

OCA

Memorandum of Conversation

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Rec'd
4 Oct 84
in OCA

Participants: Senator Ernest Hollings
Senator Richard Shelby
Ambassador Paul Wolfowitz
Trade Minister Arifin Siregar
Junior Minister of Trade Soedradjad Djiwandono
Robert Sneed, Staff Member, Senate Commerce
Committee
Karen S. Brown, Economic Officer, U.S. Embassy
Jakarta

OCA 3306/88

Time: August 25, 1988

OCA FILE Sen Hollings

Place: Minister Siregar's Office

Sen Shelby
LSP

Subject: Call by Senator Ernest Hollings (D., S.C.) and
Senator Richard Shelby (D., Ala.) on Trade Minister Arifin
Siregar

Senators Hollings and Shelby called on Trade Minister Arifin Siregar and Junior Minister for Trade Soedradjad Djiwandono on August 25. The discussion focused on textile legislation introduced by Senator Hollings in the U.S. Congress.

Senator Hollings said he expects the Senate to vote on the legislation in early September. Once Congress has completed action the bill will be sent to the President for his signature. "Chances are " the President will veto this legislation and "chances are" his veto will not be overridden by the Congress. Nevertheless, the Senator added he will continue his efforts to enact a new textile law.

Senator Hollings summarized economic conditions in the U.S. textile industry for the Indonesian Trade Ministers. At present the U.S. industry is doing quite well, growing at 4.5 percent compared to aggregate GNP growth of 2.6 percent. Since 1981 over USD 17 billion has been invested for modernization in the industry. Even so, 21,000 jobs have been lost since January and plants continue to close. The textile industry is a national industry, second only to steel in terms of national security. Changes in textile policy must occur for the U.S. to have a viable industry: his bill represents survival of an industry and not protection.

Minister Siregar stated Senator Hollings' view on trade appeared quite different from the view expressed the day before by visiting U.S. Agriculture Negotiator for the Uruguay Round Ambassador Daniel Amstutz. The U.S. agricultural proposal called for elimination of trade barriers and Ambassador Amstutz

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had argued it was in the best interest of Indonesia to support the U.S. initiative. The Trade Minister asked Senator Hollings how he should reconcile these two U.S. views.

Senator Hollings replied the United States has been trying for years to bring about free trade. The most open market in the world is the U.S. market. For example, the United States buys over 40 percent of Indonesia's textiles, but Indonesia sells less than two percent to Japan. Rather than talk about free trade, attention should focus on reciprocal free trade which is a realistic and sound policy. Unfortunately sometimes to remove trade barriers it may be necessary to erect a new barrier before both can be removed. In the past the United States permitted foreign countries access to its markets far in excess to what these countries granted U.S. products. This policy can no longer continue; the U.S. must resolve its budget and trade deficit problems.

The Trade Minister explained the Indonesian textile industry provides employment for over 1.8 million Indonesians. Labor intensive industries are very important for Indonesia, since the labor force grows by 2 million annually. Both Senators Shelby and Hollings expressed understanding for the Indonesian Government's problems in creating an environment capable of generating sufficient employment opportunities. Senator Hollings added employment is an important aspect of the textile issue in the United States. In the late 1950's over four million Americans worked in the U.S. textile industry. Today the work force totals 2.1 million. Junior Trade Minister Djiwandono said job creation should be seen from a national perspective rather than by looking at only one sector. During the past few years the United States has created more jobs than any other country. Senator Hollings responded the jobs created are sub-standard jobs in the service sector where wages are low. The truth is American industries have been exported.

Minister Siregar explained Indonesia imports 90 percent of its cotton used in the textile industry, a large percentage from the United States. Indonesia also imports wheat and soybeans from the States. Both Senators Shelby and Hollings expressed appreciation for Indonesian purchases. Senator Hollings stated his textile bill includes a provision whereby countries which buy American agricultural products would receive a higher quota and this could benefit Indonesia.

Senator Shelby added he has been impressed with the remarkable progress Indonesia has made. He emphasized he and Senator Hollings come to Indonesia as friends and want U.S. trade with Indonesia to continue. It is in our mutual interest to expand trade, break down barriers, and increase our respective national security.

Drafted: ECON: KSBrown *KB*
Cleared: ADCM: BFDuncomb *KB* *3/30*
AMB: PWolfowitz *AW*



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Jakarta, August 25, 1988

MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Soeharto
 Widodo Sutyo, Interpreter
 Col. Eddy Tumengkol, Chief of Protocol
 Col. Maryono, Military Aide
 Senator Hollings, D-SC
 Senator Shelby, D-ALA
 Robert Snead, Senator Holling's Staff
 Ambassador Wolfowitz
 Tim Carney, Political Counselor

DATE/PLACE : August 25, 1988, Istana Merdeka

SUBJECT : Senators Hollings and Shelby Call on
 President Soeharto at Istana Merdeka, Jakarta

DISTRIBUTION: AMB, DCM, POL, ECON, FCS, DAO, RA, EAP/IMBS,
 INR/EAP, INR/DB, BIO, USIS, CHRON

The President, who was suffering from a bad cold, entered on an exchange of pleasantries while photographers took pictures. He expressed his pleasure and honor to receive the Senators. He asked them to broach any issue they wished with him. Senator Hollings replied that the honor was theirs and reminded the President they had met fifteen years ago in Jakarta. The Senator said he is impressed by the tremendous progress and development since then. Jakarta is cleaner and more dynamic. The Senator understands that from a consumer, Indonesia has become self-sustaining in rice production and that indicates it is growing. He reaffirmed a commitment to freedom in Southeast Asia. He underscored the desire to work with Indonesia on trade and security matters.

President Soeharto began an extensive exposition of economic, domestic and foreign policy developments by noting that Senator Hollings is able to make comparisons using a fifteen-year base. He explained that economic

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development extends nationwide; it has not just touched Jakarta. He briefly mentioned the five-year development plans as the instrument for realizing Indonesia's development strategy. The long term goal is to create a situation and conditions for political, economic and social life to be soundly based on. The economy will be used to establish a just program for a Pancasila-based society. Such an economy would have a strong industry which is sustained by the agricultural sector. Having reached rice self-sufficiency, Indonesia will continue to develop agriculture to sustain its industrialization.

Describing Indonesia's industrialization, the President noted that Indonesia seeks simultaneously to develop raw materials into basic goods and then process basic goods into manufactured goods. That process has succeeded, and Indonesia now seeks to create industries that make machinery and industrial goods. Thus, the upstream and downstream parts of the system are practically completed. Only the uppermost stream remains to be brought into existence. That has been delayed because of the drop in oil prices and fluctuations in exchange rates which have incapacitated Indonesia's financial capability. The President illustrated by explaining the inability of the steel industry to turn iron sands into pellets which causes the nation to import 3-4 million tons of pellets each year.

Indonesia is also preparing other factors of the economic infrastructure. Communications on air, sea and land are particularly important as is a national telecommunications network. The latter, which has been effected with U.S. Government assistance through communication satellites was required to ensure national unity and to have geographic, political and national defense cohesiveness. President Soeharto noted that therein lies the importance of the earlier USG role in introducing domestic satellite communications. He added that this is also of use to Indonesia's neighbors in Southeast Asia. The President also cited electricity as another economic infrastructure element. It is vital for the development of industry. He recalled that GOI policy is to use "non-exportable" electricity at home, naming hydro-electric and geothermal power. Most coal is exported although some is used, and gas and oil are exported as much as possible.

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National development also exists in the political field. The President explained that only political stability can sustain development in other sectors. Therefore, Indonesia carries out political development alongside economic development, but this is not so easy to grasp. Before the New Order, Indonesia had political and religious strife. Now, the government tries to prevent the outbreak of ideological, political or even religiously-based conflicts. The foundation of these policies derive from the 1945 national consensus which included both Pancasila and the 1945 constitution. Political development tries to follow these genuine principles strictly. He listed the five tenets of Pancasila: belief in one God; a just and civilian humanity; national unity; democracy; and social justice. They must be proclaimed by the whole of the Indonesian people -- the society, the state and the nation.

The President noted that in conformance with the national desire to simplify political life, the previous structure of nine political parties has been changed and now two political parties and one functional group exist. He recalled that it was only in 1983 that Pancasila, the foundation of the state, was actually embraced by all mass and social organizations and political parties. The peoples representatives (DPR) passed a 1983 law which made Pancasila the sole basic principle; they aimed to prevent ideological, religious or regional conflicts. In the context of political development, the government now holds upgrading courses to teach Pancasila so that people understand its real meaning. The objective is to instill understanding of popular rights and of responsibilities.

The President explained Indonesia's government structure noting finally that the Parliament controls the President himself. This mechanism of national leadership, in accordance with the 1945 constitution, is being inculcated to become part of the national culture. The President indicated that the goal is so that changes in national leadership will not depend on one person but on the entire people.

Political stability, the President said, is a major contributor to the national stability of ideology, culture, defense and military. With economic growth, Indonesia has the ability to make more equitable distributions. The basic foundation of economic development is a trilogy of:

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- stability
- economic growth
- equitable distribution of the gains.

While carrying out development to increase economic growth and enhance living standards, Indonesia is reinforcing national resilience. Only with national resilience can Indonesia ward off dangers from within and without to its territory, integrity and independence. Indonesia seeks to create instruments to realize national resilience that also positively contribute to regional resilience. The President recalled that he has said that Indonesia's basic principle is to carry out peaceful coexistence with its Southeast Asian neighbors through

- mutual respect for sovereignty,
- non-interference in internal affairs and
- mutually beneficial cooperation.

The emphasis and focus of cooperation is to reinforce the respective national resiliences of Southeast Asian countries. Because one of the weakest links of national resilience in this region is in the economic field, Indonesia stresses regional economic cooperation.

ASEAN, the President noted, has aspirations to create a zone of peace, freedom, and neutrality. This does not seek to make of ASEAN a political or military pact, but rather to create each nation with strong national resilience. If each ASEAN member has national stability, then there will be regional stability and, therefore, regional resilience.

The President concluded that in carrying out national development to reinforce national resilience, cooperation with other friendly countries is important. US-Indonesian bilateral relations are "very encouraging indeed." The President sounded a cautionary note about possible effects on the Indonesian economy, especially of protectionism. He also observed that the efforts of the seven industrialized countries to improve their own living standards ultimately caused foreign exchange fluctuations which were damaging to developing countries like Indonesia. He cited an increase in Indonesia's debt servicing of 1.5 billion dollars as due to such currency fluctuation, mainly of the Japanese Yen but also of the Deutsche Mark and European currencies. This money could have been used to finance other projects,

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but as a result Indonesia has now had to appeal to IGGI members to provide even the rupiah costs for local financing of development projects. This burden of debt the President described "as a very great challenge for Indonesia;" but he underscored that "Indonesia is pleased that we can honor our debts." He affirmed that Indonesian policy is to use loans to the maximum to finance development projects. The results of those projects enable Indonesia to further develop and to service the debt.

The President observed that the economic resilience of Indonesia is solely due to agricultural successes. But he sounded a warning hereby adding that demands for wheat, soybeans, and for cotton for textiles are increasing. These three imported commodities are substantial import expenses.

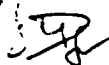
Senator Hollings thanked President Soeharto for the comprehensive overview. He expressed admiration for the President's personal role in 1965 and for Indonesia's position as a democracy balancing Soviet and Chinese Communism. The Senator then expressed his view of the American economic situation which includes transformation of the United States into a debtor from a creditor nation. The U.S. now owes 2.5 trillion dollars and interest costs alone are greater than social security. The Senator maintained that policies are not protectionist. He recalled that his legislation does not propose rolling back imports, but rather insuring the survival of U.S. industries. He noted that his bill conforms to bilateral agreements with Indonesia, to GATT and the Multi-Fiber arrangement. He concluded that Indonesia is fully capable of diversifying, finding new markets and using its very productive economy to compete.

Senator Shelby voiced his respect for what President Soeharto accomplished first in 1965 and then, through his leadership, in the following years. He believed that Indonesian policies bolstered the strength of Malaysia and Thailand when Indonesia "drew the line." The Senator affirmed that the U.S. would continue to trade with Indonesia and enjoy mutual security and economic interests for the future.

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The meeting concluded and the Chief of Protocol offered a gift to Senator Hollings of books about Indonesia as the party departed. Senator Hollings left a gift for President Soeharto with the Chief of Protocol.

Drafted by: A/DCM - Timothy Carney
Cleared by: AMB

A handwritten signature in dark ink, appearing to be 'TC' or similar initials, located to the right of the typed name 'Timothy Carney'.