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#4 memo	For the President re Indonesia secret 8 p <i>open 2-25-94 NLJ 93-321</i>	6/30/64	A

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National Security File, NSAM File, NSAM 309

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THE WHITE HOUSE
WASHINGTON

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July 6, 1964

NATIONAL SECURITY ACTION MEMORANDUM NO. 309

FOR: The Secretary of State
 The Secretary of Defense
 The Administrator, Agency for
 International Development

SUBJECT: Presidential Determination -
 Aid to Indonesia

On the recommendation of the Secretary of State, the Secretary of Defense, and the Administrator of the Agency for International Development, the President has decided that no public determination with respect to aid to Indonesia should be made at this time, in view of the unsettled conditions in the South Pacific area. The limited programs, however, of economic and MAP assistance which have resulted from the reviews conducted by the Secretaries of State and Defense are essential to the national interest and are to continue. The Secretaries of State and Defense will report to the President on a quarterly basis the results of their continuing review of these programs.

McGeorge Bundy

McGeorge Bundy

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E.O. 12356, Sec. 3.4
NLJ 93-65
By 110, NARA, Date 11-16-92

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Despatch

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NATIONAL SECURITY COUNCIL

July 6, 1964

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Mac:

Herewith the final version
of the Indonesia NSAM, slightly
revised to accord with the sug-
gestions of David Bell.

Mike

Mike Forrestal

Mr. Bundy

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JUN 29 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Status Report on Relations with
Indonesia

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E.O. 12356, Sec. 3.4

NEJ 93-321

Recommendation:By Wig, NARA, Date 2-1-9

I recommend, with the concurrence of Secretary McNamara and AID Administrator Bell, that you approve continuation of carefully selected economic and military assistance to Indonesia, of the types now being provided, as originally approved in NSAM 278 of February 3, 1964.

Approve _____

Disapprove _____

Discussion:

1. The "Summit Meeting" of President Sukarno of Indonesia, Prime Minister Rahman of Malaysia, and President Macapagal of the Philippines took place in Tokyo recently. I believe the results represent limited progress and there is still a basis for further negotiation. The three heads of state agreed on a communique accepting in principle the designation of an "Afro-Asian Conciliation Commission" to assist the parties in resolving their differences. They also agreed to instruct their Foreign Ministers to continue to study the proposal for a conciliation commission with a view to a further meeting of the heads of Government.

Personal relations between Sukarno and the Tunku were poor at the conference and both returned home issuing angry statements. We are apprehensive that the guerrilla activity in Borneo may now increase again. Our efforts and those of

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Group 3

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President Macapagal continue to be directed to attempts to restrain violent speech and action. Our effort will be to keep the attention of Sukarno and the Tunku focused on the fact that there is an agreement which must be carried out, starting with a meeting of the Foreign Ministers.

2. As you know, our limited programs of economic and MAP assistance with Indonesia have continued, in accordance with your decision recorded in NSAM 278 of February 3, 1964, pending the outcome of the "Summit Meeting." In my judgment, concurred in by the Secretary of Defense and the Administrator of AID, it is essential to the national interest to continue carefully selected economic and military assistance to Indonesia of the types now being provided. We should not, however, make a formal public announcement of continued assistance for this might give unwarranted encouragement to President Sukarno. If you approve the above recommendation, we will routinely and confidentially notify the Congress of the current status of assistance to Indonesia, as required by Section 620 (j), without reference to a renewed Presidential decision.

/s/ Dean Rusk

Dean Rusk

Enclosures:

1. Statement of Reasons
for Continuation of
Limited Assistance to
Indonesia.
2. Current Assistance Pro-
grams in Indonesia.

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The reduced FY 1964 AID program totals approximately \$10 million and the revised FY 1964 MAP is \$1.9 million. All the FY 1964 MAP funds are for training; 90% of the FY 1964 AID funds are for training and malaria eradication. Similar programs at approximately the same level are planned for FY 1965. (See Tab B for details.)

We are currently training 490 civilian technicians, administrators and managers, and 170 military personnel (including 50 officers under the civic action program) who will play an important part in Indonesia's future leadership. In addition, U.S. university faculty teams in Indonesian institutions are reaching thousands of additional key Indonesians. Our training programs give us a unique opportunity to shape the thinking of Indonesia's future civilian police and military leaders. Continuation of the malaria eradication program, benefiting approximately 70,000,000 people of the central islands, is protecting an existing investment of some \$36 million and would demonstrate our continuing concern for the Indonesian people. If we stopped now, malaria--now virtually eradicated in Java and Bali--would almost inevitably recur. The program of assisting the national police has given us valuable influence in this key organization (the country's first line of defense against internal subversion) and has greatly enhanced its effectiveness.

Continuation of these limited programs is essential to achievement of our policy objectives in Indonesia and to the national interest of the United States. Termination of the remaining programs would have little or no impact on Indonesia's capacity to continue "confrontation." The Indonesian Government would be likely to react to such termination by lashing out in anger, pushing "confrontation" harder, turning for help to the Communist powers, and further widening the gap between Indonesia and the West. In the process, substantial American oil and other private investment in Indonesia might well be expropriated.

All elements of these programs, including pipeline deliveries from previous years, as well as PL 480 programs (which are not controlled by Section 620 (j)), are being kept under continuing review.

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June 22, 1964.

Statement of Reasons for Continuation of
Limited Assistance to Indonesia

Indonesia, in terms of size, natural resources and strategic location, is a key country of Asia. In the midst of a convulsive transition from the colonial past, it has become a major target of the Communist powers and is itself a source of tension in Southeast Asia. For the past nine months it has been pursuing a policy of political, economic and military "confrontation" against Malaysia.

Our Indonesia policy requirements are two-fold: (1) to halt Indonesia's "confrontation" against Malaysia and restore equilibrium to the area and (2) to influence the course of Indonesia's long-range development in a direction consistent with our security needs.

Our aid programs have been an essential tool in this dual task. Over the years, they have helped us keep open the communications between our two Governments and build up a limited but real leverage with the Sukarno regime, which we are using to prevent a dangerous drift away from the West. Although "confrontation" has not yet been abandoned, our influence has probably helped prevent greater deterioration and encouraged the Indonesian Government to join with Malaysia and the Philippines in seeking a peaceful settlement of their differences.

Those forms of assistance which could help Indonesia maintain "confrontation" against Malaysia have been eliminated, and we do not intend to resume them so long as "confrontation" continues.

The present AID program is limited to technical assistance, including civil leadership training and advisory services, malaria eradication assistance, and police training and equipment. (Arms and ammunition have been and are being withheld.) The present Military Assistance Program is limited to training in those categories which do not contribute to Indonesia's immediate offensive capability. The training is almost entirely confined to operations, logistics and administrative fields. However, no training is being provided in such fields as ranger, pathfinder, airborne, counter-insurgency, parachute packing, in-flight refueling, and landing force staff planning.

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CURRENT ASSISTANCE PROGRAMS IN INDONESIA

The reduced FY 1964 A.I.D. program now totals \$10.6 million and the revised FY 1964 MAP is now \$1.9 million. All the FY '64 MAP funds are for training; 90% of the A.I.D. FY '64 funds are for training and malaria eradication. Similarly limited programs are planned in FY 1965.

The obligation status of the 1964 A.I.D. program and MAP is as follows (for further details see Attachments A. and B.):

Major Categories	(Millions U.S. \$) FY 1964 Program Levels	Obligated thru 4/30/64	Obligations Required In May and June
<u>A.I.D.</u>			
Development Grants	10.40	4.40	6.00
Supporting Assistance	.22	.01	.21
A.I.D. Total	10.62	4.41	6.21
 MAP Total	 1.90	 1.90	 --

Unexpended balances of prior year A.I.D. fund obligations (pipeline) to December 31, 1963, were recorded at \$27.4 million, and have since been reduced to \$22.5 million, as of March 31, 1964. (For further details see Attachment D). Prior year MAP undelivered balances as of December 31, 1963 totaled \$18.4 million and were reduced to \$18.0 million as of March 31, 1964, excluding suspended items amounting to \$3.0 million. This total includes \$8 million worth of electronic equipment for a fixed communications project which is being stored in the U.S., pending completion of site preparation.

The Programs described below draw upon both FY '64 and "pipeline" funds.

I. Training Indonesian Leaders and Technicians in the U.S. - A.I.D.

A. Civil Leadership Training

Provision is made for training in the U.S. of approximately 600 Indonesians in specialized fields of government administration, higher education, university administration, and science, engineering, medicine and agriculture. Participants are selected on the basis of potential leadership and priority manpower requirements. The training program in Indonesia is being expanded, with greater emphasis being placed on youth and the next generation of leaders.

B. Civic Action

The program provides civil training in the U.S. for Indonesian army officers (approximately 75) in support of the Indonesian

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Armed Forces civic action program. This total includes approximately 50 Indonesian Officers handpicked by General Nasution with the intention that they occupy key positions in the civil government upon their return. Training is provided in management, civil administration and technical fields.

II. Technical Assistance in Indonesia - A.I.D.

Approximately 114 U.S. direct-hire and 67 contract U.S. personnel are now at work in Indonesia providing technical services and managing the program. There are currently 22 on-going A.I.D. activities (including Malaria Eradication and loan projects) in progress in Indonesia. These activities consist essentially of the following:

A. Education and Government Administration

Through four contracts with U.S. universities and the work of Mission personnel, A.I.D. is assisting Indonesian colleges and universities in the fields of medicine, engineering, technology, and agriculture. Contracts with the following universities are being financed by A.I.D.: University of California - Berkeley (medicine) and University of California - Los Angeles (Science and engineering), University of Kentucky (Science, engineering and agriculture). Through private consultant contract teams and Mission staff, A.I.D. is advising Indonesian government officials in the fields of economic policy, fiscal administration, and air and maritime transportation operations, labor relations, and agriculture.

B. Improving Indonesia's Internal Security Capability

Training in Indonesia by U.S. technicians and commodity support are being provided to improve the effectiveness of Indonesia's National Police. A three-year program is nearing completion to re-equip the Mobile Brigade, a specialized internal security force on which we count to deter or resist Communist-inspired riots and insurrection. However, deliveries of weapons and ammunition for the Mobile Brigade have been suspended since September 1963; delivery of vehicles and contracting for communications equipment have been suspended since the beginning of 1964, pending further review. Moreover, all FY 1964 funding for equipment and supplies for the Mobile Brigade has been eliminated. The leadership of both Indonesia's National Police and the Mobile Brigade have been trained in the U.S. exclusively.

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C. Civic Action

In addition to the training program described in section I B, above, a U.S. Army Mobile Training Team is training military engineering personnel in Indonesia to operate and maintain equipment previously provided (under MAP and A.I.D. programs) in order to improve the Indonesian Armed Forces capacity to carry out programs of civic construction (roads, schools, irrigation, etc.)

III. Malaria Eradication - A.I.D.

Java, Madura and Bali are almost completely protected by a program undertaken cooperatively by A.I.D., WHO and the Government of Indonesia for which the United States has, since 1951, obligated \$36 million. The program provides U.S. advisors, DDT drugs, training and equipment, and has protected approximately 70 million Indonesians. FY 1964 funds will finance additional advisors, DDT, and drugs essential for consolidation stage, during which spraying is withdrawn as malaria incidence approaches zero.

IV. Capital Project and Spare Parts and Raw Materials Loans - A.I.D.

No new loans are being considered.

Note: The following five loan agreements are outstanding under which about \$10 million (almost entirely under irrevocable letters of credit) remain to be disbursed: Harbor Development; Railway Rehabilitation; Djakarta By-Pass; Diesel Electrification Spare Parts and Raw Materials.

V. Military Training Program - MAP

Military training in the U.S. of Indonesian armed forces personnel has been restricted to those categories which do not contribute appreciably to Indonesia's offensive capabilities and which will not have an adverse impact on our allies or on the U.S. political scene. The training is almost entirely confined to Operations, Logistics and Administrative fields. However, no training is being provided in such fields as ranger, pathfinder, airforce, counter-insurgency, parachute packing, in-flight refueling, and landing force staff planning.

VI. Military Equipment Program - MAP

No funds are included in the FY 1964 MAP for provision of equipment for the Indonesian armed forces. Moreover the undelivered pipeline

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from FY 1963 and prior year Military Assistance Programs has been subjected to a careful review resulting in the suspension of delivery of arms and ammunition, and selected equipment amounting to \$4.6 million. Deliveries against the balance of the pipeline are moving forward on a carefully screened basis. In addition \$8 million worth of electronic equipment for a fixed communications project is being stored in the U.S., pending completion of site preparation.

Attachments:

- A. Proposed MAP and A.I.D. FY 1964 Program Obligations
- B. Reductions in FY 1964 MAP and A.I.D. Programs
- C. Pipeline
- D. Food for Peace Program

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Proposed MAP and A.I.D. FY 1964 Program Obligations

AID PROGRAM	FY 1964 Program Level	Obligated as of 4/30/64	Balance to be Obligated by 6/30/64
<u>Development Grant</u>	<u>10.40</u>	<u>4.40</u>	<u>6.00</u>
Technical assistance and training of civil leadership groups, including training of approximately 570 Indonesians in U.S. and third countries. (14 projects in higher education, governmental administration, agriculture and economic policy)	7.24	2.27	4.97
Civic Action training in U.S. of Indonesian military officers	0.46	0.46	0
Malaria eradication, including technicians, insecticides, drugs and equipment.	2.70	1.67	1.03
<u>Supporting Assistance</u>	<u>0.22</u>	<u>0.01</u>	<u>0.21</u>
Technical assistance and training of Mobile Brigade (police), including communications and transportation equipment.	0.22	0.01	0.21
<u>Development Loans</u>	<u>0</u>	<u>--</u>	<u>--</u>
Capital project loans a/	0		
AID TOTAL	10.62	4.41	6.21
<u>MAP</u>			
Training for military and civic action	1.90	1.90	0
<u>TOTAL FY 1964 PROGRAMS UNDER FOREIGN ASSISTANCE ACT</u>	<u>12.52</u>	<u>6.31</u>	<u>6.21</u>

a/ Excludes a pending tin mining rehabilitation loan application for approximately \$10 million, for which consideration has been suspended.

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6/22/64

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Attachment B

Reductions in FY 1964
MAP and A.I.D. Programs

The FY 1964 programs have been reduced in value to less than one-fourth the FY 1963 total. The FY 1963 AID program totaled \$36.6 million in new obligations; MAP was \$16.6 million.

The reduction of these programs as compared with initial plans for FY 1964 has been even sharper. The initial FY 1964 Congressional Presentation proposed an AID program of \$29.4 million plus prospective AID Contingency Fund loans of \$40 million as part of a package of Western support for the Indonesian-IMF stabilization program. The initial MAP proposal for FY 1964 totaled \$16.4.

We have reduced the FY 1964 AID programs primarily by deferral of all planned obligations for communications and transportation assistance for the Mobile Brigade, by eliminating commodity procurement funding for civic action and by suspension of consideration of both stabilization and development project loans. The FY 1964 MAP proposals have been reduced by eliminating weapons and ammunition and equipment and spares unrelated to civic action.

The reduced programs now in operation consist primarily of training present and potential Indonesian leaders in the United States and through U.S. university, military and contract teams in Indonesia. If Indonesian policies and performance are to be changed for the better, such training and exposure to American and other free world thinking and methods is essential. These training projects and the malaria eradication project account for about 90% of the revised FY '64 AID program.

The Military Assistance Program has been restricted to training, including training in military civic action, a means of strengthening popular support for the Army and to a lesser extent other Indonesian armed forces in their contest with the Indonesian Communist Party.

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PIPELINE TREND

Estimated Unexpended Balances of All Obligations*

<u>AID Program</u>	<u>(Millions of U.S. \$1)</u>	
	<u>As of Dec. 31, 1963</u>	<u>As of Mar. 31, 1964</u>
Development Grants (primarily for contract forward funding, participant training and commodities).	11.6	9.1
Supporting Assistance (primarily for commodities, excluding arms which are suspended for Mobile Brigade, and balance of March 1963 spare parts and industrial raw materials import loan).	10.8 ^{a/}	8.6 ^{c/}
Development loans (unexpended obligations for equipment and contract services under a port and harbor loan and a railway loan, both made in June 1959).	5.0	4.8
AID TOTAL	27.4	22.5
<u>MAP</u>		
Undelivered balances - equipment and spares (excludes weapons and ammunition)	18.4 ^{b/}	18.0 (est)
MAP TOTAL	18.4	18.0
GRAND TOTAL	45.8	40.5

* These figures are inflated by a lag of several months in recording accounts on payments per USAID/Djakarta's U-203-3/31/64 report.

^{a/} Excludes \$2.6 million for weapons and ammunition for the Mobile Brigade which have been suspended.

^{b/} Excludes \$3.0 million for weapons and ammunition which have been suspended. Department of State and Defense have reviewed the undelivered balances and deleted items which would aid Indonesia's military aggressive capabilities. Includes \$8 million worth of electronic equipment for a fixed communication project now being stored with the U.S. pending completion of site preparation.

^{c/} Reflects actual bank disbursements under Spare Parts and Industrial Raw Materials \$17 million loan.

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Attachment D

INDONESIA

FOOD FOR PEACE PROGRAM

(Not Restricted by Section 620(j) of the Foreign Assistance Act)

The U.S. and Indonesia have a 3-year PL 480, Title I Sales Agreement which expires in February 1965. During FY 1964, the U.S. issued procurement authorizations under this agreement and amendments thereto, as follows:

<u>Commodity</u>	<u>Value (Millions)</u>
Rice	10.22
Cotton	14.85
Tobacco	.30
Veg. Oil (Soybean)	<u>1.24</u>
Title I Total	26.61

Since September, when Indonesia launched its "confrontation" with Malaysia, PL 480 Title I procurement authorizations have totaled \$20.9 million. Remaining commitments under 3-year Sales Agreement currently being withheld for either political or economic reasons: 32.12

In addition, assistance was furnished the GOI as follows:

Title II-Disaster relief, WFP (Bali)	3.00
Title III-Voluntary Agencies	<u>3.73</u>
	6.73

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