



DEPARTMENT OF STATE

Washington, D.C. 20520

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With SECRET Attachment

MEMORANDUM FOR DR. ZBIGNIEW BRZEZINSKI  
THE WHITE HOUSE

SUBJECT: Mini-PRC Meeting on Indonesia

Attached is a proposed agenda for the mini-PRC meeting on Indonesia scheduled for August 28, 1980.

Peter Tarnoff  
Executive Secretary

Attachment:

As stated.

State Dept. review completed

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**SECRET**Review of U.S. Policy Towards IndonesiaSUMMARY

I. The purpose of this review is to assess the risk of a deterioration in US-Indonesian relations, suggest policies that will prevent a short run crisis, and consider U.S. long term interests in Indonesia and appropriate strategies.

II. Problems in US-Indonesian Relations

At a time when President Suharto is under rising domestic political pressures (Appendix A), and Indonesia faces an expanding Soviet/Vietnamese presence, a series of U.S. actions and lapses have created an impression of U.S. neglect, ill-will towards Suharto's continuance in power, and ungratefulness for Indonesian support on a broad range of important issues. Specifically:

1. Insufficient personal contacts between senior U.S. and Indonesian leaders, especially failure to invite President Suharto for a state visit during the past four years. Suharto had personal relationships with Presidents Ford and Nixon.

2. Failure to deliver on commitments to increase our economic assistance, and instead a U.S. decision to reduce PL-480 Title I by 50 percent in FY 81, and consider a large reduction in development assistance in FY 82. A US-Japanese agreement restricting global Japanese concessional rice sales seriously aggravated Indonesian disgruntlement.

3. Declining U.S. security assistance over the past four years.

4. Rapid warming of US-PRC relations, creating Indonesian suspicions of our intentions.

5. Congressional, press and public criticism of Indonesia's human rights and East Timor policies.

6. Termination of U.S. courtesy notifications of our warship transits through Indonesian straits in accordance with a 1979 NSC decision on our global navigation policies.

7. U.S. positions on Israeli policies.

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### III. Indonesian Reactions

Angered especially over the ship transit decision, the GOI has:

- Delivered a stiff protest note, and threatened to reassess Indonesia's favorable policies toward the U.S.

- Advised us informally of a high level decision to adopt a more distant relationship. (Appendix B)

- Reportedly decided to reduce our defense liaison group and shift some military purchases to other countries.

These steps are but initial signals, but they could lead to serious consequences for U.S. interests. Moreover, Indonesia will be under serious economic and social pressures in the 1980's which could generate an Islamic or leftist backlash if Indonesia's present Western style modernization effort fails. (Appendix C)

### IV. Indonesia's Importance to U.S. interests

A July 1977 NSC memo to the Secretary of State cited Indonesia as one of three key emerging countries, along with India and Nigeria. Indonesia is important as:

- The world's fifth most populous nation (140 million people), located astride strategic sea lanes.

- A moderate, Islamic country which generally follows policies favorable to U.S. interests. With the world's largest Muslim population, Indonesia is Western-oriented and moderate in the non-aligned movement, the Islamic Conference, OPEC and the UN. President Suharto has publicly appealed for release of the U.S. hostages, supported the Olympic boycott, and condemned the Soviet invasion of Afghanistan.

- Provider of six percent of U.S. and 13 percent of Japanese oil imports.

- A key member of ASEAN.

- A potentially important interlocutor with Vietnam.

- A major trading partner (\$5 billion in two-way trade) and site of large U.S. investments in oil and mining.

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V. Discussion of Specific Issues

We need to consider short run measures to restore our relations with a basically friendly and pro-Western government. In the longer run we have to establish policies that will minimize the chances of an anti-western backlash.

Short Run Issues1. Increased consultation and matters of style.

Failure to maintain high level personal contacts is at the root of Indonesian grievances.

2. U.S. Warship Transit Notification. Cessation of these courtesy notifications has struck strong Indonesian nationalistic sensitivities. The GOI has refused our offer to provide briefings on U.S. and Soviet military activities in the region, including our naval deployments, in lieu of courtesy notifications.

3. U.S. Assistance. Despite its present strong balance of payments and foreign exchange reserves, Indonesia remains a poor country with serious development problems. It has the lowest per capita oil exports of any OPEC nation (\$82 per year) and will become a net oil importer by the late 1990's. The balance of payments will begin to deteriorate again in 1982 and Indonesia's foreign assistance needs will rise. Planned reductions in U.S. assistance lower our share of foreign assistance to about 8% (Appendices D and E).

4. Security Assistance. While Indonesia attempts to rebuild its antiquated military establishment in the face of growing Soviet/Vietnamese pressure, the U.S. has reduced its security assistance over the past three years. Moreover, long delays in filling Indonesian equipment orders have occurred.

5. East Timor and Human Rights. Congressional, press and public criticism of these issues is a continuing source of friction. However, there has been significant progress in Indonesia's human rights record in recent years.

Long Term Issues

1. Indonesia's long run political stability and the success of its western style modernization efforts. With two percent annual population growth, high population

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densities, a growing food deficit, and explosive land tenure and Chinese minority problems, Indonesia will face strong social and economic pressures in the 1980's. We need to consider means to help Indonesia weather these pressures and maintain its moderate, pro-Western orientation.

## VI. Recommendations

### Short Term Issues

#### 1. Increased Consultation and Matters of Style.

We need more high level and working level exchanges, an invitation to President Suharto for a state visit in early 1981, and periodic consultations at the sub-Cabinet level.

#### 2. Ship Transit Notification.

There are three options:

a. Maintain our present policy and ride out Indonesian discontent. We would try to improve the content of the briefings to better meet Indonesian concerns.

b. Search for additional concessions (not involving notification) in the context of the LOS negotiations which would be beneficial to Indonesian interests.

c. Reverse our policy and provide courtesy notifications at risk to our global navigation interests.

In view of the complexity of this issue, the Department of State, with clearance of other agencies, should prepare a fuller exposition of these options, and if necessary, submit a recommendation to the NSC.

#### 3. Increased Economic Assistance.

-- Consider the restoration of all or part of the \$50 million reduction in PL 480 Title I in FY 81. A complementary or alternative approach would be to promise to provide at least \$50 million in Title I in FY 82.

-- Consider the feasibility of maintaining development assistance at \$100 million in real terms for FY 82 and FY 84.

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-- Broaden economic relations through increased cooperation in science and technology, energy, private investment, etc. A working group should develop this proposal.

4. Increased Security Assistance

-- FMS should be increased to \$45 million and possibly \$60 million in FY 82 and maintained at a similar real level through FY 84. IMET should be held at \$2 million.

-- Work to assure prompt delivery of military items, especially naval equipment, including patrol vessels.

5. East Timor and Human Rights

-- Maintain our present policy of encouraging Indonesia to continue improving its human rights and East Timor policies.

Long Term Recommendations

Although internal pressures on the Suharto Government are not a serious threat at present, Indonesia could face political instability and/or the rise of an anti-Western government during 1980s. The beginning of a backlash against Western influence and modernization is already evident. U.S. policy should not be tied to Suharto's continuation in power or to a similar successor regime, but rather should rest upon the success of the process of modernization.

1. Pursue a basic U.S. strategy of helping to ensure that Indonesia's western style modernization effort succeeds.

2. Encourage Indonesia to maintain its current strong and cooperative role in ASEAN.

3. Increase our discussions and consultations on geo-strategic issues so that Indonesian leaders will understand our intentions regarding the PRC, ASEAN and the USSR.

4. Develop a more sophisticated appreciation of the importance of Southeast Asia and Indonesia. Keep our human rights concerns in perspective.

5. An interagency working group should monitor implementation of PRC decisions and coordinate USG positions for bilateral consultations.

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List of Appendices

- A. Indonesia's Domestic Political Situation
- B. Jakarta 13259 - General Murdani's Comments on US-Indonesian Relationship
- C. Possible Scenarios for Indonesia's Future
- D. Ranking of OPEC Per Capita Oil Income - 1979
- E. Economic Assistance by Members of Inter-Governmental Group on Indonesia

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**I. PURPOSE**

The main purpose of this review is to assess the risk of deterioration in US-Indonesian relations and to suggest policies that will prevent a crisis from arising in the short run. A second purpose is to examine our long term interests in Indonesia and to suggest ways of developing a more solid and sustained relationship over the longer term.

**II. PROBLEMS IN US-INDONESIAN RELATIONS**

The problems occur in the context of rising domestic political pressures on President Suharto as he prepares for his reelection effort in 1982/83 and the increasing external threat of Soviet/Vietnamese expansion into the region. A series of unrelated U.S. actions have given Suharto and other Indonesian leaders an impression that the U.S. is neglectful of Indonesia, possibly ill-willed towards Suharto's continuance in power, and ungrateful for Indonesian support and cooperation on a range of issues important to us. This situation has arisen from a number of U.S. actions or lapses:

1. Insufficient personal contacts between senior Indonesian and American leaders, including failure to invite President Suharto for a state visit during the past four years. Suharto believes he had a personal relationship with previous U.S. presidents, and his resentment over this perceived slight (plainly visible to his political constituency) has reinforced his reaction to other U.S. actions;

2. The gap between U.S. rhetoric and actions, including failure, in Indonesian eyes, to live up to commitments made during the Vice President's visit to Jakarta in May, 1978 to significantly increase our support for Indonesia's agricultural development. The planned 50 percent reduction in PL 480 Title I in FY 81 is perceived as inconsistent with this pledge. (Substantial reductions in development assistance and termination of PL 480 Title I are being recommended by IDCA for FY 82.) A U.S. agreement restricting global Japanese concessional rice sales aggravated GOI resentment;

3. Declining U.S. security assistance and delays in filling Indonesian military supply requests, regarded as inconsistent with assurances of U.S. support for ASEAN in its confrontation with Vietnam and an increasing Soviet military presence in Southeast Asia;

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4. The rapid warming of US-PRC relations. Indonesia remains suspicious of PRC intentions and fears the U.S. will sacrifice Indonesian and ASEAN interests for the sake of its relations with China;

5. The continuing criticism of Indonesian policy on East Timor in the U.S. Congress, press and public;

6. Termination of U.S. courtesy notification of warship transits through Indonesian straits, in accordance with a March, 1979 NSC decision on our global navigation policies. This decision strikes at fundamental national sensitivities which could create serious domestic political problems for Suharto from ultra-nationalists, muslims and student groups.

7. U.S. positions on Israeli policies. Indonesia has been under increasing pressure from Middle Eastern Islamic countries to harden its position on Middle East issues and perceives U.S. policies as undercutting its arguments for moderation.

### III. GOI REACTIONS

The cessation of warship transit notifications in March, 1980, has, in a sense, been the last straw for an already resentful GOI, producing a strong negative reaction:

-- A stiff protest note was delivered and informal threats were conveyed that the GOI would reassess its pro-U.S. policies if ship transit notifications were not resumed;

-- Informal notice of a high level GOI decision to add distance to our bilateral relationship.

-- A decision has reportedly been reached to reduce our Defense Liaison Group in Jakarta, move DLG members out of Indonesian military headquarters, and shift some military purchases to other nations. President Suharto allegedly wanted to terminate our DLG completely, but was persuaded not to by Defense Minister Jusuf.

These steps may be but initial signals of Suharto's displeasure over U.S. neglect of Indonesia. Continuation of this deteriorating trend could lead to serious costs and problems for the U.S. Moreover, Indonesia is expected to encounter serious economic and social problems in the 1980's which will threaten its political stability. If Indonesia's effort of Western-style modernization fails, there is a good

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possibility of a backlash against the West that could bring to power a leftist or Islamic revolutionary elite which would most certainly be more hostile to the West than the present military regime. Thus we need to carefully consider the importance of Indonesia to U.S. and Western interests.

#### IV. IMPORTANCE OF INDONESIA TO U.S. INTERESTS

A July, 1977, NSC memo to the Secretary of State cites Indonesia as one of three key emerging countries. Its importance to the U.S. includes:

##### 1. Population and Geographic Location

With the world's fifth largest population, 140 million people, Indonesia occupies a key geographic position astride the major sea lanes linking the Pacific and Indian Oceans. U.S. warships and submarines move with increasing frequency through straits which Indonesia partially or wholly controls. It is important that these waterways remain in friendly hands. 85% of Japan's oil passes through these straits.

##### 2. Moderate Muslim Member of the Third World Favorable to U.S. Interests

The Muslim nations from Morocco to Bangladesh are in varying stages of convulsion and xenophobia, and the Third World is becoming increasingly radical. Indonesia, with the world's largest muslim population, plays a moderate, Western oriented role in the Non-Aligned Movement, the Islamic Conference, OPEC, and the UN. It has signed the Non-Proliferation Treaty, and plays a constructive role in Common Fund and LOS negotiations. President Suharto has personally appealed for release of the U.S. hostages in Iran, joined the Moscow Olympics boycott, and condemned the Soviet invasion of Afghanistan. In the Islamic Conference, the GOI has tried to keep the focus on Soviet actions in Afghanistan and Indochina rather than on more radical Islamic concerns. A serious deterioration of the U.S. position in Indonesia would contribute to a major erosion of our influence in the Third World.

##### 3. Source of Petroleum, LNG and Strategic Raw Materials

Indonesia provides 6% of U.S. crude oil imports, 13% of Japan's oil and large amounts of LNG to Japan. Petroleum and natural gas production will exceed \$20 billion in 1980, 85% of it produced by U.S. companies. Indonesia is the world's second largest rubber producer and will soon be the second largest tin producer.

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#### 4. Role in ASEAN

Without a strong, friendly and regionally cooperative Indonesia, there is little hope for a strong and friendly ASEAN. A change in Indonesia's moderate pro-Western policies, or a move closer to more radical Muslim countries could shift the balance of forces in Southeast Asia against the West and weaken the U.S. position in the Middle East and South Asia.

#### 5. Potential Interlocutor with Vietnam

Indonesians believe they have a special rapport with Vietnam because of their common revolutionary background and because of their distrust of China. The GOI maintains a valuable dialogue with the SRV which could help resolve Kampuchean issues. We need to ensure that this dialogue does not run counter to ASEAN or U.S. interests.

#### 6. U.S. Investment and Trade

U.S. oil companies are investing about \$1 billion annually in exploration with total U.S. fixed investment over \$2 billion. U.S. imports from Indonesia in 1979 were \$3.2 billion and exports were \$1 billion.

### V. DISCUSSION OF SPECIFIC ISSUES

The United States has two types of problems in dealing with Indonesia. The first has to do with restoring our relations with a basically friendly and pro-Western government that is increasingly displeased with U.S. neglect and ill-conceived actions, and with what it regards as an insufficiently high level of attention. Our aim here is to prevent a major foreign policy debacle, in preference to dealing with its unfortunate consequences after the fact. Over the longer run, we have to establish policies now that will minimize the chances of an anti-Western backlash inimical to long run U.S. interests. We have divided the discussion into five short run issues and a long range analysis.

#### Short Term Issues

##### 1. Increased Consultation and Matters of Style

At the root of Indonesian grievances against the U.S. is the strong feeling that we have neglected them during the past four years.. President Suharto has not been invited to the United States and few high ranking U.S. government officials have visited Indonesia. This has created mis-

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understandings and suspicions about U.S. actions affecting Indonesia's leadership and raised the spectre that there is a "grand design" behind U.S. actions. Simply put, GOI leaders often complain they don't understand why we do what we do.

2. Indonesian demands that we notify them of our warship transits versus our global navigation/law of the sea interests

Since the early 1970's the U.S. has provided Indonesian military authorities with a written, informal courtesy notification of U.S. naval transits of certain Indonesian straits. This is a volatile political issue which strikes strong nationalistic sensitivities. As a result of a NSC review of U.S. global navigation policies, it was decided to terminate our courtesy notifications in March, 1980, in order to bring our practices into conformity with our world-wide policy. Following a strong negative Indonesian reaction, expressed uncharacteristically in a formal diplomatic protest, the U.S. offered to provide the GOI with intelligence briefings on U.S. and Soviet military activities in the region, including U.S. naval deployments. However, the GOI has refused to accept this in lieu of the previous courtesy notifications, and in the meantime it has begun to adopt the retaliatory measures described earlier. There is an urgent need to reach a mutually satisfactory resolution of this issue. Three possible courses of action are discussed under the "Recommendations" section below.

3. The level of U.S. economic assistance appropriate to Indonesia's development needs and U.S. interests

During a visit to Indonesia in 1978, Vice President Mondale informed President Suharto that the U.S. wished to do more to help Indonesia's development, including a significant increase in our aid to the agricultural sector (following publication of a World Bank Report) and initiation of a PL 480 Title III program. The Title III program never materialized. Moreover, budgetary constraints and the perception that Indonesia is an "oil rich" OPEC country have generated strong pressures within the USG to reduce our PL 480 Title I and development assistance programs to Indonesia resulting in a decision to decrease our PL 480 Title program in FY 81 to \$50 million, compared to over \$100 million in each of the previous four years. For FY 82 IDCA has proposed eliminating PL 480 Title I altogether and reducing our development assistance program by 50%. (The FY 81 Congressional submission requests \$100 million for development assistance for Indonesia.) Our share of external assistance to Indonesia will be about eight percent in 1980, compared to over 30% in the early 1970's.

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Although Indonesia's foreign exchange reserves have increased dramatically, as a result of the 1979 oil price increases, to about \$6 billion (equivalent to about six months worth of imports), in fact Indonesia remains one of the poorest countries in the world, with a per capita GNP of \$385 (India's per capita GNP is \$140.). Thirty-five percent of the population lives below the poverty line. Only six percent have access to safe drinking water. Life expectancy is 48 years. Java and Bali, with about 85 million people, have one of the highest population densities in the world. The country has a large and growing food deficit. Over 1.5 million new job seekers enter the labor market each year.

Indonesia is also the poorest OPEC country, with the lowest per capita oil exports, \$82 per year, less than half the next lowest country, Ecuador and one-fourth Nigeria's. Moreover, Indonesian oil production has stagnated while domestic consumption is rising rapidly. A recent CIA report estimates that Indonesia will become an oil importer by the late 1990's.

Indonesia's present strong balance of payments may also be short-lived. According to the most recent World Bank analysis, Indonesia will again incur a current account deficit in 1982, climbing to \$2 billion in 1985. The Bank also estimates that to maintain economic growth, Indonesia will need to increase foreign financing from about \$1 billion (net) in 1980 to \$2 billion in 1982 and \$3 billion in 1985.

Senior GOI officials, who believe they face difficult development problems in the 1980's, have clearly signalled their unhappiness with our decision to cut PL 480 Title I in FY 81 and the failure to deliver on our previous commitments of increased assistance. Our agreement with Japan restricting global Japanese concessional rice exports was perceived as USG interference in Indonesian-Japanese bilateral affairs. Under the agreement, Japan will sell only 150,000 tons of rice in 1980 to Indonesia, which had hoped for 500,000 tons. The basic issue for the U.S. is whether our development assistance support to Indonesia is adequate given the importance of our interests and the potential for a radical/nationalistic resurgence if the present Western-style modernization fails.

#### 4. Security Assistance Relationship

The growing Soviet military presence in Southeast Asia, Vietnam's invasion of Kampuchea and pressures on Thailand, improved Sino-American relations, and most recently the Soviet intervention in Afghanistan are perceived as threaten-

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ing by Indonesia's ruling military leaders. Indonesia also has a continental shelf dispute with Vietnam over an area which may contain large amounts of oil and natural gas, and which is adjacent to the world's largest natural gas field, which ESSO plans to exploit for production of liquified natural gas at a cost of \$5 billion.

The GOI, consequently, has decided to rebuild its military capability, which has deteriorated since the mid-1960's. Less than 5% of GNP and less than 15% of the national budget have been allocated to national defense in recent years, in order to free resources for economic development. Armed forces now number about 368,000 men, about half the mid-1960's level. Obsolete weapons and equipment, the remnants of the Soviet-supplied inventory of the 1960's are worn out and must be replaced by expensive contemporary systems if Indonesia is to have a reasonable capability of defending its archipelago, which stretches over 750,000 square miles. In view of the Soviet naval presence, Indonesia especially needs to develop a stronger naval capability.

U.S. support for Indonesia's military modernization, in contrast, has been declining: (in millions \$)

	<u>FY 78</u>	<u>FY 79</u>	<u>FY 80</u>	<u>FY 81</u>
MAP	15	0	0	0
FMS	40	32	30	30
IMET	3.0	2.0	1.67	2.0 (ABS)

Moreover, delays of up to three years in filling military supply requests to the U.S. have occurred, causing the GOI to shift orders to West European sources.

Indonesian disgruntlement with FMS levels, supply delays, and the warship transit issue have motivated steps to adopt a more distant relationship as previously described. The basic issue is whether our current military supply relationship is appropriate to U.S. security interests in Indonesia and Southeast Asia, and to our relationship with the politically dominant Indonesian military, and if not, what steps can be taken to restore the relationship before serious adverse consequences occur.

#### 5. East Timor and Human Rights

There is a small, but vocal and active group of Congressmen, media and human rights activists who are critical of Indonesia's takeover of the former Portuguese colony of East Timor and of some other Indonesian human rights practices. U.S. policy since the Ford Administration has been

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to accept the incorporation of East Timor into Indonesia as a fait accompli, but to urge and assist the GOI to improve the welfare of the Timorese through internationally supervised humanitarian relief programs, and to begin broader based development programs for East Timor.

The GOI has responded to international human right concerns:

-- East Timor has been opened up to visits by diplomats, journalists and parliamentarians; Catholic Relief Service and ICRC programs have relieved the immediate danger of widespread famine, and initial efforts to improve medical care have been taken. The GOI has expeditiously approved of a planned AID-funded malaria control program.

-- All of the detainees from the 1965 communist coup attempt have been released, except for a small number which are being tried in open courts with legal counsel.

-- The GOI permits and cooperates with ICRC visits to prisons by ICRC inspection teams, except in East Timor.

-- Basic human needs, and the material well being of the population including the lowest income groups, improved significantly in the 1970's.

Notwithstanding these favorable developments, human rights activists in the U.S. remain critical of U.S. policy on East Timor, although criticism of other human rights issues has diminished greatly because of release of the detainees. We anticipate that as the 1982/83 election campaign approaches, the Suharto government, which already feels threatened by increased activism by opposition groups, including some senior retired military officers, may increase its use of repressive measures against the opposition, restoring international human rights concerns.

#### Long Term Issues

With a two percent annual population growth, one of the highest population densities in the world, a chronic and growing food deficit, explosive land tenure and Chinese minority problems and a military based government with a narrowing base of support, Indonesia will be under strong social, political and economic pressures in the 1980's. While this review is focussed on short term issues, we need to bear in mind, as we adopt immediate recommendations, the U.S. interest in helping Indonesia to weather these pressures and maintain its moderate, pro-Western orientation. We need

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to broaden and strengthen our relationship and especially assure coherence and consistency in U.S. policies toward and affecting Indonesia. Of particular concern is how we remain responsive to Indonesia's increasing pressures -- economic strains predominating -- in a period of budgetary constraints in the U.S.

## VI. RECOMMENDATIONS

### Short term

#### 1. Increased Consultation and Matters of Style

-- There should be more high level exchanges of visits to dispel the Indonesian impression that we do not take them seriously. President Suharto should be invited to visit Washington for a state visit in the first half of 1981; if we wait until 1982, a visit could be seen as U.S. interference in the Indonesian elections.

-- It would be desirable for the Under Secretary of State for Political Affairs to visit Indonesia soon after the U.S. elections.

-- We should begin to plan visits to the U.S. for Defense Minister Jusuf and some of the prospective leaders of the post '45 generation of Indonesian military leaders.

-- The forthcoming trips by DOD officials Dineen and Komer should be exploited as a signal to the Indonesians that we seek a more systematic process of consultation about Indonesia's security needs.

-- We should revive periodic meetings of the US-Indonesian Consultative Committee at the sub-Cabinet level.

-- U.S. and the GOI should have working level visits of experts in Washington and Jakarta to exchange views on strategic, political and economic issues affecting the region.

-- U.S. officials should seek occasions to mention the importance they attach to Indonesia's friendship. USG policy statements should emphasize Indonesia's importance to the U.S., to ASEAN, and to Asia. Our fundamental message should be that we appreciate Indonesia's strategic importance and that we are sensitive to its development problems.

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-- We need to broaden contacts with the opposition, with the younger military leaders, with religious groups and personages, and with other segments of Indonesian society in order to be alert to indications of political or social upheaval.

-- We need to examine programs for cultural communications, including academic exchanges, other cultural exchanges, ICA programs, and VOA broadcasts with a view to considering realignment of existing resources, as well as need for increased resources.

-- IMET plays an important role in professional contacts. Whatever Indonesia's course of development over the next decade, the chances are great that it will be led by the post '45 generation of Army officers. IMET helps establish interaction with the middle levels of the Indonesian military. It should be increased and then maintained at a level which gives us a sustained relationship with this key element of the Indonesian elite.

## 2. Straits Transit Notification Issue

We have three possible courses of action:

Option 1: We could pursue our current course of offering to provide [ ] briefings in lieu of the previous ship transit notifications. We would try to improve the content of the briefings to better meet Indonesian concerns. If this failed, we would ride out Indonesian discontent and hope that our relationship would not suffer serious harm.

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Option 2: We could continue to provide the briefings but also inform the GOI of our willingness to consider further steps (not involving prior notification) within the context of Law of the Sea negotiations which would be beneficial to Indonesian interests. Such steps could include discussing implementation of certain aspects of the agreed Law of the Sea text in advance of U.S. ratification of the full treaty.

Option 3: We could reverse our decision, inform the GOI that we are making an exception to our policy in consideration of the special relationship between our two countries, and resume official notifications as in the past until the new LOS treaty is signed and ratified by us. This would pose some potential risk to our global navigation interests.

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In view of the complexity of this issue we recommend that a fuller exposition of the above options be made by the Department of State, with clearance by other concerned agencies, and, if necessary, that a recommendation be submitted to the NSC.

### 3. Increased Economic Assistance

Our rhetoric must be matched by allocation of sufficient resources. Specific recommendations:

-- Consider restoration of all or part of the \$50 million reduction in FY 81 PL 480 Title I as a gesture of the importance we attach to Indonesia. A complementary or alternative proposal would be to promise to provide at least \$50 million in Title I in FY 82.

-- Consider the feasibility of maintaining development assistance at \$100 million in real terms in FY 82 through FY 84.

-- Broaden economic relations through increased cooperation in science and technology, energy, nuclear cooperation, U.S. private direct investment, etc. An inter-agency subcommittee to develop these proposals should be established.

### 4. Increased Levels of Security Assistance

We should allocate resources on a scale commensurate with Indonesia's strategic importance and make sure our programs are implemented to maximum advantage. Specific recommendations:

-- Provide an FMS level of at least \$45 million and possibly \$60 million in FY 82 and similar levels in real terms through FY 84.

-- Provide an IMET level of \$2 million in FY 82 and a similar level through FY 84.

-- Assure prompt deliveries of weapons systems and military items purchased either via FMS or for cash. A special task force should be established to achieve this.

-- Extend the terms of FMS loans from 8 to 12 years.

-- Explore urgently providing Indonesian Navy two (and preferably four) coastal patrol vessels.

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### 5. East Timor and Human Rights

-- We should continue encouraging the GOI to improve the situation of the people of East Timor and continue our financial and commodity support for relief, medical care and economic development of the province.

-- We should continue our policy of accepting East Timor's incorporation into Indonesia; simultaneously, we should continue to oppose efforts by Indonesia's opponents to obtain a UN resolution hostile to Indonesia over East Timor.

-- We should encourage the GOI to continue the favorable trend in its human rights policies in general.

-- In explaining our policies, we need to allay GOI suspicions that we have deliberately distanced ourselves because of human rights issues; in doing so we should acknowledge progress achieved and point out international political benefits of positive movement.

-- Above all, our encouragement of human rights progress should be conveyed in the context of our overall support for and interest in Indonesia, and in the light of overall U.S. interests.

### Long Term Recommendations

Indonesia faces the potential advent of a period of prolonged instability with unpredictable consequences in the mid to late 1980's, including the possible rise of an anti-Western Government. President Suharto's "New Order", now 15 years old, is already the object of increasing internal pressures, although they are being contained adequately for the moment. Our efforts to maintain good relations with the Suharto Government and to assist Indonesia with its economic development should not obscure the possible emergence of persons and movements along the lines of one of the scenarios described in Appendix C.

Although the Indonesian military now plays an essential role in the management of Indonesia's modernization, American policy should not be seen as tied to Suharto's continuation in power, or to a successor military regime of the same style. We may have to deal with far more radical, anti-Western governments representing a more nationalistic, assertive Indonesia. Suharto has provided stability and a

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favorable environment for development, and he may continue to do so for several years more. But U.S. policy rests in the long run not upon a given regime but upon the success of a process, the process of modernization.

Opposition Muslim, student and some retired military groups are already charging that Suharto and his government are allowing Indonesians to be "exploited" by multinational corporations, that foreign financial institutions are dictating Indonesia's "capitalist" development strategy, that this strategy is not meeting the problems of the poor but rather creating a new, affluent and corrupt elite, and that its foreign policy is serving the interests of the Western "imperialists".

#### A Basic U.S. Strategy

History and sociological makeup make Indonesia particularly vulnerable to a xenophobic backlash to Western style modernization. Our basic strategy for pre-empting this should be to make every effort to ensure that a stable and broadly distributed Indonesian development program succeeds. This will require the investment of much greater levels of resources by external donors and private investors. We don't need to do it all ourselves but our particular contribution to rural development, where many of Indonesia's most critical problems lie, needs to be focused and adequately financed. A greater effort to help Indonesia acquire appropriate levels of Western technology will also be a central factor in modernization.

#### Indonesian Participation in ASEAN

Indonesia has become a strong and cooperative participant with its ASEAN partners. We should encourage this favorable process. The more Indonesian foreign policies are developed in concert with ASEAN, the less likely will be a nationalist-xenophobic drift in those policies.

#### Geo-Strategic Coordination

Because of its history, geographic location, the 1965 communist coup attempt, and a Chinese minority, Indonesia fears China more than Russia as a long term adversary. We must endeavor to give the Indonesian elite a better understanding of the role of China in our own long range strategy. The Indonesians and other Southeast Asians should not be allowed to conclude that we have relegated Southeast Asia to

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the backburner in the interest of pursuing Great Power politics or that we have assigned Southeast Asia to a Chinese sphere of influence. We must also enter into closer consultation with them on how we intend to pursue our common effort to prevent an expanding Soviet military presence in the region.

#### An Improved Appreciation of Indonesia's Importance

Finally and perhaps most crucially, there must be a more sophisticated appreciation of the strategic importance of Southeast Asia in general and Indonesia in particular. While we must remain sensitive to Indonesia's abuses of human rights, and encourage a more liberal political system, we must also recognize that whatever government holds power, it is in the U.S. national interest that the Indonesian drive towards a Western-oriented modernization succeeds.

#### Inter-Agency Working Group

Progress in implementing these long run recommendations should be monitored by an interagency working group, which would also prepare and coordinate positions for the periodic bilateral consultations.

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**SECRET**Appendix AIndonesia's Domestic Political SituationSuharto Under Fire

Since the beginning of the year, President Suharto, now in his fourteenth year in power, has been confronted with increasing opposition. His opponents -- retired military, dissident students, orthodox muslims, human rights activists, and the remnants of Sukarnoist/nationalist political parties -- are already preparing for the 1982 Parliamentary elections, which will be followed by an indirect Presidential election in 1983. They have been criticizing Suharto for becoming increasingly isolated from the people; for personal, family and governmental corruption; for economic mismanagement; and for subjecting the nation to exploitation by foreign aid, trade and investment interests. Although the opposition appears too weak and divided to threaten his control, Suharto's sharp reaction to opposition criticism indicates that he is running scared. He has not stated that he intends to run for reelection in 1983, but it is widely assumed that he intends to do so.

Suharto's Opponents

Suharto's opponents are a disparate amalgam of groups which apparently can agree only that Suharto should be removed, but on little else. Leftist politicians are severely factionalized. Students and human rights activists are vocal but have little following.

Orthodox Muslims, with 20 percent of the population, are potentially the largest opposition group and could pose the greatest threat to the regime. However, they have difficulty overcoming the doctrinal and personal differences that prevent their forming a cohesive front. As a result, Muslim organizations are easily infiltrated and their leadership easily coopted by the government. However, the government is aware of the potential the Muslims possess. Fearing that several large Muslim prayer meetings in Jakarta on August 12 could become important anti-regime events, the regime used troops to disperse the audience.

Next to the Muslims, the regime appears most concerned about the activities of several well-known, respected, retired military officers. These officers may still have influence within the military and might attract the sympathy of active duty personnel.

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The Military

The key to any possible opposition success against Suharto is the military. So far, it has continued to support the President. Powerful Minister of Defense Mohammed Jusuf, who owes his position to Suharto, is loyal. The security and intelligence chiefs are all close to the President and favor a hard line toward his opponents. There is a report that some officers connected with recently retired Army Chief of Staff Widodo are worried that Suharto's continuing as President would "impede Indonesia's national development". But they are few, and no one appears to want a "palace coup". Besides, it is doubtful that the mutually antagonistic cliques could agree on a replacement for the President.

Retaliation

Suharto is sensitive to attempts to detach him from his military support. He has been especially intolerant of his retired military critics, a number of the most prominent of whom signed a "petition of 50" with muslim, student and party opponents, strongly critical of Suharto. They have been subjected to financial pressure, have had to endure numerous minor indignities, have had their travel restricted, and have been subjected to security investigations.

Before his August 17 National Day speech, which was relatively mild on domestic political issues, Suharto appeared to be moving toward a harder line vis-a-vis his opponents. (It is too early to judge if the speech indicated a change of heart.) Local newspapers were ordered not to publicize opposition activities and, after September 1, foreign news agencies would not be allowed to distribute stories about Indonesia within the country. Finally, the government resorted to arrests during the August 12 clashes with Muslims indignant about the muzzling of their preachers, who intended to give anti-government sermons.

Prospects

Suharto is at present in no danger of falling from power. The opposition is unorganized and has only limited popular support. There does not appear to be any single issue or personage behind which Suharto's opponents can coalesce. This division allows the President to play off his opponents against one another, and to force them to react to his moves. Unless the military withdraws its support from him, which appears improbable right now, Suharto should make it through his reelection in 1983.

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Domestic Politics and Foreign Policy

Suharto's concern about domestic political opposition has heightened his sensitivity to foreign policy issues which could threaten his position:

-- To assure adequate supplies of rice during the election period, Suharto decreed in 1979 that a two million ton rice stockpile should be accumulated. The U.S. decisions to reduce PL 480 Title I in FY 81 and U.S. interference in Indonesian access to large amounts of Japanese concessional rice supplies were received as directly inimical to his domestic political interests.

-- Senior Indonesian officials have repeatedly complained that the U.S. decision to cease warship transit notifications could be exploited by the radical Muslim press to attack Suharto for failing to uphold national sovereignty. Acceptance of the U.S. actions would also increase his vulnerability with his most important political constituency, the military.

-- British imposition of quota's on Indonesian textile exports, one of Indonesia's most rapidly increasing labor intensive industries, was promptly responded to by postponing Indonesian orders for British Hawk aircraft.

In short, Suharto's problems with the opposition have strengthened his reaction to foreign actions which could undermine his reelection possibilities in 1982/83.

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