



No. 111

December 11, 1990

DEALING WITH A CHANGING INDONESIA

INTRODUCTION

It spans an arc of 3,200 miles, longer than the distance from Los Angeles to Washington. It is Asia's largest oil exporter and the Far East's only member in the Organization of Petroleum Exporting Countries. Its population of nearly 180 million is the fifth largest in the world and contains more Muslims than in the Arab nations of the entire Middle East.

A statistical giant, the Republic of Indonesia seems likely to play a major role in Southeast Asia, if not on the world stage. During the sixteen years following independence from the Dutch in 1949, Jakarta did, in fact, live up to such expectations. President Sukarno¹, then Indonesia's flamboyant leader, hosted the 1955 Asian-African Conference in Bandung and was prominent during the formation of the Non-Aligned Movement (NAM) in 1961. Sukarno's Indonesia then drew close to Beijing, becoming one of Washington's most nasty critics. Jakarta soon grew aggressive, dispatching guerrillas in 1963 to overthrow the neighboring Malaysian government.

Self-Imposed Isolation. Jakarta's activism halted abruptly in September 1965 following an aborted communist coup that brought down the Sukarno regime and ushered in a pro-Western government under President Suharto. As part of its dramatic turnaround, Indonesia looked inward, shunning trade and diplomatic contact.

As Jakarta's self-imposed isolationism continued into the 1970s, relations with Washington were warm but limited by Jakarta's attempts to remain a

1 Many Indonesians have only one name.

neutral member of the NAM. For the United States, a stable, pro-Western Indonesia served American interests by insuring Jakarta's ability to keep open Indonesia's five key straits connecting the Pacific Ocean, Indian Ocean, and the South China Sea. In addition, the Indonesian military gradually began lending support to Washington's efforts in Indochina, such as training Cambodian commandos from the pro-Western Lon Nol regime in 1972. Indonesia, in return, benefited from an average of \$160 million annually in U.S. economic and military aid through the late 1960s and 1970s.

Deregulation and Privatization. The once limited ties between Jakarta and Washington may now have opportunity to expand as Indonesia embarks on an economic and diplomatic revolution. Gone are the days of import substitution, replaced since the mid-1980s by export-led growth which has seen the Indonesian economy deregulated and privatized with dizzying speed. The result: Jakarta now boasts one of the world's fastest growing stock exchanges, a burgeoning middle class, and record levels of foreign investment. Indonesia now ranks as America's 29th largest trading partner.

On the diplomatic front, Indonesia has surged back into the international stage with similar determination. Over the past four years, for example, Jakarta has been a driving force in bringing the four warring Cambodian factions to the negotiating table, a constructive effort widely appreciated in Washington. Indonesia also is thought to be eyeing chairmanship of the NAM, a position currently held by Yugoslavia. If chosen, Jakarta can be expected to lend a moderate voice to that often shrill organization.

While Indonesia should be applauded for crafting sound economic and foreign policies, Washington must recognize that Jakarta faces a potentially dangerous transition in the near future. For one thing, the Indonesian government must balance the rising demands from its growing middle class for increased economic liberalization, while at the same time confronting a huge foreign debt, chronic underemployment, and fears of runaway inflation. For another thing, the success of Jakarta's economic liberalization already is leading to predictable pressure for political liberalization. This comes at a time when there is speculation whether Suharto, Indonesia's paramount leader for the past quarter century, again will run for office in 1992.

Stability Helps U.S. What happens in Indonesia is important to America. First, continued stability in Jakarta keeps open those straits that are vital chokepoints for oil, liquified natural gas, and other raw materials shipped from South Asia, Africa, and the Persian Gulf to the U.S. and its allies in Northeast Asia. Second, further opening of Indonesia's vast domestic market, the largest in Southeast Asia, offers lucrative opportunities for American businessmen. Last, with international organizations like the United Nations possibly growing more muscular in the post-Cold War era, America would welcome Indonesia's moderating influence among the non-aligned countries.

Indonesia's ability to balance economic and political liberalization will be its biggest challenge since 1965. Washington's quiet but close relationship with Jakarta should be designed to reassure Indonesia during this critical

period of transition. To promote continued understanding and encourage Indonesia to open its economy further, the U.S. should:

- ◆ **Urge Indonesia to enact further economic liberalization policies to attract foreign investment.** While Jakarta has lifted many limits on foreign investment, such additional measures should be passed as allowing foreign investors freely to import raw materials, retain majority ownership of operations in Indonesia into the long term, and be able to maintain 100 percent ownership of such operations anywhere in Indonesia. Currently, foreign investors can not retain majority ownership past fifteen years, and are forbidden to maintain 100 percent ownership except for on a single Indonesian island near Singapore.
- ◆ **Encourage Indonesia to open Free Trade Zones (FTZs) in its eastern provinces.** U.S. assistance and support in forming FTZs could help reverse Indonesia's growing geographic disparity in economic development by attracting foreign investment to Sulawesi and other long-neglected eastern provinces. An FTZ offers jobs, new technology, management skills, and export earnings for the host country, and cheaper costs of production for the foreign investor.
- ◆ **Support Indonesia's role in mediating a settlement to the war in Cambodia.** Indonesia has proved itself one of the most able mediators in the Cambodian war, which began after 180,000 Vietnamese troops invaded that country in December 1978. Washington publicly should applaud Jakarta's efforts and urge Indonesia to head any International Control Commission or Peace-Keeping Force sent to oversee elections in Cambodia.
- ◆ **Include Indonesia in George Bush's itinerary for his February 1991 trip to Asia.** Bush should stop in Jakarta as well as visiting Australia and Japan.
- ◆ **Encourage Jakarta to allow U.S. naval vessels to be repaired at Indonesian ports.** With the likely phase-out of U.S. naval bases in the Philippines, other nations of the region recognize the strategic and economic benefits of maintaining a U.S. military presence in Southeast Asia. Singapore and Thailand already have arrangements with the U.S. for ship visits, repairs, and limited stationing rights. Similarly, the U.S. should begin discussing with Indonesia the possibility of allowing repairs of U.S. naval vessels in Indonesian ports.

AT FIRST, A STRAINED RELATIONSHIP

During the fifteen years after Indonesia became a unified republic in 1950, relations with the U.S. often were strained and at times almost were belligerent. To America's chagrin, Sukarno became an increasingly vocal critic of the West, especially of America. So great became the war of words that in 1958, Washington lent limited covert support, including B-26 *Invader* airstrikes, to mutinous army units on the island of Sumatra.

Washington-Jakarta ties further deteriorated in 1963 when Indonesia launched its armed *Konfrontasi* against the Federation of Malaysia, designed to bring Malaysia under Indonesian domination by infiltrating hundreds of Indonesian-trained guerrillas. This forced Britain to rush thousands of troops to Malaysia to quell the insurgency. The following year, Indonesia became more radical, moving closer to the People's Republic of China (PRC) and Prince Norodom Sihanouk's Kingdom of Cambodia, both of which strongly opposed the U.S. military mission to the Republic of Vietnam. Some American businesses in Jakarta were seized, prompting Washington to virtually halt U.S. aid. In addition, it was later revealed that Jakarta even briefly deployed transport aircraft to Phnom Penh to fly supplies to communist Vietnamese forces in eastern Cambodia and southern Laos.

Bloody Rebellion. By early 1965, the huge *Partai Komunis Indonesia* (PKI), the Indonesian communist party, had grown to the largest communist party outside the Sino-Soviet bloc. In September, there was a PKI coup attempt, backed almost certainly by Beijing. It flopped because key anti-communist military units, primarily from the Special Forces, were rushed to Jakarta on the eve of the coup. The attempted coup, Sukarno's increasingly erratic behavior, and Indonesia's economic stagnation ignited a massive and bloody anti-communist and, in many places, anti-government rebellion. Ultimately, Sukarno was deposed and an estimated 600,000 communists executed.²

The events of 1965 were momentous, transforming Indonesia from what could have been a pro-Beijing communist-run behemoth to an oasis of stability friendly to the West, particularly to America. Washington by 1967 had resumed economic and military aid programs. In return, the Indonesian military eventually assisted U.S. efforts in Indochina by providing commando training to the army of the pro-Western Khmer Republic, which replaced Sihanouk's kingdom in March 1970.

Economic Turnaround. In general, however, Indonesia turned inward, limiting trade relations as it stressed domestic production and retaining only a small hand in international affairs. Not until the early 1980s did Indonesia begin to break from this self-imposed isolationism. Prompting Jakarta's decision to reopen were two factors. First, several of its regional neighbors, especially Singapore and Thailand, had booming export-led economies. Clearly, Indonesian leaders recognized, import substitution was stifling economic growth. Second, the 1982 collapse in world oil prices from as high as \$40 down to \$29 a barrel, followed by the steeper plummet to \$11 a barrel four years later, spelled potential doom for the Indonesian economy, which was relying on oil and gas sales for 79 percent of its foreign exchange earnings and for 68 percent of its total revenues. Detrimental, too, was the fall in the U.S. dollar in relation to the Japanese yen: Indonesia's petroleum export earnings, denominated in dollars, were cut in half, while its overseas debt, largely in yen, soared from \$20 billion in 1982 to \$44 billion in 1988.

² *The Economist*, November 17, 1990, p. 37.

MIRACLE RECOVERY THROUGH ECONOMIC LIBERALIZATION

What could have been economic disaster for Indonesia instead has blossomed into economic optimism. The reason: under Suharto's strong, centralized rule, Jakarta scrapped its over-reliance on oil and quickly initiated policies designed to transform Indonesia into a competitive, diversified, export-led economy. Among the measures taken:

- ◆ **Austere Budget.** Unlike previous Indonesian budgets, which used oil revenues for lavish subsidies of oil, rice, and fertilizers and costly public sector projects, Jakarta's streamlined 1983 budget cut oil subsidies and other government outlays, froze government salaries for the second consecutive year, and halted construction of new government buildings and housing. Such austerity has become an annual feature of Indonesian budgets.³
- ◆ **Devaluation.** In an effort to make its manufactured exports more competitive in the world market, Jakarta in 1983 depreciated the rupiah by 27.6 percent. It was again devalued another 31 percent in 1986. Together, Jakarta has seen a 55 percent depreciation in its real effective exchange rate over the past ten years.
- ◆ **Deregulation.** To develop alternative sources of financing to support expansion of the private sector, Indonesia in 1983 began a deregulation and financial reform campaign.⁴ Among the measures taken: bank deregulation that eases borrowing and lending restrictions on commercial banks and that allows state-owned banks to set their own interest rates;⁵ tax reforms to reduce the number of tax brackets; and opening the Jakarta Stock Exchange to foreign investors.
- ◆ **Foreign Investment Reform.** In an effort to induce foreign investment in the agricultural, health, and manufacturing sectors, the government slashed tariffs and removed non-tariff barriers on a wide range of commodities. The most comprehensive reform was this May; Jakarta lowered tariffs on 2,481 imported industrial commodity goods. Under the old tariff rates, 7,300 imported industrial products were subject to tariffs, with one-third charged duties of 40 percent or more; under the new rates, only two percent of dutiable goods fall in this category.⁶ This policy is designed to make Indonesian exports more competitive in the world market by reducing prices on product imports. In addition, to bring Indonesia into conformity with international standards, Jakarta last year signed a copyright protection agreement with Washington extending protection to books, music, film, and computer software.

3 *Far Eastern Economic Review*, January 20, 1983, p. 46.

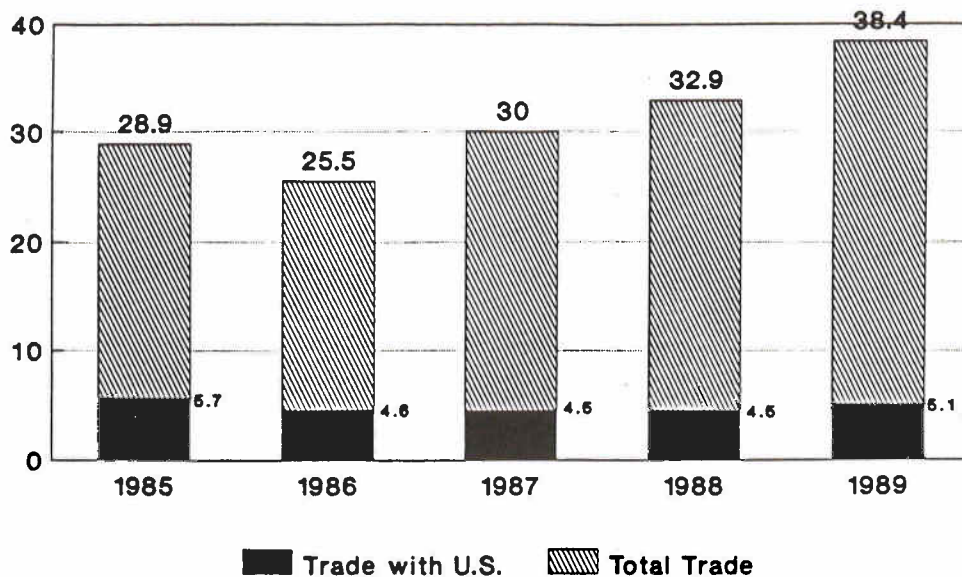
4 *Indonesia Development News*, March/April 1989.

5 *Far Eastern Economic Review*, September 22, 1983, p. 66.

6 *Far Eastern Economic Review*, June 7, 1990, p. 55.

Indonesian Trade with U.S

\$U.S. Billions



Heritage InfoChart

Source: Thomas J. Timmons, *U.S. and Asia Statistical Handbook 1990 Edition*, The Heritage Foundation.

INDONESIAN TOTAL TRADE AND TRADE IN MANUFACTURES						
Billions of \$U.S.						
	TOTAL EXPORTS	MANUFACTURE EXPORTS	% OF TOTAL	TOTAL IMPORTS	MANUFACTURE IMPORTS	% OF TOTAL
1985	18.7	2.5	13.4	14.2	9.0	63.4
1986	14.8	2.9	19.6	13.1	9.0	68.7
1987	17.2	4.3	25.0	14.5	10.7	73.8
1988	19.5	5.5	28.3	15.8	11.8	74.7

By the late 1980s, Jakarta's economic reforms began paying off. First, Indonesia achieved economic stability, and even was able to reduce its current account deficit – the overall balance of trade of goods and services, investment income, and government grants – from over 7 percent of its gross national product in the early 1980s to below 2 percent last year. At the same time, Jakarta met its external debt obligations on time, retaining its access to commercial banking.

Second, the Indonesian economy increased its average annual gross domestic product growth rate from 5.5 percent during the mid-1980s to 7.4 percent last year. Particularly healthy was the manufactured goods sector, growing by 17.9 percent from 1988-1989. This greatly has reduced Jakarta's dependence on oil exports, as non-oil export revenues have jumped from 20 percent of the total to now nearly 60 percent.

Third, Jakarta's cumbersome public sector gave way to a strong private sector. Since 1985, for example, private sector investment has risen by nearly 18 percent. During the first six months of this year, new commitments by domestic private investors reached \$17 billion, more than 50 percent above the \$11 billion total for all of 1989.

Fourth, foreign investment in Indonesia has soared. During the first half of this year, Indonesia's Investment Coordinating Board approved new foreign investment worth \$4.56 billion, only slightly less than the \$4.7 billion in foreign investment approved during all of last year.⁷ Cumulative foreign investment in Indonesia's private sector last year totalled \$40 billion, ranking Indonesia as one of the top two or three developing nations in terms of direct foreign investment.⁸

Bustling Exchange. One sector in which foreigners have been eager to invest is the Jakarta Stock Exchange (JSE). Over the past two years, the JSE has been transformed into one of the world's fastest growing markets. The number of listed companies now exceeds 90 — remarkable for an exchange which listed only 24 companies last year. The JSE is likely to raise more than \$3 billion this year, with foreign investors the major driving force. While there are some fears about the JSE's market liquidity, many foreign analysts remain bullish about the exchange's future.⁹

The Indonesian economy also will be getting a windfall from inflated world oil prices due to the Persian Gulf crisis. Jakarta now expects to earn an additional \$2 billion from oil exports during this year alone. At its current production levels, Indonesia can expect an extra \$500 million a year for every increase of a dollar per barrel in world prices.¹⁰

AMBITIOUS DIPLOMATIC AGENDA

Indonesia's successful economic deregulation campaign has been matched by an ambitious diplomatic agenda. In sharp contrast to its earlier isolation, Jakarta began reasserting itself during the early 1980s as it assumed the role of mediator between the Association of Southeast Asian Nations (ASEAN),¹¹ which supported the United Nations-recognized Coalition Government of Democratic Kampuchea, and the Socialist Republic of Vietnam, which then had 180,000 troops occupying Cambodia. In efforts to settle the Cambodian war, early last year Indonesia hosted two major conferences, known as the first and second Jakarta Informal Meetings (JIM). This year, Indonesia held two further conferences; in addition, Suharto traveled to Hanoi to discuss the issue last month. Unlike similar efforts hosted by Bangkok and

7 *Indonesia Development News*, July/August 1990.

8 J.B. Sumarlin, "Indonesia's Economic Optimism," *Heritage Lectures* No. 220, September 26, 1989.

9 *Asian Wall Street Journal*, July 23, 1990, p. 20.

10 *New York Times*, November 15, 1990, p. A15.

11 ASEAN is composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Tokyo, Jakarta generally has had more success in bringing the warring Cambodian factions closer to a comprehensive settlement.

Indonesia's widening diplomatic agenda has not been limited to Cambodia. Despite Suharto's staunch anti-communist outlook, Jakarta noticeably has improved its relations with Beijing and Moscow. In September 1989, Suharto traveled to the Soviet Union, the first such visit since relations with Moscow cooled following the abortive 1965 coup. And this August, Jakarta normalized relations with Beijing after a 25-year hiatus.

PROBLEMS ON THE HORIZON

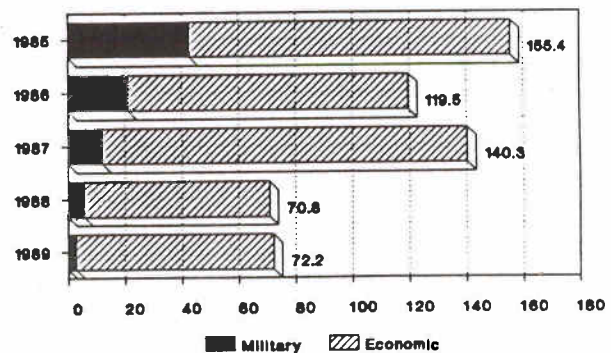
Behind Indonesia's current optimism, problems lurk. Of greatest immediate concern is the specter of inflation, which could hurt Jakarta's export competitiveness. The Suharto regime is especially sensitive to runaway inflation: it inherited an economy racked by an inflation rate of 650 percent when it took power in 1965. This year, inflation is expected to reach 10 percent, and the authorities already have imposed a tight monetary policy – driving up interest rates – in an effort to bring inflation down to single digits. Jakarta now must finesse its fight on inflation without discouraging investment, which has been key to Indonesia's recent record economic expansion.¹²

A second problem haunting Jakarta is its heavy foreign debt. This now stands at \$50 billion, with a debt service ratio (the ratio of repayment on foreign debt as a percentage of the country's export earnings) of about 35 percent. By contrast, India has a debt service ratio of approximately 25 percent and Thailand 16 percent. Compounding Jakarta's foreign debt has

	DEBT	% GNP
	Billions of \$U.S.	
1985	36.8	42.9%
1986	43.1	52.4%
1987	52.7	70.1%
1988	52.6	68.3%

Source: *World Tables 1989-1990 Edition*, World Bank, 1990.

U.S. Aid to Indonesia
\$U.S. Million



Heritage InfoChart

12 *Asian Wall Street Journal*, November 5, 1990, p. 5.

been the appreciation of the yen: nearly 40 percent of Indonesia's debt is denominated in yen. This burden has been eased somewhat by economic assistance from the Inter-Governmental Group on Indonesia (IGGI), an organization that makes loans to Indonesia, composed of Australia, Austria, Britain, Canada, Finland, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, and the U.S. This June, the IGGI granted Jakarta's request for \$4.5 billion in new aid.¹³ In addition, the U.S. in June announced that it would start giving its aid to Indonesia in the form of grants that do not require repayment.

A third problem faced by Indonesia is unemployment. The statistics to date are mixed. On the one hand, Indonesia's unemployed represent only 3 percent of a 74 million-man workforce. And, the number of Indonesians living in poverty has decreased from 35 million in 1984 to 30 million by the late 1980s.¹⁴ On the other hand, 44 percent of the workforce is underemployed, working fewer than 35 hours per week. In addition, Indonesia's rising middle class and more educated workers are adding fierce competition to a job market that may not be expanding fast enough to absorb them.

Poverty and Plenty. Fourth, Indonesia increasingly faces geographically unbalanced economic development. As in most developing countries, the capital city is both the financial and political center. Often at the expense of outlying provinces, the capital reaps the bulk of foreign and domestic investment, and with it modernization and wealth. In Indonesia, this imbalance has transformed Jakarta into a thriving metropolis of 7 million inhabitants, while the eastern provinces are left with the highest percentage of those living in poverty. In January 1990, Suharto promised to invest money and, more important, political will to develop the neglected eastern island of Sulawesi. For the fiscal year beginning last April, in fact, the government budget for transportation and communications facilities in the east was raised 300 percent.¹⁵ Still, in the likely event that this imbalance does not diminish noticeably in the foreseeable future, Jakarta runs the risk of facing growing discontent in the outer islands.

Finally among Indonesia's economic concerns is the state of the world economy. While Jakarta stands to reap a windfall profit from higher world oil prices, Indonesia already has seen a drop in new Western investment in Indonesia. Moreover, Western markets crucial for Indonesian manufacturing exports may well contract dramatically in the event of a world recession.¹⁶

Hints at Political Reform. Indonesia's political future is no less worrisome. Jakarta long has grown accustomed to stability brought on by Suharto's complete domination of politics since the 1965 coup attempt. With Indonesia's economic reforms, however, have come calls from the middle class for politi-

13 FBIS East Asia, June 22, 1990, p. 39.

14 *Far Eastern Economic Review*, June 14, 1990, p. 17.

15 *Asian Wall Street Journal*, June 11, 1990, p. 18.

16 *New York Times*, November 15, 1990, p. A15.

cal liberalization. This has been noted by Suharto, who this year began hinting at political reform. In August, for example, censorship of the foreign press ended. A few days later, former General Hartono Dharsono, jailed five years ago for political dissent, suddenly was released. Then in September, Suharto announced that Indonesians no longer had to seek guidance from "above," a reference to his powerful grip over Indonesian society.

Greatly affecting Indonesia's future, too, will be Suharto's own political career. His fifth five-year term as President ends in 1993, with campaigning for the next presidential race to begin in 1992. Speculation already is rampant as to whether Suharto will seek a sixth term. He has hinted as much this past August, but may well give no definitive answer for some time. Should he run, his victory is practically guaranteed, though it is believed that he may turn over government to his Vice President once into the sixth term. In any event, with Indonesia's first political transition since 1965 approaching, post-Suharto politics already has become a legitimate topic in Jakarta.

FORGING CLOSER AMERICAN-INDONESIAN TIES

American-Indonesian relations intentionally have remained limited since 1965 by Jakarta's wish not to jeopardize its role as a leader of the Non-Aligned Movement, but have benefited both nations. For the U.S., Indonesia's stable, anti-communist brand of neutralism assured Jakarta's ability to keep open its vital straits and maintain a moderating influence in international fora like the Non-Aligned Movement. Indonesia's economic reforms and more aggressive foreign policy now may present opportunities for increased benefits to the U.S. At the same time, U.S. policy toward Indonesia must recognize the strains Jakarta faces from current and future economic and political transition.

To strengthen the relationship while noting Indonesia's need to maintain political stability with economic growth, the U.S. should:

- ◆ **Urge Indonesia to enact further economic liberalization designed to attract foreign investment.** Jakarta fully recognizes the positive role of foreign investment. Foreign investors, in return, have seen Indonesia as a lucrative market, pouring in \$4.56 billion dollars during the first six months of this year alone. While Jakarta should be applauded for lifting many limitations to foreign investment, additional measures are needed. Foreign investors, for example, should be allowed freely to import those raw materials not available locally. Foreigners also should be permitted to retain majority ownership of operations in Indonesia in the long term; currently, a foreign company must relinquish control of an Indonesian subsidiary after fifteen years. Lastly, foreign investors should be allowed to have 100 percent ownership of operations anywhere in Indonesia; at present, complete foreign ownership is allowed only on Batam Island, near Singapore.

- ◆ **Encourage Indonesia to open Free Trade Zones (FTZs) in its eastern provinces.** Indonesia's eastern provinces, like Sulawesi, are rich in natural resources and inexpensive labor. At the same time, due to longstanding central government neglect, Sulawesi also faces growing poverty and backward infrastructural development compared to central and western Indonesia. This imbalance likely will grow, potentially leading to strains between outlying provinces and the central government. Foreign investment could help avert some of this friction by bringing jobs and infrastructural development to the east; an eastern FTZ, moreover, would provide the necessary incentive for foreign investors to leave Jakarta and travel to the provinces. An FTZ is a region, usually adjacent to a port or airport, in which foreign companies can transship or manufacture products without paying duties to the host nation. Several nations, such as Pakistan and Sri Lanka, have FTZs; other nations like India, the People's Republic of China, and Thailand have Export Processing Zones or Industrial Parks, which are similar in concept to FTZs. Indonesia already is developing an FTZ on Batam Island. Washington publicly should urge Jakarta to organize such a zone and devote part of its economic aid to building infrastructure to facilitate the creation of an FTZ.
- ◆ **Support Indonesia's role in mediating a settlement to the Cambodian conflict.** With its efforts to settle the twelve-year war in Cambodia generally viewed favorably by Washington, Jakarta has perhaps been most successful in forming bridges with most of the parties directly involved in the war. With Hanoi, for example, which supports the communist Hun Sen regime now in Phnom Penh, Jakarta has established a dialogue. In November, Suharto even traveled to Vietnam to discuss means of achieving a comprehensive settlement in Cambodia. With China, which provides assistance to the Khmer Rouge, Jakarta this year normalized bilateral political and economic relations. Washington publicly should applaud Jakarta's diplomatic initiative. Moreover, with an international peace-keeping force likely eventually to be dispatched to Cambodia, the U.S. should recall Indonesia's previous non-partisan monitoring effort in South Vietnam from 1973-1975 and urge Jakarta to head any international force sent to Cambodia.
- ◆ **Include a stop in Indonesia during George Bush's February 1991 trip to Asia.** Bush plans a trip to Asia in February 1991, with stops in Australia and Japan. This will be his second trip to the region, following his 1989 visit to Northeast Asia following the death of Japanese Emperor Hirohito. Ronald Reagan attended a 1986 ASEAN conference on the Indonesian island of Bali. Given its growing status as a Southeast Asian economic and diplomatic power, Bush should include Jakarta in his lists of Asian stops next February.
- ◆ **Encourage Jakarta to allow U.S. naval vessels to be repaired at Indonesian ports.** With the likely closing of American naval bases in the Philippines, the U.S. is exploring alternative Southeast Asian sites to deploy and repair its ships. Despite the easing of East-West tensions in Europe, most Southeast Asian nations recognize the strategic and

economic benefits of maintaining a U.S. military presence in Southeast Asia to balance the modernizing Soviet Pacific Fleet. Similarly, the vacuum left by the departure of a U.S. military presence could be filled by either China or Japan, alternatives not welcomed in Southeast Asia. To retain at least some U.S. military presence in the region, Singapore already has agreed to give Washington increased repair and stationing rights. Thailand, too, allows frequent U.S. naval portcalls. While recognizing Jakarta's desire to remain non-aligned, the U.S. should urge Indonesia, too, to begin discussing with Indonesia the possibility of allowing repairs of U.S. naval vessels in Indonesian ports.

CONCLUSION

Since 1983, Indonesia has transformed itself from a sleeping economic giant to a vibrant, export-led regional economic power. Similarly, Jakarta has shed its isolationist foreign policy and is once again assuming the mantle of a dynamic player in international relations. Further expansion on the economic and diplomatic fronts, however, is predicated on Indonesia's ability to sustain political liberalization as a post-Suharto era looms.

Next Asian Economic Miracle. Washington's quiet but close relationship with Jakarta should be designed to reassure Indonesia during this most challenging period of transition since 1965. In doing so, the U.S. can share added mutual benefits of trade and diplomatic relations as a strong, stable Indonesia blooms into Asia's next economic miracle.

Kenneth J. Conboy
Acting Director
Asian Studies Center

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