

THE SECRETARY OF STATE
WASHINGTONSECRET

MEMORANDUM FOR: THE PRESIDENT
FROM: Henry A. Kissinger
SUBJECT: Your Visit to Indonesia

I. PURPOSE

Your Jakarta visit will be a dramatic reaffirmation of the significance we attach to our relations with Indonesia, the largest and most important non-Communist Southeast Asian state and a significant Third World country. In our relations with Indonesia we are seeking to move progressively away from a donor-client relationship and from preoccupation with aid issues toward ties that stress a broader sharing of interests and views. Your visit offers an excellent opportunity to encourage a more mature dialogue with the Indonesian leadership on issues of importance to us and less focused on our aid relationship.

A key mechanism for moving this process forward will be the Joint US-Indonesian Consultative Commission first agreed upon during your Camp David meeting with Suharto on July 5. We expect that a formal announcement of the Commission's formation can be made during your brief visit, which provides an occasion to make the announcement under the most auspicious circumstances. We expect the Indonesians to welcome this step.

As a result of the Camp David meeting, Suharto is more confident of the steadiness of our commitment to our friends in Asia and our close ties with Indonesia in particular. At the same time, the Camp David meeting may have given the

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Indonesian side an overly optimistic impression of our ability to assist Indonesian development and security programs and an inadequate appreciation of the growing constraints that are acting to depress US aid levels everywhere. Your visit can be helpful in alerting Suharto to the likelihood of a declining US aid level and making him understand the reasons.

Our goal now is to encourage Indonesia's sense of self-reliance commensurate with its importance to the region, and to focus our dialogue increasingly on broader issues of continuing major interest of the two governments:

- The US role and US interests in East Asia, both for their own sake and to balance Soviet and PRC pressures;
- Indonesia's perceptions of its place in Southeast Asia against this broader backdrop;
- Indonesia's importance in North-South and other multilateral issues and our growing efforts to make a constructive contribution on such issues;
- Regional cooperation in Southeast Asia;
- And our increasingly varied and close bilateral relations.

II. BACKGROUND AND STRATEGY

In the post-Vietnam environment, U.S. interests in Indonesia are based both on its present position in the region and, especially, on its anticipated future role. Indonesia, the fifth most populous nation in the world, is more than three times the size of any other Southeast Asian country and includes within its border about half the region's total population. It is potentially one of the richest. Its geographic location and resources are of major strategic importance in the region. Flanking the Southeast Asian mainland, Indonesia controls the sea passages between the Pacific and Indian Oceans, including

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Japan's life line to Middle East oil; its own oil fields provides a significant portion of Japan's oil consumption and a small but increasing part of our own oil imports. Its other major resources -- rubber, tin and tropical products -- are also of some significance to the United States.

On the international scene, Indonesia under Suharto has sought to carve out for itself a somewhat unique diplomatic position as an anti-Communist but non-aligned country capable of carrying on a dialogue with both radical "third world" states and the west while cautiously pursuing policies generally compatible with the latter. The government's desire not to offend politicized Moslem elements in Indonesia, however, influences it to side with the Arab states on certain issues, such as zionism; moreover, it values highly its membership in OPEC and supports OPEC actions, although it has never played a very active role at OPEC meetings.

Within the region, Indonesia is generally recognized as "first among equals" in the five-nation Association of Southeast Asian Nations (ASEAN) and increasingly regards the organization as the cornerstone of its regional policies.

Realization of Indonesia's potential is hampered by severe domestic problems and by economic backwardness which even its increased oil revenues have scarcely begun to overcome. Because of the Suharto Government's decision in the late 1960s to favor economic development over military preparedness, Indonesia's armed forces are poorly equipped and inadequately supplied. At best, it will be years before Indonesia can play a significant regional security role. The speed with which Indochina fell upset Suharto's calculations that Indonesia would have an extended grace period to develop its internal strength before confronting a communist threat from the north. To meet the changed situation following the loss of Indochina, President Suharto appears to have become, if anything, even more convinced in the months since your meeting at Camp David that Indonesia's policies must be based on the maintenance of close ties with the United States -- although not to the extent that its non-aligned image is tarnished.

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President Suharto will want to hear about your discussions in Peking, particularly as they relate to Southeast Asia, and may also express some uncertainty about detente. He undoubtedly will take the opportunity to explain Indonesia's own views on regional security, and the future of ASEAN. He will probably describe the GOI's own tactics of gingerly approaching the question of restoring relations with the PRC and the GOI's assessment of the potential communist threat to Southeast Asia (which he sees largely as one of insurgency and subversion in the short run).

We expect Suharto will reaffirm Indonesia's non-aligned posture and its commitment to the doctrine of "national resilience", a somewhat mystical "do it yourself" concept of developing internal strength by combining equal parts of military self-reliance, broad based economic development and a political identity between the government/military and the people. Nevertheless President Suharto will probably try to obtain further general US understandings regarding economic and military assistance. He may express concern that, despite indications we gave at Camp David, the prospect for future aid seems uncertain.

President Suharto may also bring up other issues raised earlier at Camp David or of mutual interest to the two governments: Law of the Sea, Portuguese Timor, Indonesian exclusion from receiving tariff preference under the 1974 Trade Act and U.S. policy on Liquefied Natural Gas (LNG) imports. We anticipate, however, that his comments will be general and philosophic in character and that he will not expect detailed definitions of U.S. policy in response.

A straightforward, low-keyed, generally frank presentation will be most effective with Suharto. He may still harbor latent concerns as to the constancy of US policy toward Indonesia and Southeast Asia, and he is especially anxious that we recognize the magnitude of Indonesia's need for outside aid. Our desire to move away from preoccupation with aid toward a more balanced dialogue should thus be projected with caution, avoiding the impression of a change in the U.S. attitude toward Indonesia. The main forum for more detailed exchanges on this subject will be the Joint Commission.

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III. US-INDONESIA JOINT COMMISSION

A key aspect of our strategy for the visit will be the announcement of the formation of a Joint US-Indonesia Consultative Commission. The announcement should specify that its first meeting is to be held in Washington next spring. Although the Indonesians have clearly intended that the first meeting be held in Jakarta, your visit and the fact that the announcement itself is being made in Jakarta should help us persuade the Indonesians to agree to Washington as the venue.

As worked out with the Indonesians, the Commission's purpose will be to broaden the range of our consultations with the Indonesian Government on major issues -- the latter to include cooperative programs in various fields, although the Commission will not actually negotiate programs or supervise their execution. The two co-chairmen will be Foreign Minister Malik and Secretary Kissinger, with representation on our side to include Treasury, Defense and such other agencies (AID, for example, or Commerce) as may be indicated by the agenda topics. The Commission is being created for renewable two-year terms and will meet annually, alternating between the two capitals. It will be supported by informally constituted subcommissions, initially a Joint Economic Subcommission and a Joint Security Subcommission, which will meet annually and be chaired on the U.S. side at the Under Secretary or Assistant Secretary level.

In discussing the Commission with Suharto, you may wish to stress the following points:

- We are especially pleased that agreement has been reached on establishing the Commission, and we look forward to the first meeting in the Spring.
- We see it as a most useful device for broadening the range of consultation and cooperation between our two countries and, on our side, as an indicator of the special importance we attach to our ties with Indonesia.

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IV. ISSUES AND TALKING POINTS1. Indonesia and the People's Republic of China

Of all the non-communist Southeast Asian countries, Indonesia has remained the most cautious about establishing (or in Indonesia's case, re-establishing) relations with Peking. Many Indonesians believe the PRC was behind the 1965 communist coup attempt and are highly skeptical of PRC pledges of non-interference in the internal affairs of its neighbors. They see their problem complicated by a sizeable Chinese minority in Indonesia (more than three million). Although Indonesia will probably normalize its relations with the PRC eventually, opinions differ within the GOI as to how quickly to proceed.

Suharto will be looking forward to your comments on your discussions with the Chinese and will be curious about our own plans for normalization with the PRC. You may wish to pass on any insights gained from your talks in Peking on Chinese intentions towards Southeast Asia (a topic in which Suharto will be keenly interested), while avoiding any appearance of advising the Indonesians on how they should handle their own relations with China. It is not in our interest to push Indonesia toward the PRC.

2. US-Soviet Detente

Indonesia's relations with the USSR are correct but wary. The GOI seeks aid from the Soviet bloc and receives a small quantity. (Aid from the USSR itself, terminated in 1965, will be resumed with a \$100 million Soviet credit for hydroelectric projects announced in November 1975). The GOI, however, remains innately suspicious of Soviet intentions. Especially in the context of your comments on China, Suharto may inquire briefly about detente. He will be seeking primarily a reassurance that we, too, are careful to keep our guard up in dealings with Moscow.

3. Indonesia's Regional Policies

Indonesia's answer to the potential threat by a communist Indochina is to build up the Association of Southeast Asian Nations (ASEAN - pronounced AH-see-an) as a cohesive regional organization (but without provoking Hanoi by portraying it as a defensive alliance); to encourage

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greater "national resilience" in each of the ASEAN countries; to step up its own defenses without diverting excessive resources from its economic development programs; to hold out a wary hand to Hanoi and Saigon (both of whom it recognizes) as an inducement to choose cooperation rather than confrontation with their non-communist neighbors; and to persuade the U.S. to maintain its presence in the region, especially in the form of "over the horizon" forces. As he did at Camp David, Suharto will want to acquaint you with his views of the region, Indonesia's position therein, and perhaps how he envisages the U.S. role. He will probably express concern about Malaysia's growing internal security problems (see below) and possibly about Thailand's as well.

Your Talking Points

- We welcome Indonesia's lead in developing regional cooperation, particularly through ASEAN. In our view, ASEAN represents an encouraging and constructive Southeast Asian effort to work toward regional self-reliance and security.
- We recognize that ASEAN is, and must remain, an organization of the Southeast Asian states themselves. We want to cooperate both with ASEAN's member countries and with ASEAN itself in way that ASEAN states find useful, but we look to ASEAN itself to give the lead in determining the extent and nature of our cooperation.
- For our part, we intend to maintain an effective presence in the region. We will honor our treaty commitments and we are determine to maintain our close ties with friends such as Indonesia.
- (If Suharto asks) We intend to retain our bases in the Philippines and certain facilities in Thailand with the agreement of the governments concerned.

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4. The Malaysian Insurgency

The Indonesians profess great concern over the situation in Malaysia, where the chronic communist insurgency has become appreciably more active in the past year. Indonesia sees this as an opportunity for the Vietnamese Communist regimes to open a new and (for Indonesia) dangerous front by moving in with material support for the insurgents. While Malaysia is among their closest friends, the Indonesians fault the Malaysian Government for failing to take the domestic measures Jakarta believes necessary to minimize the threat -- particularly an easing of the legal and economic discrimination that favors the Malay plurality (44%) at the expense of the wealthier Chinese minority (38%). The Indonesians have some justification for their concern, but we believe their fears exaggerated. They are also concerned, but less immediately, with the insurgent threat to Thailand.

Your Talking Points (if raised by the Indonesians)

- We share Indonesia's concern over developments that could give the communists an opening to support subversion in the ASEAN region. Thailand and Malaysia appear particularly vulnerable in this regard. We hope that Indonesia, as Malaysia's close friend will help with advice and counsel.

- For our part, we sent a small military team to both Malaysia and Singapore at the request of those governments to discuss defense equipment needs. We are helping both governments in selecting military equipment and are planning to offer Malaysia credit (about \$15 million) for some of the purchases the year.

5. US Security Assistance to Indonesia

At Camp David President Suharto expressed concern to you about the potential threat of arms smuggled from the north to support insurgencies in Indonesia's neighbors and eventually in Indonesia itself. He sought our cooperation in reviewing Indonesia's equipment requirements.

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During subsequent consultations in September with an Indonesian military mission we agreed to provide a modest military package (\$30 million in grants and \$12.5 million in credit for a total of \$42.5 million) of helicopter, ships, communication and radar equipment to meet Indonesia's primary threat -- the sea infiltration of arms -- and to maintain more effective control of the archipelago. Since we could not supply all their requirements, we agreed to work with them on a longer term effort to rehabilitate their military forces.

The level of military assistance which we told them they would receive this year, however, was later readjusted by switching approximately \$10 million from grant to credit. Given Congressional attitudes, overall prospects for security assistance in future years are not bright, a fact that the GOI may not adequately grasp. They could, in fact, be disappointed next spring if FY 1976 security assistance is significantly reduced as is quite possible.

Your Talking Points

- We recognize the seriousness of Indonesia's security concerns and have proposed to Congress approximately doubling the present level of our overall security assistance to Indonesia in the present fiscal year.
- For budgetary reasons we have had to make certain readjustments this year in the mix of grants to FMS credits. Increasingly, in the future, security assistance will be in terms of credit.
- We will continue to cooperate with Indonesia in the security assistance field within the limits of our capabilities. At the same time, Indonesia should not gauge US interests in Indonesia solely by our bilateral aid levels.

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6. North-South Economic Issues

Indonesia supports restructuring the world economy to bring greater equilibrium between rich and poor countries, but prefers to deal with practical questions rather than ideological confrontation. The Indonesians responded favorably to the U.S. "comprehensive" speech at the UNGA Special Session, but remain skeptical about our willingness to fulfill our promises and differ with us on such fundamental issues as our reliance on market forces to bring about changes in world economic structure. They dislike our criticism of OPEC and the non-aligned.

Indonesia exerts a moderating influence among Third World and OPEC countries. A sustained dialogue with Indonesian leaders could narrow the gap between our differing views of the policies best suited to improve the economic position of the Third World. Indonesian leaders have to be persuaded about the sincerity of U.S. North-South policies. At the same time they should be aware that U.S. domestic public support is essential for policies to benefit the developing countries and that several recent third world actions, particularly in the UN, have endangered that support.

Your Talking Points

- We sympathize with the Third World desire to bring a better equilibrium between the developed and developing countries, and we also recognize Indonesia's commitment to this goal.
- We have demonstrated the seriousness with which we propose to deal with these issues. Secretary Kissinger's speech to the UNGA Special Session contained more than 30 proposals covering trade, commodities, agriculture, finance, and technology. Many of them should be of particular benefit to Indonesia.
- In some areas we may differ on how best to pursue North-South objectives. We think market forces have a key role to play, for example, and their exclusion leads only to inefficiencies and dislocations.

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We believe both producer and consumer interests should be taken into account in discussing commodity policies.

- If we deal with the specifics of these issues we should be able to narrow our differences and reach practical solutions. We hope to discuss these matters with Indonesian policy makers in all appropriate fora: The Joint Commission, the Conference on International Economic Cooperation and elsewhere.
- Indonesia should also be aware of our political problems in this area. We need the support of the U.S. public to pursue policies to benefit the developing countries. We would welcome Indonesia's help in discouraging Third World positions which can only erode U.S. public support for a forthcoming U.S. posture.

7. Energy Issues

The Indonesians place considerable emphasis on solidarity with OPEC. Nevertheless they have played a passive moderate role at OPEC meetings and during the latest round kept their price increases significantly below those of other OPEC countries. They did not participate in the Arab oil embargo. The United States accounts for the bulk of Indonesia's oil investment (about 86%) and an increasing amount (about 11%) of our crude oil imports are from Indonesia.

There are two energy related issues which the Indonesians could raise in discussions: (a) Indonesian mandatory exclusion (as a member of OPEC) from the 1974 Trade Act benefits and (b) their hope for a favorable FPC ruling which would permit the GOI to go ahead with a major project to export liquefied natural gas (LNG) to California.

Your Talking Points (if the subject is raised)

- We have noted Indonesia's recent decision to hold its oil price increases below that sanctioned by OPEC. We have also appreciated Indonesia's moderate stance in other issues relating to OPEC. But we believe that in the long run Indonesia stands to gain most from increasing production and sales.

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- The Federal Power Commission will be taking up the Indonesian LNG case in the very near future. Meanwhile, the Administration's Energy Resources Council will be working toward decisions on our overall energy policies, including the question of LNG imports. While we cannot foretell what these decisions will be, we are very much aware of Indonesia's interest in LNG.
- We favor Congressional action to enable Indonesia to become eligible to receive those tariff preferences conferred by the 1974 Trade Act. However, Congressional concern over OPEC policies will make this difficult.

8. US Economic Aid to Indonesia

At Camp David President Suharto emphasized that "Indonesia's most important need was economic rather than military", reflecting the realistic Indonesian view that domestic socio-economic and political problems are the chief threat to the country's stability. Particularly on Java, where 80 million people are already as densely crowded as anywhere on earth, unemployment and grinding poverty are endemic. Compounding Suharto's political problems are signs that despite ten years of development under the "New Order" the gap between the rich and poor is growing, while corruption and maladministration remain widespread.

In response to Suharto's comments at Camp David, you expressed your intention to increase aid to Indonesia. Subsequently you proposed to the Congress an additional \$20 million in loans for Indonesia, bringing the total proposed U.S. assistance package of \$85 million for FY-1976. (Japan this year is providing almost twice as much, while the other members of the Indonesia aid consortium are providing roughly \$230 million). Prospects for future U.S. economic assistance are less clear since there are proposals now under inter-agency review which could cut our aid significantly as part of worldwide budgetary reductions.

Your Talking Points

- We fully recognize Indonesia's continuing need for developmental assistance. We have asked Congress for \$20 million in additional development loans to Indonesia this year for a total of more than \$80 million in aid, the biggest single increase we have proposed this year for any Asian country.

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- We intend, within Congressional limits, to maintain a meaningful aid contribution to Indonesia. At the same time, Indonesia should not gauge U.S. interest in Indonesia solely by bilateral aid levels.
- Private foreign investment can become an increasingly important source of capital and technology for Indonesia's economic growth. We hope your Government will actively continue to encourage the foreign investor.
- We also hope that Indonesia will support our proposals at the UNGA Special Session to protect developing countries against cycles in their export earnings, to provide them with better access to western capital and to expand international facilities to finance development, to promote the transfer of technology, and to achieve an international consensus governing relations between trans-national enterprises and governments.

9. Indonesia and the UN

Indonesia walks a tightrope in its UNGA voting, maintaining a show of solidarity with the non-aligned majority while attempting to avoid too frequent opposition to the U.S. and the West. This is reflected in abstentions and behind-the-scene efforts at compromise. In 1974 Indonesia worked hard to defend the seat of the Lon Nol delegation. The 1975 record has been mixed: On Korea Indonesia voted for the friendly resolution and abstained on the hostile one; on Zionism, however, it voted with the majority, to some extent because of internal political considerations arising from the pressure of Moslem political parties in Indonesia.

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Your Talking Points.

- Despite the continued tendency of the UNGA non-aligned majority to use its voting strength irresponsibly, we are making every effort to avoid acrimonious confrontations.
- We understand Indonesia's dilemma in wanting to avoid taking issue with the non-aligned majority, and we appreciate Indonesia's support when we receive it.
- If the UN is to retain its importance, however, greater realism and consideration for the actual issues must be injected into the UNGA. It is in the interest of major countries such as Indonesia to ensure that the UN acts more effectively and responsibly. If every country voted forthrightly for what it actually believed, the extremists in the UN would find themselves a small minority.

10. Indonesia and the Law of the Sea

Indonesia has long sought international recognition of the archipelago principle, under which all waters within the Indonesian archipelago would be under extensive Indonesian control. We have not accepted the principle, but we have indicated that we could accept an objectively defined archipelago as part of an over-all Law of the Sea treaty which effectively guarantees our transit and over-flight rights through both archipelagos and international straits. After over two years of negotiation, we have narrowed our differences with Indonesia. We are prepared to resume bilateral discussions with the GOI on this subject whenever the Indonesians wish. A short while ago they expressed a desire for bilateral talks, but most recently seem to have backed away again.

Your Talking Points (if raised by the Indonesians)

- We understand Indonesia's position on the archipelago question.

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- The United States can accept the archipelago principle in the Law of the Sea negotiations as part of a comprehensive treaty protecting our interests in transit through and over archipelagoes and international straits.
- We are willing to continue detailed law of the sea consultations with Indonesia to find a mutually acceptable solution to this important problem.

11. Indonesia and Human Rights

The human rights problem in Indonesia concerns about 35,000 suspected communists still under detention from the 500,000 or so arrested in the chaotic months following the attempted communist coup of September 1965. Held without trial or in many cases formal charges, these detainees have attracted a good deal of world (and Congressional) attention and criticism of Indonesia.

The Indonesians recognize the issue as a serious problem and are troubled by the criticism. They feel themselves in a dilemma. However, they are convinced the wholesale release of the detainees would lead to civil strife and a recrudescence of the Indonesian Communist Party.

We have frequently discussed the issue with the GOI in a quiet, non-accusatory manner, seeking to speed resolution of the problem, and we have alerted them to the human rights provisions of our aid legislation. The Indonesians have been responsive. During a recent US visit by a high level Indonesian delegation headed by General Ali Murtopo, one of Suharto's close advisors, the group raised the issue with Members of Congress and told them that they plan to step up the phased release of more detainees.

We believe it would be helpful if you raised this issue in a low key.

Your Talking Points

- The matter of the detainees in Indonesia has attracted a good deal of attention and concern in the U.S. and has affected Congressional and public attitudes toward Indonesia.

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- The Congress has placed human rights restrictions on both economic and security assistance legislation which could make implementation of these programs more difficult. We understand that the delegation led by General Murtopo (Moor-TOE-poh) discussed this constructively with Members of Congress.
- Indonesia's release of about 1,500 detainees during the past year and the implementation of what we understand are present plans for the phased release of more detainees has already had a favorable impact on Congress and the U.S. public.

12. Indonesia and Portuguese Timor

Indonesia was content to leave in Portuguese hands the small colony (600,000 people) that shares with Indonesia the island of Timor. With the dismantling of the Portuguese empire, however, Jakarta has become concerned that the backward and resource-poor colony would attain what the Indonesians expect would be a weak, unviable independence leaving it susceptible to outside -- especially Chinese -- domination.

For about a year Jakarta has been maneuvering to absorb the colony through negotiations with Lisbon and covert military operations within the colony itself, showing considerable restraint. A small scale civil war between quarreling Timorese parties has opened the way to wider Indonesian intervention in support of pro-Indonesian factions. Portugal, meanwhile, has almost completely lost control of the colony.

A merger with Indonesia is probably the best solution for the colony if the inhabitants agree. Indonesia use of US-supplied weapons in an overt occupation of the territory, however, would contravene U.S. law. We have quietly pointed this out to the GOI, and it appears to have been a restraining factor.

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Your Talking Points (if raised by Indonesia side)

- We recognize the problem that Timor poses for Indonesia, and we appreciate the restraint that Indonesia has exercised to date.
- We note Indonesia has expressed willingness to see a merger of the territory with Indonesia take place with the assent of the inhabitants of Timor. This would appear to be reasonable solution.

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