubts or questions about U.S. policy it is desirable that he resolve them directly with you rather than using complicated and unreliable mechanism of intermediaries whose personal interests may not always coincide with clear transmission either your or his thoughts. Following paragraphs suggest lines you may wish to use.

2. *U.S. Assistance:* Presume Suharto will use discussion internal political situation as lead-in for plea for U.S. aid. One possible line of reply would make following points:

a. Indonesia received resounding vote of confidence at Scheveningen meeting where intergovernmental group agreed to provide \$200 million gap in Indonesia's balance of payments as projected by IMF.³ Donor countries attentions will now be focused on 1968 debt relief and assistance needs, and IBRD will shortly have a team in country surveying priority development requirements. (Suharto might be reassured to know that Widjojo is now in Washington seeing Walt and

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL INDON-US. Secret; Priority, Drafted by Underhill, cleared with AID Assistant Administrator for East Asia, John C. Bullitt, in substance with Nuechterlein and the Associate Administrator of the Foreign Agricultural Service, C.R. Eskildsen, and in draft with Berger; and approved by Barnett.

² Telegrams 6291 and 6289, June 24 and 23, asked for the Department's views on issues to be raised with Suharto and suggested that this meeting might be the start of a useful dialogue on issues of mutual concern. (Ibid.) In *Indonesia: Crisis and Transformation 1965-1968*, p. 103, Green recalled that during the first half of 1967 he was denied access to Suharto in part because the U.S. Government was unwilling to provide uniforms and shoes to the Indonesian armed forces as part of the civic action program. Green stated that he was privately informed that he was only welcome to meet with Suharto as the "bearer of good news" and suggested that this might have been the view of Suharto's aide rather than Suharto himself. Green is apparently referring to a conversation with General Alamsjah as reported in telegram 5771 from Djakarta, May 26. (National Archives and Records Administration, RG 59, Central Files 1967-69, AID (US) INDON)

³ The Scheveningen meeting of mid-June 1967 was the second gathering of the Intergovernmental Group on Indonesia (14 Western donor countries and 5 international organizations—IMF, IBRD, UN Development Program, and Asian Development Bank) that met in mid-June. The first meeting was held in mid-February 1967 in Amsterdam.

Eugene Rostow, Bundy, Poats, Linder, and other senior officials, as well as members Senate and House.)⁴

b. Indonesia's primary asset in dealing with international community is support of International Monetary Fund. This support stems in turn from confidence this international organization has in economic team that developed and is now executing New Order economic policy. Performance Indonesian team at Scheveningen meeting continued very high standard established by this group at previous meetings, and continuing support of Suharto and Presidium to this highly competent group of economic advisers is best way, in our judgment, maintain and expand flow of foreign assistance to Indonesia. Donor countries will also be looking for progress during coming months along lines noted Scheveningen Chairman's report (septel).⁵

c. There has been circulating in Djakarta criticism that U.S. support of Indonesian stabilization effort has been slow and niggardly. This criticism difficult to understand in light of following facts. Since April 1966 U.S. has postponed payment of \$51 million of debt falling due in 18 month period 1 July 1966 through 31 December 1967, and provided \$77 million in new aid. Included in this figure is direct assistance to the Indonesian Armed Forces for its civic mission. The U.S. is further committed to provide an additional \$32 million as part of its share in meeting its commitment at Amsterdam and Scheveningen. Total through December 1967 of assistance to New Order will be therefore roughly \$160 million.

3. *Rice*: We have for number of weeks been working on Indonesia's anticipated rice requirements in the fall of 1967. At this stage the most we can do is to assure Suharto that we are keenly aware of Indonesia's requirements, that Indonesia has a high priority, and that as early as possible in the new crop year (beginning in July) we will let him know whether we can help.

4. *Private Investment*: If in discussion this topic opportunity presents itself you might note confusion which we observe in American business community created by contracts concluded by various officials of Indonesian Government whose relationship to over-all economic development plans are not entirely clear. (Barre's CEDO would be prime example.) To sustain U.S. interest in investment Indonesia, now at high level, GOI must (a) arrange to deal with businessmen in orderly, responsible way, and (b) continue to maintain the generally promising

⁴ A record of the meeting between Professor Widjojo Nitisastro, Economic Adviser to Suharto, and Barnett and Berger and other Indonesian experts from State and AID on June 27 is in a June 27 memorandum of conversation. (National Archives and Records Administration, RG 59, Central Files 1967-69, E INDON)

⁵ Not further identified.

investment climate created by effective performance on stabilization goals, MPRS new investment law, and US-GOI investment guarantee program.

5. You may inform Suharto of our affirmative response to Hartono's request for fatigue uniforms and jungle shoes (State 211544).⁶ FYI. Widjojo quizzed Underhill on our judgment of Hartono's performance in dealing with DLG. Latter said that Embassy/DLG's relations with Hartono excellent, and that we had high regard for his professional competence. Widjojo then explained that unspecified persons were circulating story that Hartono was ineffective in dealing with Americans and that others could extract more MAP from US. Persistence his questioning suggested that he also may be target of similar campaign. Boosts for Widjojo, Sadli and Company as well as Hartono therefore seem appropriate. End FYI.

6. Suggested points on Viet-Nam and Middle East follow septel. Middle East situation changing rapidly, and we will send current message in time for your meeting. Please advise time of appointment.

Katzenbach

⁶ Dated June 15. (National Archives and Records Administration, RG 59, Central Files 1967-69, DEF 19-8 US-INDON)

236. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, July 7, 1967, 0930Z.

114. Subject: Meeting with Suharto.

1. Well over half of my three hour meeting alone (except for interpreter) with Suharto last night was involved in trying to dispel Suharto's concern over US aid prospects for this and next year. Balance of conversation was taken up with other aid matters, MAP, foreign investment and foreign policy issues. Our discussions on Vietnam and

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15-1 INDON. Secret. Repeated to CINCPAC for POLAD, Kuala Lumpur, Medan, and Surabaya.

other sensitive points already reported septel.² Suharto supports our policies in Vietnam and, I would judge, other areas as well. At no point was Suharto anything but moderate, agreeable (though somewhat reserved) and matter-of-fact. Main objective of my conversation was to form basis for frequent continuing exchanges of views with man who is almost certainly going to lead GOI for sometime to come. Uncertain whether I succeeded in that objective. To some extent this will depend on practical results of our talk: i.e. our responsiveness to his requests.

Suharto's Plea for US Support

2. Suharto began by saying that he wanted to make it clear that he did not question our goodwill towards Indonesia. He also recognized our world-wide commitments and the problems every US administration faces in getting aid through Congress. He seriously questioned, however, whether we attached sufficiently high priority to Indonesia, bearing in mind its enormous problems including challenge from Sukarnoist forces. Country faces a real emergency where unusual steps are needed and where assistance of US, above all, vitally needed. However there have been number of disturbing indications that US does not see problems of Indonesia in same light. Certain recent US actions did not reflect views expressed by high-ranking visitors from Washington who had called on him this past year. Suharto had now just learned from Widjojo, on his return from Washington, that no further dollar loans likely this year, that US seeking to force unneeded and unwanted PL480 sales on Indonesia in CY'67, and there was likelihood that US assistance to Indonesia in FY'68 will be limited to only \$20 million in import loans with balance being in PL480.

3. Suharto continued that Ampera cabinet program was drawn up on expectation of continuing US assistance. "I have regarded US as potentially our greatest friend, but if I cannot be sure of your assistance then I will have to make another plan." Suharto did not imply that he would sell out to the Russians or anything like that, but he stated bluntly that he would have to make some major adjustments in government budget plans and programs which, coming to attention of Sukarnoists and other hostile forces in Indonesia, would expose government to grave danger. Damage could be irreparable.

² Reference is to telegram 100 from Djakarta, July 6, in which Green reported that Suharto briefed Green on the meeting that his personal representatives had with North Vietnamese Ambassador to Indonesia Pham Binh who was currently in Hanoi. Suharto hoped that Pham Binh would return with "something of interest to convey" and he would pass it on to Green. Also discussed was the Middle East and Indonesia's relations with the Soviet Union. (Ibid., POL 27 VIET S)

U.S. Position

4. I said I was glad he was not questioning our motives or good faith. I knew there had been many completely false rumors floating about regarding our position. I had long wanted to see Suharto, if only to make clear to him that we fully support his government and that our efforts directed at maintaining unity of new order under his able leadership. He was the one man who could [garble—pull?] country together in these troublesome times, and we admired his moderation, pragmatism, dedication to needs of the people, and desire to maintain balance between military and civilian elements in government. I also spoke of our high regard for his leading economic and foreign affairs advisors. I said there were bound to be differences amongst friends but that these were minor compared to our broad areas of common interest and cooperation.

CY'67 Aid Mix

5. As to specific points which Suharto had raised re composition of our CY'67 program, I reminded him of our Amsterdam statement forecasting that US assistance would involve both PL480 and import loans. I was sure we would not force unneeded PL480 on his government, but it nevertheless had been our conclusion that raw cotton would be needed by the end of this year. If GOI disagreed, this matter should certainly be discussed further between our experts. As far as rice was concerned, I was authorized to tell him that we keenly aware of Indonesia's requirements, that Indonesia had high priority and that as early as possible in new crop year, beginning this month, we would let him know whether we could help.

6. Suharto again urged—as he had two weeks ago through General Sudjono—that we provide as much PL480 rice this calendar year as possible. This was critically needed. (He did not mention possibility of receiving 76,000 tons of pearl rice which had been communicated to Widjojo during latter's Washington talks.)

7. Suharto said he wanted to make it clear that GOI welcomes PL480 sales, not only rice, but also cotton and he even interested eventually in possibility of wheat. In latter regard, he hoping to change national diet habits, starting with Djakarta, so that bread is substituted for rice on breakfast menu. He also keenly interested in reports of rice substitutes which can be prepared in such way as to have appearance of rice. However it was considered view of his government that for balance of CY'67, Indonesia requires only PL480 rice and dollar import loans. It will need 150,000 bales of raw cotton but not to arrive before April '68. He was opposed to finished textiles since this would depress local spinning and weaving industries. I said that our aid representative returning from Washington July 6 and that we would pursue these

questions further with his economic team. (Sadli subsequently phoned to say that he and Widjojo, at Suharto's request, wish to see me July 8.) Suharto again underlined crucial importance he attached to our aid mix being along lines determined by Indonesia's needs rather than by our desires to dispose of agricultural commodities but he recognized the need for and usefulness of PL480 commodities in the aid mix.

CY'68 Program, Including Civic Mission

8. In responding to Suharto's questions regarding prospective US aid in CY'68, I took occasion to run down briefly our programs in CY'66 and CY'67, including debt relief, budget support, other bilateral assistance and prospects for regional assistance. As for CY'68, I said we would presumably be following same formula with regard to coordinating with IGG countries on debt relief and providing our share of total aid requirements as determined by IMF. Additionally I thought we could look for an expansion in our support for Suharto's civic mission program, for food for work and technical assistance programs. I took this occasion to give Suharto two papers outlining our civic mission support for FY'67 and FY'68, broken down by services (omitting dollar amounts).³ I told him that, directly responsive to request he made last autumn, I now authorized to state we will furnish "2,000 sets of uniforms and 32,000 jungle boots" for equipping all of military involved in civic mission program. I spoke of our high regard for General Hartono and outstanding manner in which civic mission program is now getting off the ground. I shared Suharto's keenness for expanding civic mission program and I, for one, would do all possible to help increase our assistance for civic mission, assuming program continues to be pursued with same effectiveness as had been shown so far.

9. Suharto expressed appreciation for all we had done with regard to civic mission program, including shoes and uniforms. There were two particular points, however, he wished to stress regarding our overall aid program for CY'68: First, his hope that we could provide sufficient import loans and PL480 rice; and second, that we would be able to expand our food for work program, but this would depend upon finding rupiahs for financing local costs of program. He urged that we assist through providing additional commodities for sale in Indonesia to help cover costs of transportation and other expenditures related to program.

Foreign Investment

10. On foreign investment, I provided Suharto with a paper the Embassy had prepared on progress of US investment in Indonesia,⁴

³ Neither paper is identified further.

⁴ Not further identified.

showing agreements concluded in first half of 1967, letters of intent exchanged, and other investment proposals, together with some general comments. I congratulated him on wise course he had taken to attract foreign investment which, I felt offered main hope for economic development. I nevertheless referred to problems some American investors had encountered in their dealings with Indonesian authorities and pointed out importance of straight-forward direct dealings between investors and properly appointed authorities in Indonesian Government (Suharto got the point without my having to belabor it). I also spoke of two major meetings, in August and November, organized by Stanford Research Institute and Time-Life, which already attracting large number of top flight executives from North American-Asian-European companies having real interest in Indonesian investment. Suharto said he attached great importance to these meetings, that he wanted to talk directly with those attending August meeting. We touched on need for rehabilitation of fishing and tin industries.

Other Points

11. Miscellaneous points covered in our talks: (a) Suharto stressed need for comprehensive aerial as well as mineral survey of Indonesia, confirming his earlier request for US assistance in aerial survey but stating that mineral surveys best done by prospective investors; (b) I raised subject of family planning, pointing out how we could be of assistance (Suharto agreed but showed little sense of urgency on this critical problem); (c) I spoke to points in Deptel 216750⁵ re Scheveningen, importance of GOI preserving its close links with IMF, and IBRD survey of resources which GOI had requested. I left with Suharto an Indonesian translation of Bullitt statement at Scheveningen⁶ which I consider excellent.

12. Balance of discussion related to foreign affairs which covered septel.⁷ We will also send septel comments on Suharto's specific requests re '67 aid-mix, '68 assistance, and Title II.⁸

General Comments

13. I was struck by how Suharto's views have matured since first we met privately on May 27 [26], 1966.⁹ His program for Indonesia at that time seemed exclusively related to grandiose military civic action

⁵ Document 235.

⁶ Not further identified.

⁷ See footnote 2 above.

⁸ Telegram 164 from Djakarta, July 10. Additional comments are in telegram 284 from Djakarta, July 17. (Both National Archives and Records Administration, RG 59, Central Files 1967-69, AID (US) INDON)

⁹ See Document 209.

schemes for development of outer islands and to wholesale transmigration of people from overcrowded Java to these projects. In our discussions last fall, he had come to accept the need for foreign investment as principal means for developing outer islands, and, by that time, he had come to subscribe fully to stabilization program as backbone of national economic policy. His remarks at that time nevertheless reflected army-centrism and were replete with expressions of concern re Communists but never re Sukarnoists. In our long discussion last night, Suharto spoke as a national leader rather than as an army leader. He did not present oversimplified view of PKI as immediate threat, but, more realistically, directed his concerns towards lingering Sukarnoism, disunity and defeatism. He did not reflect, as he has in past, exaggerated expectations of US assistance. His stated views generally parallel our own.

14. I am convinced that Suharto entertains no suspicions about our alleged support for Nasution, an Islamic state, and other such nonsense. These fears and suspicions, undoubtedly exaggerated by self-seeking officers on Suharto's personal staff, seem to have been dispelled by my recent talks with Generals Sudjono, Sumitro and Hartono. I can see the possible beginnings of a personal rapport with Suharto though I do not wish to exaggerate where this could lead, bearing in mind that it may take some time for Suharto to break out of his Javanese mold which includes doing things through intermediaries and by indirection. A responsive reaction to his reasonable requests would, however, do much to assist in our problem of communication with Suharto.

Green

237. Memorandum From Vice President Humphrey to President Johnson¹

Washington, July 14, 1967, 5 p.m.

SUBJECT

Indonesia

As I noted in the report on my trip to Korea,² one of the subjects I discussed with Prime Minister Sato of Japan was aid to Indonesia. On my return, I noted Ambassador Marshall Green's report (attached) on his three-hour discussion with acting President Suharto.³ Because this was Ambassador Green's first substantive discussion with Suharto in five months, his report merits more than the usual attention.

Most of Suharto's discussion is focused on Indonesian internal problems and on his hopes for considerable foreign assistance from the United States. Suharto explicitly stated his belief in the goodwill of the United States towards Indonesia, but expressed doubt as to whether we attached sufficiently high priority to Indonesia. He sees a discrepancy between the views expressed by high ranking American visitors and our response to his specific requests for foreign aid. He expressed disappointment over the amount of program assistance planned for 1968, and pointed out that most of the projected assistance is in the form of PL 480 food supplies. Although he regards the United States as "potentially our greatest friend", he went on to state that "if I cannot be sure of your assistance, then I will have to make another plan".

While I would not pretend to know what level of assistance we should be providing to Indonesia, I am convinced that Indonesia should enjoy a very high priority in our overall foreign assistance considerations. These commitments should be made within a multilateral framework that encourages substantial commitments from Japan and European nations. But when one considers the size and potential wealth of the country and the concentrated attempt of Suharto to restore stability and order in the face of continued Sukarnoist opposition, it would be

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68. Secret; Exdis. Initialed by Humphrey. Johnson wrote the following note on the memorandum: "M.[Marvin Watson?] Send to Walt [Rostow] & to Gaud for memo of comments back to me. L."

² The July 6 report contained Humphrey's impressions based on his discussions with those East Asian leaders attending the inauguration of Park Chung Hee as President of the Republic of Korea, June 29-July 3, 1967. The report, July 6, is *ibid.*, Name File, Vice President, Vol. II.

³ See Document 236.

shortsighted if we were to give an inadequate response to the requests of the present government.

Ambassador Green also indicated that Suharto expressed considerable interest in the Vietnam problem,⁴ expressed his continued support for our policy there, and hinted that we should not exclude the possibility of causing "floods" by bombing the dikes in North Vietnam. Suharto comments that the Indonesians will continue to be helpful in communicating any information they receive on North Vietnam, but he pointed out that although they have contacts with North Vietnam, the North Vietnamese "don't exactly trust us".

⁴ See footnote 2, Document 236.

**238. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹**

Washington, July 22, 1967, 1:30 p.m.

Earlier in the week I was visited by two Indonesian army officers, both of whom are in Suharto's inner circle of advisers. They stated very frankly that their purpose was to establish a personal channel of communications between General Suharto and you. They said that although American officials were invariably sympathetic to Indonesia's stated need for assistance, follow up was disappointing. They said Suharto hopes that you will breathe a greater sense of urgency and generosity into the American response to Indonesia's aid requests.

It is not clear to what extent they were actually speaking for Suharto. There are reasons to suspect they were simply trying to enhance their own influence by proving they can bring home the bacon.

In any event, I think it is time that we take another look at the rather restrained approach we have taken thus far to Indonesia aid requests. I also think it is time to consider whether some initiative on our part could not be used to start the foundation of a personal relationship between you and General Suharto. With that end in mind,

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68, [2 of 2]. Confidential. There is an indication on the memorandum that the President saw it.

I have asked Marshall Wright² to go into the whole problem of Indonesian aid deeply and urgently.

I am attaching a memorandum of my meeting with Suharto's representatives.³

Walt

² Rostow added the following footnote at this point: "Bill Jorden's new No. 2."

³ A July 19 memorandum for the record of Rostow's meeting with Generals Humardani Sudsjono and Colonel Ali Murtopo on July 18 prepared by Marshall Wright of the NSC staff is in the Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68, [2 of 2]. A record of Sujorno's and Murtopo's July 17 meeting with Vice President Humphrey, prepared on July 19, is *ibid.*, Name File, Vice President, Vol. II. An account of their meetings with Berger on July 17 is in telegram 10175 to Djakarta, July 20. (National Archives and Records Administration, RG 59, Central Files 1967-69, POL 7 INDON) A summary assessment of their visit and all their meetings including those with key members of Congress is in telegram 10759 to Djakarta, July 21. (*Ibid.*)

239. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, July 22, 1967, 2:30 p.m.

SUBJECT

Indonesia—The Vice President's memorandum of July 14,² and Bill Gaud's comments thereon³

The Vice President's memorandum argues that Indonesia should have a very high priority claim on our foreign assistance resources. Bill Gaud agrees, but points out that, for a variety of reasons, we face serious problems in meeting the commitments we have already made to Indonesia for this year. Moreover, there is every reason to think we will have even greater problems next year.

In other words, we are having trouble performing satisfactorily on what we have already agreed to do, and we are beginning to doubt if we have agreed to do enough.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68, [2 of 2]. Secret; Exdis. There is an indication on the memorandum that the President saw it.

² Document 237.

³ In a memorandum from Gaud to the President, July 17. (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68, [2 of 2])

To meet the immediate problem of our commitments during Calendar Year 1967, we must get at least 100,000 tons of rice for Indonesia. That will leave almost \$10 million of our current commitment unsatisfied. The solution that would best meet Indonesian needs is to use some of our FY 68 Indonesian money as a cash loan. That, however, is borrowing from Peter to pay Paul, for it leaves us more than ever short of the resources required to meet our commitments to Indonesia in CY 68. Basically, it looks as if we are going to have to find more resources.

Indonesian expectations of American aid vastly exceed anything we are going to be able to come up with. Whatever we do, they will be disappointed. It is essential, however, that the gap between what we give and what they expect not be so broad that their disappointment turns into despair and disillusionment.

There is a way out of this. We will keep digging until we find it.

Walt

240. Notes of Meeting¹

Washington, July 25, 1967, 2:47-3:47 p.m.

Notes of the President's Luncheon Meeting with Secretary Rusk, Secretary McNamara, Walt Rostow and George Christian, July 25, 1967, in the Mansion

The President read several memoranda which Secretary Rusk brought with him to the meeting.²

The President asked what this country was going to do about Indonesia. Mr. Rostow said that a meeting would be held on this problem tomorrow.³ Secretary Rusk said that \$200 million was planned within the consortium. Mr. Rostow said Indonesia is going through a typical readjustment period. He said there was a need for basic transportation and communication facilities. Secretary Rusk then dis-

¹ Source: Johnson Library, Tom Johnson's Notes of Meetings, 7/25/67. Top Secret; Eyes Only. The time of the meeting is from the President's Daily Diary. (Ibid.)

² Not further identified.

³ No record of this meeting has been found.

cussed foreign assistance. He said the Foreign Relations Committee would be asked to specify which countries it would eliminate if there is a cut back in foreign assistance funds.

[Here follows discussion unrelated to Indonesia.]

241. Paper Prepared in the Department of State for the National Security Council¹

Washington, August 4, 1967.

INDONESIA

I. Background

Introduction

1. On August 4, 1966, the National Security Council considered a paper on Indonesia which made cautiously hopeful forecasts for the coming year.² These forecasts have proved realistic. Economic and political progress was perhaps slightly better than expected a year ago, and the contributions made by the United States and other major Free World countries to economic stabilization followed the predicted pattern.

2. This paper reviews the current situation, projects a program of action, and looks ahead to the prospects for the coming year.

Political

3. Sukarno has been eliminated as a political force. The "New Order" led by General Suharto is well established in power, and is neutralizing gradually "Old Order" hold-outs in the police, marine corps, and parts of Central and East Java. Suharto and his associates showed sophistication and a fine sense of timing in managing the transition. The thread of legitimacy was never broken. Sukarno was

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 1 INDON. Secret. A covering memorandum from Deputy Executive Secretary of State John P. Walsh to Bromley Smith indicates that the paper was prepared for the NSC meeting on Indonesia on August 9 and had "the working level concurrence of the Treasury, CIA, DOD, and JCS and was approved by Katzenbach and the Under Secretary of State for Political Affairs, Eugene V. Rostow.

² See Document 215; for an account of the meeting, see Document 217.

denied martyrdom. Instead, the pernicious irrelevance of his leadership was gradually exposed, and the hollow shell of rhetoric and revolutionary romanticism allowed to crumble of its own weight. "Engineer" Sukarno now lives in internal exile in Bogor, a pathetic old man transformed in eighteen months from the incarnation of the Indonesian State into a historical relic.

4. This process of political transition was completed only in March of this year, and a post-Sukarno political structure has not yet emerged. Suharto keeps his own counsel, and is inclined to caution and gradualism. He is feeling his way among the conflicting pressures of New Order activists advocating rapid, wholesale change, and entrenched traditional political leaders defending the status quo. Military-civilian distrust and suspicions add another element of stress. There is some public criticism of the slow pace of change, but Suharto has shown in the past a good sense of timing and an ability to recognize and exploit a developing national consensus. The new election law is not yet passed and, with a minimum of eighteen months lead time between passage and elections, it is unlikely that the Indonesians will go to the polls before late 1969 or 1970.

5. The past year has been one of solid accomplishment in the international field. Indonesia settled its quarrel with Malaysia and rejoined the United Nations and its associated organizations and agencies. It has supported the concept of regional cooperation, and will be meeting with its neighbors in the coming weeks to create a new South-east Asian regional organization. It has continued to adhere to a non-aligned policy, and has maintained correct relations with the Soviet Union and the States of Eastern Europe. Its relations with Peking, however, are under severe strain, but both the Chinese and Indonesian Governments appear desirous of avoiding a complete break.

Economic

6. Progress in domestic economic reform has been considerably greater than was anticipated in August of last year. An ambitious and reasonably effective stabilization program was put into effect. The pace of wild inflation has been checked. Prices on major consumer items leveled off. A stultifying jungle of licenses and controls was swept away and replaced by a system that relies in large measure on free market forces to determine import priorities. Government corporations were cut off the dole and told to produce effectively or perish. Budgetary stringency was introduced, and the military share of the budget cut in half. Political risks were faced and highly subsidized prices for gasoline, electricity and rail travel were raised to meet the costs of production. The Central Bank, which under Sukarno was a fiscal mockery of that term, is now beginning to exercise control of foreign ex-

change earnings and domestic credit. A new investment law designed to attract foreign capital was passed.

7. These accomplishments are largely the results of the leadership of a group of young economists from the University of Indonesia trained at the University of California at Berkeley, MIT and Harvard. These men have not only been responsible for determining economic policy and overseeing its execution, they have also participated in the international negotiations leading to debt rescheduling and new aid. Most important of all, these economists have won the unqualified support of General Suharto who has backed them without reservation in the politically painful belt tightening of the stabilization program.

8. These gains were achieved from a degree of economic collapse unparalleled for a major nation in modern times, and much still remains to be done. A substantial volume of trade still moves in irregular channels. Government revenue is overly dependent on taxation of foreign trade, and tax collection as a percentage of gross national product is the smallest in Southeast Asia. Corruption and influence peddling continue at all levels of government. The Suharto regime, however, acknowledges the seriousness of these problems, and spurred by strong pressures inside and outside the government, is moving to deal with them.

Psychological

9. With these political and economic changes have also come important changes in attitudes and values. The baby boom of the 1950's has produced a new post-revolutionary generation, a stranger to both the heroics of the independence struggle and the spiritual indignities of colonialism. This generation has taken the lead in a general rejection of the slogans and ideology of the Sukarno period, and pragmatism, rationalism, and performance have become the new watchwords. A sober, objective judgment of national self-interest is now more often the basis for decisions, and Indonesian actions, if not always satisfactory, have at least become more predictable.

International Response

10. Moving in response to the steps taken by Indonesia to put its house in order, the United States and other friendly countries of the non-Communist world cooperated in a joint effort to help Indonesia. They agreed in Paris in December to reschedule somewhat over \$300 million in debts in arrears and falling due in the 18-month period ending December 31, 1967. They later agreed in Amsterdam to provide \$200 million of new assistance in CY 1967 to meet the foreign exchange gap estimated by the IMF staff. The United States committed itself to provide one-third of the total requirement if Indonesia continued to make reasonable progress in its stabilization performance and if the other donor countries made up the remaining two-thirds. The meeting

in The Hague in June announced the successful pledging of the full amount (attached table sets forth the specific contributions).³ The Japanese contribution of approximately one-third is noteworthy.

11. The Soviet Union refused to participate in these conferences, but Indonesia reached, through bilateral negotiations, a preliminary understanding that would lead to rescheduling, under approximately the same terms, the debt due the USSR and other Communist states. However, the Soviet Union and the countries of Eastern Europe have thus far made no contribution of new aid.

12. The International Monetary Fund has played a central role in advising the Indonesian Government on its stabilization program. It maintains a representative in Djakarta, and has taken part in all of the international meetings on debts and new aid. The International Bank for Reconstruction and Development made a preliminary survey of Indonesian priority import requirements for CY 1967 and, at the Indonesian Government's request, has a mission now in Indonesia studying the question of transition from stabilization to the development phase. Both the United Nations Development Program and the newly formed Asian Development Bank have dispatched missions of experts to advise the Indonesian Government on critical development efforts.

II. Action Program

U.S. Objectives

13. We seek the development of a politically stable Indonesia, responsive to the needs of its citizens, and playing a responsible and constructive role in Southeast Asia and the world. This objective coincides with the goal of the present Government of Indonesia.

U.S. Strategy for the Future

14. Our strategy contains the following major elements:

A. Central Role of the International Agencies

The international agencies must continue to play a central role in Indonesia's economic recovery. The IMF has made an invaluable contribution in the areas of stabilization planning, debt rescheduling, and mobilization of new aid. The IBRD is now moving in to advise Indonesia on reconstruction and development planning. The Asian Development Bank appears certain to become an important contributor to the development effort. These organizations provide Indonesia with sound professional advice, act as a clearing house of economic informa-

³ The table indicates the following breakdown for \$197 million pledged or furnished: United States—\$65 million; Japan—\$60 million; Netherlands—\$28 million; Germany—\$29 million; India—\$13 million; others (Australia, Canada, UK)—\$2 million.

tion, and serve both as impartial judges of achievement and as politically insulated forces for encouraging minimum standards of performance.

B. Maximum International Participation

Indonesia's needs for foreign assistance are so great that only the pooled resources of many nations can provide the necessary help. Indonesia's continuing debt problem can be dealt with only on an international basis. A multi-national approach is therefore both desirable and necessary. All the major trading nations of the world have a stake in the economic recovery of a nation with abundant natural resources and a political economy of over 100 million people. We should ensure that they bear their fair share of the burden, and avoid a division of labor in which, in effect, we feed the cow and they milk it.

C. Maximum Role for Private Investment

Private investment from all of the developed countries must play an important role in Indonesia's transition from the stabilization to the phase of rehabilitation and development. We should continue to encourage Indonesia to maintain a favorable environment for foreign investment.

D. Support of "Modernizers"

One of Indonesia's greatest assets is the cadre of young men trained in American and Western European universities. These are the people that form the cutting edge of Indonesia's drive to develop its economy and its political institutions. They are our allies and our actions should support them.

E. "Low Profile"

The United States must make a major contribution to Indonesian recovery. The principal elements of our strategy—international agency involvement and multi-national participation—require, however, that we play a supporting rather than a central role.

F. Bilateral Program

While making our major contribution in the multi-national context, we should also continue small, intensive bilateral programs.

III. U.S. Actions

15. A. Debt Rescheduling

The United States will join other creditor countries in Paris in October to deal with the problem of Indonesia's debts falling due after January 1, 1968. We should build upon understandings already established in past reschedulings and, in determining changes, take

due account of Indonesia's capacity to service its debts. Whatever the outcome, the fact will remain that Indonesia in the near term will have no resources to devote to the reduction of a growing external debt of over \$2½ billion.

B. New Aid

The donor countries will meet in Amsterdam in November to consider the IMF's estimate of Indonesia's requirements for new assistance during CY 1968, and to discuss the IBRD report on development planning. We can reasonably expect to be called on to contribute at least the \$65 million pledged for CY 1967 and possibly one-half again that amount.

C. Bilateral Programs

We plan to continue to provide non-combat equipment under MAP for the civic mission program of the Indonesian armed forces. This assistance permits the Army to strengthen its ties with the civilian sector, and at the same time provides high priority services in the field of road construction, flood control and irrigation system maintenance. The training of Indonesian officers in our Service schools in economically beneficial management and technical skills will continue. On the civilian side, we intend to support under PL-480, Title II, food for work programs which increase agricultural production. We intend also to provide technical assistance, and a program of educational exchange has been resumed and will be expanded.

IV. Anticipated Problems

Unreasonable Requests for Aid

16. While the Indonesian Government accepts and supports the concept of a multi-national approach to Indonesia's economic problems, there has been in the past a tendency, particularly on the military side, to look for easy solutions in an outpouring of large quantities of American assistance. The new Indonesian leaders have gained, during the past year, a more realistic understanding of U.S. capabilities and aid procedures. We must anticipate, nevertheless, some further random, uncoordinated requests for substantial bilateral assistance.

Population Control

17. Two-thirds of the population of Indonesia live on one-fourteenth of its land area. Economic recovery and political stability cannot in the long run be achieved without population control and family planning on the central island of Java. The Indonesian leaders are beginning to turn in a tentative fashion to face this problem. This is a sensitive issue on which heavy-handed pressure would be self-defeating, but we should be quietly persistent in encouraging a vigorous program of family planning.

Volume and Nature of Our Assistance

18. The most difficult problem confronting the United States during the coming year will be providing the volume and type of assistance to meet our fair share of Indonesia's needs. The principal elements of this problem are:

A. Meshing Capacity With Needs

If major cuts in the AID appropriation are made this year, the amount which we can lend to Indonesia will be reduced. Indonesia needs rice, but must compete with the preemptive requirements of Viet-Nam. Cotton, through PL-480, could be a major element in our aid, but Indonesia's broken down textile industry has not been able to compete with cheap Hong Kong imports. When idle capacity is restored, Indonesia can absorb increasing amounts of our raw cotton.

B. Multilateralism

As a member of a group working on a common problem, we are under special obligation not only to carry our share of the burden, but also to make our assistance available on terms no less generous than those offered by other countries. In addition, as Indonesia moves from the stabilization to the development phase its needs will increase. Japan and Western Europe may find it difficult to increase significantly their current levels of assistance to Indonesia, and we may be unable to limit our share to one-third or to achieve a rigid matching formula.

C. Inadequate Resources

Even assuming the best possible AID-PL-480 mix, it is almost certain that we will not be able to meet from anticipated resources one-third of Indonesia's 1968 requirements. It may therefore be necessary to go to Congress early next year for supplementary funds. We have been in close touch with key members of Congress on the Indonesian situation, and have found them favorably disposed both towards assistance to the Suharto government and to our multi-national method of approach.

19. Indonesia has been led to believe that if it faced up to its economic problems, took the politically difficult steps to stabilize its economy, and adopted sensible policies of self-help, it could expect support from the world community. Indonesia's leaders have started down this difficult road, and for them there is no turning back. The pace of change must be maintained. We have seen at home and abroad how improving conditions create expectations which become explosive if not fulfilled. The Indonesians are performing on their side of the bargain, and the United States and other countries of the Free World are confronted with the challenge of dealing not with a failure, but with a prospective success. We should not fail them.

242. Memorandum From the Administrator, Agency for International Development (Gaud) and Secretary of Agriculture Freeman to President Johnson¹

Washington, August 8, 1967.

SUBJECT

Economic Assistance to Indonesia

Helping the Suharto Government get its economic house in order involves two separable problems:

(1) How to fulfill the U.S. share of the Inter-Governmental Group support of the Indonesia stabilization program for Calendar Year 1967, on which we are still \$27 million short of the \$65 million U.S. commitment; and

(2) How to help stimulate rapid enough developmental progress in Indonesia to sustain public and army support of the promising new trend in Indonesian political orientation and leadership without loosening the economic stabilization discipline which is essential to long run solution of Indonesia's problems.

The second of these two matters will be the subject of studies being undertaken by the World Bank and Asian Development Bank, which will not be available even in preliminary outline until about the end of this year.

This memorandum deals with the first item. A.I.D., with the concurrence of State,² proposes to meet the U.S. commitment this year in the following way:

Actions already taken:

A.I.D. loans—\$30 million

P.L. 480 cotton credit—\$8 million

Actions proposed:

P.L. 480 rice credit—\$20 million

P.L. 480 tobacco credit up to \$2 million

(P.L. 480 terms to be dollar-repayable loans—40-year maturity, 1% interest during 10-year grace period, 2½% thereafter).

The balance of \$5-\$7 million, to be covered in November by either P.L. 480 cotton credit (if demand for raw cotton has by then revived) or by an A.I.D. loan.

¹ Source: Johnson Library, Meeting Notes Files, Briefing Papers for NSC Meeting, 8/9/67. Confidential.

² On July 26 officials at the Under Secretary/Assistant Administrator level from State, Agriculture, and AID met to discuss aid to Indonesia. The issues to be discussed at the meeting were previewed in a memorandum from Wright to Rostow, July 27. (Ibid., National Security File, Country File, Indonesia, Vol. VIII, Memos, 6/67-8/68, [2 of 2])

Agriculture concurs in the rice component of this package if it is decided as a matter of policy that Indonesia is of sufficiently high priority to risk diversion of rice from cash exports. Whether such diversion will actually be necessary depends on the size of this Fall's U.S. rice harvest, the trend in Vietnam rice requirements and the behavior of the world rice market. With a bumper U.S. crop, we might get by without any visible diversion at all. But if we didn't—and if the diversion were fairly obvious—we could expect criticism on the Hill. Secretary Freeman is prepared to take the risk if you concur with the State/A.I.D. proposition that Indonesia is important enough to be worth it.

Specifically, this package requires your approval to commit 100,000 tons of P.L. 480 rice to Indonesia, as a priority claim on a supply which otherwise could be fully absorbed in Vietnam, Africa, and in commercial exports. This would not mean a rice shortage in Vietnam. It would still permit providing Vietnam 550,000 tons under P.L. 480 from the current U.S. crop. In addition, we would still be able in the Spring to provide an additional 100,000 to 200,000 tons to Vietnam from the current crop (to be divided between P.L. 480 and cash sales, depending on the Vietnamese foreign exchange situation), plus small amounts to fulfill outstanding commitments to the Congo, Ghana and Liberia.

However, the above allocation totals *more* than the minimum of 670,000 tons Agriculture *now* expects to be available for P.L. 480 from this year's crop. Although our crop may turn out to be large enough to cover it, we won't know until October. But it makes very good foreign policy sense to let the Indonesians know now. The price of telling them now is that if our crop is *not* any larger than the low end of Agriculture's range, we will have to choose between lowering P.L. 480 rice shipments to Vietnam and cutting into U.S. commercial rice exports.

Even with a very large U.S. crop, this rice commitment to Indonesia would probably foreclose the possibility of meeting 100,000 tons of Vietnam rice requirements from the United States, and cause Vietnam to turn to Thailand or Taiwan for purchases with Vietnamese-owned foreign exchange for that amount. We believe this will cause minimum domestic political difficulty here if the commitment to Indonesia is made at the beginning of the U.S. crop, i.e., this month, and any further Vietnamese purchases are made from Thailand/Taiwan next spring when the U.S. exportable surplus of rice is fully committed elsewhere.

The extreme tightness of U.S. rice availabilities, despite a record crop, and the growing shortage of rice in Southeast Asia to meet the world demand indicate need for reconsideration of existing restraints on U.S. rice acreage allocations for the future. This question will be addressed by the Department of Agriculture, State, Budget Bureau and A.I.D. in the near future looking toward budget decisions affecting the 1968-69 crop year.

We may need to return to you later concerning the \$7 million of our 1967 commitment which will remain to be met beyond this 100,000 tons of rice. This will have to be put together through some combination of non-grain P.L. 480 and A.I.D. loans. But you need not make that decision now.

*Recommendation*³

That you approve a priority claim of Indonesia for 100,000 tons of the P.L. 480 rice program, on the terms proposed above, subject to the development of an agricultural self-help commitment by the Indonesians satisfactory to Secretary Freeman and Administrator Gaud.

William S. Gaud
Orville H. Freeman

³ There is no indication of Presidential approval on the memorandum.

243. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, August 8, 1967, 6:10 p.m.

Mr. President:

The NSC meeting is on Indonesia; but, because the heart of our Indonesian aid program for the remainder of this year is 100,000 tons of rice, I am submitting to you the attached action documents on the PL 480 rice programs for Viet Nam and Indonesia (Tab A).² Because there are domestic implications, we are inviting Orville Freeman to the meeting.

The NSC meeting need not—and in my view should not—be the occasion for your deciding on the rice question; but it is a good occasion for debate and cross-examination.

I suggest the following procedure for the meeting itself.

¹ Source: Johnson Library, Meeting Notes Files, Briefing Papers for NSC Meeting, 8/9/67. Confidential.

² At Tab A is an August 8 memorandum from Rostow to the President (ibid.) and Document 242.

I. *Introduction.* You should state that the progress made by Indonesia in the last year is heartening. Within the possibilities of our resources, you want us to do our share in an Indonesian aid program which brings the Suharto government forward to stability and success.

II. You might then ask Under Secretary Katzenbach to review briefly what has been accomplished since our last NSC meeting a year ago (see Tab B for State paper on top of which is a summary we have prepared).³

III. Under Secretary Katzenbach will ask Bill Bundy to amplify and define major action problems now before us.

IV. You may then wish to go round the table and get comments from:

- Gaud on the development picture and prospects in Indonesia;
- Freeman on the domestic rice prospects and PL 480 set aside.

V. You may then wish to put these questions:

—What are the 1968 prospects for assistance from all sources for Indonesia?

—How do we plan now to meet our share of the common effort to generate and maintain momentum in Indonesia?

Bill Bundy and Bill Gaud might be asked to speak to these questions.

VI. (FYI: The World Bank and the Asian Development Bank, as well as a number of private enterprises, will be examining Indonesian development possibilities in the months ahead.) You may wish to conclude by asking that a development program for 1968 and beyond be prepared and submitted to you by, say, October 31, including:

- major Indonesian efforts;
- contributions by other governments and international institutions;
- contributions by foreign private enterprise;
- the U.S. contribution.

Walt

³ At Tab B is Document 241 and a White House summary of it. (Johnson Library, Meeting Note File, #4, 1/67-11/67)

244. Memorandum for the Record¹

Washington, August 9, 1967.

SUBJECT

Meeting of National Security Council (Subject: Indonesia)

The meeting was held in the Cabinet Room. It began at 12:15 p.m. and ended at 1:10 p.m. Those present were:

The President	The Vice President
Secretary McNamara	Secretary Fowler
Secretary Freeman	Under Secretary Katzenbach
General Wheeler	Administrator Gaud
Director Helms	Mr. Rostow
Director Marks	Mr. Christian
Mr. Bundy	Mr. Smith
Mr. Jorden	Mr. Johnson
	Mr. Hamilton

The President opened the meeting by noting the great importance of Indonesia and by recalling the meeting on this country one year ago in the same room. He asked Under Secretary Katzenbach for a review of developments over the past year.

Katzenbach summarized the State paper which had been prepared for the meeting.² He said that our problems were those of progress. He forecast a need for perhaps \$100 million as the U.S. share of Indonesia's requirements in 1968.

Mr. Bundy noted that Indonesia had just joined with neighboring states in the Association of Southeast Asian Nations which met in Bangkok. Regarding the \$100 million, he said that at present \$20 million might come from AID, \$20 million in rice, \$20 million in cotton. This left a shortfall of \$40 million.³

Gaud spoke on the need for priorities in Jakarta. He said they should focus on: (1) Exports (especially oil and rubber), (2) agriculture

¹ Source: Johnson Library, National Security File, NSC Meetings, Vol. 4, Tab 55, 8/9/67, Indonesia. Secret. Drafted by Jorden. Tom Johnson also prepared a record of this meeting, see footnotes below for significant additional information from his notes on the discussion of Indonesia. (Ibid., Tom Johnson Meeting Notes, 8/9/67)

² Document 241.

³ Tom Johnson's notes report that Bundy stated: "I would say that Indonesia is one-third of the way up the slope. There has been much promising economic activity. They have some resources of great value. For instance, they have oil of low sulfur content which would be useful in our cities." Bundy also "did not see how we can handle one-third" of \$300 million.

(rice production, transport, price supports), (3) a broader tax base, and (4) technical training (business administration, etc.).

The President asked why only \$20 million was programmed for 1968 aid to Indonesia.⁴ Gaud said it was the general judgment that more was not possible from Congress, and that the additional should be requested in a supplemental request after January 1.

Helms spoke admiringly of the quality of the U.S. team in Jakarta.⁵

Marks said USIA was carrying out a low-key operation and that it might expand a little, but not dramatically.

Freeman said that present estimates indicated that an additional 50-80,000 tons of rice might become available in this year's crop. He thought Indonesia could do a great deal more in agricultural production and said it should be a rice exporter.

The President said he would like to see Indonesia become a "showcase." It has great potential.⁶ It is one of the few places in the world that has moved in our direction. He asked if we were doing all we could to boost oil production. Gaud and others assured him that the American companies (Caltex and Stanvac) were moving ahead and production was up.

The Vice President said Japan could buy more oil, with minor changes in its refineries. The Japanese were worried about over-dependence on Middle East supplies. He recalled his long acquaintance with Foreign Minister Malik. He said military rule continued and was likely to for some time. He said that additional resources after January 1 might have to be drained off from other sources rather than our looking to new funds.

Fowlersaid he disagreed with one sentence in the State report, which was the suggestion that we might have to do more than one-third in the year ahead if Japan and Western Europe didn't come through. He urged that we stand fast on the one-third share formulation.

Rostow spoke of the importance of textiles and the need to rehabilitate the Indonesian textile industry. This would provide a large market for our cotton.

⁴ According to Tom Johnson's notes, the President asked: "Should we lend more money? Here is a country which has rejected communism and is pulling itself up by its bootstraps. Should we ask for an additional \$100 million in this year's request?" Katzenbach answered. "No, I do not think so. I do not believe the Congress would give us a net gain. They would probably take it out of some other area such as Latin America."

⁵ According to Tom Johnson's notes, Helms also stated that the excellence in Indonesia started at the Ambassadorial level and went right on down, and added that "It's all low key. Our presence is not prominent."

⁶ According to Tom Johnson's notes, the President also said: "We should take some of our ambitious plans which haven't been working in other countries and put them into action in Indonesia."

General Wheeler spoke of the Indonesian military forces. He said the Army was U.S.-oriented; the Navy and Air Force were Soviet-oriented. The military is capable of maintaining internal security. He saw no need for "fancy" military equipment. The main need was for civic action support and training equipment.⁷

McNamara said Indonesia was getting about \$6 million in equipment and training. The country should have high priority. He questioned whether any supplemental would be possible after January 1, that the needed resources would have to come from other programs. He said he thought the Philippines and Thailand should have lower priority than Indonesia. The priorities should be determined in Washington, not the field.

The President asked for the total AID outlays last year and this.

Gaud said the figures were about as follows:

	<i>This year</i>	<i>Next year</i>
India	\$385 million	\$400 million
Pakistan	150-160 "	165 "
Turkey	125 "	100 "
Korea	75 "	60 "
Africa	98 "	90 "
Indonesia	30 "	20 "

There was a brief discussion of Turkey and its agricultural development.

The Vice President noted his talks with Murtopo and Sudjono, two of Suharto's leading advisers. Both stressed the vital importance of internal transport and need for spare parts. Italy and other suppliers should be pressed to make parts available.

There was a short discussion of the Congo situation.

The President adjourned the meeting.

W.J.J.

⁷ According to an August 25 memorandum from Helms to the President, the latter asked at this meeting if Indonesian troops might be available for service in South Vietnam. (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68) The President received an oral answer, but CIA also prepared a study, Intelligence Memorandum No. 1382/67, August 25, which concluded that Indonesia would refuse to send troops to South Vietnam because notwithstanding its anti-Communism, its overall attitude toward the war in Vietnam was ambivalent. Furthermore the Indonesian army was primarily an infantry force, defensively oriented, and generally overage. (Washington National Records Center, RG 330, OSD Files: FRC 72 A 2468, Indonesia, 1967)

245. Memorandum From Marshall Wright of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, September 27, 1967.

SUBJECT

Indonesian Expectations of Aid in 1968

I have mentioned before the near certainty that 1968 would be the year in which we begin to have real problems with over-sized Indonesian aid expectations. The size of the problem is now becoming clear.

The Expectations

Suharto told Marshall Green last week that unless the U.S. could go above the one-third formula, Indonesia's new order would be in serious trouble.

Suharto "hoped" that in 1968 we would contribute \$100 million in addition to \$50 million in PL 480 commodities.

Suharto's Aide, Colonel Sutikno, separately mentioned to Ambassador Green the GOI hope for \$150 million in 1968 aid.

The Indonesian budget for 1968 is based upon the receipt of \$325 million in foreign aid. Even if we adhere to the one-third formula, our share would be \$108 million.

Finance Minister Seda announced at the September 20 press conference that Indonesia would ask for \$350 million from donors and hopes IGG countries will increase contributions proportionately to reach that figure. For U.S. that would mean \$117 million.

Suharto is sending his Finance Minister to Washington to express Suharto's personal thanks to President Johnson for the assistance the U.S. has provided and to bespeak his hopes for future aid.²

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-8/68. Secret. Also sent to Jordan.

² Indonesian Finance Minister Frans Seda visited Washington, October 2-3. The Department of State requested that the President receive him briefly, but suggested that an expected letter from Suharto to Johnson could be delivered to Rostow. (Memorandum from Read to Rostow, September 29; National Archives and Records Administration, RG 59, Central Files 1967-69, POL 7 INDON) There is no indication in the President's Daily Diary that he saw Seda, but Vice President Humphrey met with him at 2 p.m. on October 3. A record of their meeting is in a memorandum of conversation, October 3. (Ibid.) A copy of Suharto's September 18 letter to Johnson, which was delivered to Rostow, and Johnson's reply of October 5 is *ibid.*, E 1-1 INDON)

The Availabilities

As of now, we have \$20 million DL funds earmarked for Indonesia in the FY 68 AID budget. 150,000 bales of cotton and 100,000 tons of rice would make a PL 480 package of about \$39 million. It might also be possible to put together a PL 480 sale of bulgur, edible oils, etc. of \$5 million or so, and to use some of our FY 69 AID funds to meet CY 68 commitments. At best, however, it is hard to see how we could get a package much bigger than \$80 million.

MW

246. Record of Cabinet Meeting¹

Washington, October 18, 1967, 12:50 p.m.

[Here follows discussion unrelated to Indonesia.]

Secretary Rusk (1:00-1:02)

The Secretary introduced Ambassador Marshall Green by recalling the shrunken influence of Communist China in Asia. Chinese Communism is no longer seen "as the wave of the future." "Just three years ago, we feared the axis of Chen Yi, Subandrio and Bhutto (Pakistan) . . . now all three are gone."

The spectacle of Indonesia rejecting Chinese Communism, combined with our stand in Vietnam, has been vital to the erosion of Peking's influence. "We have been fortunate to have in Indonesia at this critical hour one of the real experts, Ambassador Green."

Comment by the President

Had been so impressed with Ambassador Green's personal report that "I wanted to share it with you."²

Marshall Green, Ambassador to Indonesia (1:02-1:12)

The Ambassador based his report on the briefing paper attached at Tab A.³ The following were among the points emphasized:

¹ Source: Johnson Library, Cabinet Papers, Cabinet Meeting, 10/18/67, [1 of 3]. Confidential. There is no drafting information on the memorandum.

² Green met with President Johnson on October 12 from 1:15 to 1:35 p.m. (Ibid., President's Daily Diary) No record has been found of their discussion, but Green described it briefly, as well as his subsequent briefing of the Cabinet, in his *Indonesia: Crisis and Transformation, 1965-1968*, pp. 109-110.

³ Attached but not printed.

—Indonesia is a rich and strategic nation of 200 million people.

—No nation in recent history "has undergone a greater transformation than Indonesia."

—Indonesia's "New Order" government has thwarted Communist takeover; ended confrontation; sought friendly relations with its neighbors; rejoined the UN; banned the Communist Party; banished Sukarno. ("He is a forlorn figure, down to his last wife and last kidney.")

—Less dramatic, but still significant, are Indonesia's domestic rehabilitation efforts; conversion to a free market economy; IMF-endorsed stabilization program; new family planning and food production initiatives; new Civil Action programs by the military; a 45% slash in military budget; strong efforts to encourage foreign investment.

Indonesian Problems Remaining

Despite Indonesian progress and opportunities, problems remain. "They are typical of what you would expect from 20 years of mismanagement by Sukarno on top of the Dutch tradition."

—Weak political institutions.

—Endemic corruption, mismanagement and inefficiency.

—Dangers of creeping militarism.

—Anti-Chinese racialism.

"I have travelled widely in the country and you can see why 32% of inner island shipping is not operating. . . . The harbors are blocked. . . . There is just 22 million dollars available to educate 40 million students. . . . But Indonesia does now have moderate and pragmatic leaders."

Comment by the President

Invited the Ambassador to describe the Indonesian budget. "I want the Cabinet to hear about that."

The Ambassador gave Indonesia's total budget as "500 million dollars for 110 million people."

U.S. Policy for Future

The "New Order" government is determined to stabilize their nation. "We can and must help them."

"They have great resources. Oil, minerals, timber, fisheries. . . . But as well as they are doing, Indonesia is now really flat on its back."

The United States should continue its present "multilateral approach to assistance." We should continue or increase our partnership efforts with the IMF, IBRD, ADB, UN—emphasizing, especially, the opportunities for private investment in the Indonesian future.

"This is Indonesia's critical hour of need. . . . We cannot neglect nor fail them now. . . . The security of all Asia is affected. . . . Our sacrifices in Vietnam avail little if we do not take strong and swift steps to foster the growth and strength which the new Indonesia can achieve."

The Ambassador concluded his report by reading the following excerpt from a cable received this morning from AmEmbassy Djakarta:

"Malik believes just as well to keep heat on Hanoi. If after U.S. elections negotiations should take place prospects for satisfactory settlement would be enhanced. Malik made clear that he believes our position is correct at this time; he does not think we should stop bombing of North unless there is some indication that other side will negotiate in good faith."

Ambassador Green characterized this report as "an interesting and encouraging evolution in Malik's attitude."

Comment by Secretary Rusk

Recalled Malik's meetings with several Foreign Ministers in New York as equally indicative of an improved attitude toward U.S. commitment in Vietnam and Asia.

[Here follows discussion unrelated to Indonesia.]

247. Telegram From the Embassy in Indonesia to the Department of State¹

Djakarta, November 6, 1967, 1135Z.

2614/VIPTO 93. Subject: Humphrey-Suharto Meeting.

1. Vice President Humphrey and Acting President Suharto met for two hours on the morning of November 4 for substantive talks.² Also among those present were Ambassador Green, Professor Widjojo, General Alamsjah, Roche, Van Dyk, Rielly, and Underhill. Indonesia's

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 7 US/HUMPHREY. Confidential; Priority; Limdis. Repeated to CINCPAC for POLAD. Humphrey traveled to East Asia, arriving in South Vietnam on October 30 to represent the United States at the inauguration of President Thieu and Vice President Ky. He then traveled to Malaysia and Indonesia where he stayed November 4-6.

² Humphrey also met with Suharto after dinner on November 6. They discussed ways for Indonesia to make known to other countries its need for assistance, the possibility of Humphrey reporting by letter on his visit to Indonesia's parliament, and Green and Humphrey urged Suharto to make himself more accessible to Indonesians. Finally, Humphrey warned Suharto not to believe all U.S. businessmen who claimed to have a special relationship with U.S. officials. Suharto suggested that if Indonesian businessmen or officials claimed to be representing him, the Department of State should check with him first. (Telegram VIPTO 99 from CINCPAC to the Department of State; Johnson Library, National Security File, International Travel and Meetings File, VP's Asian Trip, 10-11/67, Briefing Book, Backup Material, Vol. I)

economic situation, its plans for 1968, and Vietnam were the principal topics.

2. Suharto expressed appreciation for the help and interest shown by the U.S. in Indonesia's economic problems and said he was happy to discuss them with a statesman of such long and distinguished experience. He then outlined the range of problems left by the neglect and mismanagement of the previous regime: inflation, impassible roads, silt-filled rivers and harbors, deteriorated airfields. Progress has been made during past year in checking inflation. Road repairs, spurred by military action teams and supported by village populations, were proceeding at a rate three times that originally expected. Indonesia planned next year to operate on a balanced budget, improve revenue collection, and expand exports. A sharp decline in the price of rubber, however, is reducing export earnings.

3. Maintaining the momentum of progress achieved in 1967, Suharto continued, is essential. The people expect it. If progress is not achieved in 1968, there could be the most serious consequences. Therefore, the government is planning an increased budget of U.S. \$ 1 billion (142 billion rupiah) for 1968 of which 77 percent will be for the routine expenses of the government and 23 percent for rehabilitation. A total of U.S. \$325 million in foreign aid will be needed for next year, of which Indonesia hopes nearly half, or \$150 million will come from the United States (\$125 in budget support and \$25 in project aid). Indonesia was hoping to obtain through PL 480 200 thousand tons of rice, 150 thousand bales of yarn. The remainder would be furnished in be [garble] and development project loans. Suharto expressed the hope that the United States would be able to make a firm commitment at the forthcoming meeting in Amsterdam.

4. The Acting President then noted the effectiveness and importance of the Indonesian military civic mission (civic action) program and urged our continuing support.

5. Suharto turned to international problems and said that, while Indonesia was too occupied with internal problems to play a major role, he wanted his country to contribute to the best of its ability in the search for peace and stability in Southeast Asia. He said Indonesia would continue to work for regional cooperation and that national pride and national prosperity would be the bulwark against outside aggression. U.S. could contribute to security by maintaining outside the area the strategic force that could smash the enemy bases, if aggression should occur.

6. On Vietnam he said that he had been unsuccessful in his efforts to influence North Vietnam, but would continue trying. He suggested that South Vietnam would be able to resist best when it was a "truly national" nation, and that our strategy should be designed, in his view,

to encouraging the development of this nationalism, then, he said, we could safely reduce our pressure.

7. The Vice President then responded to this extended presentation. He said that the United States intended to participate in the multinational effort to help Indonesia and noted that we had provided one-third for calendar 1967. Suharto interjected that the other countries might not be able to increase their contribution, and that one-third from the U.S. would not be enough. The Vice President continued that the others could do more than they are now doing, especially Japan. He reminded Suharto that Congress had not yet passed the aid legislation so it was impossible to be precise about what we could do, but that a strong effort would be made, both at home and to enlist support of other nations.

8. On the subject of food, Vice President asked Suharto to discuss the details of Indonesia's requirements with Ambassador Green. He suggested that a careful survey be made of distribution facilities so that spoilage of food waiting on the piers would not occur. The Vice President said that we were facing a rice shortage, despite expanding acreage, and suggested that the GOI carefully consider wheat, wheat flour, and bulgur. We would be also willing to expand our food for work program if worthwhile projects could be developed. On cotton, we should have enough short staple to meet Indonesia's needs although the large surplus of previous years has been greatly reduced.

9. The Vice President at this point noted the importance of dealing with Ambassador Green on all matters related to assistance. Back door out-of-channel requests only confuse the situation. He said that during Ambassador Green's recent visit to Washington he had been invited by the President to meet with the cabinet to discuss Indonesia. This was most unusual and an indication of President Johnson's keen interest in Indonesia and his special confidence in Ambassador Green.

10. On the matter of private investment, the Vice President suggested that Indonesia study what its neighbors were doing to attract private capital so that it could successfully meet competition.

11. The Vice President then turned to Vietnam and described the great changes he had found since his last visit 20 months ago. Great progress had been made in the military field, but of equal importance were efforts on the civil side, including revolutionary development. He expressed confidence that the new elected government would do well. He reaffirmed our determination to stay until the aggression stops and said Indonesia might be able to help by passing this message to Hanoi. He stressed that we would accept an immediate cease fire if productive negotiations could begin promptly and if the other side did not use the talks to gain a military advantage.

12. The Vice President said we would welcome any efforts that the GOI could make towards peace. He was not asking that Indonesia

involve itself directly in Vietnam. Indonesia's efforts to stabilize and rebuild its economy was a major contribution to the strength of South-east Asia. At the same time we appreciated understanding and moral support. We heard critical voices from Southeast Asia—President Suharto was not one of them, and with our resources severely limited we were naturally more inclined to help the friends who stood with us more than those who criticized.

13. Suharto said that Indonesia would continue to work for an Asian solution to the problem of Vietnam, and concluded the talks with the observation that U.S. assistance to Indonesian recovery was an investment in Southeast Asian security that would bring far reaching beneficial results.

14. The Vice President closed with an expression of admiration for Suharto's vision, resolution, and leadership and said he was confident that Suharto and the government he led would succeed.

15. *Comment:* Suharto was relaxed, assured, and in impressive command of detailed information on whole stabilization program. He responded well to the points made by the Vice President, and the rapport was good despite the use of an interpreter.³

Green

³ In telegram 2651 from Djakarta, November 11, Green sent an appraisal of the Humphrey trip which he characterized as an "outstanding success." Green noted that Humphrey received a warm and exuberant welcome, especially in Bali and Central Java (old PKI strongholds), he established a personal rapport with Suharto despite Suharto's "retiring Javanese nature" and the need for an interpreter, and he "made a strong pitch for free economy approach," thus strengthening the hand of Suharto's free market economist advisers. (National Archives and Records Administration, RG 59, Central Files 1967-69, POL 7 US/HUMPHREY) Telegram 2651 was retyped in the White House and the President saw it. (Note from Rostow to Johnson, November 7; Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68)

248. Editorial Note

On November 8, 1967, President Johnson convened the 578th meeting of the National Security Council, a special meeting to which he invited his Cabinet and legislative leaders including Senators Mike Mansfield, Richard Russell, Margaret Chase Smith, William Fulbright, and Carl Hayden and Representatives John McCormack, William Bates,

and George Mahon. The meeting was to hear and discuss a report of Vice President Humphrey's recent trip to South Vietnam, Malaysia, and Indonesia. Most of the discussion concerned Vietnam, but according to Bromley Smith's summary notes, Humphrey gave the following report on Malaysia and Indonesia:

"Turning to the other two countries visited, he said the acting head of Indonesia, General Suharto, and the Malaysian Prime Minister both told him that if the United States fails in Vietnam, all hope for a free Southeast Asia would be lost.

"In Malaysia the Prime Minister said that the enemy in Southeast Asia is militant Asian Communism with headquarters in Peking.

"Throughout his trip, he encountered no act of hostility or protest in either Malaysia or Indonesia.

"*Indonesia*: Its capital city, Djakarta, shows the many failures of the Sukarno regime, e.g., unfinished buildings. His welcome in the capital was warm, but even warmer in central Java where more than a million and a half people turned out to greet him on very short notice. The Indonesians really want our friendship. They are enthusiastically trying to restore their economy. As a specific example, 30,000 men are working on earth works and clearing out irrigation ditches which will soon be providing water for additional tillable acres.

"No promises were made as to what we would do to help Indonesia. Suharto is an honest, hard-working man who benefited from his training at Fort Leavenworth. Many other Indonesian military leaders are now showing the great benefit of their military training in the United States. Our stakes are very high in Indonesia; as high as those in Japan and India."

President Johnson asked Secretary of State Rusk to comment on Humphrey's report. Referring to Indonesia, Rusk noted that "help was being given to Indonesia by many nations through multilateral organizations such as the World Bank and the Indonesia Consortium. At the end of the meeting, Representative Mahon asked if "our stand in Vietnam affected the situation in Indonesia?" Humphrey answered:

"Our stand in Vietnam has had a collateral effect on developments in Indonesia. He had said in Djakarta that the change in Indonesia had been brought about by Indonesians and that it came about as a result not of our actions but theirs. However, it is thought that our presence in Southeast Asia gave confidence to the Indonesians to destroy the Communist Party in Indonesia." (Summary Notes of the 578th NSC meeting, November 8; Johnson Library, National Security File, NSC Meetings, Vol. 4, Tab 60)

Tom Johnson also prepared notes of this meeting, which concentrated on Vietnam and did not differ appreciably from Bromley Smith's with the following exception. Tom Johnson noted that Representative

Mahon asked Humphrey, "if the one billion dollars in foreign aid which had been poured into Indonesia was responsible for their success." Humphrey answered that "he did not believe it served the best interests of the Indonesians for us to claim that our foreign aid caused it. It was a parallel part of the total anti-Communist effort." (Ibid., Tom Johnson Meeting Notes, November 8, 1967)

249. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, November 17, 1967.

SUBJECT

Aid to Indonesia in 1968

In the attached, Messrs. Gaud, Schnittker,² and Schultze recommend that you approve a U.S. pledge of one-third (up to \$110 million) of the aid provided to Indonesia in 1968 by the nine-nation consortium.³ (This is the same *percentage share* we are providing this year, although it only amounts to \$65 million in 1967.) The Vice President and Secretary Fowler have also reviewed and approved this recommendation.⁴

Schultze's memorandum (Tab A) will give you a good summary of the proposed conditions and negotiating strategy. It boils down to this:

—If Suharto is to stay afloat, he must have about \$325 million in aid next year. (This number will be blessed by the World Bank and the IMF.)

—We won't get \$325 million unless we propose now to continue carrying our $\frac{1}{3}$ share—\$110 million. Even then, it will be tough.

—We can do most of our share, perhaps more than \$100 million, in PL 480 rice, cotton, cotton yarn, and wheat. Even if Indonesia can't absorb as much of these commodities as we hope, Bill Gaud promises he can make up any shortfall in 1968 and 1969 AID money.

—Thus, when the consortium meets at Amsterdam on Tuesday,⁵ we would propose to start the 1968 ball rolling by stating our willingness to

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2]. Confidential.

² John A. Schnittker, Under Secretary of Agriculture.

³ Dated November 15. (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2])

⁴ Humphrey made a strong endorsement in a November 13 memorandum to the President. (Ibid.)

⁵ November 21.

contribute $\frac{1}{3}$ of the overall aid requirement the Bank and Fund certify. This will put maximum pressure on the other donors—and stimulate the Indonesians to keep the pressure on.

—If the other donors failed to raise their $\frac{2}{3}$ of the total, we would come back to you for guidance.

I recommend you approve.

Walt

Approve package⁶

Disapprove

See Me

⁶ The President checked this option and on November 21 sent Rostow the following note: "Walt: I want to do everything I can for Indonesia—as quickly as I can. Send me a program. LBJ." (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67–6/68, [1 of 2])

250. Memorandum of Conversation Between President Johnson and Minister of Foreign Affairs Malik¹

Melbourne, Australia, December 22, 1967.

The Foreign Minister said that President Suharto had instructed him to express his regrets that he could not come.

President Johnson responded that he was sorry that President Suharto had not seen fit to come. The opportunity to see President Suharto and Prime Minister Sato was a primary reason for going to Australia. As for the letter from President Suharto,² which Foreign Minister Malik then handed to President Johnson, we wish to be as encouraging as we can with respect to assisting Indonesia, but they must bear in mind that our future aid level, as granted by Congress, is very low and we expect the Indonesians, like India, will learn to use wheat. We are short of rice. We shall increase the rice acreage by 20 or

¹ Source: National Archives and Records Administration, RG 59, Conference Files, 1966–1972: Lot 68 D 453, CF 253. Secret. Drafted by Rostow. The President was in Australia to attend the memorial service for Australian Prime Minister Harold Holt who disappeared while swimming at sea on December 17.

² Not further identified.

30% but we could send wheat right now. President Johnson believes the Indonesians will like wheat when they get used to it. Malik said President Suharto had switched rice cover food ration from 100% rice to 40% rice and 60% bulgar wheat. The increase in bulgar wheat consumption in Indonesia was outstripping U.S. availabilities.

President Johnson asked Indonesia to calculate its potential bulgar wheat requirements over the next 12 months and let us know.

President Johnson then returned to the problem with the AID appropriation which had been cut one third. He would have to cut others for the U.S. to fulfill its commitment to provide one third of the multilateral assistance package for Indonesia. That is why he had wanted very much to talk with President Suharto and Prime Minister Sato. In the meanwhile, Indonesia should be a good international salesman for its cause in Japan and elsewhere. It can count on the U.S. to provide one third of the aid but no more; the only flexibility beyond that would lie in increased wheat consumption in Indonesia; and at least 50% of our aid to be taken in form of PL 480.

The President reminded Malik again, as the conversation ended, to let us know about the possibility of absorbing more wheat.

251. Airgram From the Embassy in Indonesia to the Department of State¹

A-358

Djakarta, January 12, 1968.

SUBJECT

Indonesia: Trends During 1967 and Problem Areas for 1968

Country Team Message.

Summary and Conclusions

It is not the purpose of this report to summarize in detail the many important developments in and affecting Indonesia during 1967 but rather to attempt to highlight broad trends which will determine the

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 1 INDON. Confidential. Drafted by Masters and Officers in the Embassy political and economic sections and approved by Green. Repeated to Bangkok, Canberra, Hong Kong, Kuala Lumpur, London, Manila, Medan, Singapore, The Hague, Surabaya, Tokyo, and CINCPAC.

future course of this nation and of our dealings with it. A companion report will analyze the implications of these developments for U.S. policy and operations.²

In mid-March 1967, President Sukarno was removed once and for all from the Indonesian political scene, thus ending an 18-month power struggle which had preoccupied Indonesia's leadership and prevented concentration on the nation's economic and political rehabilitation. The Suharto administration should thus in fairness be evaluated only on the basis of its performance during the last three quarters of that year. Although not constituting an adequate base for precisely charting the future course of the New Order regime (which justifiably considers itself to be still in the first stages of formulation), the events of the past nine months do provide some valuable insights into the character of the new leadership and into the nature of the post-Sukarno Indonesia which it is to govern.

The year 1967 was clearly Suharto's year in Indonesia. While his performance during this period pointed up flaws in his leadership abilities (his slowness to act in some fields and his unwillingness to act at all in others), it also showed his ability to grow with the job and the fact that, despite grumbling about his government, he is still in tune with majority sentiment within Indonesia.

Moreover, there is no one on the horizon who realistically aspires or has the ability to replace Suharto. No other military man and probably no civilian at all could hold Indonesia together as well as he has done. As Indonesia recovers further from the Sukarno era and gains greater confidence, Suharto may one day become superfluous—as happened to his predecessor. But this has not occurred yet and it is not likely during 1968. In fact, there is a distinct possibility that Suharto might be elected to a full five-year term as President in the Spring MPRS session, with elections being postponed until the early 1970's.

The year 1967 also highlighted the thinness of the layer of Indonesians with managerial ability. By year's end, most of them were becoming tired and a few discouraged at the magnitude of the problems confronting them. The year 1967 also revealed that not all members of the "New Order" are modernizers; some are clearly far more interested in their own profit and power than in nation-building. As a result, corruption and the prevalence of military influence in the top levels of the government continue to cause political problems.

The performance of the Suharto government in laying a base for economic stabilization has generally been adequate, despite such glaring shortcomings as permitting a serious rice shortage to develop in

² See Document 253.

the fall of the year (resulting partially from maladministration and partially from inadequate rainfall) and a doubling of the rate of inflation to which the economists in early 1967 hoped to hold the nation. While the IMF was nonetheless generally satisfied with the progress made in economic terms, the average Indonesian had no more rice in the pot at the end of 1967 than at the beginning, and what he did have cost him considerably more.

In the political field, progress was even less striking. The Cabinet reshuffle in October was a halfway measure which, while it brought some technocrats to power, also retained far too many of the old familiar faces. Despite much talk and a good deal of maneuvering, no real progress had been made by year's end to provide a pro-government but essentially nonmilitary base for the government.

Moreover, while Sukarno's final eclipse relieved the Suharto government of a heavy political burden, it also deprived it of the valuable psychological asset which only a good enemy can provide. Traditional animosities and fears quickly re-emerged as Indonesians discovered that many of their most keenly felt problems were rooted not in the Sukarno regime but in their own basic social and physical environment.

The New Order discovered during 1967, in short, that it must come to grips with itself as well as with a host of external problems. This difficult period of adjustment, which was still in full play at the end of the year, highlighted weaknesses both in the New Order's leadership and in its rank and file. These, among others, are the problems which will crowd in on Indonesia's thin layer of effective managers during 1968.

Against this array of shortcomings, why the general optimism for Indonesia's future? Partly because things could easily have been far worse. Suharto successfully avoided during the year a number of pitfalls, both political and economic, which could have set the nation back much further than it now is. He has stuck tenaciously to the economic program recommended by his Western-trained economic advisers. Moreover, by year's end he was showing greater confidence in his job, making an obvious effort to "civilianize" his own image and travelling about the country to enlist national support. All of these are encouraging signs that he will face up to some, although certainly not all, of Indonesia's problems in 1968.

Furthermore, Suharto must be evaluated against the incredible mess he inherited. Things had to get worse before they improved. The turnaround has not necessarily occurred (Indonesians are seriously concerned over the possibility of a real economic pinch in the first quarter of the new year); but with adequate outside assistance we believe they can get through this difficult period and show a record of unspectacular but definite progress in 1968. The timing of outside

assistance and the Indonesian capacity for sustained reform effort will, however, be crucial.

On balance, we believe Indonesia's overall performance during 1967 was adequate to justify continued optimism that the nation has set out on the long and probably tortuous road to modernization.

[Here follows the rest of the airgram.]

MG

252. Memorandum From Marshall Wright of the National Security Council Staff to the President's Special Assistant (Rostow)¹

Washington, February 2, 1968.

SUBJECT

Wheat to Indonesia

You have on several occasions stressed the importance of maximizing wheat to Indonesia. As of November 1 we had agreed to sell them 10,000 tons of bulgur. In the intervening three months we have raised this to 125,000 tons of bulgur and 27,000 tons of wheat and wheat flour.

We have, however, almost succeeded too well. Suharto has now asked us for 350,000 to 450,000 tons of bulgur during calendar year 1968.

We do not have the capacity to meet that request. At the present time the bulgur processing capacity in the United States is 250,000 tons a year. It is being increased, and we will be producing at a yearly rate of 400,000 tons by June. We have already earmarked almost all of the increased production for Indonesia.

To get an additional capacity of 400,000 tons would require an investment of about \$5 million and a lead-time of six to nine months. It would be an extremely perilous investment in view of the fact that the acceptability of bulgur on the Indonesian market has yet to be determined.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68. No classification marking.

Our present bulgur shipments will be enough to handle the bulgur component of the rice ration planned by Suharto (one-fifth for military, one-fourth for civilians). Suharto wants to put the additional 2-300,000 tons on commercial sale. There might—or might not—be any buyers. (We do not yet know even the reaction to bulgur when mixed with rice in the ration. The use of bulgur in the ration will not begin until March.)

We no longer have a problem in pushing wheat. Everybody is a believer (AID, State, Suharto, the Embassy—Marshall Green serves so much bulgur to his guests that they are beginning to complain). Our problem is to make sure we don't choke this promising infant to death before he develops a man-sized appetite.

We'll continue to watch this closely—with particular attention to the balance between genuine demand and production capacity.

I call this to your attention partly because of your interest in the whole matter—and partly because I do not want you to hear a distorted version in which we refused a Suharto request for 450,000 tons of bulgur.

Marshall

253. Airgram From the Embassy in Indonesia to the Department of State¹

A-423

Djakarta, February 21, 1968.

SUBJECT

U.S. Policy Assessment

REF

CA-6014.

CA-5400.²

Country Team Message.

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 1 INDON. Secret. Masters and Philip F. Gardner, political officer at the Embassy, were the "coordinating drafters" of this airgram which was approved by Green.

² Neither found.

I. Indonesian Setting

In March 1967 Sukarno was totally removed from power, and a "New Order" under the leadership of Acting President Suharto assumed full responsibility for governing the nation. The transition from Sukarno to Suharto, which took a year and a half of patient and effective effort by the latter, did not produce the internal upheaval many had felt was inevitable. The ease with which the transition was accompanied was, in fact, a reflection of Suharto's excellent sense of timing and his understanding of at least the dominant Javanese segment of Indonesian society.

At the same time, removal of Sukarno took away a convenient scapegoat with the result that since March 1967 all of Indonesia's pent up expectations have centered on the new government. With the departure of Sukarno, the "New Order" also lost the unifying force of a common enemy, and social, cultural and religious frictions have increased markedly during the past nine months.

These problems will continue to press in on the Suharto government during the coming year, as will the desperate shortage of trained personnel, Indonesia's critical economic situation, the increasing expectations of the people, revival of serious political in-fighting, and others.

Despite the problems and shortcomings which were accentuated during 1967, we believe Indonesia has embarked on the long road toward modernization. It is following sound economic policies and moderate foreign policies, although progress in creating a domestic political base for the present government is far slower than it could or should be. The present year will be crucial to the success of these efforts, for during 1968 trends will be set in motion which will determine the course of this important nation for many years to come. (These problems are spelled out in detail in a companion report—Djakarta A-358.)³

II. Our Dilemma

Following the removal of Sukarno, our bilateral relations with Indonesia improved markedly. During 1967, American owned businesses, previously taken over under the Sukarno regime, were returned to their original owners, and several American firms, taking advantage of the present government's liberal economic policies, concluded agreements for new investments in Indonesia. The bilateral air agreement between Indonesia and the United States in late 1967 was one of the most favorable we have concluded in recent years. The United States has become the pace setter for aid to Indonesia within the Inter-Govern-

³ For the summary, see Document 251.

mental Group (IGG), and an increasing number of US officials visited Indonesia during 1967, highlighted, of course, by the visit in November of Vice President Humphrey, who established a new benchmark in our bilateral relations.

As a result of these and other factors, the US has become closely identified with the goals and efforts of the Suharto government. Such an identification is in fact inevitable since we have a heavy stake in the success of the "New Order" not only for obvious reasons related to Indonesia's size, strategic importance, resources and potential strength but also because it is the latest test case of whether liberal economic policies combined with free world assistance offer a more solid path to modernization than communism or other totalitarian solutions.

In seeking to advance our national interests in and regarding Indonesia, the United States Government faces two fundamental problems, one deeply rooted in Indonesian cultural norms and the other in our own tendency as a government to become too deeply involved in the affairs of other nations. Our dilemma, simply put, is this: we cannot and must not let the "New Order" fail, but we also must not become so active that we conflict with Indonesia's cultural heritage or substitute our initiative for theirs. We have faced the problem ever since October 1965 of treading this narrow line, but the increasing importance of the US to Indonesia's hopes for recovery means that the margin for error and for misjudgment has become even more critical.

While our stake in the "New Order" is large, our ability to assist it is circumscribed. The experience of the United States Government in Indonesia over the past 15 years clearly shows that the injection of our assistance into the Indonesian economy does not provide a directly corresponding stimulus to growth but will often be rejected, deflected or transformed by basic features in the Indonesian social structure. Economic development through the infusion of foreign skills and assistance apparently requires parallel development in other sectors of the society. For this reason, it is perhaps best to regard our ultimate aim in Indonesia not as economic development alone but as modernization.

Needless to say, we would run grave risks if we attempted directly to initiate or even counsel reform in the social structure, where are moored the individual Indonesian's sense of security and identity. (Sukarno mobilized the nation behind his policies by pointing to a Western threat to the "Indonesian way of life" and the anti-communist campaign after the October 1, 1965 events was powered with similar fuel.) Our problem, therefore, is to choose from among the priority needs, programs which are compatible with the Indonesian social structure and yet active stimulants for change. The overall process must in the Indonesians' eyes appear as "modernization," not "Westernization" and least

of all "Americanization." If the process appears as "Americanization", we will not only waste our funds and incur blame for failures but, more importantly, will trigger long acting rejection devices within the Indonesian society to what is falsely identified as foreign intrusion rather than internal development.

III. Criteria for American Programs

To date we believe U.S. policy has avoided the worst dangers of this dilemma and has successfully advanced U.S. interests. Our timely economic assistance has strengthened the hands of Indonesia's "modernizers" and the U.S. has also been successful to date in supporting Indonesia's efforts to obtain substantial aid from other donors. Our small but important MAP has made a major contribution to encouraging the Indonesian military to move into Civic Action projects which not only contribute to economic stabilization but also help to enhance the local image of the Armed Forces. Our informational and cultural programs have expanded modestly during the past year, with particular emphasis being placed on distribution of one-half million American books to Indonesian educational and other institutions. We have also had continued success in our efforts to quietly influence Indonesia's top leadership. Indonesians not only seek our aid but privately they also seek our advice and this has enhanced our ability to influence some, but by no means all, developments. Finally, we have succeeded substantially in convincing Indonesia to do business "through channels" and to cease sending visitors to Washington armed with open-ended "hunting licenses" seeking aid and special favors.

These past experiences and our estimate of the problems we will soon face in the mounting urgency of the stabilization efforts and in the implementation of the development plan lead us to suggest the following broad criteria for American policy in Indonesia.

A. Regionalism

We must continue to encourage Indonesia to join in Southeast Asian cooperation. In addition to the material and political benefits, closer regional ties will encourage Indonesia to see itself as a partner and participant in a world-wide process of modernization rather than a sick patient in the hands of Western doctors. Indonesia's neighbors, however, must be responsive. While suspicion on the part of some of Indonesia's neighbors is historically understandable, we should encourage these nations to realize that a "New Order" has taken over in Indonesia and that, even if they fail to accept this fact, the best and most pragmatic way to guard against the possibility of future Indonesian adventurism is to embrace Indonesia's new government and interweave it inextricably in responsible regional activities.

Our own expressions of support for regional organizations such as ASEAN should be decidedly low-key. The Soviets, from whom the Indonesians hope to receive additional aid, are already charging that ASEAN is a "Western puppet" and the Indonesians fear that too close an embrace by us would not only complicate their relations with Moscow but also add substance to these allegations and perhaps make it more difficult for ASEAN to enlist the support of additional non-aligned nations.

B. Multilateral Approach

We remain convinced of the necessity of setting our programs into a multilateral framework, with the IMF, IBRD and IGG nations assuming together a position well in advance of any individual foreign government. This is both a more forceful method of persuading Indonesia to make the tough decisions that will be required and a better guarantee against Indonesia sluffing off responsibility to others' shoulders. The multilateral approach may, however, prove too slow or inflexible to meet certain problems of exceptional urgency and we must recognize the need for flexibility in applying this criterion.

C. Adaptations to the Indonesian Social Structure

There are three broad attributes of the Indonesian culture which will constitute impediments to much-needed technical and project assistance and which we should take into account in developing our programs: (1) a predominantly traditional (as contrasted to rational) mode of thought which resists change, stresses human adaptation to rather than manipulation of environment and recommends avoidance rather than resolution of conflict; (2) particularistic (or personalized) rather than universalistic values, emphasizing loyalty to kin or, more particular to Indonesia, to a protector (Bapak) rather than to institutions or abstract codes of behavior; and (3) a decentralized and compartmentalized organization of the society with relatively little coordination exerted laterally and relatively little authority exerted vertically.

Perhaps the best single way of ensuring that an American program will be adjusted to the Indonesian environment is to work through the so-called "third culture," that is Indonesians who have gained a broad knowledge of our culture and yet retain accredited membership in their own. This type of person, most prominently represented by General Suharto's team of economic advisors, can serve as invaluable mediators between the two cultures. Every assistance request should consequently be evaluated on the basis of whether the Indonesians controlling or staffing the offices connected with the program include a sufficient number of "third culture" persons.

A second prerequisite for evaluating the prospects for an assistance program is to identify the "Bapak" or "Bapaks" into whose spheres

the project falls. If these are corruptionists, solely political operators or pure traditionalists, the project will probably be deflected from its economic as well as political aims. In this respect, we should continue to promote the modernizer-staffed Bappenas as the agency most directly responsible for economic development.

It is much more difficult to propose criteria to meet the problem of compartmentalization and decentralization. For the immediate future, however, we should probably concentrate our attention within particular compartments and resist the temptation to place technicians in coordinating roles between compartments where they are more likely to replace than develop Indonesian initiative in central coordination and supervision. (What we diagnose as lack of "managerial skill" is often inability to move beyond the society's structure, a deficiency which cannot be rectified with instruction in American management methods.) It may prove more fruitful to work outward from individual compartments than to attempt to build up prior or simultaneous coordination and supervision between them.

The criteria in the immediately preceding paragraphs should not be regarded as binding prerequisites but as safety precautions. They can and undoubtedly must be set aside in certain instances. When it is deemed necessary to provide technical assistance which will involve coordination and supervision of separate Indonesian compartments, we should first seek to have the IMF, the IBRD or other multilateral bodies take on this task. Where the U.S. must assume this role, the program should be designed with exceptional care and flexibility. Advisors who run a clear risk of being drawn into coordinative or supervisory roles must be carefully selected on the basis of personality and understanding of the local culture. They might in many instances also be placed on TDY status so as to appear as temporary trouble shooters rather than semi-permanent replacements for roles the Indonesians are unwilling or unable to fill.

D. Restricting the American Presence

The criteria listed above all argue for continued restrictions on the American presence in Indonesia. Although some growth in the size of the mission must occur as we move into development projects, we would rule out for the foreseeable future personnel from any U.S. Government agency serving in sensitive fields such as community development, manpower planning, much of public administration and some phases of local agricultural development. Cultural programs should be concentrated in binational centers in Djakarta and, if possible, Surabaya. (Savings in personnel in this sector would pay high dividends if invested in magazine subscriptions and more books for donation to key institutions and individuals.) Finally, those personnel who are assigned to Indonesia to work closely with Indonesians must be

carefully selected. (We have already had several minor problems of adjustment.)

E. Working from the American Social Structure

Moving Indonesians to an outside vantage point is undoubtedly the best way to show them the deficiencies in their own social structure and stimulate a desire for this change. For this reason, the participant training program is perhaps the single most valuable component of a modernization program and must be expanded.

In order to ensure that this program results in the transfer of modernizing attitudes as well as technical skills, we should consider: (1) emphasizing training programs of at least two years in length for adults; (2) concentrating on youth, whose attitudes are more flexible—we should welcome the revival of the AFS program if the GOI officially asks for it, although we cannot prompt the GOI on this issue; and (3) "team training" in which five or six Indonesians are trained in related fields at the same time and at the same institution. Upon return to Indonesia these teams should be so grouped in their occupational fields as to provide mutual reinforcement against the social forces which lead to a reversion to a traditionalist framework of thinking. (Suharto's economic team of advisors is testimony to the success of this method.)

F. Building Indonesian Confidence

Perhaps the foremost requirement of any American assistance program is that it serve to build Indonesian confidence in the modernization process. This criterion is now most pertinent to the stabilization program. Aside from causing important segments of the population to lose faith in and withhold cooperation from the Suharto government, failure of the stabilization program would also perhaps cause Suharto to lose confidence in pragmatic policies and those who have recommended them (the IMF, Western governments and his own team of economic advisors). It may, in fact, be useless to talk of economic development if Suharto is unable to surmount the inflation hurdle within the next eighteen months.

We are now clearly faced with the probability that IGG nations at their March meeting will not pledge the full \$325 million of assistance requested of them by the Indonesian Government and the IMF. Such a result will risk losing the confidence which both the Indonesian public and leadership have placed in the IMF and the multilateral approach, and this confidence is perhaps a more important determinant to the success of the stabilization effort than the sums left unsubscribed. If the United States moves to make up this deficit, on the other hand, we risk setting an undesirable precedent for a larger American role in and responsibility for the stabilization program and perhaps the

development program which will follow. For the Embassy the last risk is clearly the lesser. In the final analysis, of course, the extent and nature of our aid must be measured against Indonesia's own performance. Our long-term interests in this important country require that we not substitute our initiative for theirs or be so responsive to Indonesia's requests that pressures for self-help measures are weakened.

IV. Conclusion

U.S. policy towards Indonesia must address two broad problems, the relatively short-term task of economic stabilization and the long-term task of modernization. The approaches we have outlined above apply to both problems but with different intensity.

Our role in economic stabilization is a relatively simple one because it involves minimal contact with the Indonesian social structure: multi-lateral agencies provide advice and supervision, an outstanding group of "third culture" persons serve as capable intermediaries, and a large American presence is not required. Our decisions in this sector are nevertheless difficult ones as they are couched in urgency and must weigh American resources against possible Indonesian loss of confidence in pragmatic measures.

In defining our role in Indonesia's modernization, there is perhaps less need for speed than caution. We are fortunate to be starting off with virtually a clean slate as regards technical and project assistance and information programs. Unlike Vietnam, Laos and Thailand, the urgency of the Indonesian problem is not such as to preclude us from setting up careful test procedures. With a cooperative government, a classically traditionalist society and a good measure of material resources, Indonesia constitutes a good test subject.

The Embassy consequently recommends that we treat our role in Indonesia as a controlled experiment in modernization. We should begin to apply the criteria we have set out above and develop new criteria as experience is gained. The development of our assistance programs must from the outset be geared to Indonesian performance. In this respect, we will want to keep a careful watch not only on economic measurements but also on the incidence of corruption, on the abuse of authority and on the tendency towards militarism, all of which are relatively good gauges of the progress towards modernization in the social structure.

MG

254. Letter From the Deputy Under Secretary of State for Political Affairs (Bohlen) to the Assistant Secretary of Defense for International Security Affairs (Warnke)¹

Washington, March 19, 1968.

Dear Paul:

A letter from Ambassador Thompson to Secretary McNamara, dated October 19, 1966,² recommended \$6 million in grant assistance to the Indonesian armed forces in support of an on-going military program of civic reconstruction. This program, which also includes training oriented towards civic action in U.S. Service Schools, is now well under way and has been operating effectively for about a year. Since the rationale for the program is essentially political and economic. I feel it might be useful to define more precisely at this stage the policy framework of the program for the months ahead.

Our April 14, 1967 agreement with Indonesia³ specified that our assistance was provided "for a program of civic action . . . helpful to the economic and social development of Indonesia." The objective of the program is therefore a limited one; to support and assist the Indonesian military in its civic mission activities. In contrast to MAAG missions elsewhere, we are not seeking to establish a service-to-service advisory role, nor do we wish to participate in anything but the purely civic action aspects of Indonesian military planning.

"Civic mission," as used by the Indonesian military, embraces a much broader range of activities than we would regard as "civic action." The Indonesians, for example, consider the construction of barracks and commercial or industrial activities undertaken by military personnel also as part of the "civic mission." While it is difficult to draw firm guidelines in this area, we feel that our resources, to the maximum extent possible, should be used for projects in the public works field of direct and immediate benefit to the civilian population.

Counterinsurgency is often linked with civic action in an over-all internal defense program. In Indonesia we wish to maintain a clear distinction between these related military activities and leave counterinsurgency entirely in Indonesian hands. Localized civil disturbances have been endemic in Indonesia since independence, and two such

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, DEF 19-8 US-INDON. Confidential. Drafted by Underhill.

² A copy of the letter from Acting Deputy Under Secretary of State for Political Affairs Llewellyn E. Thompson is attached to a March 15 memorandum from Bundy to Bohlen. (Ibid.) See also footnote 2, Document 226.

³ See 18 UST 384.

uprisings are now in progress in West Borneo and West New Guinea. Indonesia, in the past, has not sought our assistance in meeting these situations. It is possible, however, that the current financial straits of the Indonesian Government might persuade the military authorities to look to our Military Assistance Program as a source of supplementary budgetary support for counterinsurgency.

Under present circumstances, we would wish to avoid such involvement. Neither of the current uprisings, restricted to isolated areas of the archipelago and involving ethnic minority groups, is any threat to the Suharto government. The Indonesian Army is well supplied with small arms, and has had 23 years of experience in counterinsurgency operations. There is no pressing need for United States involvement, and to begin assistance, even on a small scale, would establish a continuing lien on limited MAP resources. Further, the use of American equipment against the Papuan dissidents would be politically awkward because of the role of the United States in the 1962 settlement turning over West New Guinea to Indonesia. We do not, of course, wish to rule out the possibility of counterinsurgency assistance to Indonesia under different circumstances.

Sincerely,

Charles Bohlen

255. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, April 24, 1968, 3:40 p.m.

SUBJECT

Possibility of wheat sales to Indonesia

President Suharto and the rest of the Indonesian leadership are now very concerned about their economic problems. Suharto has indicated to our Ambassador his hope for substantial additional assistance from us, specifically including wheat.² The proposal is not firm yet,

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2]. Confidential.

² As reported in telegram 6116 from Djakarta, April 19. (National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15 INDON)

but it does look as if it may be possible to arrange a sizable PL 480 wheat sale to Indonesia.

If the Indonesians are as anxious as they appear to be, we should be in a good position to extract from them some good measures to meet the problem of changing a rice-eating society to a wheat-eating society.

Are you still as anxious as before to move wheat through PL 480 sales?

Walt

Yes, follow up with vigor³

Only if the proposal makes sense in international terms

Call me

³ The President checked this option and underlined "vigor" twice. He also wrote: "promptly—Report back soonest."

256. Memorandum of Conversation¹

Washington, May 3, 1968, 11 a.m.

PARTICIPANTS

Professor Widjojo Nitisastro, Economic Adviser to Indonesian President Suharto

Dr. Salim, Economic Adviser, Indonesia

Ambassador Soejatmoko, Indonesian Ambassador to Washington

The Vice President

Mr. John Bullitt, Assistant Administrator for East Asian Affairs, Agency for International Development

Mr. John E. Rielly, Office of the Vice President

Professor Widjojo, after extending the greetings of President Suharto, stated that there had been setbacks in the Indonesian economy since the Vice President's visit in November.² Early this year there

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, E-8 INDON. Confidential. Drafted by Rielly. Approved in S/S on May 7. The meeting was held in the Executive Office Building.

² See Document 247.

was an economic crisis. Confidence in the economic policies of the government has been shaken, both inside and outside the government. At the Rotterdam meeting a week ago, the results were very disappointing.

Professor Widjojo stated that he believes Indonesia cannot survive a second crisis. The basic need is food. Therefore, they have asked the U.S. Government for additional food assistance. They need rice, wheat, flour, and bulgar wheat.

Mr. Bullitt stated that the United States Government officials dealing with Indonesian affairs held off responsibility to the Indonesian request because we want to see what the Japanese do before we respond. The Vice President inquired whether we or they had put pressure on Mr. Miki. We should talk to him, as the Vice President had spoken to both Miki and Prime Minister Sato at great length about the Indonesian situation. Indonesia is very important to Japan, both as a market and as an ally in Asia. We must be very firm with the Japanese on this. Professor Widjojo replied that the Indonesians had already used their biggest gun—by having President Suharto visit Japan. The results were negative.

Professor Widjojo stated that he not only wanted to try to solve the food problem but to try to stop the ruinous inflation of the last several years. A major related problem is that of food production. They need fertilizer assistance as well as food.

The Vice President stated that with the oil industry in Indonesia you would think that the resulting petrochemical industry would produce fertilizer. Professor Widjojo stated that there are studies underway for the expansion of the petrochemical industry. Mr. Bullitt stated that one problem is that the government oil monopoly had refused to make commitments to guarantee a regular supply of oil. For this reason, foreign investors and the oil companies generally were reluctant to go ahead with expansion of the petrochemical industry.

The Vice President suggested that the time is late for continuing studying the situation. Progress must be made in getting the fertilizer. The time has arrived for a frank talk with our Indonesian friends. The Government of Indonesia must be willing to take decisions to get the petrochemical industry to develop. If the government is not willing to do this, they cannot expect help.

Professor Widjojo stated they also have natural gas as a source of energy supply. They hope to expand their food for work program this year with the help of the U.S. Governmental food assistance.

The Vice President inquired of Professor Widjojo whether he had seen Mr. Linen of Time-Life, the man who organized the Geneva meeting last November. He had sent a copy of the report on the conference to the President, to Secretary Rusk, and to Mr. Gaud. It is time, he said,

that the Indonesian Government takes some strong measures. Also, we must be able to demonstrate here that the aid is not being misused. This is of continual concern here, both in the government and outside. The Vice President stated that if he had his way, we would be doing much more, but that the Indonesians must understand that their friends and supporters here do have a difficult time in dealing with the Congress. We know that there is a degree of public and private corruption. This is a continuing public relations problem. It would be a national/international disaster if the Suharto government would fail.

Ambassador Soejatmoko stated that they have an immediate need for fertilizer as well as for food. The Vice President stated that Indonesia must be able to demonstrate what Mr. Jim Linen talked about in his report: a spirit of confidence in the Indonesian economy. The Vice President knows that the United States business cannot do everything that needs to be done; the economy cannot be turned over to them. They can be permitted to chew up the economy and exploit it. But they must be convinced that the over-all environment in Indonesia is favorable for the economic development of the country. The Vice President apologized for speaking so frankly, but since "we are allies without any kind of a treaty," we must be frank in assessing our mutual problems.

He knows that Professor Widjojo and the economic team understands these problems, but the military does not. The military must be made to understand what the situation here is in the Congress and with the public. The Vice President told Professor Widjojo that he and his colleagues are good men or they would not be here. He knows that the security of their country is essential to Asia. We and our allies cannot help Indonesia to the point that what we do in Vietnam will be of no avail.³

³ Widjojo and Salim also meet with Barnett on May 3 and had lunch with Bullitt after the meeting with the Vice President. An account of their discussions is in telegram 158285 to Djakarta, May 3. (National Archives and Records Administration, RG 59, Central Files 1967-69, AID (US) 9 INDON)

257. Intelligence Note From the Director of Intelligence and Research (Hughes) to Secretary of State Rusk¹

No. 447

Washington, June 11, 1968.

SUBJECT

Suharto's New Development Cabinet² Strengthens Economic Program and Placates Parties

Indonesian President Suharto's announcement of a new cabinet on June 6 implemented the March 27 decree of the country's highest legislative body, the MPRS, which had instructed him to replace the present cabinet with one devoted to economic development.³ The cabinet is composed of 18 portfolio ministers and five state ministers who will have general supervisory functions. The government's commitment to modernization is evidenced by the inclusion of two of Indonesia's leading economists; its determination to avoid a junta-type government is demonstrated by the increase in the number of civilians (from fourteen to seventeen) as compared to military officers (from nine to six). The two economists are particularly distinguished; Dr. Sumitro Djojohadikusumo, who helped lead the rebellion against Sukarno in 1958 and lived in exile until last year, is Minister of Trade, while Ali Wardhana, a key adviser to Suharto, has been made Minister of Finance.

At the same time, Indonesia's leading political parties have been given prominent representation at the level of state minister in the new cabinet; relatively pro-regime leaders of the three largest Muslim parties and of the secular Nationalist Party hold these positions. In addition, among the technocrats holding portfolios are leaders of other political parties or, in some cases, spokesmen for particular points of view; Dr. Sumitro was a founder of the banned Indonesian Socialist Party, former Murba Party official Adam Malik remains as Foreign Minister, and

¹ Source: National Archives and Records Administration, RG 59, Central Files 1967-69, POL 15-1 INDON. Confidential.

² Telegram 7289 from Djakarta, June 6, contains a list of the new Indonesian cabinet. (Ibid.)

³ The CIA's Directorate of Intelligence prepared an Intelligence memorandum, ER-IM 68-81, July 1968, which assessed Indonesia's prospects for economic stability. The memorandum suggested that because of Sukarno's "more than a decade of mismanagement" a quick economic recovery was not assured. Foreign aid to Indonesia basically went to stabilize inflation and there was little earmarked for long-term rehabilitation. Indonesia suffered from faster population growth than growth of food production, declining exports, and a poor transportation system. Although economic progress under Suharto would be slow, most of Indonesia's 112 million people lived in a "non-monetary, subsistence environment and do not expect radical improvements in their living standards." Economic deterioration was more likely to cause political unrest in Indonesia's cities. (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68)

Professor Seno Adjie of the Army-initiated IPKI Party is Minister of Justice, a holdover from the previous cabinet.

A further earnest of the government's interest in economic development and its willingness to seek popular support is the curtailment of some of the powers of President Suharto's much-criticized private staff, SPRI (Staf Pribadi Republik Indonesia), composed of generals of varying ability and honesty, led by [less than 1 line of source text not declassified] Major General Alamsjah. SPRI has now been deprived of its coordinating function over the cabinet and there are reports that Alamsjah will soon go abroad as an ambassador. The number of military officers in the cabinet has been reduced, dropping from nine to six, while the number of university professors has risen from four to seven. Old Order or Sukarnoist military officers, however, were placed in charge of the ministries of manpower and information.

Suharto's appointments to the new cabinet should help to quiet criticism from the students, who have again been demonstrating against the country's slow economic progress, and from the political parties, who object to the "green wall" of military uniforms between the presidency and the public. However, unless this new momentum can be sustained by performance, dissatisfaction can be expected to grow strong again.

258. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹

Washington, June 18, 1968, 6:35 p.m.

SUBJECT

Aid to Indonesia

The International Monetary Fund set \$325 million as Indonesia's need for foreign assistance in calendar year 1968. We have adhered to a formula by which the United States and Japan each meets one-third of the need, and the rest of the world picks up the remaining third. The Japanese have been very slow this year, but it now looks as if they will meet their \$110 million share. The other donors have also lagged,

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2]. No classification marking.

and will probably not give Indonesia much more than \$80 million this year.

Indonesia's needs are greater than ever. Despite the government's responsible policies, the stabilization program has thus far failed to work. There was an almost 60% inflation in the first quarter of this year, mainly as a result of inadequate food supplies. If another year passes without the government's economic policies taking hold, both those policies and the government itself will be in danger. In recognition of this fact, the IMF and the Asian Development Bank have both called for emergency food assistance to Indonesia, above and beyond the \$325 million figure.

The problem, then, is how to help meet Indonesia's needs, including emergency food assistance, without breaking the one-third formula (which is popular with the Congress, and very useful in pressuring other donors to meet their obligations).

Attached is an Indonesian aid package proposed by Bill Gaud and Orville Freeman and blessed by Charley Zwick.² It meets the problem—by treating our wheat assistance to Indonesia as experimental and a response to the IMF/ABD call for emergency food needs. Therefore the wheat is not to be counted this year as part of our one-third contribution to the international consortium's goal of \$325 million.

Although this approach is slightly artful, it is also justifiable. No one knows how rapidly the market in Indonesia for wheat products can be expanded. We are offering 350,000 tons (\$46 million) of wheat flour and bulgur to be shipped as rapidly as it can be utilized. But it is impossible to say how much can be used by the Indonesians during 1968. It is, therefore, reasonable to treat it separately from our 1968 aid pledge, and outside the one-third formula.

By treating wheat separately, we are able to offer \$156 million of aid now. This is psychologically very important in shoring up the confidence of the Indonesian Government and in convincing the Indonesian business community that the resources will be available to avoid another inflationary spiral at the end of the year. Apart from the wheat, the package is made up of:

- 200,000 tons of rice, worth \$41 million;
- 160,000 bales of raw cotton and the equivalent of 70,000 bales of cotton yarn, worth \$44 million;
- a \$25 million AID Development Loan;
- this totals \$110 million, our one-third share of the IMF goal.

² The "package" was in a memorandum from Freeman and Poats (Acting for Gaud) to the President, June 7. Support for the proposal from Zwick was in a memorandum to the President from him, June 12. (Both *ibid.*)

In addition, Gaud and Freeman want to be able to tell Suharto now that we will consider another 100,000 tons of rice and another 80,000 bales of cotton in the fall as a down payment on our 1969 aid to Indonesia. This will be extremely valuable to Suharto, both in assuring that the pipeline stays full and in allaying fears of another rice shortage during the critical January–March period.

Secretary Fowler does not object to the package. He does, however, believe that we should keep the pressure on the other donors, count wheat next year after the program has proved itself, and clearly identify any pledges made this fall as part of our 1969 aid. I agree with him on all three counts. Fowler also would like to set aside part of the proceeds from the sale of wheat for a fund to promote U.S. commercial exports. There might be problems with this, but AID and Treasury can try to work it out, if you approve the package. Fowler's memorandum is attached.³

Although we are presenting the 1968 package to you as a whole (so that you can better judge its adequacy) you actually gave your approval last January to \$60 million of the proposed package. What you are now being asked to approve is a \$98 million PL-480 program (\$35 million in wheat, \$33 million in cotton, and \$30 million in rice).

My people (Marshall Wright and Ed Hamilton) helped put this package together. I think it is a good one. Bob McNamara is just back from Indonesia and thinks it is very important that we move ahead without delay.⁴

I recommend that you approve the \$98 million PL-480 program, and authorize our Djakarta mission to inform Suharto that we will consider more rice and cotton in the fall.

Walt

Approve⁵

Disapprove

Call me

³ Memorandum from Fowler to the President, June 18. (Ibid.)

⁴ Rostow wrote the following postscript: "Bob McNamara came to see me yesterday right off the plane from Tokyo to say this package is critical and urgent if Suharto is to be saved—and to report he believes Suharto is well worth saving."

⁵ This option is checked.

259. Memorandum From the President's Special Assistant
(Rostow)¹

Washington, June 19, 1968.

MEMORANDUM FOR

The Secretary of State
The Secretary of Treasury
The Secretary of Agriculture
The Administrator of Agency for International Development
The Director of the Bureau of the Budget

SUBJECT

Aid to Indonesia

The President has approved the 1968 aid package for Indonesia described in the Freeman/Poats memorandum dated June 7, 1968.²

The President also authorized our mission in Djakarta to inform the Indonesian Government now that we will be prepared to consider in the fall another PL-480 agreement providing for 100,000 tons of rice and the equivalent of 80,000 bales of cotton yarn if such additional assistance appears feasible at that time.³

The President also approved Secretary Fowler's recommendations⁴ that:

1. there should be continued pressure on other donors to come up with additional contributions to Indonesia 1968 aid requirement;⁵
2. we should count wheat next year as a part of the US aid contribution if this year's emergency and experimental wheat program proves successful;
3. any additional pledges of rice or cotton in the fall will be clearly identified as 1969 aid; and

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68. Confidential.

² See footnote 2, Document 258.

³ In telegram 186811 to Djakarta, June 20. (National Archives and Records Administration, RG 59, Central Files 1967-69, FN 1-1 INDON)

⁴ See footnote 3, Document 258.

⁵ On June 20, Rostow wrote Robert McNamara, then President of the World Bank, a letter describing President Johnson's decision and reasons for maintaining the one-third formula. Rostow noted that both the United States and Japan were prepared to commit their \$110 million (plus the additional \$46 million in wheat from the United States), but the rest of the international community was lagging behind on their one-third, leaving a shortfall of about \$30 million. Rostow hoped that McNamara and the Bank could help with the shortfall. (Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2].)

4. Treasury and AID should attempt to work out with the Government of Indonesia arrangements under which some part of the rupiahs generated by wheat deliveries can be set aside in a special fund to promote US commercial exports.

W. W. Rostow

260. Memorandum From Marshall Wright of the National Security Council Staff to President Johnson¹

Washington, August 8, 1968.

SUBJECT

Rice for Indonesia

The Indonesian aid package that you approved in June included the possible shipment this fall of 100,000 tons of PL-480 rice as a downpayment on our 1969 aid. This was contingent upon domestic availabilities and Vietnam needs.

We would now like to go ahead with this sale. Our domestic crop is good, and Vietnam's requirements are no problem. Our domestic rice market is a little weak, and Agriculture wants this sale now in order to firm it up.

The extra rice will be very helpful to Indonesia in assuring an adequate food supply during the critical months of January-March. A firm commitment from us now will enable the Indonesian Government to go ahead with arrangements for the commercial rice imports that will be required in addition to our PL-480 assistance.

Attached are memos to you from Bill Gaud, Orville Freeman and Charles Zwick, all of whom recommend this transaction to you.² Zwick affirms that the transaction is within the 1969 budget cutbacks.

¹ Source: Johnson Library, National Security File, Country File, Indonesia, Vol. VIII, 6/67-6/68, [1 of 2]. Confidential. A note indicates that this memorandum was sent to the Johnson Ranch in Texas on 1:45 p.m., August 9.

² Memorandum from Gaud and Freeman to the President, August 2, and memorandum from Zwick to the President, August 6. (Both *ibid.*)

I recommend that you approve the sale to Indonesia of 100,000 metric tons of rice (\$20 million) to Indonesia under PL-480 Title I.

Marshall

Approve³
Disapprove
Call me

³This option is checked.

**261. Memorandum From the President's Special Assistant
(Rostow) to President Johnson¹**

Washington, October 18, 1968, 10:30 a.m.

SUBJECT

Aid for Indonesia

The yearly meeting of the InterGovernmental Group (IGG) on foreign aid for Indonesia will take place in The Hague on October 20-21. The purpose of the meeting is to agree upon Indonesia's aid requirements for calendar year 1969. We also make our pledge at this meeting as an incentive to other donors.

Indonesia will request and the IMF and World Bank will support a total aid package of \$500 million (\$380 million in economic aid and \$120 million in food).

Attached is a memorandum from Bill Gaud and Orville Freeman which proposes that we pledge about one-third (\$130 million) of the economic aid and offer to meet "the bulk" (up to \$100 million in PL 480 rice and wheat) of Indonesian food aid needs.² Our pledge, as usual,

¹ Source: Johnson Library, National Security File, Country File, Indonesia, [Filed by Johnson Library, 12/68-1/69]. No classification marking.

² Memorandum from Gaud and Freeman to the President, October 14. (National Archives and Records Administration, RG 59, Central Files 1967-69, AID (US) INDON)

would be contingent upon Congressional appropriations, satisfactory commitments from other donors and satisfactory performance by the Indonesian Government on its stabilization program.

In the past we have talked of meeting Indonesia's total aid needs through a one-third formula (one-third from us, one-third from the Japanese, one-third from everybody else). In fact, however, we departed from this formula last year when our wheat aid of \$50 million and the short-fall in the European aid commitment resulted in our providing 46% of Indonesia's actual aid receipts.

The proposal being submitted to you this year would also mean that we pledge 46% of Indonesia's stated aid needs for 1969.

The proposal is based on two assumptions:

1. that it is an important aim of American policy to provide Indonesia with the external aid she requires,
2. that we should give our aid in such a way as to maximize European and Japanese contributions.

Frankly, unless we do more than one-third there is little prospect that Indonesia's need for \$500 million of foreign aid in CY 1969 will be met.

The Japanese, from Prime Minister Sato down, are now talking about doing less than their 1968 level of \$110 million. In 1968 the Europeans fell far short of their \$110 million. In fact, a rigid adherence to the one-third formula would probably lead the IGG countries to refuse to agree to the \$500 million figure as Indonesia's requirement.

Therefore, we propose to apply the one-third formula only to the non-food part of Indonesian needs, about \$380 million. That gives the Japanese and the Europeans a target of \$130 million each. They will groan, but we believe they can be induced to accept the figure.

On food aid, Agriculture assures me that market conditions are such that we will wish to provide Indonesia with at least 300,000 tons of rice and as much wheat as she can use. Therefore, the proposal is that we pledge ourselves to pick up the bulk of Indonesia's food aid needs, while still pressing other donors for as large a share as we can get from them. We would tell the Indonesians that we are thinking of about \$60 million of rice and perhaps \$40 million of wheat.

Charley Zwick concurs in the Gaud-Freeman proposal. (Zwick memorandum is attached.)³ Henry Fowler takes exception to our pledging "the bulk" of Indonesia's food needs. Instead he would like us to pledge only to do "a fair share," provided others do the same. He also

³ Memorandum from Zwick to the President, October 16. (Johnson Library, National Security File, Country File, Indonesia, [Filed by Johnson Library, 12/68-1/69])

opposes discussing specific quantities of food aid with the Indonesians at this time. (Fowler memorandum is attached.)⁴

The difficulty with the Fowler approach is that the Indonesians need to be able to plan their food procurement rationally, and cannot do so without some idea of what we intend to do for them. Moreover, the distinction between Fowler's "fair share" and Gaud-Freeman's "bulk of food needs" is really a matter of semantics. If we do not meet the "bulk" of Indonesia's food aid needs, they will not be met. It is not in our interest to have another food shortage emergency, as occurred last January.

I recommend you approve the Gaud-Freeman proposal.

Walt

Approve⁵

Disapprove

Call me

⁴ Memorandum from Fowler to the President, October 17. (Ibid.)

⁵ None of the options is checked, but in a typed note apparently dictated by Johnson and sent to Rostow on October 18 at 12:30 p.m., the President stated: "I like Fowler's proposal better but can we go as far—we could say 'fair share' and the next administration wouldn't be tied—they could do what they want." (Ibid.)

262. National Intelligence Estimate¹

NIE 55-68

Washington, December 31, 1968.

INDONESIA

Conclusions

A. The government headed by General Suharto and supported by the army is in effective control of Indonesia. Over the short term, the most likely sources of opposition are the political activists of the

¹ Source: Department of State, INR/EAP Files: Lot 90 D 165, NIE 55-68. Secret; Controlled Dissem. Prepared by the Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and the NSA. All members of the USIB concurred with this estimate on December 31 except the representatives of the AEC and FBI who abstained because the topic was outside their jurisdiction.

younger generation and the old-line political parties. Though the Indonesian Communist Party is still badly disrupted, it is possible that over the longer term a radical nationalist movement could develop mass support in Indonesia once again. Nevertheless, the army will almost certainly retain power for the next three to five years, presumably under the leadership of General Suharto.

B. The Suharto government has adopted a moderate, pragmatic approach to Indonesia's serious economic problems. The pace of economic progress will almost certainly be slow for the next few years, and even that pace is contingent on deferment of large foreign indebtedness and substantial new foreign aid and investment. The effectiveness of the government will continue to be hampered by administrative inefficiency, inadequate transport and communication facilities, and basic constraints endemic in Indonesian society, notably a paternalistic system of cultural values that inhibits social discipline.

C. Though Indonesia will remain officially nonaligned, there is likely to be a continuation of the present trends toward improved relations with neighboring countries and the free world, cool relations with the USSR, and hostility toward Communist China. Basically, the present government would like to have the US involved somehow in the protection of Southeast Asia against China, yet it would not favor a direct security relationship with the US or any other outside power, lest this cast doubt on Indonesia's nonaligned image or hinder any future effort by Indonesia to assert its primacy among the Malay peoples. In the unlikely event that the present moderate government were replaced by an authoritarian regime bent on diverting attention from domestic problems, Indonesia might revert to an aggressive policy vis-à-vis Malaysia and Singapore.

Discussion

I. Introduction

1. The course of modern Indonesian history has shifted decisively in the three years since the Indonesian Communist Party (PKI) failed in its attempt to eliminate the power of its principal rival, the Indonesian Army. Since the momentous events of October 1965, the army has gradually consolidated its position as *the* political arbiter in the nation. With caution and deliberation, General Suharto, the leader of the army, has destroyed the power of the Communists and Sukarno, and has himself assumed the office of President.

2. The "New Order," as the Suharto government styles itself, represents a fundamental change in the direction of Indonesian political life. In place of Sukarno's politics of emotion and policies of adventure, Suharto has adopted a pragmatic approach to Indonesia's problems. In foreign affairs, this means a policy of nonalignment that leans toward

the West and nourishes hope that Djakarta may someday assume a more vigorous regional role. It also means that over the next few years the government will be preoccupied with domestic matters—above all, Indonesia's tremendous economic problems.

II. *The Internal Scene*

A. *The Political Situation*

3. *The Suharto government* provides Indonesia with a relatively moderate leadership. Although the army constitutes the power base for the government, Suharto practices the traditional Indonesian style of consensus politics. Thus, he has taken care to associate responsible civilian politicians and intellectuals with his government. Indeed, in the reshuffle of the Cabinet in June 1968, a number of Western-trained civilian economists were given key roles in the formulation of a five-year plan for economic development. These appointments, added to the presence in the Cabinet of such moderates as Foreign Minister Adam Malik, have improved the public image of the government and made it more acceptable to those opposed to military rule. The government's commitment to hold nationwide elections² in 1971 has also contributed toward those ends.

4. The strengths and weaknesses of the government reflect those of General Suharto himself. During the process of dismantling the "Old Order" of Sukarno, Suharto provided much needed stability and authority. Nevertheless, the slowness of his pace, then and now, has provoked considerable impatience and criticism, even among his principal supporters. The reticence of his own temperament is reinforced by his contempt for the excesses of Sukarno, leading him to disdain any appeal to emotion. His apparent inability to elicit popular enthusiasm may make it hard for his government to deal rapidly enough with the major problems facing the country.

5. In this event, differences and discontent among the military leadership are likely to increase and could eventually impede the effective coordination and implementation of national programs. Nor can we rule out the possibility of political conspiracies among the military or efforts by regional commanders to assert greater independence of Djakarta. There is no evidence of any serious splits within the military leadership or of interest in a coup, but the top leaders will keep a wary eye on a number of the more militant younger officers.

² The nature of these elections is far from clear. Presumably they will choose at least part of the members of the Consultative Congress and the Parliament; the present members of both bodies hold office by virtue of appointment. The elections are not likely to affect the status of Suharto, who was elected by the Consultative Congress in March 1968 to a five year term as President. [Footnote in the source text.]

6. *Overt political opposition* to the Suharto government has not been substantial. Most politically articulate elements have been willing to wait and see what the regime can accomplish. A potentially disruptive force is the younger generation of political activists whose appetite for politics was whetted during the campaign against Sukarno. The government has been fairly responsive to their demands, even granting the student "Action Commands" a measure of participation within the nation's highest formal policymaking body, the Consultative Congress.³ Thus, they are now relatively quiescent, lacking at least temporarily the leadership, organization, and a compelling issue that could bring them back into the streets. Nevertheless, they are potential collaborators of the more militant army officers, who share their impatience at the slow pace of the Suharto government.

7. The legal political parties have also been partially neutralized by their dependence on the government for patronage. Potentially, the most hostile party elements are the left-wing of the Indonesian Nationalist Party (PNI), which has been at least temporarily repressed, and the traditionalist Muslims within the Muslim Scholars' Party (NU) who are unhappy about the secular trend of the present regime and believe that Christians have a disproportionately large role in the government. These parties have little choice but to go along with the government for the time being. They are too weak and divided to marshal much pressure to restore the free-wheeling parliamentary system that proved so debilitating during the 1950's.

8. The government, for its part, has paid lip service to the idea of restructuring the party system, with the dual purpose of providing a political base for itself and of opening constructive channels for such currently disorganized civilian elements as the modernist Muslims and the democratic socialist left. Thus far, little progress has been achieved toward that end. In fact, Suharto's military advisers have apparently persuaded him to block the installation of a new chairman by the Indonesian Muslim Party (PMI), thus causing considerable resentment in moderate and modernist Muslim circles.

9. *The Indonesian Communists* do not currently constitute a serious threat to the government. The PKI was badly shattered after the attempted coup of October 1965, and they have suffered further serious setbacks since then. During the summer of 1968, the army wiped out an incipient Communist insurgency in East Java and killed or captured

³ According to the Indonesian Constitution of 1945, the Consultative Congress has the power to determine the broad lines of national policy, to elect the President, and to amend the Constitution. The Parliament, while subordinate to both the President and the Consultative Congress, has responsibility for enacting legislation. Its members are automatically members of the Consultative Congress. [Footnote in the source text.]

a major part of the Maoist-oriented PKI leadership. Although the Suharto government is weeding out leftists from the armed forces, and has largely neutralized those within the air force and the police, the recent exposure of Communists and Sukarnoists within the army itself has demonstrated that the services have not yet been completely purged.

10. A longer term danger lies in the social and economic conditions that enabled the PKI to build a potent force before 1965. These conditions, and the difficulty of changing them, will provide numerous issues to exploit; thus, it would be premature to regard the PKI as an unimportant factor. Moreover, its potential would increase considerably if new leaders emerge and are able to revive the alliance with leftists in the PNI and with other former Sukarnoists. If, over the longer term, the present government's efforts at economic development should seriously falter, a radical nationalist movement could develop mass support in Indonesia once again.

11. There is no force in Indonesia today that can effectively challenge the army's position, notwithstanding the fact that the Suharto government uses a fairly light hand in wielding the instruments of power. Over the next three to five years, it is unlikely that any threat to the internal security of Indonesia will develop that the military cannot contain; the army—presumably led by Suharto—will almost certainly retain control of the government during this period. The leadership will try to keep politics in abeyance and concentrate the government's energies on the country's tremendous economic problems. The next few years will be critical, therefore, in determining whether the Suharto government can govern effectively.

B. Administrative and Social Problems

12. Even given a period of political stability, the effectiveness of the government will be hampered by the shortcomings of Indonesia's vast bureaucracy. No one knows exactly how many civil servants there are; the figure certainly exceeds one million, with another one to two million employed by state enterprises. The extremely low pay scales and the extensive links between the bureaucracy, the political parties, and other narrow interest groups have made graft the principal catalyst for bureaucratic action. Because any far-reaching attempt to rationalize the bureaucracy would threaten the livelihood of so many people, no Indonesian government can easily or quickly change the situation.

13. Suharto has circumvented the problem of the civil bureaucracy in part by placing military officers in key positions throughout the administrative structure. The army is the most cohesive and nationally-oriented institution within Indonesia; hence, it is the best available instrument for the gigantic task of modernization. After more than 20

years of active involvement in civil affairs, the army leadership has a sense of national mission which generally transcends the ethnic, religious, and geographic divisions that have made it so difficult to mold together the Indonesian nation. The officer corps is relatively well educated and, under strong direction, could become an effective force for modernization and reform.

14. There are, however, severe limitations on the ability of the military to administer governmental policies effectively. These limitations are not peculiar to the army itself, but rather are functions of broader cultural and physical facts of Indonesian life. The basic problem of distance between Djakarta and the outlying provinces is magnified by the woefully inadequate system of transportation and communication. Even if the latter were rehabilitated over the next few years, the central government in Java would still lack the resources and the inclination to meet the needs of the outer islands. As a result, the government's administrative structure, while highly centralized in theory, has considerable de facto regional and local autonomy. Except for the unity and discipline that the army's command structure itself provides, the policies of the central government fail to grip or affect the lives of the plantation worker on the rubber estate in Sumatra, the small Islamic trader at the bazaar in Central Java, or the displaced nobleman-turned-entrepreneur on Bali. The resultant inefficiency serves only to reinforce the prevalent Indonesian tendency to rely on personal relationships to get things done.

15. Although there is, of course, a severe shortage of able administrators in Indonesia, the greatest obstacle to effective government is probably Indonesian culture itself. Among the dominant Javanese in particular, but also among Indonesians generally, cultural values inhibit the imposition of the kinds of social discipline that are characteristic of the economically advanced countries of Asia, Europe, and North America. Even the Western-trained members of the governing elite are generally reluctant to employ modest forms of coercion to prod their own people, or themselves for that matter, to change their ways. The government, as a consequence, asks extraordinarily little of itself or its citizens. There are few obligations either to do things in the common interest or to avoid actions opposed to it. Indeed, the traditional culture is so strong, and the vested interests are so great, that it is extremely difficult to circumvent the existing power structure or to change the established ways of doing things.

16. Indonesian society is based on a complex fabric of personal relationships, patronage, and paternalism known as "bapakism."⁴ Al-

⁴ "Bapak" means both "father" and "boss." [Footnote in the source text.]

though to most Westerners "bapakism" may appear to be merely a systematic form of graft, it has useful as well as negative aspects. Men are held responsible for their actions, so that the initiative and effort of the man who "produces" within the system is rewarded. Thus, men of talent and ingenuity are able to rise within the generally stratified, traditionalist society. The problem is that the system gives a decisive role to personal contacts and minimal importance to formal restraints. Few, if any, institutions are disciplined by impersonal rules of behavior. As a result, corruption within Indonesia is less the product of laxity in law enforcement than of a social system that values honesty well below loyalty and resourcefulness. Because of the prevalence and pervasiveness of "bapakism," only a revolutionary regime unconcerned with either stability or humaneness would dare to tackle the problem directly at its roots.

C. Economic Problems

17. A seriously dilapidated economy is the legacy of two decades of mismanagement and neglect: agriculture is inefficient; the industrial sector, though beginning to recover, is still small and backward; and communications and public services are in disarray. The vast majority of Indonesians live in extreme rural poverty and are largely insulated from the fluctuations of the money economy. At present rates of increase, the population of 115 million will double in 20-odd years. Problems of overcrowding and extreme poverty are particularly acute on Java, where about two-thirds of the people live. The standard of living of the average person is probably lower now than it was at the beginning of the Second World War. But it is significant that in recent months the Indonesian economy has begun to show signs of improvement.

18. With aid and guidance from the industrialized nations of the free world, the Suharto government has attacked the corrosive problem of inflation. The current rate of two percent per month is hardly satisfactory, but it is a substantial achievement compared with the runaway inflation of earlier years. The shortage of food, particularly rice, has been a key factor in causing inflation. Western assistance in supplying large quantities of rice and other foodstuffs, and reorganization of the Indonesian Government's rice procurement and distribution system, have played decisive roles in reducing the problem significantly during the ordinarily lean winter months. Over the longer term, Indonesia will require considerably greater use of fertilizers, pesticides and new seed strains, as well as the improvement of irrigation facilities, if food production is to meet the demands of the soaring population. Greater self-sufficiency in rice is essential if inflation is to be curbed.

19. Government spending has also been an important cause of inflation. At the insistence of the International Monetary Fund, Suharto's team of Western-trained economists has tightened administra-

tive controls over the budget. Subsidies on certain consumer items such as kerosene, gasoline, electricity, and public transport have been cut; tax collection has been improved; and the number of employees in at least one state enterprise (Garuda Indonesian Airways) has been cut back. These measures have not been popular, of course, but they have been constructive.

20. A second major economic problem facing Indonesia is the need for investment. There is little private domestic capital in Indonesia, even in comparison with other poor countries. Much that does exist is in the hands of ethnic Chinese who are concentrated in the export-import and wholesale-retail trades. Because of widespread hostility against them, the Chinese are generally not disposed to make new, long term investments, particularly in fields in which they are not already well established.

21. An essential part of the Suharto government's economic program, therefore, has been to welcome foreign capital back to Indonesia. Already about 25 American and European firms have recovered control of mines, estates, and other enterprises nationalized under Sukarno. In addition, liberal legislation has been enacted to attract new private foreign investment. Tax incentives are offered and the rights of managerial control, repatriation of profits, and compensation in the event of expropriation are, in large measure, guaranteed. The prospects for private foreign investment in extractive industries are fairly good, but it will take several years before survey and exploratory work can pay off in large-scale production, export earnings, and tax revenues. Some of Indonesia's traditional export industries such as rubber, tin, and copra are on the decline because of inadequate maintenance over the years and falling prices on the world market. Nevertheless, there is substantial foreign interest in new investment in relatively untapped resources of nickel, copper, bauxite, and timber. The most promising industry, from the standpoints of both foreign capital and Indonesian economic growth, is oil. Crude production, chiefly from the fields of Caltex⁵ in Central Sumatra, now averages 600,000 barrels per day, and daily output will probably exceed one million barrels within the next three years. On balance, however, Indonesia's export earnings (and, therefore, much needed foreign exchange) will probably grow slowly, not increasing substantially before the mid-1970's.

22. A third major problem is Indonesia's tremendous foreign debt of \$2.7 billion. The related problem of the balance of payments will be

⁵ Caltex, which is jointly owned by the Texas Company and the Standard Oil Company of California, weathered the Sukarno years better than any of its competitors. In 1968, it made the largest new investment of any firm in Indonesia, \$24 million. [Footnote in the source text.]

compounded if an attempt is made to repay the debt. Indonesia's free-world creditors have deferred and rescheduled the debt to them coming due each year since 1966, and are now undertaking an overall appraisal of Indonesia's capacity to begin repayment in the 1970's. They will probably decide to stretch out further the payment of the more than \$1.5 billion owed to them. Indonesia has already defaulted on some payments due on its debt of about \$1.2 billion to Communist states, and there is strong feeling in some quarters against repaying this debt (which is chiefly for arms and prestige projects from the USSR).

23. A closely related issue is that of new foreign aid. Although much that needs to be done in Indonesia is neither dependent on nor amenable to foreign aid, there is little hope for economic progress without it. The Intergovernmental Group (IGG), led by the US, has granted substantial economic assistance to Indonesia since 1966. Of the roughly \$325 million contributed in 1968 (about \$250 million for imports to stabilize prices and the remaining \$75 million for investment projects), the US and Japan each provided approximately one-third. It will take considerable prodding to get Japan to continue to match the US contribution, although Japan, West Germany, the Netherlands, and Australia can be expected to provide sizable amounts of aid. The Western and Japanese donors insist that their aid not be siphoned off to repay Indonesia's debt to Communist countries and other countries that are not providing offsetting assistance. It is noteworthy that the World Bank has decided to give special priority to Indonesia, having established in Djakarta its first permanent mission to any less-developed country.

24. Over the short term, Communist countries are likely to provide little if any additional aid to Indonesia. Over the past year, the USSR has sent less than a hundred technicians and has sold about \$3 million worth of spare parts on a strictly cash basis to Indonesia. It has extended no loans or credits to the Suharto government, and the status of unspent portions of Sukarno-era credits has not been resolved.

D. Prospects

25. What is principally at stake in Indonesia over the next few years is whether a pragmatic, forward-looking government such as Suharto's can generate sufficient progress to win enduring support.

26. The pace of economic progress will almost certainly be slow, but this fact will probably prove more frustrating to the moderate leadership elements within Indonesia and their friends abroad than to the great mass of Indonesians. The latter, and particularly the Javanese, are generally passive in the face of authority. Under Sukarno they tolerated years of economic folly and neglect; a few more years of economic hardship will not make much difference to them. Indeed,

the vast majority of Indonesians have little notion that any condition other than poverty is possible for them. They will probably be able to subsist even though economic conditions should appreciably worsen.

27. The present leadership will probably be able to cope with the domestic situation for the next two to three years. Inflation will probably be kept within tolerable limits, and some new private foreign investment will be forthcoming. Indonesia's free-world creditors are likely to stretch out the payment of Indonesia's debt to them and also provide substantial foreign aid.⁶ In future years, of course, a number of factors quite apart from the situation within Indonesia could affect the ability and willingness of donors to extend such high levels of aid.

28. Issues such as self-determination for West Irian,⁷ food shortages, and blatant corruption will present problems for the government over the next few years, but these should be manageable. However, the slow pace of economic progress may become an issue by 1971, when the government will also face mounting pressure to honor its commitment to hold elections. The old-line parties and other groups will try to find ways to embarrass the government and advance their own ends, and there will probably be occasional instances of civil unrest, particularly in the larger towns and cities. By 1971, it is also possible, although highly unlikely, that the Indonesian Communists could be reorganized sufficiently to mount a sustained campaign of terror or to begin to form a new leftist political coalition.

29. If the domestic situation does deteriorate, the army will almost certainly grow less tolerant of dissent. If the government became alarmed at a real or imagined threat to internal security, it would probably postpone elections once again. Though we do not judge it likely, the moderate leadership might also be set aside and replaced by a more authoritarian government. But in either event, the military will almost certainly be able to maintain its grip on power.

III. Foreign Policy

A. Main Trends

30. The foreign policies of the Suharto government are characterized by pragmatism, caution, and moderation. As a consequence of

⁶ Indonesia has requested \$500 million in aid for 1969 but about \$150 million of this is for multi-year projects, so that no more than \$350 million will be available for disbursement in 1969. This is probably about all that Indonesia can absorb. [Footnote in the source text.]

⁷ Indonesia is obligated to carryout an "act of free choice" in West Irian in 1969; i.e., to test—in some unspecified manner—whether the people of that territory wish it to be established as a permanent part of Indonesia. [Footnote in the source text. U.S. officials' discussions in late 1968 with the Indonesians and Dutch about the modalities for the "act of free will," is in National Archives and Records Administration, RG 59, Central Files 1967-69, POL 19 West Irian.]

the fall of Sukarno and the havoc wreaked on the Indonesian Communists, the close ties that used to characterize Indonesian relations with Communist countries have been greatly weakened. Contacts between Djakarta and Moscow have cooled considerably, and relations with Peking have deteriorated to the present state of open antagonism. On the other hand, Indonesia has grown increasingly receptive to the aid and investment of the industrialized countries of the free world. Thus, while maintaining formal nonalignment, Djakarta is in fact drifting closer toward the Western camp.

31. The Suharto government has forsaken Sukarno's conception of Indonesia as the champion of the "new emerging forces" of the underdeveloped world, and taken a more realistic attitude toward Indonesia's international position. Thus, the "New Order" has sought to improve relations with Australia, New Zealand, and Indonesia's neighbors in Southeast Asia. The "confrontation" against Malaysia has given way to cooperation in an attempt to suppress a few hundred Communist insurgents in northwestern Borneo. Then, too, the hostility that persists between Singapore and Indonesia—born of economic dependence and racial animosity—has generally been kept below the surface, though the recent anti-Chinese outbursts in Surabaya have revealed its explosive potential. Moreover, the regime's restrained response to popular demands for retaliation against Singapore was a victory for the moderate leadership of Foreign Minister Malik. Finally, Djakarta has offered to do whatever it can to resolve the dispute between Manila and Kuala Lumpur over Sabah.

B. Indonesia's Role in Southeast Asia

32. The new moderation in Indonesian foreign relations is based on careful calculation of Indonesia's national interests. Indonesians see themselves as potentially the dominant power of the Malay world—and possibly of all Southeast Asia. They seem to have learned, however, that the aggressive policies of Sukarno did more to damage than to promote the kind of leadership that Indonesia seeks. Thus, the Suharto government has chosen to follow the path of regional cooperation instead of conflict. As the prime mover in the formation of the Association of Southeast Asian Nations (ASEAN), Indonesia is actively attempting to improve its economic and cultural relations with its fellow members—Malaysia, the Philippines, Thailand, and Singapore.

33. Although Djakarta is apprehensive about the intentions and the power of Communist China, it foresees no major external threat to its own security over the next few years. It believes that the main threat to itself and other nations of Southeast Asia lies in internal Communist subversion designed to capitalize on their economic and social weaknesses. As a result, Indonesia believes that the major effort of these nations should be devoted to improving the condition of their people

and strengthening their internal security organizations. There is little belief in the feasibility of putting military teeth into ASEAN or any other strictly regional grouping under present circumstances.

34. Indonesia hopes that the Western presence in Southeast Asia will be maintained until the nations of the area are capable of assuming a regional security role themselves. Basically, the present government would like to have the US involved somehow in the protection of the area against China, yet it would not favor a direct security relationship with the US or any other outside power, lest this cast doubt on Indonesia's nonaligned image or hinder any future effort by Indonesia to assert its primacy among the Malay peoples. The army would perhaps be more favorably disposed to a US-supported regional security arrangement than would various civilian elements.

35. Indonesia will continue to be particularly reluctant to join any regional grouping which carries a patently anti-Communist label. Leading civilians, including Foreign Minister Malik, apparently assume that eventual Communist success in all of Indonesia is virtually inevitable. They are not particularly apprehensive about such a denouement, however, because they anticipate that it would increase Hanoi's independence of Peking and lead to a greater Soviet role in the region that would counterbalance the power of Communist China. The military, including General Suharto, is less pessimistic about the prospects in Vietnam and the rest of Indochina but far more apprehensive that an enlarged Soviet presence in the region would be used to subvert the Suharto government.

C. Indonesia and the Great Powers

36. Relations between Moscow and Djakarta have been on the downgrade since October 1965. The USSR is increasingly disturbed by the continuing vigor of the government's anticommunism and by Djakarta's growing dependence on the US, Western Europe, and Japan for aid and investment. Moscow would like to woo the beleaguered Indonesian Communists away from the Maoist tactics that they have been following. So long as the present trend toward Indonesian friendship with the free world continues, Moscow will probably continue its criticism of the Suharto government and enlarge its efforts to develop a resurgent leftist threat in Indonesia. Thus, the USSR's present cool but correct, cash-on-the-line economic relations with Indonesia could worsen.

37. For its part, the Suharto government probably does not want its relations with the USSR to deteriorate further. Foreign Minister Malik, in particular, would like to balance Indonesia's increasing reliance on the Western countries and Japan by keeping lines open to Moscow. Malik probably considers that continuing nonalignment is in

Indonesia's long-term national interest, for it would hold out the prospect of receiving aid from both East and West and offer more room for diplomatic maneuver. Though the military probably wants to continue to be able to obtain spare parts from Moscow in order to maintain its equipment, it might be less concerned about offending the USSR. It probably sees a brighter future for Indonesia and itself in building up ties with the free world.

D. Contingencies

38. The Suharto government is not currently inclined toward a bellicose or chauvinistic posture, and it will probably remain fairly moderate in its foreign policies. So long as the domestic situation does not deteriorate and so long as Indonesia can rely on economic assistance from the free world, it will have strong incentives to continue on its present course. Although economic progress, even with substantial foreign aid, will almost certainly be slow, the free world will probably want to continue to give Indonesia support. The key to Indonesian foreign as well as domestic policy, therefore, will be whether the Indonesians themselves maintain confidence in a pragmatic approach to their very serious problems.

39. In the unlikely event that the present moderate leadership of Indonesia were replaced by a less responsible government, the consequences for Indonesian foreign policy might be extremely serious. Sukarno was able to divert the attention of Indonesians of the right as well as the left from problems at home by pursuing an aggressive policy abroad. A pattern of belligerence could emerge once again. It could be fueled by doctrines of a greater pan-Malay nationalism; likely targets would be Singapore and Malaysia. Such a prospect is remote at the moment, but Indonesian ambitions and a latent strain of aggressiveness are factors that should not be lost sight of.