

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

7 January 1964

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Probable Repercussions of US Aid Cuts to Indonesia

CONCLUSION

A partial cutting of aid to Indonesia would provide a serious jolt to US-Indonesian relations and invite various anti-US actions, including protest riots and demonstrations, but would probably not lead Sukarno to expropriate US property or break diplomatic relations. It would reduce such influence as the US now has with Indonesia, but this influence has long been very limited anyway. It would probably not moderate Sukarno's active hostility to Malaysia. It would enhance Soviet and Communist Chinese opportunities in Indonesia, though Sino-Soviet competition would work to limit the power of either party. The UK and Malaysia would be encouraged by the move.

There would be at least an even chance that a much tougher US course, such as completely cutting aid, would provoke Sukarno to permit mob violence against US nationals, expropriate US property, and break diplomatic relations. Sukarno would probably accord the PKI a larger role in national affairs, in particular by bringing Communists into the Cabinet. Indonesia's already shaky economy would be further disabled, but this would probably not threaten Sukarno's continuing dominance of Indonesia. We doubt that even this tough US course would alter Sukarno's plans with respect to Malaysia.

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GROUP 1
Excluded from automatic
downgrading and
declassification

ESTIMATE

1. Any substantial cut in US aid to Indonesia would involve severe jolts to US-Indonesian relations. Termination of aid on a gradual, selective, and quiet basis, would come as less of a blow, and give rise to less extreme and lasting reactions, than could be expected if the move were sudden, public, and complete, or if it were based on the "aggressor" clause. However, we do not want to underestimate the extent to which the volatile Sukarno's intense self-esteem and national pride would be challenged by any significant move in this direction.

2. Sukarno completely dominates Indonesian foreign policy, and the manner and extent of Indonesian reactions would be largely a matter of his personal decisions. Sukarno has repeatedly shown that he lives by an international double standard, according to which the great powers, especially those of the West, are expected to suffer him in patience while he himself feels no such restraints. His defensive pride in the face of a rebuff by the most powerful Western nation would call, almost inevitably, for some retaliatory gestures.

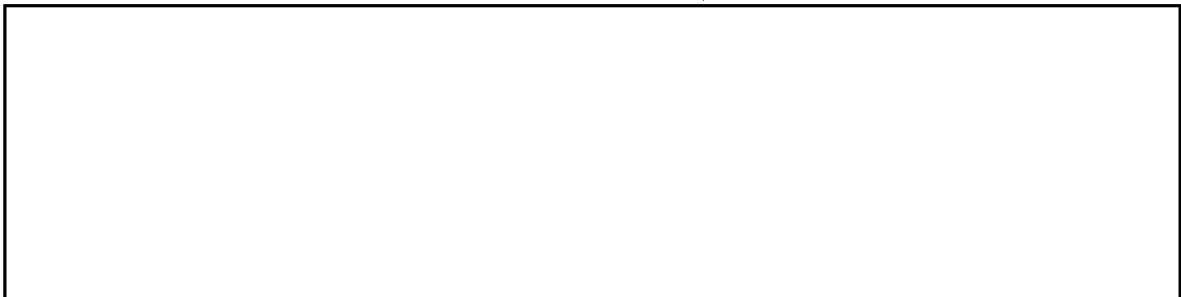
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A. Consequences of the Gradual and Selective Approach

3. We think it probable that Indonesia would stop short of breaking relations, though we cannot rule out such a move as part of Sukarno's first emotional response. Our judgment that he would avoid such action is based primarily on the fact that Sukarno, for all his long record of intemperate outbursts, is not in fact quite as reckless as he often sounds, and would probably be anxious not to jeopardize remaining US economic assistance.

4. We believe, however, that some hostile acts would be taken against US interests and personnel in Indonesia. Communists and other leftists would probably mount protest rallies and demonstrations, in major Indonesian cities, outbursts which would be encouraged by the government in the manner of the anti-British riots of last September. These could become dangerous to life and property, even though we think the Indonesian authorities would want to limit them.



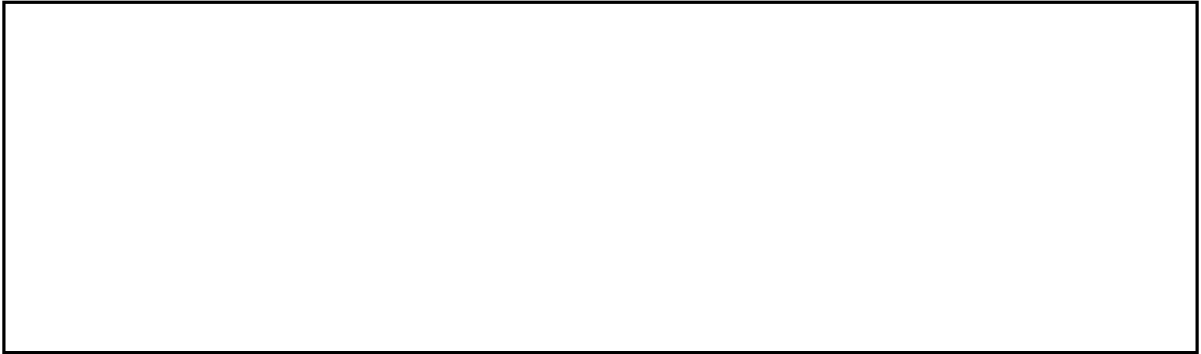
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6. Privately-owned US interests, notably those of the oil and rubber companies, would almost certainly come in for increased restrictions and encroachments, but we think the odds would be against expropriation, at least under presently foreseeable circumstances. Sukarno has too much need for the dollar earnings accruing from these operations and probably realizes the difficulties involved in marketing the output. In addition, he has no wish to frighten off other, badly-needed foreign capital. In time, of course, Indonesian restrictions on, or harassments of, these concessions might grow to the point where the companies lost interest in pursuing operations, but this would probably not be a short-term consequence of the kind of move being discussed here.

7. So far as the more general effects of the new US policy on Indonesian foreign policy and orientation are concerned, the first and most obvious is that US influence on Indonesia would drop, while the opportunities of the USSR and Communist China

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would be enhanced. This prospect is not so horrendous as it might appear, since US influence, despite the considerable services of the US to Indonesia, has been extremely limited for some years. Sukarno's "neutrality" has long had a distinct pro-Soviet cast, the result in part of his innate suspicions of the former colonial powers, and of the fact that his pursuit of Indonesian ambitions for regional dominance have brought him into recurrent collisions with Western interests. The Soviets have supported his ambitions and have supplied military equipment on credit (some \$1 billion worth so far).

8. Malaysian Campaign. The increasingly warlike Indonesian campaign against Malaysia would probably not be checked by this evidence of US displeasure. On the contrary, the US action would dispel such hope as Sukarno now has that the US might, as in the case of West New Guinea, play a mediator's role, to Indonesia's benefit; and Indonesia would be likely to press on with military and paramilitary methods of achieving Sukarno's goal of detaching Sarawak and Sabah from Malaysia. US economic assistance has never greatly restrained Sukarno in his foreign adventures and the new US stance would reduce even the present meager capacity of the US to influence his actions with respect to Malaysia, not to

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mention tiny Portuguese Timor. There would probably be an increase of PKI influence in Djakarta, which would increase internal pressures for greater militancy against Malaysia.

9. The new US policy would encourage British and Malaysian expectations for stronger US support against Sukarno's Malaysian confrontations. The UK and Malaysia would in any case be heartily encouraged by this move. The UK might be emboldened to make more vigorous responses to Indonesian provocations.

10. The Soviet and Chinese Communist Responses. A substantial worsening of US-Indonesian relations would be regarded in Moscow as a windfall. The Soviets have gained considerable influence with Sukarno, but their efforts have fallen far short of a decisive or commanding position. A change in the Indonesian attitude, as a result of a US rebuff, would provide new openings for the Soviets. Over the past several years, the USSR has extended \$368 million credits for nonmilitary aid to the Indonesians. All of this has been committed to specific projects, but only about \$61 million has been spent. Given the projected losses in US aid, we believe Sukarno would seek a more rapid implementation of the Soviet program.

11. The Soviets would probably support Indonesia in defiant anti-Westernism, and in a more active campaign against Malaysia,

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much as the USSR did at the height of the West Irian controversy in 1962. At the same time, the Soviets would want to avoid a fracas in Southeast Asia that threatened a direct US-Soviet collision, one which would dispel prospects of a general easing of cold war tensions, in which we believe the USSR now sees considerable advantage. All-out backing of Sukarno against the US might seem to Moscow too high a price to pay for the value received. We doubt, however, that the USSR would be faced with need to give such backing, since Sukarno himself probably wants to avoid war over Malaysia.

12. One cloud on the Soviet horizon would be the Chinese Communists, who would find almost unalloyed good in a heightening US-Indonesian controversy, and seek to make the most of it. One avenue of approach for the Chinese would be through the Indonesian Communist Party, which along with the Indonesian army has been Sukarno's main pillar of organized support, and which favors the Chinese in the Sino-Soviet rift. Competition between the Soviets and the Chinese would be an extra inducement to both to play an active role in wooing Indonesia, but it would also serve to diminish the chances of either side to assume the role of sole protector of Sukarno against the West.

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13. The new US policy would emphasize the delicate and ambivalent position of the Philippines. The Manila Government, hoping to be the honest broker role once again, would probably combine some public expressions of sympathy for embattled Indonesia with some private assurances to the US of understanding for its position. In general, the Filipinos would hope that this stance would get them through, avoiding the need for clear-cut alignment either way.

14. In certain states elsewhere in the underdeveloped world, now receiving US aid, the message would not be lost that the US was willing to demonstrate its displeasure over unwelcome behavior. This would give comfort to certain US allies like Thailand. Nasser would be aware of the danger signals implicit in this move for his own relations with the US -- as he already is of the Congressional intention in the "aggressor" amendment. Nevertheless, we are not sanguine that he or any other nationalist leader -- e.g., Nkrumah or Sihanouk -- would be significantly inhibited from any policies he might otherwise pursue.

B. Consequences of a Much Tougher US Stance

15. A much tougher US course, such as completely cutting aid, would draw more violent reactions from Sukarno. He would

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probably permit much violence against US lives and property and, at a minimum, would severely restrict the numbers and activities of US personnel in Indonesia. There is at least an even chance that he would expropriate US properties and break diplomatic relations.

16. The US aid termination would remove one barrier to increased PKI participation in the Indonesian Government. Communists would probably be admitted to the Cabinet for the first time and the Party would gain a long-sought voice in the management of nationalized enterprises. It would also benefit from the further deterioration of the already shaky Indonesian economy, but we do not believe that either PKI gains or economic deterioration would be likely to threaten Sukarno's continuing dominance of the country.

17. The US course, unaccompanied by greater US commitments to the defense of Malaysia would not moderate Sukarno's anti-Malaysia campaign and might indeed strengthen his determination to wreck Malaysia and oust the West -- including the US presence in the Philippines -- from Southeast Asia. His relations with the USSR and Communist China would probably become extremely cordial as his

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dependence on their support increased, though we do not believe that this relationship is likely to be carried to the point of endangering Indonesia's independence.

FOR THE BOARD OF NATIONAL ESTIMATES:



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SHERMAN KENT
Chairman

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