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#2 report	<p>Notes on NSC Meeting of 8/4/66 Secret SECRET 1/6/82 XXI 5 p 08/04/66 A <i>sanitized 4-17-86 per FEVS Vol. XXVI #217</i> <i>NE 86-160</i> <i>open 9-27-12 per RAC</i></p>		

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THE WHITE HOUSE

WASHINGTON

August 4, 1966

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INFORMAL NOTES ON NSC MEETING OF AUGUST 4, 1966

The President opened the meeting by calling attention to the recent dramatic change in Indonesia's internal political situation and its foreign policy orientation. He recalled that just one year ago the NSC had met and decided to cut off most U.S. aid to Indonesia which was then rapidly moving toward becoming an out-and-out Communist state.

He asked Secretary Rusk and Mr. Helms to report to the group on recent Indonesian developments.

The Secretary noted that on his recent trip to Asia, he had met with many signs of a new mood and new confidence in Asia. He said the atmosphere was clearly attributable to two things:

(1) Our obvious determination to stand fast in Viet-Nam and to help preserve the physical security of the area;

(2) The abrupt reversal of Indonesia's course.

An important question was whether the Indonesian changes were going to stick. He thought that all things considered there was a good chance they would. There was an outside chance of a revival of Sukarnoism. There was a chance, too, of internal bickering in the armed forces that could break into open conflict. But the Secretary thought both of these chances were remote.

On confrontation with Malaysia, the prospects for an end looked promising.

The main problem was economic. He underlined the external debt problem and the need for rescheduling. He noted the large debt to the Soviets and said we had to be careful that we were not giving aid to Indonesia that merely went into repaying the Soviets.

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He estimated the probable need for economic assistance from us at about \$50 million the first year.

He stressed the desirability of working through a multilateral framework in providing aid to Indonesia. He said the Japanese role would be particularly important.

Regarding U. S. policy, the Secretary said that we had deliberately moved slowly to date. This was largely a response to Indonesian desires that we not assume too great or obvious a role. We and they recognized that an excessive U.S. reaction to internal events could be the "kiss of death" to the present leadership.

In the short run, our assistance would move largely through PL-480, and he noted that we had already sold rice and cotton to Indonesia through this channel.

He said we were working on the problem of the Hickenlooper amendment, looking to a Presidential Determination that would find aid to Indonesia in our national interest. This awaits certain actions by the Indonesians.

He said it was important to get the Indonesians and the IMF to knuckle down to a comprehensive development plan for the country.

We would have to expect that we would face making a distinction between what the Indos will want and what we think they can effectively use in terms of economic aid.

The Secretary summarized his views by saying:

the problem of Indonesia is of vital importance;

we must be ready to move quickly and effectively;

we must try to speed up the multilateral approach to the problems of debt rescheduling and aid.

The Secretary said he was of the impression that the Congress was in a mood to support this general approach.

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Mr. Helms said he concurred in the Secretary's description of the problem.

On confrontation, he noted that a report had just come in saying that Malaysia's Foreign Minister Razak would be going to Jakarta at the end of August. He would reach agreement with the Indos that:

(1) Confrontation should be ended;

(2) Full diplomatic relations would be restored as soon as there was reconfirmation of the desire of Sabah and Sarawak to remain in the Malaysian family.

Regarding the present government, Mr. Helms thought the new cabinet was the best in years. He admitted it was somewhat weak in the economic field. But he said it was behind the Triumvirate and strengthened the latter's hand. He thought the three leaders (Suharto, Malik and the Sultan of Jogjakarta) were all good men and that the administration had an aura of stability.

He underlined the economic problems, noting, for example, that 55% of the country's transport was inoperable.

The President said he thought we should follow the line recommended by Secretary Rusk. He stressed the importance of keeping Congressional circles fully informed of developments and of our thinking. He asked for the Vice President's views.

Vice President Humphrey agreed with the need for keeping Congress aware of developments in Indonesia. But he said there was a far more sympathetic mood on the Hill now. He said many Congressmen saw what had happened in Indonesia as a consequence of our firmness in Viet-Nam.

He said it was vitally important for us to encourage other countries to lend a helping hand in Indonesian economic rehabilitation. He noted he had talked with Minister MIKI of Japan about this and that Japan had recently granted Indonesia a \$30 million credit.

The role of the IMF was discussed and it was noted that there was a problem of Indonesia's \$47 million debt to the Fund which would have to be solved.

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The President asked for Mr. Rostow's views.

Mr. Rostow said two things were worth noting:

(1) That Indonesia provided a chance to establish a new pattern of multilateral help in Asia;

(2) That here was an opportunity to link multilateral assistance with the newly established Asian Development Bank.

This was a pioneer case and there was a chance to develop around Indonesian aid the Asian equivalent of CIAP in Latin America. Asians who needed help should go to Manila, not to Paris; a new and encouraging pattern could emerge and should be encouraged.

The President asked whether this was not along the same line as the recommendations for Africa in the Korry report.

Secretary Rusk said that the African development would be weaker, but that the Asian Development Bank would have real strength.

The President asked for an estimate of how much the proposed assistance was going to cost.

Mr. McNaughton thought the cost of military aid would be small -- less than \$10 million.

Secretary Rusk thought that the overall cost -- including PL-480 and cooperation in multilateral aid -- would be less than \$100 million.

There was a brief discussion of the cost for assistance to Viet-Nam.

Mr. Gaud said the problem in Viet-Nam was less a matter of money than of priorities and Vietnamese capabilities to absorb.

On Indonesia, Mr. Gaud said that the emphasis on multilateralism could not be too great. He said that the Indonesian case provided an opportunity to give an effective answer to Senator Fulbright.

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He also noted that the requirements for additional aid might be less than we think. He noted that refunding of Indonesia's large debt would free considerable funds which could take the place of external aid. He also noted that with our PL-480, the Japanese loan and other sources, some \$80 million had gone into Indonesia in recent months in short-term assistance.

The President asked what the chances were for a comeback by Sukarno.

Mr. Helms said he thought the president leadership in Jakarta could control this.

Secretary Rusk noted that the Army and others knew their lives would be in danger if Sukarno, Subandrio and Co. returned to power. They therefore had a large personal stake in preventing any revival of Sukarnoism.

The meeting ended with Secretary Rusk commending the Korry report on Africa to the principals as one of the best jobs of its kind he had seen in a long time.

W. J. Jorden

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Wednesday, August 3, 1966

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Mr. President:

The suggested order of business for the 45-minute NSC discussion on Indonesia is as follows:

1. Your opening remarks:
 - a. Meeting called to discuss policy plans for Indonesia which is reversing its Communist course following a political upheaval.
 - b. Recall one year ago in this room deciding to cut off most assistance to Indonesia which was then moving fast toward an out and out Communist state.
2. Call on Secretary Rusk to summarize how we plan to make the most of this favorable development in Asia.
3. Ask Director Helms to comment.
4. Conclude the meeting by:
 - a. Approving general policy line recommended.
 - b. Emphasizing the importance of keeping Congressmen informed and avoiding political controversy over Indonesia.

W. W. Rostow

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LIST OF ATTENDEES, NSC MEETING, 563

August 4, 1966

Vice President Humphrey
Secretary of State Rusk
 Under Secretary of State Ball
 Acting Assistant Secretary Berger
Assistant Secretary of Defense McNaughton
OEP Director Bryant
CIA Director Helms
JCS Acting Chairman Admiral McDonald
USIA Director Marks
AID Administrator Gaud

Walt Rostow
Robert Kintner
Goerge Christian
Bromley Smith
William Jorden

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