

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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August 7, 1967

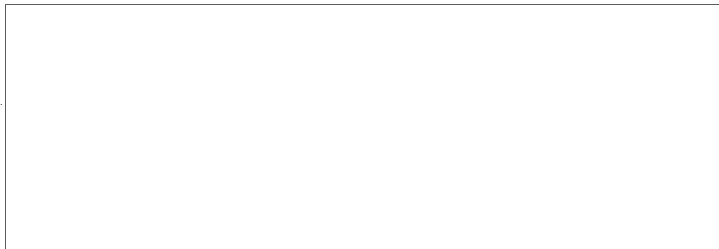
NATIONAL SECURITY COUNCIL MEETING No. 572

August 9, 1967, 12:00 P.M.

AGENDA

Indonesia

For discussion of paper on above subject circulated
August 7.



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NSC, JCS, DOS review
completed.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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August 7, 1967

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

The attached paper on Indonesia is circulated for discussion by the National Security Council at its next meeting scheduled for Wednesday, August 9, 1967.

Bromley Smith
Bromley Smith
Executive Secretary

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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. 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 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

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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 Southeast 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 exchange 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

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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). The Japanese contribution of approximately one-third is noteworthy.

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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 re-scheduling, 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

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with sound professional advice, act as a clearing house of economic information, 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.

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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 \$2-1/2 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.

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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 A.I.D. 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.

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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-PL480 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.

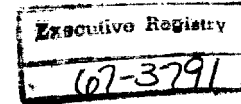
19. Indonesia has been led to believe that if it faced up to its economic problems, took the politically difficult steps to stabilize its economy, and adopted sensible policies of self-help, it could expect support from the world community. Indonesia's leaders have started down this difficult road, and 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.

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INDONESIA'S CY 1967 ASSISTANCE REQUIREMENTS

Pledged or Furnished
in Millions U.S. Dollars

United States	\$65
Japan	\$60
Netherlands	\$28
Germany	\$29
India	\$13
Others (Australia, Canada, UK)	\$ 2
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Total	\$197



8 August 1967

MEMORANDUM FOR: Director of Central Intelligence
SUBJECT : Comment on NSC Paper on Indonesia

1. The attached paper, circulated for discussion at the National Security Council meeting scheduled for 9 August, has been reviewed in the Directorate of Intelligence, the Directorate for Plans and the Office of National Estimates. It is a fair, though somewhat superficial, presentation of Indonesia's complexities and progress.

2. The paper contains nothing specific that I would contradict, but it does give a rosy impression of quiet, almost unimpeded, political and economic progress during the past year which does not reflect the ups and downs of the actual performance or the existence of abiding problems endemic in this diversified nation.

3. Aside from this mild quibble, I concur in the judgment that Indonesia is in better shape than it was a year ago. We know of nothing that would argue against the policy recommendations the paper contains.



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EDWARD W. PROCTOR
Acting Deputy Director for Intelligence

Attachment:

NSC Paper on Indonesia,
dated 7 August 1967

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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May 23, 1967

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NATIONAL SECURITY COUNCIL MEETING No. 570

May 24, 1967, 12:00 P.M.

AGENDA

Future of South Arabia

For discussion of paper on above subject circulated
May 23.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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May 23, 1967

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

The attached State Department paper, "Future of South Arabia," is circulated for discussion by the National Security Council at its next meeting scheduled for Wednesday, May 24, 1967.

Bromley Smith
Bromley Smith
Executive Secretary

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FUTURE OF SOUTH ARABIA

Paper Prepared by State - NEA/ARP

(For NSC Meeting of May 24, 1967)

(NOTE: The following paragraphs were prepared independent of the current Arab-Israel crisis, resolution of which will no doubt shed considerable light on, among other things, Egyptian and Soviet intentions.)

I. Background

The current contest for South Arabia has meaning far beyond its size or importance. For 20 years the US has managed to maintain in the Near East its major interests of access to oil, freedom of air and sea transit and prevention of the dominance of the area by any one power. However, our significant political influence in the Arab Near East is now confined to the Arabian Peninsula and Jordan. There it already is undermined by the running sore of the Egyptian presence in Yemen. US acquiescence in UAR domination of South Arabia would be interpreted in the Peninsula, and elsewhere, as a decision by Washington to play a diminishing role in the Near East.

II. Summary Outlook

The British will grant independence to South Arabia in the first half of January 1968. They are willing to leave a military presence in the area for six months thereafter as an assurance against external aggression.

The complexion of the successor government is unclear. We share the British hope that the United Nations Special Mission will be instrumental in setting up a broadly-based regime. If this happens, the South Arabian problem will be much reduced. At present, there is no confidence between conservative and radical elements in South Arabia and the two radical groups, FLOSY and the NLF, have been at each other's throats. FLOSY operates from a headquarters in Yemen and may set up a government-in-exile. It is backed by the Egyptians and includes some Soviet-oriented communists. The NLF has a trade union base in Aden, suspected ties with the British and represents the leftist, Marxist wing of the Arab National Movement.

The UAR has put its money on FLOSY. Cairo is helping to train a FLOSY "Liberation Army" and will probably do everything it can, short of military invasion by Egyptian units from Yemen, to assure FLOSY domination of the newly independent state.

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not automatically declassified.

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III. The Alternatives

The evolution to independence in South Arabia will probably develop along one of the following lines:

- A broadly-based coalition worked out under UN aegis which might be quite radical (even with substantial initial FLOSY participation) but would not be under the Egyptian, or any other, thumb.
- A British-sponsored coalition which might, or might not, include FLOSY. More likely it will not. In that case, the government might have to fight for survival against a FLOSY government-in-exile backed by UAR and probably the USSR. Its military strength, coupled with UK military support, might be successful in preventing a major invasion, but terrorism and subversion would be difficult problems.
- A FLOSY-dominated radical government which had fought its way to power with major Egyptian support, thus making its leaders more beholden to Cairo than otherwise.

IV. The Oil Problem

Domination of South Arabia by unfriendly powers would not cut off oil movements from the Persian Gulf to Western Europe. It would nevertheless represent a threat to the more economic oil lifelines and would have implications for the longterm future of the Western (predominantly British) position in the Persian Gulf. That area contains more than 60 percent of the free world's petroleum reserves. It currently supplies 55 percent of Western Europe's oil needs. This percentage will decline slightly in the next five years, but the absolute amount supplied will increase by 1/3 to 330 million metric tons a year, by 1972. According to a 1967 OECD study, Western Europe could withstand loss of up to 60 percent of oil "East of Suez" in a peacetime situation and by drawing on other world sources. A period of up to six months of dislocation would be undergone, and some oil from the Near East would still be required. The extreme situation of a cut-off of all Persian Gulf oil would clearly be more damaging but is also a much remoter contingency.

V. US Interests

Our most important concern is not with respect to South Arabia itself but with the implications of the transition for neighboring regimes friendly to us, notably Saudi Arabia, Iran and Ethiopia. These implications will be less disturbing if the transition is relatively peaceful and takes place with a minimum of outside intervention, since the resultant South Arabian regime is more likely to be able to reflect the

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strong impulses of independence and nationalism which exist. Our primary interest is how the transfer of power occurs rather than to whom among internal elements the transfer is made.

We do not want to become involved in internal squabbles in South Arabia but we do want to discourage adventures by external powers, notably the UAR and the USSR. We do not want to get overly involved but we must make clear that we have a legitimate and continuing interest in South Arabia if we are to have any influence in what happens there.

VI. US Military Considerations

The JCS have concluded that South Arabia (particularly Aden) is of some military significance to us but is not critical to US security. Its port and airfield, if available to us, would be valuable for various contingency operations but they are not essential.

VII. The British Role

The British are willing to provide insurance against a UAR attack for six months after South Arabian independence. They should be urged to extend this period if this seems necessary. It is in our view essential for the British to give enough support to the new South Arabian government to get it on its feet, as well as to remain in the Persian Gulf. We believe the British can remain in the Persian Gulf for an indefinite period provided the government at home does not yield to domestic pressure. We are for our part continuing our strong support to Saudi Arabia and would want to take other steps to oppose further extension of UAR influence by subversive or other military means.

VIII. The Iranian Position

The Shah regards Aden as the backdoor to the Gulf. He exaggerates but is quite right in regarding South Arabia as a major test of strength between Arab radicals and Arab moderates. Because the Iranians are not Arabs and come from a different Moslem sect from most South Arabian Moslems, it would be counterproductive for Tehran to seek to exert certain types of influence on the situation. Iranian clandestine involvement with particular groups should be avoided, since this would prompt a higher level of activity by the UAR, and the UAR has more going for it to win such a contest. Iranian support, including economic assistance, should be actively solicited for any independent South Arabian government that seems likely to be able to maintain itself.

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IX. The Israeli Position

Israel is concerned at FLOSY assertions that it would close the southern straits of the Red Sea to Israeli shipping if it came to power in South Arabia. This is largely a propaganda ploy designed to help FLOSY in its bid for power. The South Arabian government will have no significant military capability in that region, and the straits are clearly international waters. Israel should encourage its Ethiopian and Iranian friends to give strong support to the new South Arabian government regardless of its coloration. In this way they will have influence on that regime which otherwise will be abdicated to radical powers, notably the UAR.

X. US Action Considerations

Efforts to achieve a peaceful transition through creation of a broadly-based government are in our interest. We should do what we can to foster these efforts, making clear to South Arabian radicals, and to the UAR, the risks of opting out, proclaiming a government-in-exile, and seeking to take over the area by force. The following moves illustrate what might be done to encourage our friends and increase our own influence:

- A greater US military presence in the Red Sea-Arabian Sea area, particularly in support of our existing assurances to Saudi Arabia.
- USG willingness to undertake a full range of normal USG contacts with the new South Arabian state provided it is able to maintain itself (any economic aid would require a high-level political determination).
- Adoption of a blunter line in Cairo, and development of international support for the position, to emphasize concern that any new South Arabian regime not be threatened with aggression from outside its frontiers and that the internal political situation be permitted to evolve without outside interference.
- Consideration of the utility of discussing South Arabia with the USSR to signal our concern lest outside forces seek to exploit internal stresses there that seem inevitable.
- Continued efforts with the British to assure: (a) that everything feasible be done to create a broadly-based coalition, including UK willingness to extend its six-month security assurance as may be necessary; and (b) that the current British military build-up in the Persian Gulf is sustained.

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- Discussion with the Saudis to focus their attention on this problem and develop additional tangible Saudi support for a moderate solution, if possible, or for more conservative elements if a civil war-type situation occurs.
- Continued support for a UN role in the situation, including specifically encouragement to the UN Special Mission to hold a round-table conference and develop a coalition of all major South Arabian political elements.

XI. Some Key Questions

- Is US military strength sufficient to assume additional tasks in the Red Sea-Arabian Sea region?
- Is it realistic to contemplate constructive discussions with the Russians on South Arabia?
- How far should Prime Minister Wilson be pushed to maintain a British military commitment to South Arabia? -- in the Persian Gulf?
- How much pressure should be exerted on the Shah to discourage him from counterproductive efforts to oppose radical Arab nationalism in South Arabia? What positive lines of action should he be encouraged to follow?

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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May 2, 1967

NATIONAL SECURITY COUNCIL MEETING No. 569
May 3, 1967, 12:30 P.M.

AGENDA

The Problems Ahead in Europe

For discussion of paper on above subject circulated
April 17

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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April 17, 1967

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

The attached State Department paper, "Problems Ahead in Europe," is circulated for discussion by the National Security Council at its next meeting tentatively scheduled for ~~Wednesday, April 26.~~ *Thurs. 1:00, 27 April*

Postponed

Bromley Smith

Bromley Smith
Executive Secretary

12:30
3/5/67

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PROBLEMS AHEAD IN EUROPE

I.

This paper is intended to foreshadow the major problem areas in our relations with Europe which are likely to emerge in the middle term after some of the key issues which lie immediately at our feet are out of the way.

The immediate issues of key importance -- the Kennedy Round, the Trilateral negotiations, the Non-proliferation Treaty, and the liquidity negotiations -- are hopefully on the way to early resolution. Despite all the difficulties, controversy, and travail which have attended international debate on each of these complex and crucial matters the outlook is reasonably good for success within the next few months. If for any reason any one of these four major issues collapses, we will have to focus our attention on a new situation.

It is the period beyond to which we should now begin to turn our attention.

II.

The State of US-European Relations

The Atlantic

For the past two or three years US relations with Western Europe, while basically solid, have been undergoing perceptible strain. The sometimes heated controversies involved in the KR, NPT and offset negotiations; the French challenge to NATO, and attacks against the dollar; unease over Vietnam and American preoccupation with it; West European fear of US-Soviet deals over the heads of our Allies; American discontent over inadequate aid and military contributions from our Allies; all have played a part.

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When some of the immediate controversies are out of the way, the atmosphere may improve and there should be greater stability in the hitherto unsettling areas of NATO force levels and nuclear sharing. But we should anticipate an increasing disposition in Western Europe to take distinctly European attitudes on many problems with respect to which the Europeans in earlier years were content to follow the US line.

This not unhealthy trend is not due to emerging nationalism in Europe of the old isolationist variety or even of de Gaulle's "nation-state" variety, which has found little echo elsewhere. Rather it stems from the European unification movement fed by increasing European economic strength. There is growing desire for a European "voice," for achieving a parity with the United States in decision-making which more and more Europeans recognize cannot be approached, much less achieved, without a far greater degree of European integration than exists today. The pace of development of the European Communities and the outcome of the UK bid for entry into the Common Market will strongly affect the degree to which the Europeans are in fact capable of expressing a "voice" as distinct from the vague wish to have one.

The major problems in the Atlantic area over the middle term -- 18 months or so -- are more likely to be political and economic than military. ABM developments could, however, upset this calculation.

East-West

The outlook in East-West relations (Eastern-Western Europe and US-Eastern Europe) is for intensified activity of a bridge-building nature but no real breakthrough on a "settlement" with the Soviets, on achieving drastic changes in the political power structure in the Eastern countries or in ending the division of Germany. Piecemeal, modest steps in trade, culture, science, etc., are probably the most that can be envisaged for the foreseeable future. However, Western Europe will continue

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to be sensitive to United States efforts to ease tensions with the Soviets -- even though that is what they themselves are doing -- simply because the two super powers, unlike themselves, are physically capable of jointly imposing solutions which they fear may not be in accord with West European interests. Hence, the importance for the United States to consult its allies fully and carefully in its dealings with the Soviets.

USSR Attitudes

Despite the willingness of the USSR to reach agreements with the US in strictly circumscribed fields, there has been little evidence of change in basic Soviet positions. The Soviet leadership remains conservative, its long-range objectives unchanged. Its aims were restated on March 10 when Brezhnev outlined the goals of Soviet foreign policy in terms that can be roughly interpreted as follows:

1. To solidify the Soviet position in Eastern Europe, i.e., to keep Eastern Europe within the Soviet orbit;
2. To isolate the Federal Republic, maintain the current division of Germany and prevent German access to nuclear weapons; and
3. To strengthen the Warsaw Pact and conversely undermine the NATO alliance and reduce US influence in Western Europe.

In pursuing their objectives, the Soviets have sought to capitalize on the appeal of de Gaulle's "Europe for the Europeans" doctrine as well as the desire of most

West European countries for greater trade and improved relations with the East. They have also benefited from a growing feeling on the part of many Europeans that the United States, preoccupied with Vietnam, is losing interest in Europe and may even be prepared to sell out European interests in a bilateral "deal" with the USSR. The European debate over the NPT has sharpened these concerns.

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III.

Specific Problems

Western Europe

1. UK Entry into EEC

The UK has completed a first round of top level talks about joining and should make a formal decision shortly. Whatever the UK decides, this issue with its many ramifications, will dominate Community foreign relations during the next year. The UK will probably pursue its effort to become a member. As a result, the Five are likely sooner or later to be faced with a choice of a major confrontation with France or accepting a French veto, explicit or de facto.

The UK bid for entry into the EEC may come to a head this year, or it may become a protracted siege. If there is failure to achieve early entry, there will be supporters here and in England for finding an "alternative," such as a North Atlantic Free Trade Area, which is not, however, an adequate solution.

If the UK bid is made and rejected, this could precipitate another crisis in sterling, quite apart from the longer-term British financial problem which remains unsolved. (See below.)

2. The UK Financial Problem

The drastic deflationary measures taken by the Wilson Government are at last turning around the UK balance-of-payments deficit and sterling is for the moment strong. Although the UK must still make large repayments to the IMF -- (some \$900 million this year) -- this can probably be done so long as the domestic economy is kept under control. The crucial question is what will happen to the balance-of-payments when the British, as they must, begin to reflate? Britain's deflationary measures have meant in effect little or no growth in the economy.

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Continued stagnation is not an acceptable policy either in economic or political terms. And the chances are great that once adequate domestic growth is resumed the chronic balance-of-payments deficit will reappear.

New liquidity arrangements through the IMF, if agreed upon this fall, are not a solution to this problem. Neither, in the short run, is British entry into the Common Market, unless it involved a large -- and most unlikely -- financial package.

For the moment this is a problem on the horizon for which no readily negotiable solution is at hand. What the British really need is a long-term loan, perhaps in the \$3 billion range, to give them time to make their wage-price and productivity policies pay off.

3. The Political Side of NATO

With the France-NATO crisis out of the way, and the urgent military issues of force levels and nuclear consultation on the way to solution, renewed emphasis should be placed on the political side of the Alliance.

-- There is a growing public feeling that since international circumstances have changed since 1949, Alliance tasks and procedures are out of date and need to be reviewed to bring them into harmony with the times;

-- There is a desire to offset, at least partially, the French defection by improving NATO as a forum for concerting policies of Member Governments; and

-- Certain NATO countries, such as Belgium and Norway, need to have a reasoned, agreed rationale for indefinite maintenance of the Alliance and its military strength as 1969 approaches. While these nations do not expect to withdraw from NATO at that time, they do anticipate public and parliamentary debates. Their governments wish to be forearmed.

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In view of these circumstances, NATO is this year carrying out a Study of the Future of the Alliance. The exercise, undertaken on Belgian initiative, is to be completed in time for Ministerial action in December.

The Study, initially, is to examine Alliance interest in East-West relations, inter-Allied relations, political aspects of defense policy, and developments outside the NATO area.

A number of difficulties can already be foreseen:

-- In the East-West field, important Allied differences remain as between nations like Denmark and Canada that place primary emphasis on detente and Greece and Turkey whose main preoccupation is with the Communist threat.

-- The problem of Germany and security arrangements in Central Europe remains substantially frozen. The issue in the Future of the Alliance Study is to search for new approaches to these problems while taking account of German sensitivities and avoiding renewed divisions between the Allies that would strain rather than cement NATO.

One point we shall wish to get across is the need for United States involvement in all phases of eventual negotiations on European security. Our special responsibilities on the German question are one reason for our continuing concern. Another is that we shall have to underwrite any final settlement with the Soviet Union. Related to this, we and some others will want to emphasize NATO's role in concerting Western policies toward the Soviet Union and Eastern Europe. The French will object to this on principle. Several others will be reluctant lest it appear that NATO is confronting the East as a bloc.

The French are unlikely in the end to go along with major steps to buttress NATO's political goals or content. We and the other countries will seek to establish the case that, for objective political and military reasons, organized Western strength is needed for the indefinite future. If the French are unwilling to accept this conclusion, we shall probably have to go ahead without them.

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Lastly, under the surface, there remains the feeling of many Europeans that they deserve a bigger voice and role in NATO. The ultimate answer to the lack of balance in the Alliance can only come from the Europeans themselves -- through their unification. While equality is not something we can confer, we look to the Study to develop some ideas for improved European consultation inside the Alliance.

The United States has vigorously supported the Study. While we do not think it will cure all Alliance ills, it can do much to improve NATO political consultation and renew support for the Alliance.

4. US-Western Europe and the Third World

Relations between the richer industrialized countries and the third world will be a major problem area for the foreseeable future. In essence, the problem is one of transferring resources, knowledge, and capital from the developed to the developing countries. In terms of US relations with Europe, it is partly a burden-sharing problem as far as aid is concerned and partly a problem of harmonization of economic and commercial policies.

Inevitably, there will be growing requirements for economic development assistance. For the past five years the total flow of governmental resources to developing countries has remained on a plateau. During the same period, the debt burden of the third world has grown enormously and the population-food balance has deteriorated sharply.

There has been increasing resistance by European countries to American efforts to push for expanded European aid and softer aid terms. Lack of a clear pattern of priorities in our approaches to them may have reduced the effectiveness of our efforts in some cases. There is also a European concern that they are too often asked to finance what they consider an American-conceived project in which they do not necessarily have the same interest.

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Europeans tend to overlook our disproportionately greater defense effort while noting that, after adjustment for per capita income differences, the American economic aid effort falls below that of many European countries.

Given the war in Vietnam, our balance-of-payments problem, the more assertive European approach to relations with us, and the realities of differing specific interests, there is not much room for dramatic improvement in collective aid in the short run. Yet, over the long run, a larger, better coordinated effort all around will be required if political and social stability is to be maintained and development promoted in the third world.

Among the questions for the future to which we might begin to address ourselves in the aid field are these:

For the Short-run

Can we or should we try to establish an order of priorities which would govern our efforts to obtain participation in specific programs by the European countries, Canada, and Japan?

For the Longer-run

Should the United States be prepared, after Vietnam, to substantially increase our overall economic aid effort?

If so, should we not seek agreement from the other industrialized countries to undertake comparable increases, bilaterally as well as through multilateral institutions? In this process, should we not try to formulate, for our own internal guidance, a more adequate measurement than we now have of what would constitute an appropriate sharing of the aid burden among the industrialized countries?

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USSR and Eastern Europe

1. Strategic Weapons Talks

We have engaged the Soviets in discussions which we hope will eventually lead to an understanding limiting the further deployment of strategic nuclear weapons, both offensive and defensive. These negotiations will be both difficult and protracted, and the judgment of how much to tell our allies as the talks progress and how to accommodate their interests will be a delicate one.

We have informed our NATO allies of our preliminary exchanges with the Soviets and have promised to consult with them as the negotiations progress. We must make every effort by judicious briefings at appropriate intervals, to keep them persuaded that the kind of agreement we are attempting to reach will be of direct benefit to their security as well as ours.

2. Mutual Troop Withdrawals

We doubt that the Soviets would consider an explicit agreement for a troop reduction by mutual example or otherwise. However, we do not exclude the possibility of a unilateral Soviet redeployment sometime in the next three to nine months. There are a number of reasons why the Soviets might want to withdraw some troops from Eastern Europe -- one of them being the desire to give some semblance of credibility, in West European eyes, to the communist contention that there is no longer any such thing as a "Soviet threat" and therefore no longer any need for NATO.

We expect to proceed with our present plans for a redeployment of some US forces despite the proposal by some of our allies that no US troops be withdrawn until the Soviets have agreed to reciprocate. Either a private demarche or a public summons to the Soviets would in our view be counterproductive. If they are considering, for reasons of their own, making comparable redeployments, they are more likely to decide to do so without the fact or the appearance of prompting from us.

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3. NATO - Warsaw Pact Relationship

The rapidly developing network of bilateral security treaties between the USSR and the East European countries could be designed to lay the groundwork for a dramatic move to abolish the Warsaw Pact and thus undercut the rationale for NATO's continued existence. We doubt, however, that the Warsaw Pact has yet outlived its usefulness from the Soviet point of view. We should be prepared, nevertheless, over the next three to nine months, for possible modifications of the Warsaw Pact structure. These would have the dual aim of mollifying some of its discontented members and of seeking to persuade the West Europeans that the Pact is not an offensive weapon directed against NATO but rather a purely defensive device to protect the East Europeans from the "revanchist" FRG.

We will need to make clear that, however the Warsaw Pact may change in form, the substance of communist nuclear and conventional military power has not changed and communist intentions, innocent though they may appear at a given moment, are subject to sudden change without notice.

4. Bridge-building

Our economic relations with the Soviet Union and Eastern Europe offer the most promising area for regular, if unspectacular, progress toward peaceful engagement. There will be strong public and Congressional resistance to progress even in this area so long as Vietnam goes on, and we may be hard-pressed to keep up with our European allies in practical "bridge-building" over the medium term.

The success or failure of the East-West Trade Bill will be a touchstone of our efforts. This will be closely watched in Eastern and Western Europe as well as at home. The Department of State is gearing up for the hearings this summer with plans for a major campaign of public, business, and Congressional education.

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