



No. 77

May 10, 1988

U.S. AND INDONESIA: THE QUIET FRIENDSHIP

INTRODUCTION

It is a strategic archipelago of 13,667 islands stretched across a distance equal to the length of the continental United States. Its population of 170 million, the fifth largest in the world, includes 300 ethnic groups and tribal minorities that speak 150 languages and dialects. It has the largest Muslim population in the world, with Christian, Hindu, Buddhist, and animist religious minorities numbering in the millions.

Despite this geographic and social diversity, the Republic of Indonesia has fostered strong national unity, become an influential member of forums like the Association of Southeast Asian Nations (ASEAN) and the Non-Aligned Movement, and forged a quiet but significant relationship with the U.S. Indonesia is the 24th largest trading partner of the U.S., with total bilateral trade last year topping \$4 billion.

Critic of the West. For the past two decades, Indonesia has experienced impressive economic and political gains while looking toward the West for support and assistance. This was not always the case. After winning independence from the Dutch in 1949, Indonesia slowly became one of the most vocal critics of the Western world. President Sukarno,¹ Indonesia's charismatic leader for its first fifteen years of independence, increasingly looked toward the People's Republic of China (PRC) and the Soviet Union for aid. Anti-American rhetoric grew steadily, and by 1964, the huge *Partai Komunis Indonesia* (PKI), the Indonesian Communist Party, had become the largest communist party outside the Sino-Soviet bloc.

By 1965, however, Indonesia seemed to be unraveling. Starvation, economic underdevelopment, and political turmoil swept the country. On September 30, 1965, Indonesian

1 Many Indonesians have only one name.

communists staged an unsuccessful coup d'etat. The anti-communist armed forces took control, deposed Sukarno, and executed an estimated 500,000 communists. Under a new government formed around General Suharto, head of the army's Strategic Reserve Command, Sukarno's assertive brand of nationalism was replaced by reconciliation with the West. National development became a national priority; political calm returned to the country.

Sleeping Giant. Under the Suharto government, and especially in the past three years, several positive political and economic developments have occurred in Indonesia. For example, the elections of April 1987 allowed unprecedented public participation, and further opening of the political process is expected. Economically, Indonesia has instituted numerous reforms to streamline the economy and attract foreign investors. This March, for example, Jakarta scrapped a highly centralized, eight-year-old system for government purchase of foreign goods. This raises hopes that foreign businessmen will have greater sales opportunities in a less regulated business environment.²

Should Indonesian governmental reforms continue, Jakarta could well start to reverse its reputation as the "sleeping giant of Asia." A liberalized economy, moreover, could allow for increased trade with the U.S. In turn, the U.S. must recognize that Indonesia's push for economic reforms and political pluralism will lead to domestic stability.

U.S.-Indonesian Cooperation. Indonesian stability is important for the U.S. because it helps insure Jakarta's ability to keep open the five strategic straits that run through the archipelago. The largest of these, the Strait of Malacca, is a vital chokepoint connecting the Pacific Ocean, the Indian Ocean, and the South China Sea. Should access be denied to these straits, the U.S. and its allies in Northeast Asia would lose crucial transit lanes for oil, liquified natural gas, and other raw materials from South Asia, Africa, and the Persian Gulf. The U.S. also would lose its main resupply links between its bases in the Philippines and in Diego Garcia in the Indian Ocean.

There always will be limits to open cooperation between the U.S. and Indonesia. For one thing, Jakarta does not wish to jeopardize its role as a leader of the Non-Aligned Movement. For another, because of its immense size, Indonesia looks inward in its quest for self-sufficiency. Yet, a quiet but close relationship between Jakarta and Washington has persisted for two decades and should be actively encouraged in the future. U.S. policy makers must start paying more attention to Indonesia. To reassure Indonesia as to its support and to promote continued understanding, the U.S. should:

- ◆ ◆ Restore military assistance to Indonesia to fiscal 1985 levels of \$42 million, up from the \$5.8 million proposed for fiscal 1988.
- ◆ ◆ Voice support for Indonesia's moves toward participatory democracy.
- ◆ ◆ Urge Indonesia to enact further economic reforms.

2 *The Asian Wall Street Journal*, April 4, 1988, p. 14.

- ◆◆ Encourage Indonesia to increase its support for the noncommunist Cambodian resistance and take a harsher stance against the Vietnamese military occupation of Cambodia.
- ◆◆ Increase high-level U.S. visits to Indonesia.
- ◆◆ Quietly oppose the Southeast Asia Nuclear-Free Zone supported by Jakarta.

RISING FROM THE ASHES

Following a bloody three-year war of independence against the Dutch, Indonesia became a unified republic in August 1950. U.S.-Indonesian relations initially were cordial, reflecting Jakarta's appreciation for Washington's anti-colonialism and assistance and support for independence. Soon, however, Indonesia turned against the West. President Sukarno lashed out at what he called the "old established forces," which included the U.S. In 1958, relations with Washington worsened when covert U.S. support was suspected in an armed forces revolt on the Indonesian island of Sumatra.

Despite Jakarta's anti-American rhetoric, U.S. assistance continued flowing to Indonesia through the early 1960s. Very effective were civic action programs, jointly administered by the U.S. Agency for International Development (USAID) and the Department of Defense. Most military aid was suspended, however, after Jakarta launched its armed "Konfrontasi" against the Federation of Malaysia in September 1963. During the following year, when Sukarno's anti-U.S. actions became more violent — leading to demonstrations and the seizure of some U.S. businesses — U.S. aid was virtually halted.

\$1 Billion from Moscow. Soviet and Chinese relations with Indonesia, in contrast, were close. USSR military aid through 1965 totaled an estimated \$1 billion, ten times the level of the U.S. program during the same period. Sukarno had a close relationship with Soviet leader Nikita Khrushchev, who reportedly sent the Indonesian leader personal gifts every two weeks.³ PRC relations were even closer, especially following an August 1965 commitment by Sukarno to form a Jakarta-Phnom Penh-Beijing axis against Western "imperialism."⁴ The Chinese also gave strong support to the PKI (Indonesian Communist Party), which was a major backer of Sukarno.

By mid-1965, tensions were rapidly building in Indonesia. Sukarno's provocations against the West were reaching a peak, and the PKI, which had gained strong support from Sukarno, was growing increasingly active. Overconfident of its strength and acting while several government ministers were out of the country, the PKI staged a coup d'état on September 30, 1965. In the coup's first hours, six army generals were kidnapped, tortured, and executed. The PKI then seized control of the central radio station and other communications buildings in Jakarta. Had they won, it would have given Beijing a major foothold in Southeast Asia, threatened free passage through the Indonesian straits, and presented the U.S. with a second communist front in Southeast Asia just as the Vietnam War was starting

3 *The Washington Times*, March 6, 1987, p. 9A.

4 *Area Handbook on Indonesia* (Washington, D.C.: U.S. Government Printing Office, March 1970), p. 324.

to escalate. Yet the coup failed. Students began to demonstrate against the PKI, and a massive public backlash against the communists swept the country.

Collapsed Coup. The collapse of the communist coup radically altered Indonesia's foreign and domestic policies. In less than a couple of months, Indonesia's popular, anti-communist armed forces eliminated and then outlawed the PKI. China withdrew its technicians and suspended aid. General Suharto, the former commander of the army's Strategic Reserve Command, took control and reversed the anti-Western themes of his predecessor. The U.S. responded quickly, making a generous public offer of a five-year credit for large amounts of rice and cotton. In April 1967, Washington agreed to grant Jakarta needed military assistance. Thousands of Indonesian military students would eventually come to the U.S., and Washington quickly became Jakarta's largest supplier of military equipment.

Suharto's rule has not been democratic. One party, the Golkar, dominates politics, and little opposition is tolerated. This March, Suharto was the only candidate in the presidential elections. But now in his fifth five-year term in office, Suharto's "New Order" administration has brought political calm to Indonesia. The threat of Islamic extremism appears under control, and such separatist groups as the Free Papua Movement and the Revolutionary Front for an Independent East Timor have been largely contained. Similarly, in contrast to Sukarno's "Confrontation" with Malaysia, Indonesia has pursued peaceful relations with its ASEAN neighbors.

NON-ALIGNMENT TOWARD THE WEST

Indonesia's foreign policy is based on its founding role in the Non-Aligned Movement. Aside from participation in ASEAN, the Organization of the Islamic Conference, and the Non-Aligned Movement, Indonesia has turned down membership in other political or military groups. Jakarta also has publicly advocated a policy of superpower withdrawal from Southeast Asia. Suharto's government, however, has quietly hinted that it does not want the U.S. to withdraw from its bases in the Philippines unless the Soviets leave Cam Ranh Bay in Vietnam.⁵

Military Aspects

Indonesia supports the 1971 ASEAN proposal for turning Southeast Asian into a Zone of Peace, Freedom, and Neutrality (ZOPFAN). As part of ZOPFAN, Jakarta has called for the establishment of a Southeast Asian Nuclear-Free Zone (SEANFZ). The U.S. opposes a SEANFZ because it could hinder the movement of U.S. Navy nuclear-powered vessels and thereby undercut the ability of U.S. deterrence. ASEAN has dragged its feet on the SEANFZ proposal, though it was spotlighted again last December at its third summit. Although ASEAN members Singapore and Thailand, along with the U.S., have expressed opposition to the plan, an ASEAN panel currently is giving further consideration to the concept.⁶

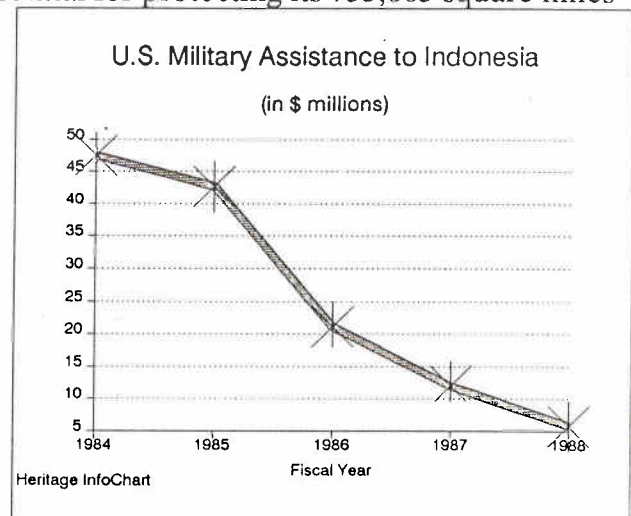
5 *Far Eastern Economic Review*, April 21, 1988, p. 26.

6 *Far Eastern Economic Review*, January 14, 1988, p. 12.

Carefully Non-Aligned. Though close, Indonesia's political and military relations with the U.S. are consciously downplayed by both sides to allow Indonesia publicly to maintain its nonaligned status. Of significance is U.S. military assistance, which since 1967 has replaced Soviet aid as the primary source of foreign military support. In FY 1985, U.S. military aid was \$42.7 million. Virtually all of this was in Foreign Military Sales loans and allowed Indonesia, for example, to sign an agreement to purchase twelve U.S.-made F-16 fighter aircraft in 1986.

Over the past two years U.S. military aid has been cut to only \$5.8 million. This is part of a general belt-tightening, which has caused U.S. military aid to the Asia/Pacific region to drop dramatically. With Indonesia needing to continue its armed forces modernization and European defense and aerospace companies offering attractive weapons alternatives at lower prices, U.S. aid cuts are likely to reduce Indonesian purchases of U.S. military systems.

A strong Indonesian defense capability is essential for protecting its 735,865 square miles of islands. Of particular strategic importance to the U.S. is Indonesia's ability to keep open the five key straits that run through its territory. The Strait of Malacca borders Singapore and connects the Indian Ocean with the South China Sea. One of the busiest shipping lanes in the world, the Strait of Malacca handles most of the supertanker traffic from the Persian Gulf bearing oil and natural gas destined for Northeast Asia and the U.S. The U.S. Seventh Fleet also makes regular use of this strait, including important resupply missions between U.S. bases in the Philippines and on Diego Garcia in the Indian Ocean.



Other important Indonesian straits include Sundra, Lombok, Makassar, and Ombai-Wetar. Most of these are deep enough for supertankers and act as alternate routes when the Straits of Malacca are too congested or in emergencies.

Economic and Diplomatic Aspects

In contrast to the scaled back U.S.-Indonesian military ties, economic relations between the two countries have remained relatively steady over the past five years. Indonesian exports to the U.S. amounted to almost \$4 billion in 1987, mostly in petroleum products. Other Indonesian products exported to the U.S. are rubber, clothing, cork, and wood products. U.S. sales to Indonesia in 1987 topped \$767 million, consisting mostly of machinery and high-technology items. U.S. direct investments in Indonesia as of 1985 exceeded \$4 billion.

7 *FBIS, East Asia*, January 28, 1988, p. 27.

The U.S. plays a major role in the Inter-Governmental Group on Indonesia, a unique group organized to make loans to Indonesia for economic assistance. It is composed of thirteen countries (Australia, Austria, Canada, England, Finland, France, Italy, Japan, the Netherlands, Spain, Switzerland, the U.S., and West Germany) and seven international organizations — the World Bank, Asian Development Bank, UNICEF, International Fund for Agricultural Development, European Economic Community, U.N. Development Project, and International Monetary Fund.

Lingering Anti-Chinese Sentiment. Suharto's government maintains good relations with most of the Asian regional powers, with the exception of the PRC, which is viewed with deep suspicion. This is caused in large part by Beijing's support of the PKI until 1965. Despite adversarial diplomatic relations, Sino-Indonesian trade has picked up momentum since the signing of a memorandum of understanding in July 1985. During the first half of last year, bilateral trade totaled \$314 million, with Indonesia exporting \$118 million worth of goods to, and importing \$196 million from, the PRC.⁸ Jakarta insists, however, that normalization of relations is conditional on Chinese denunciation of communist revolutionaries in Southeast Asia.⁹

Lingering anti-Chinese sentiment has led Indonesia to seek accommodation with the Soviet Union, the other communist superpower in the region. Moscow has attempted to exploit this. On the one-year anniversary of the July 1986 Vladivostok speech when Soviet leader Mikhail Gorbachev called for expanded ties with the ASEAN nations, Gorbachev focused attention specifically on Indonesia by granting an exclusive interview to the Indonesian magazine *Merdeka*. In the interview, he stressed his belief that "Soviet-Indonesian relations will rise to a qualitatively new level."¹⁰

Improving Soviet Relations. This February, Indonesian Foreign Minister Mochtar Kusumaatmadja visited Moscow to reciprocate Soviet Foreign Minister Eduard Shevardnadze's trip to Jakarta in March 1987. Said Mochtar during the visit: "Soviet-Indonesian relations have been developing in an ever more positive way in recent years. This is shown by the exchanges of visits at a high level, including visits of Soviet delegations led by the deputy chairman of the USSR Council of Ministers, vice-presidents of the USSR Supreme Soviet Presidium, and the visit of [Foreign Minister Eduard Shevardnadze] early last year."¹¹ Suharto himself has had a longstanding invitation to visit the USSR.

Moscow, meanwhile, now stations 130 officials in its Jakarta Embassy, the largest Soviet mission in ASEAN. The Soviets also maintain consulates in eastern Java and northern Sumatra. These locations provide attractive bases for Soviet espionage. Indonesia, in fact, in 1982 expelled several Soviet officials for spying, including an assistant military attache, an

8 *FBIS, East Asia*, February 2, 1988, p. 33.

9 *FBIS, East Asia*, March 27, 1987, p. N1.

10 For more on Soviet-Indonesian relations see Kenneth J. Conboy, "After Vladivostok: Gorbachev's Asian Inroads," Heritage Foundation Asian Studies Center *Backgrounders* No. 73, January 25, 1988.

11 *FBIS, Soviet Union*, February 9, 1988, p. 28.

Aeroflot representative, and a third embassy attache. This January, Suharto rejected the appeal of an Indonesian naval officer convicted of spying for the Soviets.¹²

Soft Approach to Hanoi. Before 1965, Soviet economic aid to Indonesia was substantial. Initial construction of the giant Krakatau Steel Mill and the Asahan aluminum complex, for example, was funded by the Soviets.¹³ Then Soviet-Indonesian trade and aid fell off almost completely. Until recently, the bilateral volume of the trade was approximately \$75 million and heavily in Indonesia's favor. As Indonesia seeks to expand its non-oil market in the USSR, this level may increase. High-ranking trade delegations have been exchanged over the past year, including an Indonesian trade mission that toured Moscow this February.¹⁴ The Indonesian Chamber of Commerce and Industry believes that it can increase commodity exports of coffee, tin, rubber, and rubber products to the USSR.

As in its policy toward the USSR, Jakarta pursues a soft approach toward Moscow's main Southeast Asian proxy, the Socialist Republic of Vietnam. Compared to other ASEAN nations, for example, Indonesia has done little to support the noncommunist Cambodian resistance confronting the 140,000 Vietnamese troops currently occupying Cambodia. This is partly because of Indonesia's suspicion of the anti-Vietnamese resistance coalition, which includes the pro-Chinese Khmer Rouge.

Vietnam and Indonesia also have been exploring increased trade possibilities. Last November, for example, Vietnamese Deputy Prime Minister Vo Van Kiet headed a twelve-man delegation to Jakarta to discuss possible Indonesian investment in Vietnam. Kiet expressed interest in Indonesian oil technology in exchange for Vietnamese offshore exploration sites.¹⁵ While it is not clear that any firm commitments were made at this meeting, Indonesia continues its interest in improving relations with Vietnam.

A MATURING DEMOCRACY

Under Suharto's 22 years of domestic calm, Indonesia has begun to develop several democratic institutions, including a resurgence of opposition parties, an increasingly vocal parliament, and the promise of secret balloting in the 1992 presidential elections. This is in stark contrast to the turmoil of the Sukarno era, when opposition parties were banned and national elections cancelled.

Still, Indonesian style democracy under Suharto has been one of backroom consensus, in which public debate and substantial partisan political activity are barely tolerated. Two token opposition parties exist, although the overwhelming majority of seats held in national and local government belongs to the Golkar Party, an alliance of government and labor groups that claims twelve million supporters. The other two are the Indonesian Democratic Party and the Muslim-backed United Development Party, and along with the Golkar, are government financed and firmly under government control.

12 *FBIS, East Asia*, January 14, 1988, p. 35.

13 *The Washington Times*, March 6, 1987, p. 9A.

14 *FBIS, East Asia*, February 5, 1988, p. 28.

15 *The Washington Post*, December 3, 1987, p. A43.

Popular Armed Forces. Also influential in politics are the conservative armed forces, which, unlike the military in other countries, are genuinely popular among the people and have made no promises to hand over power to civilians in the future. Government bodies, the military, and political groups are legally bound to "Pancasila," Indonesia's five guiding principles: democracy, social justice, human rights, unity, and religion.

All civilian and military political organizations answer to Suharto. This March, he was elected to his fifth and, many believe, final five-year term. With no heir apparent, Suharto has taken steps over the past two years to liberalize political participation before his term expires in 1993. His "feast of democracy" allowed during the April 1987 parliamentary elections, for example, saw an estimated twelve million young Indonesians vote for the first time.¹⁶ And during the March 1988 election for the vice president, Suharto kept uncharacteristically clear of the debate and allowed an opposition candidate to make a short-lived but unprecedented appearance.

While the pace of political change remains slow, Suharto publicly has recognized the potential offered by increased liberalization.¹⁷ With his support, further reforms are likely. Yet Indonesia still lags behind the pace of democratization in the Republic of Korea, the Republic of China on Taiwan, and fellow ASEAN members like Malaysia and Thailand. At the same time, Indonesia's diversity, dramatic social upheavals in 1965, and relatively recent exposure to democratic principles make its current progress significant.

AN ECONOMY IN TRANSITION

In 1965, Suharto inherited a devastated economy. Needy of foreign aid, he quickly abandoned the inflammatory nationalism of Sukarno, welcomed Western assistance, and turned economic development planning over to a team of technocrats, many of whom had trained at the University of California at Berkeley. Under their guidance, Indonesia reversed the economic neglect of the Sukarno years and speeded up national development.

In general, however, the Indonesian economy has not prospered because influential "economic nationalists," led by current Vice President Sudharmono, have sought agricultural self-sufficiency and industrial growth. To achieve this, Indonesia's economic policies erroneously have emphasized import substitution, and until recently, largely blocked Indonesian markets from foreign competition. In addition, there remained a lingering suspicion of free enterprise and a large degree of bureaucratic interventionism.¹⁸

Vast Oil Reserves. Stifled by regulations, high tariffs, and inefficient state-run enterprises, Indonesia would seem assured of the kind of economic stagnation characteristic of most of the Third World. What has saved Indonesia from this have been its vast oil

16 *Far Eastern Economic Review*, March 3, 1988, p. 25.

17 *The New York Times*, March 13, 1988, p. 2C.

18 *Far Eastern Economic Review*, September 10, 1987, p. 70.

reserves producing 1.19 million barrels per day. Oil exports fueled an impressive annual 8 percent real Gross National Product growth from the 1970s to 1981. This decade's drop in oil prices, however, has cut Indonesia's GNP growth rate by more than half.¹⁹ In addition, its foreign debt, which began to accumulate when decreasing oil revenues could no longer pay for Indonesia's development programs, has soared to \$42.1 billion, the largest in Asia. Servicing this debt consumes one-third of the national budget.²⁰

Abolishing Some Monopolies. As oil prices remain low, Indonesia's leaders have been forced to adopt economic reforms and move away from a widely discredited policy of pure import substitution. In the past year, for example, Jakarta has simplified rules for foreign investment, cut tariffs on dozens of imports, ended state monopolies in agriculture and public utilities, and cut the state budget. Last December, some 48 reform decrees were announced that abolished some monopolies, simplified export licenses, liberalized the stock market, and eliminated some of the bureaucratic red tape in the tourist industry.²¹ The Indonesian parliament also has drawn praise for endorsing stiff copyright protections, which Suharto is soon expected to sign into law. Currently, Indonesian copyright infringements cost U.S. businesses \$250 million a year.²²

Also being redressed is Indonesia's controversial involvement in high-technology industries. Under the guidance of B.J. Habibie, Minister of Research and Technology since 1978, Indonesia planned to use its petroleum revenues to create whole technology industries overnight, even though no technological infrastructure existed. Shielding its young high-technology industries from outside competition, Indonesia was able to produce, among other things, six types of aircraft and small ships. It is almost certain, however, that these products could not compete with imports without subsidies and protection. The enormous resources required to sustain such hothouse high technology is being criticized within the government for diverting too much of Indonesia's now limited funds. This debate is likely to grow more heated, especially as Indonesia searches for ways to spur GNP growth by expanding the number of lower entry level jobs to absorb the two million young workers that enter the employment market each year.²³

BALANCING RELATIONS WITH THE U.S. INTO THE FUTURE

While the U.S.-Indonesian relationship intentionally has been kept low-key, Jakarta's pro-Western policies since 1965 have served the interests of both countries. Indonesia's economic reforms and gradual adoption of participatory politics are likely to increase the benefits to the U.S. While keeping these ties quiet, so as not to jeopardize Indonesia's moderating influence in the Non-Aligned Movement, the U.S. can nonetheless safeguard and expand its relationship with Indonesia. To achieve this, the U.S. should:

19 *Far Eastern Economic Review*, August 20, 1987, p. 30.

20 *The Washington Times*, March 8, 1988, p. A9.

21 *Far Eastern Economic Review*, January 7, 1988, p. 48.

22 *Far Eastern Economic Review*, January 7, 1988, p. 48.

23 *Far Eastern Economic Review*, September 10, 1987, p. 74.

◆◆ **Increase Military Assistance.** In fiscal 1985, a U.S. military assistance pledge of \$42.7 million allowed the Indonesian military to modernize its aging fighter aircraft fleet with twelve U.S.-made F-16 *Fighting Falcon* jets. Indonesia in recent years also has purchased armored cars, artillery pieces, boats, and aircraft from the U.S., largely through loans provided under the military assistance program. But because U.S. military aid has been cut to \$5.8 million in fiscal 1988, Jakarta is likely to reassess its military links with Washington. The State Department admits, for example, that the now token levels of military aid will erode the influence and understanding that the U.S. has won over the past two decades.²⁴ The U.S. should reverse this trend in fiscal 1989 and return military assistance to its fiscal 1985 levels. This will restore confidence in the U.S., which is especially important given the current apprehension in ASEAN over the possibility of a U.S. withdrawal from the Philippines.

◆◆ **Voice concern over the Southeast Asia Nuclear-Free Zone.** Indonesia and Malaysia have spearheaded the push in ASEAN for the creation of a Southeast Asia Nuclear-Free Zone (SEANFZ). Suharto argues that this will contribute to peace and security in the region. The U.S., however, has criticized the zone because it could hinder the movement of the U.S. Seventh Fleet through Southeast Asia. Moreover, the timing of the SEANFZ debate could fuel internal Filipino opposition to the U.S. bases at Subic Bay and Clark Air Force Base in the Philippines.²⁵ Abandoning U.S. bases in the Philippines would leave the major Soviet naval and air presence in Vietnam unchecked in the region. It is therefore in Indonesia's own interests to avoid adding to the opposition to the Philippine bases. It is important that Washington express very soon its strong concerns to Jakarta about a SEANFZ, how it would hinder U.S. naval movement through Asia and jeopardize the strategic balance in Southeast Asia.

◆◆ **Encourage Indonesian democracy.** The people of Indonesia have welcomed the brief surges of participatory politics allowed them in recent years, most notably during last year's parliamentary elections. Though kept to a slow pace, such movement is grooming a younger generation of Indonesians to replace some of Indonesia's aging leadership, which will foster greater stability, especially during power transitions.²⁶ This is particularly important since a new president — only the third since Indonesian independence — probably will be chosen by 1993. The U.S. should lend support to Indonesia's progress toward partisan politics, open debate, and general elections.

◆◆ **Urge Indonesia to adopt further economic reforms.** Indonesia has reached a crucial stage in its economic development, which requires a change in its mentality from that of mercantilist oil trader to entrepreneur.²⁷ Indonesia also must reassess its commitment to costly domestic high-technology industries and nationalist import substitution strategies, which have drained capital and spawned inefficiency through lack of competition. Jakarta should continue its current reforms which will lead to more international trade, stimulate competition, domestic as well as international, thereby raise the level of business activity,

24 State Department Cable, DTG 301007, January 1988, "FY 1988 Security Assistance Allocations."

25 *Far Eastern Economic Review*, January 14, 1988, p. 12.

26 *Far Eastern Economic Review*, March 3, 1988, p. 25.

27 *Far Eastern Economic Review*, March 3, 1988, p. 24.

create employment, and reduce prices.²⁸ The U.S. can encourage further economic reforms in Indonesia by publicly applauding its current deregulation measures and efforts at copyright protection. The U.S. Agency for International Development should make it a priority to provide technical information to Indonesia that would assist it in privatization and deregulation. Example: information on Employee Stock Ownership Plans as a means of privatizing state-owned industries.

◆ ◆ **Encourage Indonesia to take a tougher stand on the Cambodian problem.**

Indonesia's conciliatory attitude toward the Vietnamese occupation of Cambodia contrasts with the hard lines taken by other ASEAN members, especially Thailand and Singapore. To date, Indonesia has done little to assist the two noncommunist factions of the anti-Vietnamese Cambodian resistance coalition — the Khmer People's National Liberation Front and the National Sihanoukist Army — opposing Hanoi's 140,000 troops now in Cambodia. By not lending greater support to the resistance, Jakarta is jeopardizing the ability of the noncommunists to play a moderating role in any future Cambodian government. By its conciliatory policy toward Vietnam, moreover, Jakarta could encourage Hanoi to maintain a permanent, aggressive occupational army on the borders of Thailand. This, in turn, might prompt Thailand to counter the Soviet-backed Vietnamese threat by seeking closer ties with China, a scenario Indonesia probably would rather avoid. The U.S. should urge Indonesia to reverse its policy toward Vietnam and pattern its rhetoric and level of material assistance to the noncommunist resistance after that practiced by Thailand. Washington should take the lead and increase overt assistance to at least \$5 million a year. The U.S. government also should devote more public attention to resolving the Cambodian problem by giving it higher priority in talks with the Soviet Union.

◆ ◆ **Increase the number of visits by high-level U.S. officials to Indonesia.** Ronald Reagan's 1986 visit to the Indonesian island of Bali went a long way toward bolstering the good will between the U.S. and Indonesia. Since then, however, it has been Soviet and not U.S. officials who have grabbed headlines in Jakarta. Examples include Foreign Minister Eduard Shevardnadze's March 1987 visit and Gorbachev's July 1987 exclusive interview in the Indonesian weekly *Merdeka*. While Ambassador Paul Wolfowitz represents U.S. interests well in Indonesia, the U.S. this year should send at least one American dignitary of cabinet rank to visit Indonesia.

Since independence in 1949, Indonesia has changed from one of the most vocal anti-American critics to a quiet yet significant U.S. friend in Southeast Asia. It has also made tremendous progress in overcoming political turmoil and economic under-development. Indonesia's strategic location, immense population, and preeminent position in the Non-Aligned Movement insure that it will remain a significant regional power. Moreover, recent economic and political changes hint of increased mutual benefits in the future.

28 *Far Eastern Economic Review*, September 10, 1988, p. 70.

Washington should develop and implement policies for Indonesia that show greater interest in bilateral ties and restore past levels of assistance. Such efforts could go far in encouraging the potential of Asia's sleeping giant.

Kenneth J. Conboy
Policy Analyst

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNWS library.