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GENERAL SERVICES ADMINISTRATION — GSA FORM 7122 (REV. 5-92)

AN ASIAN IDENTITY FOR THE PHILIPPINES*

I. INTRODUCTION: ASPECTS OF CONTEMPORARY US-PHILIPPINE RELATIONS

Since independence in 1946 the Philippines' key foreign policy problem has been how to maintain its "special relationship" with the United States while trying to develop an Asian identity. As other newly independent states have found, it is difficult to develop nationalism, self-respect, and international political capabilities while remaining dependent upon a stronger partner in an alliance relationship. Too often the long-term interests of the junior partner are subordinated to the immediate interests of the senior partner. Until recently, the Philippines served US regional interests through its contribution to the American "forward basing strategy," the containment policy as operationalized in military alliances, and as a respectable example of a pluralistic economic and political system planted by Americans during the colonial period.

Both the Philippines and the US would prefer to retain some aspects of the relationship that have evolved over the past seventy-five years. However, barring a major conflict in Asia, relations between Manila and Washington must inevitably become more "correct and proper." Ironically, the deep-seated affinity between Americans and Filipinos and the mutual interests which have developed in their partnership makes this necessary transition difficult to manage. The Filipinos, after all, are still the strongest ally the Americans have in Southeast Asia.

Annex 6.

Since 1901 when the U.S. established in Manila its only colonial administration, the Philippine people have experienced an evolution in their own economic, political and military capabilities--from colony, to commonwealth status, to independence in 1946. Between 1946 and 1974 the Philippines had special reciprocal economic arrangements with the United States. The US-Philippine Mutual Security Agreement initially concluded in 1952 is still in force. Politically, until September 1972 when martial law was declared, the Philippines was America's "showcase of democracy in Asia." An open political process functioned with a two-party system, regularly-scheduled elections, an extremely free press, and a military subordinate to civilian authority. Despite the shortcomings of the process, the Philippine political system was relatively stable. By the late 1960s, however, it became increasingly apparent that the American democratic system would not work in a social system dominated by oligarchs and politicians who increasingly alienated the populace. Government inefficiency, corruption, and economic shortcomings brought about by inadequate management could not generate the national support needed to capitalize on the Philippines rich natural and human resources. Dissident elements were bringing the political process to a standstill.

Internal political and economic chaos, increased insurgent operations in central Luzon and political unrest in Manila, the personal desires of Ferdinand Marcos to perpetuate his rule, and, very possibly, the realization that the Nixon Doctrine required the Philippines to get its own house in order--all contributed to an end to the democratic

experiment and the "temporary" adoption of an authoritarian system for governing the Philippines. In a very brief period of time, the previous "showcase" had become a focus of concern by those who questioned an American "special relationship" with yet another system of one-man rule.

Martial law helped stimulate substantial growth in the faltering Philippine economy. Despite the devastating floods of July-August 1972, the subsequent draught and initial concerns over economic prospects under the more central management of the martial law regime, the real growth rate in 1973 reached 10% and the Philippines weathered the international economic upheaval of 1974-75 with growth rates in the 5% to 6% range.

While proclaiming a national revolution, Philippine economic policy did not diverge greatly from the pre-1972 period except as the government was freed of haphazard Congressional obstructiveness. While civil authorities and civil managerial personnel remained in most of the key position, martial law introduced the political stability required for development. A restructured and enforced tax system provided much of the revenue to support new and needed development projects.

There was no nationalization of private industry. The American-type free enterprise system began to work better, but within a political system under authoritarian supervision from the highest level of national leadership. However, the government's role in key economic areas, especially in certain major exports, increased.

To affect changes in Philippine society, President Marcos diverged from the American mold by employing the military as the action arm of the new

regime. Civilian authority employed the military's organization, mission-oriented philosophy and material to supervise and execute many of the government's proclamations and directives.

These domestic changes did little to provide an Asian identity for the Philippines. Americans are aware that their client in the Pacific has diverged from the ideal, but few Asians consider events since 1972 as very meaningful to their own acceptance of the Philippines. US-Philippine economic and security links have not been altered substantially. The Philippines remains the only Catholic country in Asia, the only English-speaking people in the region, the only country whose young men can join the US military, and a country that still retains special preference for private US investment and and a degree of special consideration on economic and military assistance as a result of its historic links with the US.

II. US INTERESTS IN THE PHILIPPINES

A. Security

The three basic agreements which govern US-Philippine defense and security relations are: the Mutual Defense Treaty of 1951, the Military Bases Agreement of 1947, as amended, and the Military Assistance Agreement of 1953.

The mutual Defense Treaty contains the basic US commitment to the defense of the Philippines. The first paragraph of Article IV of that treaty states:

> "Each party recognizes that an armed attack on the Pacific area on either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common dangers in accordance with its constitutional process."

Article V of the treaty specifies that an armed attack includes:

> "An armed attack on the metropolitan territory of either of the parties, or on the island territories under its jurisdiction in the Pacific or on its armed forces, public vessels or aircraft in the Pacific."

The presence of U.S. forces on Philippine soil helps guarantee that an attack on the Philippines would invoke the operative clause of the treaty.

Philippine foreign policy elites have for some time, however, questioned the "automaticity" of a U.S. response to external aggression. While recognizing that its earlier efforts to get a renegotiated treaty more closely paralleling its perception of the U.S. commitment to NATO is not possible under present circumstances, the Philippines has sought for some time to reassure itself that the terms of the treaty and the U.S. shield remain viable. Recent events in Indochina, in particular the attitude of the U.S. Congress in March 1975 towards the continued defense of South Vietnam, as well as the War Powers Act, have prompted serious concern among Filipinos about the utility of the continued U.S. presence in the Philippines.

The Military Bases Agreement of 1947 is the basic instrument which grants the U.S. extensive rights of access, control, utilization and operation of its bases in the Philippines. While there have been a series of renegotiated settlements over U.S. facilities, the Philippines has sought for some time to exercise greater sovereignty over U.S. bases. To date the two governments have agreed: to relinquish large portions of land previously reserved for bases but no longer needed for military operations; to effect prior consultations before the U.S. uses the

bases for military combat operations outside the scope of the treaties; and to shorten the duration of the Military Bases Agreement from 99 to 25 years. Additional agreements relating to customs and criminal jurisdiction have also been negotiated.

For the U.S., the air and naval facilities of Clark Air Force Base and Subic Naval Base remain of foremost strategic value. A key U.S. foreign policy objective vis-a-vis the Philippines is to insure the continuous, unobstructed use of these facilities. The US seeks to maintain access to these facilities on the basis of the Mutual Defense Treaty, with the U.S. providing for the defense of the Philippines in exchange for rent-free use of the facilities.

President Marcos set the tone for renegotiating the basing agreements in July 1975:

> "Without compromising our territorial integrity and self-respect, there should be a conscious effort to support America's effort to maintain herself as a Pacific power. By mutual agreement, we're now ready to enter into negotiations with the United States on our Mutual Defense Pact, the Military Assistance Pact and the Military Bases Agreement...we want to put an end to the practice of extra-territoriality in our country. We want to assume control of all these bases and put them to a productive, economic as well as military use...there is no reason why we should deny those facilities which our historical ally might, or must, need in fulfilling its assigned role for the maintenance of peace in the region."

Several points are significant in this statement. First, President Marcos welcomes and acknowledges the US role as an Asian power, and he places considerable credence in US willingness to fulfill its role in maintaining regional stability. Second, Philippine bases are important for the US to fulfill this role. Finally, the

two points which bear directly upon future base negotiations; concern with aspects of control and the Philippine intention to put the bases to a productive, economic use. If the control aspect can be satisfied by hoisting the Philippine flage over the bases and by transferring the administrative supervision of the bases to a Filipino commander, the Philippines will obtain "maneuvering space." If, however, the Philippines seeks a degree of control which compromises operational flexibility in the use of the facilities, the US may find the Marcos position unacceptable. Further, as our on-going negotiations over US facilities in Turkey reveal, the US is not prepared to beg for the opportunity to share the defense of an ally.

B. Economic

American investors have long favored the Philippines' natural resources base and the capability of the government in Manila to maintain favorable conditions for economic development. Agriculturally, the Philippines, although today a food importer, has the potential of being self-sufficient in many food crops. Minerals, while at present untapped to any great extent except copper and timber, abound.

The bulk of American investment in the Philippines occurred during the tenure of the Laurel-Langley Agreement (1955-1974). This agreement exempted American investors in the Philippines from various restrictions on foreign business activity. American investment in the Philippines currently stands at $1 billion or more in market value.

Philippine nationalists have long charged that the "parity" provision of the Philippine Constitution and the related Laurel-Langley Agreement actually created a "disparity" favoring the American investor whose superior technology and financial backing gave him an advantage over his Philippine competitors. These parity provisions were resented by many Filipinos and became the focus of extensive nationalist policy in the 1960s and early 1970s. This resentment was a major factor in the US decision against re-negotiating the Laurel-Langley Agrement and in favor of efforts to evolve a less preferential economic relationship.

As with US-Philippine security relations, economic relations will in the final analysis depend upon the Philippine domestic climate. Growing uncertainty over the Muslim or NPA (communist) insurgency or continued uncertainty over the succession to the Marcos martial law regime will adversely affect the Philippines' competition for capital and technological investment. The Philippine economy with its heavy dependence on foreign trade and financing is highly sensitive to international economic developments as well.

Assuming that internal political stability can be maintained, the economy of the Philippines is likely to grow and present additional opportunities for foreign trade and investment. Official US economic assistance, which averages $50 million annually is part of the extensive foreign aid provided through the consultative group chaired by the World Bank. (Totaling over $400 million in 1975.) Foreign private financing has provided larger sums on normal commercial terms. The Philippines will continue to require outside

financing in similar or greater magnitude for some years to come if it is to achieve its development goals. Awarness of this need is an important factor in determining GOP economic policies. US willingness in providing assistance can therefore serve both our economic and security interests in the Philippines.

III. PHILIPPINE OBJECTIVES, NEEDS AND OPTIONS

A. Objectives and Needs

The developments, initiated by the US, which have most seriously caused a reassessment of the US-Philippine alignment are: the Guam Doctrine of 1969 in which former President Nixon made it clear that Washington sought to share more of the security burden with its allies; the US opening with China in 1972 which indicated that Washington was less concerned about the Chinese threat than seeking to build a global balance of power; and the 1973 Paris Agreement to withdraw forces from Indochina. For the Government of the Philippines, the pressing need to reassess its relations with the US came with the 1975 fall of the governments of South Vietnam and Cambodia. The Filipinos see the Indochina debacle as a result of the US Congress constraining the Chief Executive with the 1973 War Powers Act and the refusal of Congress to continue to support with military aid the struggle against Hanoi and its allies in Peking and Moscow. To adjust to the realities of the new Asia, the Philippines wanted to become more self-reliant in its defense capability, more accommodating to Chinese and Soviet influence in the region, and more accommodating to its other Asian neighbors. This meant a "loosened" US relationship.

Not only was the U.S. security blanket no longer seen as a guarantee in the Philippines' effort to provide for its own internal and external security, but as Secretary of Foreign Affairs Carlos Romulo suggested in July 1975, the U.S. relationship was a hindrance to more cordial relations with Asian countries.

The reassessment of US-Philippine ties was not precipitous. In 1965, as President Marcos was beginning his first term in office, he made the following observations to the Philippine Congress about Philippine-US relations:

> "Our relations with the United States shall be maintained on a basis of common ideas and interests, of mutual respect and consideration. We are convinced that this great nation would want nothing better than to see our nation prosper in dignity and freedom."

By May 1975 the reassessment was becoming more operational. After stressing that "national interest, not ideology" must dictate the Government of the Philippines' relations with other states, President Marcos listed the following foreign policy guidelines:

1. Enhance relations with ASEAN;
2. Normalize relations with communist countries;
3. Enhance closer identification with the Third World;
4. Continue beneficial relations with Japan;
5. Support the Arab cause in the Middle East and Palestine;
6. Continue efforts to find a new basis for maintaining the healthy relationship with the U.S. in light of emerging realities in Asia.

1. ASEAN

Greater regional cooperation through ASEAN is inhibited not only by the inability of the members to contribute significantly to regional efforts but also by the unwillingness of the Philippines' neighbors (particularly Malaysia) to put present suspicions and conflicts aside. The ASEAN states view Philippine efforts toward regional cooperation as selfishly motivated means for obtaining ASEAN assistance in the resolution of problems stemming from the disputed claims to Sabah and the Muslim insurgency in the Southern Philippines.

The needs of the Filipinos for economic and military assistance and external security guarantees will be met, if at all, by the US, not by neighbors. Finally, with close links to the US, the Philippines will likely be suspected of serving as the "front man" for Washington to influence Southeast Asian designs. Filipino achievement of an "Asian identity" through ASEAN appears highly unlikely at this time.

2. Communist Countries

The Marcos scheme to normalize relations with the communist states is nearly complete. While formal relations with the Soviet Union are not yet established active negotiations are reportedly continuing to this end. Formal ties are already established with Peking. When Manila will recognize Hanoi and/or Saigon remains an open question. The Philippines has publicly suggested that Hanoi be invited to join ASEAN (although the invitation is unlikely to be accepted, to the great relief of Manila).

Philippine relations with the Soviet Union and the PRC are designed primarily to enhance the independence of the Philippines and in part to

obtain whatever economic assistance either communist state might be willing and able to exchange for Philippine exports. These relations are also designed to balance off the two communist powers and to lessen US influence. Marcos apparently is prepared to face the prospects of enhanced "party to party contacts" between Moscow and PKP (Moscow-oriented Philippine Communist Party) and between Peking and the CPP(M/L).

While desiring to maintain commercial ties with Taiwan, Manila would like to diversify its oil resources by importing from China as well as the Arab world as is now the case. In return, the Philippines can provide timber, agricultural products and copper to meet some of Chinese domestic needs. Of some concern, however, is the prospect for the control of Taiwan which lies a mere 400 miles from the northern Philippines. Communist control of Taiwan could eventually represent a security threat to Manila.

The Philippines may hope to diversify its exports of sugar to the Soviet union in exchange for Philippine imports of cotton. While not encouraging greater Soviet involvement in the region, the Philippines recognizes the realities of Soviet capabilities vis-a-vis both China and the US. Should the strategic balance between the US and the Soviet Union change in Moscow's favor or were the Soviet Union to gain access to Vietnam port facilities, Manila would then perceive a threat not presently apparent and would have to reassess relations with the Soviet Union.

3. Third World

Manila's efforts to identify with the Third World, with whom it has both shared and conflicting interests, is part of an effort to realize its own identity. However, the OPEC oil price increases have hurt the Philippines significantly, and it could be threatened further by an Arab

oil embargo if the Muslim problem in the Southern Philippines is not settled "correctly." Manila is, nevertheless, intrigued by the apparent successes of some Third World countries in using the oil weapon.

Philippine desires to identify with the Third World are inhibited by the historic relationship with the US and awareness of the benefits of a close link to US security and economic assistance. Manila also must be conscious of the fact that visions of grandeur through a sugar or copper cartel have at best limited prospects for success.

4. Japan

The memory of Japanese occupation during World War II inhibits Philippine relations with Japan. Japan's political and economic activities are suspect through much of Southeast Asia. Barring any major shift in US or Japanese policy, Manila-Tokyo relations will improve slowly. Japan has the necessary capital and technology to aid the Philippines, and it serves today as Manila's principal trading partner. However, bilateral economic arrangements are concluded under lingering Philippine suspicions. As Marcos noted in 1966, "there will come a time when Japan has to rearm." Before that time comes, the Philippines hopes to have realized significant economic benefits through its relations with Japan, although it is wary of an economic association which eventually might be reinforced with military and political power.

5. Arab World

The Marcos pledge to support the Arab cause in the Middle East is clearly an effort to obtain Arab sympathy for Manila's view of its Muslim insurgency in Mindanao. Ironically, the same Arab formula for the partitioning of Israel is one which has been advanced as a solution to the Philippine problem between Christians and Muslims. The formula is to create a separate Muslim state, which might eventually merge with the disputed and rebellious Malaysian state of Sabah.

6. United States

Marcos' efforts to develop more healthy or "correct and proper" relations with the United States, while last in priority in the May address, is of utmost concern to his administration. In this regard the Philippines seeks: greater sovereignty over present US bases in the Philippines; a greater economic advantage, possibly through rental levies on the bases; a more decisive US security guarantee; a continuation of some special trade preferences previously realized under the Laurel-Langley Agreement; continued economic and military assistance; and a greater appreciation by the US of the Philippines' domestic and international needs.

B. Philippine Options

The Philippines has three basic policy options:

1. It could attempt to persuade the US to recommit itself to the independence, viability, and security of the Philippines through a strengthened mutual security agreement;

2. Conversely, the Philippines could sever all "special arrangements" with the US, including economic and military arrangements, and adopt a neutralist posture; and

3. The Philippines could seek an adjustment to "correct and proper" links with Washington in which it could assume a more independent foreign policy, yet continue to advance their mutual interests.

The first two options appear as "straw men," Neither Philippine nor American politics would permit a return to an era of Washington sovereignty over the foreign policy of the Philippines. Nationalism in Asia has become too much a part of the landscape to permit the reimposition of a neo-colonial relationship. Further, affairs in the Philippines have become so linked on a bilateral basis with other states that it would be impossible for the US to try to overturn the present pattern of economic and political relations so as to return to a previous mode of US-Philippine relations.

Finally, the first option is unrealistic because the American Congress is unlikely to seek closer identification with a state into which the US might be drawn as part of a domestic insurgency, and which has diverged from the democratic model which heretofore justified America's contribution.

The second option, that of severing all "special arrangements" and adopting a policy of armed or relatively armed neutrality, is even less likely. Manila cannot meet its security needs without US economic and military support and the US commitment to the defense of the Philippines. Without some US presence the Philippines would become more susceptible to Soviet and/or Chinese influence.

For the foreseeable future the Philippines needs the US and, despite their "pinpricks" at American installations, most Filipinos realize that the "special relationship" continues to provide benefits.

The US military bases of Subic and Clark are significant in Philippine domestic considerations. These bases employ 40,000 Filipinos. If the US were to pull out, the economic dislocation to a large segment of the Central Luzon population would be considerable. Unless Manila is able to utilize the base facilities in its own regional development, the economic and social impact on the nation would be adverse. Estimated annual dollar expenditures by Americans assigned to these facilities range from $150 million to $200 million. It is unlikely that the government would be able to obtain these significant foreign earnings through other uses of the land, especially within the next ten days.

Accordingly, it is along the middle range of the spectrum, between severed and enhanced relations with the US, that the Philippines must seek its Asian identity.

IV. PHILIPPINE CAPABILITIES

The factors most directly relevant to the capacity of the Philippines to "survive" are: the current internal security problems; the nature of and future prospects for the Marcos martial law regime; and the economic factors which have become of increasing concern to Manila as US economic guarantees have lapsed.

A. Internal Security Problems

Current internal security problems in the Philippines are represented by "Maoist" new Peoples' Army (NPA) and the significant Muslim insurgency in the southern provinces. The NPA is the military arm of the Communist Party of the Philippines, Marxist-Leninist branch. A modern version of the Huks, communist insurgents in the 1950s, the NPA has conducted insurgent activities throughout much of Luzon and to a limited extent in the Visayan Islands. The NPA is at present not a major threat to overall political stability, and if present armed forces are freed from the south, Manila could even more readily cope with the NPA.

The "southern problem," as it is often referred to by Filipinos, is the strife between Muslims and Christians in Mindanao, and it is of considerable concern to the government. Descendants of the Moros, who remained ungovernable under both the Spanish and American colonial administrators, are presently embroiled in a conflict centering on disputes over land titles, maldistribution of resources and Muslim belief that the Philippine Christian nation is attempting to absorb both their territory and culture.

Martial law, which was designed in part to establish law and order throughout the Philippines, provoked the present level of conflict to war-like conditions. Specifically, the martial law program, which included a decree to collect firearms, was perceived by the Muslims as a further effort to restrict their way of life and to subordinate them to Manila. The armed forces of the Philippines, sent to enforce the martial law decrees and to provide for the security of all inhabitants in the southern

islands, has nearly 75% of its combat elements committed in the south.

Manila is constrained by the Muslim-Arab oil producers who have threatened an oil embargo on the Philippines if the AFP initiates genocide-like operations against the Muslims. Further, it is limited by its own resources to both meet the political (autonomy) and economic (development) demands of the Muslims. The US can do nothing to help the Manila government solve this problem.

B. Martial Law

Jean Grassholtz noted in her 1974 Asia Survey article that the Philippines entered a stage of "post-independent politics" in 1972 when it began a restructuring of society away from its colonial pattern. Unlike other developing states, the Philippines never went through a period of instability; of trying out different constitutional faces; searching for its own. When Philippine nationalism emerged earlier, it was coopted by a native elite bent on collaboration with the Americans. When independence came, the mode of politics was set and a truly Philippine model was slow to develop within the American-imposed political structure. Since 1972, however, the Philippines, under Ferdinnand Marcos,

structured a new political process; a "new society" within the context of

The shattering of the "democratic tradition" in the Philippines, despite certain economic and stability advantages, has and will continue to inhibit Washington's close identification with the Marcos regime. Fraser Committee hearings in July 1975 on the issue of human rights in South Korea and the Philippines reflected the growing impact of U.S. domestic politics on its foreign policy. Unless there is movement towards implementing the Philippines' 1973 constitution or reinstating the 1935 constitution, both of which provide a framework for democracy, Washington will become increasingly identified with the current suspension of certain democratic processes and human rights, despite U.S. public announcements designed to encourage Marcos to reinstate a more open political process.

The suspension of a constitutionally-based political process also threatens future stabililty in the Philippines if Marcos is suddenly removed from power. Further, the longer the political opposition remains muted, the more uncertain are the prospects for a gradual return to democratic practices. For American policymakers to project US-Philippine relations beyond the immediate operational environment, it is necessary that the "succession problem" in the Philippines be solved at the earliest possible time. As with other issues, however, any solution must come from within, and it must have mass support.

C. Economics

Since martial law there has been a sharp increase in the level of economic and development activity in the Philippines. Increased domestic output and an improvement in the external terms of trade resulted in a 10% plus increase in gross national income in 1973, compared to about 4% in 1972. The rate of unemployment remains quite high. Inflation neared 40% in 1974 but in 1975 is expected to be less than 10%. Despite uncertainties and fluctuations in the international economy, growth momentum was maintained in 1974 and 1975. Possible balance of payments difficulties, however, have created some anxieties for 1976.

The government's record in introducing a number of needed social and economic reforms has been impressive, particularly with respect to taxation, infrastructure development, customs administration, tariff revision and the restructuring of banking and government organization. There have been substantial efforts to improve agricultural productivity and improve rural income, although resettlement programs, community development and land reform have had only limited success.

The Philippines obtains 95% of its oil from the Middle East, notably Saudi Arabia and Kuwait, and thus desires to diversify this dependency. Manila spends $700 million per year in foreign exchange reserves to meet energy needs. Unless the Philippines discovers oil deposits off the southern islands, or until nuclear energy is available, Manila will continue to pursue a foreign policy which maintains access to vital foreign energy sources.

Long term prospects for export growth are good for the Philippines. They are well endowed with raw materials for export. Copper, nickel, timber, coconuts, sugar, pineapples and bananas are a few of the important products. The economy is diversified and has better prospects for expansion than the one-or-two-crop economies of many "less developed" states. Prospects for development of industrial exports are also good if investment needs can be met.

It is this long term expectation, coupled with an enhanced law and order situation, that underlies the basic confidence of international creditors in the Philippine economy. Manila as a regional financial center is also gaining increasing prominence.

D. External Security

The Armed Forces of the Philippines (AFP) are neither organized nor equipped to provide for the Philippines' own external defense. Even prior to the Japanese attack in 1941 it was recognized that the US would have to provide for the defense of the Philippines. The symbolic representation of the Philippines in the UN Force in Korea, however heroic, and Filipino pacification efforts in Vietnam, tend to mask the fact that Philippine security forces are only capable of a limited internal security orientation.

Peace in Asia is the basis for Philippine security. Peace depends both upon the intentions and capabilities of the actors in the region and on the US ability to deter threats to the Philippines. Manila is limited to maintaining its own political stability, containing its insurgency, avoiding offensive moves (such as a reassertion of its claim

to Sabah which would provoke Malaysia] and soft-pedal its weak claim to the Spratly Islands which, if pursued vigorously, might provoke China or Hanoi.

V. FUTURE US-PHILIPPINE RELATIONS

A. General

The Philippines is likely to assess the utility of American economic and military assistance as a "correct and proper" implicit quid pro quo for continued US use of the bases. If, subsequently, a less explicit set of agreements for the US defense commitment to the Philippines permits the Filipinos to realize their potential through an Asian identity, it is unlikely that US-Philippine relations will undergo more than a change in form. Several factors will probably ensure that the transition in US-Philippine relations over the course of the next few years may be more form than substance:

1. The US continues to value its access to base facilities in the Philippines. These bases enhance American capacity to maintain treaty commitments to the Philippines, South Korea, Taiwan and Japan, to provide a balance to Soviet and Chinese great power influence in the region and to maintain flexibility in US presence within the entire Asian setting.

2. The naval facilities at Subic Bay, for example, enable the US to sustain its naval operations in the South China Sea and into the Indian Ocean. The continuous surveillance of the vital sea lanes adjacent to the Philippines and the forward deployment of US forces is enhanced by these facilities. Finally, US civil and military communications centers in the Philippines are important links in the American global communication network.

3. It is possible for the Philippines to achieve an Asian identity within a US security framework. Arrangements can be made which will permit the US to continue its commitments to the Philippines and its access to Philippine facilities without requiring the Philippines to abrogate past agreements.

4. Future mutually beneficial US-Philippine relations are largely contingent upon the ability of the Philippine Government to resolve its pressing Muslim insurgency, to meet its stated goals of social and economic reform, and to institutionalize a political process which will permit the future transfer of power in a constitutional manner.

5. The close relationship of the two states has resulted in a valuable reservoir of goodwill and understanding between the two peoples. A Western tradition in domestic education and religion, a Western-educated elite, the English language, all, however, lead to the possibility for misperceptions, especially by Americans. Sensitive to their personal relations, the US needs to recognize that Filipinos cannot be taken for granted, nor should they be permitted to imagine that the US is treating them other than as equals. Filipinos are well aware of the differences in economic prosperity and political power between Manila and Washington, but they may not be willing to have the relative disparity between partners reflected in the US Government and American approach to the Philippine Government and Filipino people. Day-to-day contacts, especially between the sizeable American community in the Philippines and their Filipino associates, will in the final analysis be as much of a determinant of future US-Philippine relations as a willingness of the two governments to cooperate with each other.

B. Through the Remainder of the Century

It is reasonable to assume that present US interests in the Philippines will remain for the next twenty-five years. Provided the US is willing to maintain its Asian power status, American entry to the region through the Philippines in exchange for a US guarantee to Philippine security is a reasonable quid pro quo. The present military profile of the Americans may be significantly reduced to a point at which the US maintains only a permanent naval presence in Subic Bay. The Clark Air Field complex may revert to complete Philippine utilization both as a military and commercial facility, although access to the US for operations directly in support of Philippine security will more than likely be accepted by Manila. Undoubtedly, a change in base utilization can be expected between now and the expiration of the present base agreement in 1991.

The overall pattern of future US-Philippine relations will depend upon the state of Philippine domestic affairs and the US public reaction thereto. Continued growth of the insurgent cancer, coupled with economic stagnation and political frustration, could lead the Filipinos to question the benefits of association with the US. The American people on the other hand, could also conclude that the junior partner has lost its attractiveness, thus nullifying the utility of the Washinton-Manila connection. Should the US be called upon to spend an inordinate amount of scarce resources to shore-up this former colony, the US Government may well decide to develop more expeditiously secure basing facilities within the Pacific Commonwealth of the Marianas.

VI. POLICY RECOMMENDATIONS

A. Security

1. Base Negotiations. The US should be willing to make concessions on non-essential aspects of the base arrangements which will make the UStennants on Filipino bases. Such a move could preempt those more nationalistic pressures against US use of base facilities. Opposition elements to Marcos may eventually seek an alignment with the more liberal, leftist groupings which were the most vocal against US occupancy of the bases prior to martial law. If and when the opposition becomes less constrained, continued adherence to the form and structure of existing basing arrangements may be perceived as American support of the martial law administration.

2. MAP. The US should continue to support the modernization of the Philippine Armed Forces with a MAP and FMS program for at least the next three years and through FMS thereafter.

B. Economic

The US should support economic and social development within Congressional imposed AID limits while encouraging the Philippines to utilize multilateral forums (IMF, IBRD, GATT) to promote its own economic well-being. Such an approach may in turn enable the Philippines to be accepted more as a developing Asian country instead of an American protege, an image which has hindered its regional acceptance as well as its self-identity. A free and open trade policy, with "Most Favored Nation"

status with the US, should also encourage a more independent posture which could redound to the development of a more diversified, yet resilient export industry.

C. Cultural

The Filipinos obtained a unique American cultural and political heritage, the Marcos Government martial law regime notwithstanding. Americans and Filipinos should together seek to delineate the contributions to and obstacles to the Philippine development process that have issued from this heritage.

Filipinos worry about their Asian identity. Perhaps their best interests and those of other Southeast Asian nations would be better served if they all clearly understood the uniqueness of "the Filipino" in Asia--not as an American "little Brown Brother" but as a Malayo-Polynesian colonized first for 500 years by the Spanish and then for 48 years by the Americans. There is much that Americans and Filipinos can do together and with other Asians to study Filipino culture in Asia--and the fact that the first people in Southeast Asia to fight for freedom and equality with Europeans were the Filipinos. The US and Philippine governments should explore the feasibility of support for such study either by the governments, or more preferably, through encouragement of interests and effort from private foundations or educational institutions.

THAILAND FACES THE FUTURE*

I. INTRODUCTION: THE ENDING OF A SPECIAL RELATIONSHIP

The close alliance between the United States and Thailand lasted from the early fifties until the collapse of American efforts in Indochina. However reasonable in terms of the acute problems of the period, it represented a deviation from the traditional policies of both countries. There is now occurring a fundamental and far-reaching psychological change in US-Thai relations. The process of change is incomplete and in the spring of 1975 was highlighted by abrasive official exchanges and increasing vocal anti-Americanism among student and political activists throughout the land.

The causes of these changes are basically four in number. The first and most immediate is the nature and scope of the collapse of American will to sustain its Vietnamese and Cambodian allies and the overall failure of American policies in Indochina. The second cause is internal political change in Thailand itself which surfaced strongly in October 1973 when Thai students sparked the overthrow of the military oligarchy and set in motion the latest in a series of attempts to build a constitutional, responsive political system of government in Thailand. A third cause is the American opening with China which helped vitiate its policy of confrontation with communism in Southeast Asia. The final cause of change in Thai-American relations is related to the third and also to the fact that the overly-close relationship

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*Annex 7.

of the previous 25 years did not rest on an equivalent set of mutual interests--identified and accepted by elements in Thai society outside of the main group of clique leaders themselves. Since the initial forces which prompted this relationship have evaporated, the two states are groping for policies which correspond with their present interests and which larger numbers of their opinion and policymaking elite can and will support. An ironic facet of this adjustment process is that the "special" relationship between Thailand and the United States was always more perceivable in Bangkok than in Washington.

The pressing problem of Thailand, however, is that the new adjustments in its foreign policy and posture have to be made under highly unfavorable conditions and may involve considerable concessions to communist powers which will remain, in an ultimate sense, a threat to the entire present structure and character of Thai society. This threat is particularly acute for Thailand because of the insurgencies in North, Northeast and South Thailand to which both communist China and North Vietnam provide considerable support.

In addition, Thailand has long been unhappy with its Japanese and US trade imbalances, and optimistically (perhaps naively) sees in China a giant new market close at hand. Thailand, however, may well be overestimating China's potential as a trading partner.

Finally, whatever foreign policy course Thailand chooses will have considerable impact on the structure of international politics in Southeast Asia--particularly the future of ASEAN and its role in Asian regionalism.

New Realities Affecting Thai Foreign Policy

The Thais view the collapse of the twenty-year American effort to prevent a communist takeover of Indochina as a major debacle. The United States was unable to preserve the right of the peoples of Indochina to choose their own future. What will or can it do to preserve Thailand's options? The new realities the Thai face in the aftermath of communist victory in Indochina can hardly be reassuring.

A. The Indochina Debacle

The North Vietnamese/Soviet/PRC political and psychological victory over American power and policy in Indochina shattered the bedrock of Thai foreign policy: the Thai-American "alliance." Thailand, in joining SEATO with a special US commitment reinforced by the Rusk-Thanat Communique of 1962, had tied its future to the will and intent of a foreign power in a way unprecedented in Thai history. It is true that the Thai themselves chose to enter this alliance.

1.3 (a)(4)

Thai assistance was indispensable to US efforts against communist aggression in Southeast Asia.

The Thai made their choice believing that the United States would achieve its goals in Southeast Asia. America was the most powerful nation on earth. Had not President Kennedy declared that "the enemy" should make no mistake: America "would bear any burden, pay any price...?"

Ho Chi Minh's picture now hangs in the Presidential Palace in Saigon. Tough Khmer communists rule Cambodia; the Hanoi-backed Pathet Lao dominate Laos. The North Vietnamese, with massive, unfaltering Soviet aid and considerable PRC assistance, demonstrated more staying power than the most powerful nation on earth. They needed to win and did. Today, the communist forces that dominate Thailand's Laotian and Cambodian borders remember well from whence came the American planes opposing them in the past.

B. Vietnamese Power

The Vietnamese, directly or indirectly, will dominate Indochina. Theirs is the strongest state in Southeast Asia:

1. The Vietnamese army, including former South Vietnamese soldiers, the best of whom will be absorbed into it, is the largest most battle-tested and best-equipped force in Southeast Asia--in fact, one of the best in the world.

2. The Vietnamese navy and air force are without peer in Southeast Asia. The navy in particular will enable the Vietnamese to play a dominating role vis-a-vis other Southeast Asia states in the South China Sea and the Gulf of Thailand. With its navy Vietnam will be able to extend and protect its claim to fishing and oil resources in the South China Sea. Conflict with Thailand and Cambodia over some of these resources seems inevitable. Indeed, the Thais and Cambodians will also be competing for these resources.

3. The Vietnamese successes throughout Indochina against the leader of the capitalist world has vindicated Vietnamese military and political/psychological tactics and strategy of revolutionary warfare.

4. Vietnam will have political stability and national discipline unparalleled by any other Southeast Asian states. The current difficulties with remnant ARVN military units in a few rural areas of South Vietnam cannot last without outside support. The Lao Dong Party under North Vietnamese control will eventually hold sway through the South just as it does in the North.

5. Vietnam has a fairly strong resource base, and with the Mekong Delta under Hanoi's control, can even become a major rice exporting country--and economic competitor to Thailand in this field. The long war forced Vietnamese of both the North and South to handle and maintain a vast array of technologically-advanced equipment. The skilled labor force thus created may have prepared Vietnam for a rapid industrial take-off if capital is available and more rapid exploration of resources other than coal occurs. These elements of strength do not, however, guarantee success. Communist states have nowhere shown great skill in mobilizing economic resources to their fullest advantage. Failure to do so in Vietnam would, of course, affect our current estimate of Vietnamese power--both within and outside Vietnam.

6. Finally, the Vietnamese can continue to draw upon substantial Soviet (and perhaps Chinese) assistance. Indeed, they even have considerable political and moral support throughout the Third World. The long term consequences of North Vietnam's victory have yet to be fully witnessed.

C. American "Withdrawal"

For the Thai, American actions following the January signing of the Paris accords in 1973 were for the most part enigmatic but were finally seen in the spring of 1975 to be an abdication of responsibility and effective power in Southeast Asia. America appears as an uncertain, unreliable nation, lacking a sense of purpose for which it will develop and sustain alliances and other forms of cooperation with a small nation.

The Thai wish the truth were otherwise. They fear having to play a power balance game with only the PRC, USSR and Hanoi, supported only by their much weaker ASEAN associates. They need a strong non-communist leg to pivot on as well.

What of the Thai-American "alliance?" American leaders have spoken about continuing to honor commitments and remaining true to "allies in Asia." But hardly any public notice and no discussion has taken place concerning the nature and scope of American interests in and commitment to Thailand or how those commitments might best be honored. US Congressional and to a lesser extent State Department disenchantment with Southeast Asia is obvious. Suddenly Thailand seems to stand alone, without reliable non-communist moral, political and economic support in a period of fearful uncertainty.

It is little wonder that the Thai at first seemed to have panicked in their search for a new source of security. Much of the current vocal anti-Americanism arises with leftist-oriented activists who resent past US association with the previous military government. For other Thais, however,

there is a feeling of disappointment; with the end of their usefulness as an American ally against communist expansion in Southeast Asia, they find themselves seemingly discarded--written off along with Indochina.

1.3(a)(5)

Some rationality has since returned. Thai-Chinese relations seem to be off to a good start. The Thai Government in August 1975 announced that an undisclosed number of American military advisors would be permitted to remain in Thailand after US forces are withdrawn. Though the Thai joined the Filipinos in calling for a phase-out of SEATO, they have not renounced the Manila Pact which is their only formal security link to the US.

The Thai do not want to join an anti-American crusade in Southeast Asia, but they have still not had much of an indication that the United States wants to retain an active and close relationship with Thailand. Apparent American insensitivity to the Thai plight and pique at Thai criticisms of the American presence in and policy toward Thailand will not make it any easier for the Thai to deal with the PRC; the USSR or the Vietnamese. Such pique and insensitivity will, however, eventually compromise the still reasonable possibility for some continued US presence in Thailand and thereby the prospects for maintaining a balance with rising communist influence in Southeast Asia in the future.

D. Adjustments with Communists

Thailand must accept high risk no matter which way it turns between the Russians, Chinese or even the Vietnamese. Moreover, all three of these states practice and seek to propagate and impose a political process that threatens to destroy, directly or indirectly, the Thai social-cultural-political system. The threat is not territorial--rather it aims right at the heart of the Thai way of life and national identity. The Thai fame for diplomatic dexterity is derived from 19th Century balancing of British imperialism expanding through Laos and Cambodia. The Thais maintained their independence through a variety of concessions, including some territory.

The central issue today is not necessarily the preservation of Thai territory (although Hanoi may wish to include certain Northeastern Thai provinces into an expanded Laos) but the preservation of the Thai social-political system centering around the institution of the monarchy. This is the nub of the Thai problem. The civilian and military elite who now run Thailand may be signing their eventual death warrant if they belive that competition between the DRV, the PRC and the USSR will reduce support from these states to any communist efforts to destroy the present system. Thai accept somewhat less risk in trying to develop a "working" relationship with the PRC and could play them off against the North Vietnamese. Success, however, depends on (1) how sincere China is in its claims that it does not seek "hegemony" in Southeast Asia; and (2) how intensely Hanoi decides to push the northeast insurgency, thereby forcing competition with the Chinese.

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E. Insurgency

The Chinese are in a favorable position to exploit Chinese minorities in Thailand

and also support insurgents in their efforts to compete with the Russians and Vietnamese in Southeast Asia. The Vietnamese, too, can and do play a major role in the Northeast Thai insurgency.

The Thai have active communist guerrillas in various areas on virtually all borders.

At the very least, the PRC and DRV can keep the insurgents active enough to continuously "bleed" Thai efforts to achieve effective momentum in their economic, social and political development programs.

The Thai elite are now trying to preserve the special character and cohesiveness of the Thai institutions and values that enabled Thailand to survive previous threats to its existence. This elite must now institute and successfully manage a regenerative revolution that will bring greater social and economic justice to the great majority of the Thai people. The Thai leadership recognizes that strong domestic institutions provide the best protection against subversion, as well as provide the sinews against external aggression.

However much the Thai smile at the communist neighbors, it is highly unlikely that any of them (except possibly the PRC) want Thailand to become a truly successful, non-communist democracy in stark contrast to communist Indochina. Certainly, the Communist Party of Thailand does not want to see a successful Thai democracy, and it will do all it can to get outside support to keep up the insurgency--most especially if the government begins to develop successful momentum toward participatory government.

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F. Internal Political Restructions

One of the most frustrating of all the new realities the Thai must deal with is the fact that they are trying to restructure their entire political process. The Thai are engaged in creating a viable constitutional and responsible political system to replace the military-dominated, clique-oriented political process the students overthrew in October 1973. The "institutionalization" of their new processes and systems, however, has hardly begun.

Thai foreign policy is no longer the personal preserve of a few army and air force marshals.

1,3 (a)(5)

Thai academics, students, political activitst, parliamentarians, political parties and other government agencies all aspire to some voice in defining Thai foreign policy. Currently, the more leftist-oriented elements in all

these groups make the most noise, but Prime Minister Khukrit Pramot appears capable of coping with them. Nevertheless, the sense of abandonment created by the US debacle in Indochina, the new realities issuing therefrom and the myriad of disparate pressure groups seeking a voice in foreign policy does not give Thailand a stable domestic platform on which to develop its options in Southeast Asia.

III. THAI FOREIGN POLICY OPTIONS AND OBJECTIVES

The primary Thai foreign policy problem is how to adjust to these new realities in a way that will preserve the Thai Monarchy, their Buddhist faith and basic Thai "way of life" under non-communist government.

A. Options

Thai foreign policy options are at least six in number with some overlap in a few of the options.

1. Active Neutrality. Withdraw from SEATO, end active military cooperation with the US. Remain active in ASEAN. Establish a "cooperative" relationship with the PRC. Establish at least correct, non-antagonistic relations with Hanoi. Accept limited expansion of Soviet political presence. Continue to accept Japanese economic assistance as well as increasingly limited US aid, but look more and more to multilateral organizations.

2. Adopt an Active Pro-Peking Foreign Policy. While attempting to retain a non-communist political system, seek Peking's support for curbing any Vietnamese or Soviet interference in Thai foreign and domestic

policy and reduction or cessation of all outside material support for Thai insurgents. Cool relations with the US to the extent Peking thinks is desirable.

3. Acquiesce to All Vietnamese Terms for Establishment of Diplomatic Relations. Cut all ties to SEATO and the Manila Pact and cease military cooperation with the US in any form. Follow Hanoi's lead in foreign policy whenever necessary. Definitely avoid opposing Vietnamese interests and activities in Southeast Asia. Lobby on Hanoi's behalf in ASEAN and perhaps the UN. Accept on faith that the Vietnamese will cease support for the Thai insurgents.

4. Seek An "Adjusted" But Continued Close Relationship with the United States. Reduce if not eliminate US military presence, but consider granting "reentry rights," Seek "correct" relations, generally anti-Soviet in character, with Peking. Be prepared to establish relations with Vietnam, but not on a capitulation basis. Make ASEAN a major focus of attention and actively work to make it a politically effective force in Southeast Asia--with or without Hanoi, but certainly not subservient to Hanoi.

5. Adopt a Pro-Soviet Posture but Not Actively Anti-Peking. Keep Chinese and Vietnamese at arm's length and rely on Soviets to encourage cessation of Vietnamese support to the Thai insurgency. Withdraw from SEATO and the Manila Pact and end close relations with the US. Remain in ASEAN, but generally inactive except where Soviet interests are involved.

6. Low Profile, Burmese-Style Neutralism. Retrench. Antagonize no one, most especially the communists. Have only formal relations with major powers; accept only limited assistance, if any. Withdraw from SEATO and Manila Pact; become inactive in or withdraw from ASEAN.

B. Thai Foreign Policy Objectives

1. Detente--Peaceful Coexistence with Communist States. A common theme in all of these options is the clear rejection of any active anti-communist effort in Thai foreign policy. The Thai will, within reasonable limits, avoid antagonizing communist states in Asia--most especially the North Vietnamese. They will try a policy of peaceful co-existence. Thai relations with Laos and Cambodia will be tense, although not intentionally antagonistic from the Thai side. Thailand may have an easier time trying to normalize relations with Cambodia than Laos--partly because Cambodia seems to be trying to tend to its own house first and ultimately may be able to express its anti-Vietnamese feeling more successfully than the Pathet Lao. Continued Pathet Lao and NVA support to the northeast insurgency will remain a constant source of anxiety.

Burmese-style neutralism, however, is definitely not a viable objective for Thailand. It has not helped Burma make much progress on its economic and social development problems; it certainly seems out of character for the Thai in any case. (What could be done with Bangkok's luxury tourist hotels?)

The best Thai option, therefore, seems to be a combination of options--A.1 and A.4 above--which might best be described as active, selective neutralism. The Thai will attempt to reach "detente" with communist states, but will try to "hedge their hopes" by retaining a viable political and economic relationship with the United States and working toward making ASEAN an active political fact of life. The Thai will continue to expand relations with as many non-communist states as possible, but seek a qualitative balance with them. They will try to develop a cooperative relationship with the PRC, achieve "correct" relations with the communist states in Indochina, but avoid a pro-Soviet or Vietnamese policy that would risk raising the ire of the Chinese who are in a better position than the Soviets to make life difficult for the Thai through the insurgency or Chinese minorities. The Thai hope that the Chinese will limit their material support to the Thai insurgency, and encourage the Vietnamese to do the same. The Thai seem to recognize that such expectations may not be realistic, but they have no choice. The Chinese and Vietnamese will always retain the option to do whatever they want with the "National Liberation" movement within Thailand.

3. ASEAN: Source of Political, Psychological and Economic Security. Thai Ambassador to the United States, Anan Panyarachum, speaking before the American Association for Asian Studies in April 1974, stated that ASEAN must become a political fact of life in Asia. The

ASEAN states need to move more purposefully toward close political and economic cooperation both within Southeast Asia and in larger world bodies such as the UN. Thailand may now seek much closer working arrangements with the ASEAN states, particularly within the ASEAN framework. Thailand could seek strength in numbers and hope that her fellow ASEAN states would all recognize that their best interests demand far closer cooperation and interdependence than has been the case in the past. Development of ASEAN into a political fact of life would greatly enhance the prospects for retaining political integrity and long term security. ASEAN's future and Thailand's participation therein, as well as its "active neutrality," however, will be very much affected by the intentions and actions of the major powers in Southeast Asia.

IV. THE INTENTIONS OF OTHERS: HANOI-PRC-USSR and JAPAN

A. Vietnam

The intentions of the Lao Dong Party and its Politburo in Hanoi remain at this writing the major unknown in the future of interstate relations in Southeast Asia. As outlined above, Vietnamese political and military strength is without parallel among the states of the region. If Hanoi decides that ASEAN must not become a political fact of life that compromises in any way Hanoi's potential preeminence, ASEAN's future development will be difficult, if not impossible. The Vietnamese are not likely to accept gracefully the prospect that ASEAN could become a more viable political and economic entity than Indochina under the Lao Dong Party.

The ASEAN states currently have no intention of an ASEAN "confrontation" with Hanoi. They are toying with the idea that ASEAN should include Vietnam, Laos and Cambodia. Once in Vietnam would, however, tend to try to dominate the organization. The Vietnamese might try to move ASEAN toward the radical left in the Third World "campaign" against the great powers. The Indonesians, the Filipinos and Lee Kuan Yew in Singapore would not likely accept such Vietnamese politicking for long and ASEAN would soon disintegrate.

Even from outside, however, Vietnam could try to seriously impair ASEAN's future. Vietnam could attempt to play on Thailand's fear of antagonizing her and try to pressure Thailand into a pro-Vietnam posture that would at least inhibit full Thai participation in ASEAN. Without Thai participation ASEAN would be measurably weaker than a Vietnam-dominated Indochina.

In light of Khukrit's recent trip to Peking, however, and the apparent successful establishment of friendly relations between Thailand and China, the prospects for Vietnames meddling in Thai foreign affairs seem less bright than they were wieh Saigon collapsed. In addition, the other ASEAN members could also decide to challenge Vietnam and provide full support to Thailand in order that Thailand might acquire sufficient internal resiliency to stand and resist any Vietnamese political harrassment. The prospects for some increased polarization of Southeast Asia, nevertheless, seem high no matter what the PRC and the USSR intend to do in the area.

B. PRC

The PRC is primarily concerned with the possible expansion of Soviet political if not military "presence" in Southeast Asia, and believes such expansion will be inevitable if the US moves out entirely. However, China is not likely to tolerate a higher level of influence for Vietnam in Southeast Asia than China itself can obtain. Chinese-Vietnamese hostility is likely to increase in the future, thus providing opportunities for increased Soviet "activity." The PRC could, therefore, as its statements during Khukrit's visit to Peking indicate, become a strong "neutral" supporter of ASEAN and thereby help limit the regional influence of either Hanoi or Moscow. The Thai expectations that the Chinese will not be too demanding in dealing with Thailand and could support some Thai interests in Southeast Asia are not entirely naive. Indeed, the Chinese themselves seemed to go out of their way during Khukrit's visit to caution the Thai about the dangers of being so concerned about wolves (the Americans) at the front door that bears and tigers come in the back door (the Russians and Vietnamese).

C. USSR

How deeply do the Soviets worry about the Chinese? How intent are they on "containing China?" Is a potential military threat on China's southern flank necessary and worth the risk of higher tension between the PRC and the USSR should Soviet warships call at Cam Ranh Bay? Can the Russions, by improving their political presence and relations with

Thailand and other Southeast Asian states, limit Peking's influence in the area without military risk? Currently, the Soviets are increasing their activities in Laos and trying to expand their mission and activities in Thailand. If they ever do intend to gain a toehold in Southeast Asia the Soviet may wait until their political relations are stronger and more "accepted." In the final analysis, the Chinese, through Chinese minorities, insurgency and physical presence, are in a better position to harm or help the ASEAN states. The PRC will not look kindly on any attempts by Thailand to "cozy up to" the USSR. The Thai are aware of this fact and are unlikely therefore to go beyond "correct" relations with the Soviets. Nevertheless, PRC concern over the Soviets will affect the nature of Peking's influence in Southeast Asia by requiring that Peking treat its neighbors, such as Thailand, perhaps a bit more circumspectly.

D. Japan

The Japanese will remain primarily motivated by their economic interests in Southeast Asia. They will, however, attempt to improve their business image in each country. The Japanese remain a major source of non-communist capital, and assistance and over the long run will still be more welcome as a "neutral" source of economic assistance and investment than any of the major communist states. Japanese trade relations and transit routes through the region are vital to Japan's economic well-being. The Japanese will sustain their economic activity in Southeast Asia, although

they will "package" it more attractively and will cooperate more with regional institutions such as ASEAN and the Asian Development Bank. In Thailand, for example, the Japanese apparently intend to help the Thai increase their exports into Japan. Japan has recently converted its Trade Center (JETRO) into a "reverse trade" center.

VI. THAILAND AND THE UNITED STATES

The President and Secretary of State continue to reaffirm American commitments in Asia. The United States has no intention of withdrawing its support to its Asian allies. Curiously, public declaratory statements rarely mention Thailand. There have been a number of low key actions by the US that demonstrate the sincerity of American interests in and support for Thailand. The Thai, however, know that most members of the American Congress are indifferent to Thailand and seem to lump it with the "it shouldn't have happened disaster" in Indochina. Since Indochina, the President's words reach Asia's skeptical leaders only when they have strongly-expressed Congressional support.

Finally, there is lacking a clear definition of a creative, long term American purpose in or toward Asia. The need to reassess American interests and options after Vietnam explains the current uncertainly in American policy. Even if the US spells out its interests and commitments in Southeast Asia and gains firm US Congressional support for them, the Thai have no choice but to try to make the best deal they can with those who currently pose the major external threats to Thailand's national integrity.

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An American Opportunity

Because of the nature of its relationship with Thailand since the end of World War II, the US has acquired some responsibility concerning Thailand's future. The responsibility continues regardless of the outcome of America's Indochina involvement. The responsibility is a subtle one, bordering on a debt of honor for Thai willingness to permit the United States to bases so many of its Indochina-oriented operations on Thai soil. An honorable great power should not forget such an obligation.

But beyond whatever "obligation" the US might have toward the Thai people for the easements that their erstwhile leaders made with us, there are other US relationships with Thailand which should place US ties with Thailand in a special category. These relate to the preponderant role which the US has played in the modernization of Thailand in the past quarter of a century. In many ways the interaction the United States has experienced with Thailand approximates that which the country has had with the Philippines and South Korea.

The past quarter of a century of intimate and many-sided mutual cooperation between Thailand and the United States has helped bring about considerable transformation in Thailand's economic structure and has introduced a variety of social and political changes, particularly in urban areas. Much of Thailand's hydroelectric power, major port facilities, airports and its major road networks throughout the Kingdom

are a direct result of American assistance. In the field of institutional development, American assistance played a major role in establishment of the Thai Bureau of the Budget, the National Institute of Development Administration and the District Officer's Academy. The American economic assistance program has provided training in the US and third countries for over 10,000 Thai. The military aid program has trained another 14,000 Thai military officers. Private American foundations (Ford, Asian and Rockefeller) and private business have also added considerably to Thailand's pool of skilled manpower--which numbers in the hundreds of thousands if one included those Thai who have worked for and been trained by American military forces, government agencies and private industry in Thailand.

Many of the Thai academics and student leaders who played leading roles in the October 1973 uprising and the organization of new political activist, labor groups and political parties since then had come to the United States to study during the 1960s and early 1970s. As a final example, all four of the new members of the Board of Governors of the Bank of Thailand received their PhDs in the United States.

The United States has, in effect, played the leading role in training the rising generation of Thai leaders, who are about to run the country if they are not swept aside by communist revolutionaries. They should be given the chance to reform the old Thai bureaucratic political system

and bring about a more performance-oriented, constitutionally based, responsive social and political order with the overall support of an enlightened Thai Monarchy.

In recent years, the tempo of the Thai internal evolution has never been faster. In part this can be traced to the considerable infusion of American and other Western ideals into the Thai social-political structure. It was not accidental that the motto of the October 1973 revolution was Lincoln's "of the people, by the people, for the people." The US cannot gracefully abandon a people whose coming leadership has so acknowledged the potential relevance of some of our ideals to their development needs.

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POLICY RECOMMENDATIONS

The United States should reaffirm its devotion to its ideals by helping to assure their survival in a beleaguered country which in its own way is trying to put them into practice.

Specifically, the US should:

A. Continue to withdraw its combat forces from Thailand, but not faster than the Thai themselves desire.

B. Continue to maintain some American military advisors and a modest MAP and FMS program to help reorient and enhance the Royal Thai Army and police forces' capacity to combat insurgency.

C.

D. Remain flexible on termination date for US agriculture and population programs in Thailand. The US should explore with the Thai the feasibility of closer cooperation in these areas with additional assistance programs from Australia, the Republic of China (despite termination of diplomatic relations) and Japan. It is entirely possible that opportunities exist for new efforts (or even resurrection of some past efforts) in rural development programs that did not exist under the political-social conditions prior to October 1973. US and Thai economic and social development planners have since October 1973 engaged in little sustained two-way

dialogue on the relationship between political and economic development and how the political and social changes now underway in Thailand either open new opportunities or frustrate more rapid and equitable economic progress for all the people of Thailand.

The US Government should reconsider with the Thai Government the overall development needs of Thailand and how international consortia might best assist the Thai to meet these needs. (See Economic Appendix.) The US could take the lead in trying to obtain funds through these consortia for Thailand.

E. Try to find a way to develop an informal dialogue between US Congressmen and Thai Parliamentarians that could perhaps lay the foundation for a new Thai-American relationship that does not rely on a US military presence in Thailand or even extensive economic assistance programs. The US Executive Branch would not involve itself directly in a US Congress-Thai Parliament dialogue. The purpose of such a dialogue, however, would be to:

1. Explore Thai perceptions of the precise role the United States can usefully play in Southeast Asia, how Thailand fits into the political/security balance in Southeast Asia and what the Thai on their own are prepared to do to help the US play the role they belive it should.

2. Understand the current status and direction of political, social and economic change in Thailand and the nature of US interest therein; and

3. Define precisely the nature and scope of social, economic and military assistance the US might render Thailand over the next 3-5 years.

The benefits of this approach go beyond the development of a basis for a more clearly thought out assistance program that really helps the Thai Government reach the common man in Thailand. A Thai Parliament-US Congress dialogue would also:

1. Encourage the Thai to continue their "peaceful political revolution" and thereby help increase the Thai military's tolerance for the newly emerging political process.

2. Assure the Thai that even though American forces will not be used in Thailand, the United States does consider Thailand's political and territorial integrity important and worth assistance by other means. Thailand will not be left standing alone against the potential and subversive threat of North Vietnam.

3. Establish the basis for a continuing but more creative political and psychological "presence" in Southeast Asia that does not necessarily depend on a military presence or military bases.

INDONESIA: GREAT EXPECTATIONS*

A. Indonesia's Role in Southeast Asia

Much has been said and written about Indonesia's potential as a regional leader, and many contend that it is the natural counter to an increasingly powerful and potentially aggressive Hanoi. In view of the significance attached to Indonesia, this paper seeks to examine the factors which create such expectations, as well as those which may hinder their realization.

Indonesia is the largest and most populous country in Southeast Asia, encompassing about half of the region's population and ranking as the fifth most populated country in the world. It is an archipelago nation composed of more than 13,000 islands, stretching over 3,000 miles along the Equator from mainland Southeast Asia to Australia and Papua New Guinea. In addition, the archipelago sits astride the vital air and sea routes between the Pacific and Indian Oceans. Along with its strategic location and population, Indonesia has a wealth of natural resources, not the least of which is oil.

For these and many other reasons, it is natural to look upon Indonesia as the future leader of non-communist Southeast Asia. Indonesia has played a prominent role in the development of regional consciousness, and it continues to have significant though not dominant influence among the non-communist nations of the area. Jakarta undoubtedly aspires to a more clear-cut position of leadership, but is fully conscious that this is a sensitive

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*Annex 8.

issue with its neighbors, dating back to Sukarno days.

Nevertheless, Indonesia is exceedingly active in seeking to achieve regional stability, for it views such stability as having a direct effect on Indonesia's development. It has, moreover, worked out a fairly specific idea of how it wishes the area to develop.

Jakarta proclaims a position of non-alignment and sees this as the eventual goal for most of the region. This version of non-alignment is not, however, doctrinaire in the usual Third World sense, but has instead provided a cloak of Third World respectability which allows Indonesia to pursue independent policies which often have been in line with US interests.

The communist victories in Indochina have significantly heightened the urgency which Indonesia places upon the development of regional cohesion in Southeast Asia and the growth of political, economic and (largely behind the scenes) military cooperation among the non-communist states of the area. The speed with which the communist victories took place upset the Suharto Government's calculations that they still had some years to develop their internal strength before confronting, if they must, a successful Hanoi. Working particularly through ASEAN, the five-member Association of Southeast Asian Nations, Indonesia seeks the emergence of a group of states which eventually will be strong enough militarily, economically and politically both to prevent outside interference in the affairs of the region and to allow Southeast Asia, particularly Indonesia, to pursue an independent, self-reliant future.

The Indonesians know that this goal is not yet at hand. For the present Jakarta hopes to see the maintenance of a balance of the major forces in the area--the US, Japan, USSR and China-- which would preclude the dominance of any one (particularly the PRC) and would allow the regional

nations time to adjust to the changes in Indochina and to strengthen their own positions. For the present Jakarta sees China as the primary external threat, with the USSR and Japan as potential meddlers in the region.

B. Communist Powers in Southeast Asia

Of particular significance are Indonesia's perceptions of the current play of forces in Southeast Asia. While Indonesia does not at this time anticipate a direct overt threat from any of the communist powers, including Hanoi, it is concerned about possible increased subversion and support to existing or potential insurgency movements in various ASEAN countries, particularly in Malaysia and Thailand. The main thrust of policy adjustment for Indonesia is not so much to placate the communist countries, as is the case with its more exposed neighbors, than it is to place even greater stress than in the past on the concept of "national resilience" (the mobilization and utilization of the nations' own resources in the defense of its interests), and to take precautions against possible flow of arms and agents from Indochina to Indonesia.

Indonesia has relations with Hanoi which, as in the case of Pyongyang, have continued uninterrupted since the Sukarno era. In contrast to Thailand and the Philippines, it is not pressing to reestablish relations with Peking, although there appears to be a split in the Indonesian leadership on this issue that dates back several years. Foreign Minister Malik believes that Indonesia should proceed to reestablish relations with China, while a number of key Indonesian military leaders reportedly remain firmly opposed. Indochina developments may be a factor in Malik's renewing the question at this time, but his position is believed to be based more on the changed Chinese posture of the last few years, PRC entry into the UN and Chinese detente with the United States. Longstanding

xenophobic feelings toward the Chinese are likely to prevail for the foreseeable future.

As for the USSR, Indonesia, and Malik in particular, has sought in the last year to improve relations with the Soviet Union and Eastern Europe, partly as a means of eliciting an alternative source of aid and partly reflecting multi-power diplomacy. In this Indonesia has had some success, as the Soviets have promised to restore certain of their long-disbanded aid projects. However, the Soviets continue to have no real entree to Indonesia and will be allowed a limited role only to the degree that it suits Indonesian convenience, and that will be within severe limitations and with great suspicion.

In short, Indonesia will hold both major communist powers at arms length and will view Hanoi with suspicion and reservation whatever its declaratory policies may be. It will seek to play off the communist powers against each other and will provide little room to any of them to exert significant influence. The two major communist powers will include Indonesia in their state-to-state courting activities, but less strongly than in more favorable terrain, and will maintain a cool or correct friendship with Indonesia as a balance against the other. The major power equation as it involves the communist countries is hence of secondary consideration, although the Indonesians may attempt to raise its importance in conversations with the US officials for obvious reasons of national self-interest.

C. The Role of ASEAN

The current primary vehicle for Jakarta's regional aspirations is embodied in the Association of Southeast Asian Nations (ASEAN). Following

the Indochina War, Indonesia has been a leading spokesman in favor of strengthening ASEAN's "regional resilience" and has attempted to promote, through the organization, a Southeast Asian bloc with sufficient internal cohesion to discourage outside interference fostered by the potential threat of Hanoi and by the clash of great power interests.

There is considerable debate among Indonesia watchers as to the importance the Indonesian leadership attaches to ASEAN. Some argue that Indonesia's interest in ASEAN goes only as far as its usefulness to Jakarta, but in reality this statement could be made about all ASEAN members whose national interests are of primary concern. The argument is put forward that the military leaders in Indonesia, with whom decision-making power rests, do not support ASEAN as enthusiastically as officials within the civilian government and would drop out of the organization should it entangle their interests to the point that their choices become limited. Here again, however, this same attitude applies to the other member nations.

What is most significant regarding ASEAN is that, since the spring of 1975, its solidarity is looked upon by all the member nations as a necessity for stability in the region. Indonesia is no exception in this instance, and its leadership comprehends perhaps more than most the urgency with which the ASEAN nations must create a sense of unity and collaboration which, combined with a balance of the great powers, appears to Jakarta to be the best possibility for at least short-term regional stability.

There is disagreement as to whether or not Jakarta desires the eventual membership of Indochina and Burma into ASEAN. If, as some claim, Indonesia perceives no territorial threat from Hanoi and believes that

Hanoi would peacefully join the Southeast Asia community, this view is acceptable. However, some argue that the Army leaders perceive a threat from Hanoi and envision Southeast Asia divided into two core groups, with Indonesia leading one and Hanoi the other. Still others insist that Indonesia looks upon ASEAN as a potential military force in the region. The varied viewpoints with regard to decision-making in Indonesia reflect the complexities of its power structure, and perceptions of the goals and priorities set by Jakarta are subject to much debate. However, it seems apparent that ASEAN's potential, for whatever purpose they choose for it, will remain a primary target of Indonesian foreign policymakers in the foreseeable future.

D. Indonesian Non-Alignment

As a charter member of the non-aligned group, Indonesia has made independence in international affairs a mainstay of its foreign policy. Nevertheless, since Suharto took power in 1966 Indonesia has been more sympathetic to the western point of view while maintaining correct but rather formal relations with the USSR and ending all diplomatic contact with the PRC. It has been helpful to the US in a number of international matters; its membership in the Vietnam ICCS, its troop contribution to the Middle East UNEF, its attempt to preserve the seat of the former Lon Nol government at the 1974 UN General Assembly, and various other actions.

Within the Third World, the Government of Indonesia has adopted moderate, non-confrontational positions. Indonesia continues to set great store by its non-aligned status, which occasionally leads it to adopt positions opposed by the US. Indonesia's stand on North-South economic

relations and the proposal for a New International Economic Order (NIEO) is moderate; it does not wish to alienate the US, Japan and Western Europe, but it remains skeptical about how far the US is willing to go in meeting what the Indonesians construe to be the legitimate demands of the Third World. It perceives positive advantages to be gained from commodity agreements or other mechanisms to transfer capital to the LDCs, but is cautious to avoid a negative reaction among its aid donors.

In the face of the spring 1975 Indochina events, Indonesia sees the need and importance of a continued, though not necessarily permanent, US presence in the area. This presence may be a modified one in comparison to the past role, as for example in terms of the number and extent of US bases in the area. Jakarta undoubtedly looks to the US as the most acceptable and least threatening of the major powers in Southeast Asia.

E. The Recent Past

Following a pattern familiar in newly independent countries, Indonesia's post-independence experiment with parliamentary democracy in the 1950s gave way late in the decade to Sukarno's authoritarian rule. Under Sukarno the pursuit of Indonesian objectives became progressively more belligerent and anti-West. The strident campaign to take over West Irian was followed by the even more disruptive confrontation against Malaysia which culminated in Indonesian withdrawal from the UN. Dutch, British and finally American holdings were nationalized. Meanwhile Sukarno's aspirations to Third World leadership contributed still further to anti-western postures and to increasingly close identification with Moscow and Peking, particularly the latter.

The Army displaced Sukarno following the unsuccessful left-wing coup

attempt of 1965, and the Indonesian Communist Party (PKI) was shattered in the late 1965, early 1966 upheavals when hundreds of thousands were killed or imprisoned.

General Suharto took over from the discredited Sukarno with the support of most major elements of Indonesian society, as well as with the (essential) backing of the Army. Sukarno's foray into Third World leadership took a tremendous toll on all aspects of Indonesia, particularly its economic condition, which he had virtually ignored. President Suharto immediately set about to correct matters. His government reversed the direction of foreign policy, dropped confrontation and posturing on the international stage, rejoined the UN, repaired its relations with the US and the West, and turned to the West for relief from the burden of massive foreign indebtedness and for economic aid to restore Indonesia's shaken economy. Domestically, it gave first priority to development and to restructuring the Indonesian political system.

The Suharto government's economic policies were strikingly successful during the early years. The economy was stabilized, rampant inflation brought under control, massive foreign aid attracted, and a sizeable increase in the GNP achieved through well-conceived development plans. Despite its domination by the military, the regime exercised a marked restraint in military expenditures. The regime's achievements, plus its moderate and cooperative foreign policy, created an impression abroad of Indonesia as pretty much a model developing country. As with other developing countries, however, the problems of management have duplicated at a rapid pace, and a reordering of priorities has become a necessity.

F. Prospects for Internal Stability

While Indonesia has a multitude of strengths that distinguish it from the defeated Indochina regimes, a complex of severe socio-economic and political problems threaten in the longer run to erode the country's present stability. Population pressure is the most intractable of these threats, with Java's 80 million people already as densely crowded as almost any on earth. Administrative inadequacies and a severe shortage of skills hamper attempts to overcome the resulting unemployment and dislocation. Corruption, endemic in Indonesia at all levels, has been increasing alarmingly and is progressively alienating former supporters of the Suharto government. Reacting to its dwindling popularity, the Government of Indonesia has adopted authoritarian practices that have further narrowed its base. At present the Suharto Government remains firmly in control; however, the future picture could be more ominous unless the Government is able to carry out major reforms which significantly improve the lot of its people.

Although Suharto's regime accomplished a great deal in improving Indonesia's economic and political status following Sukarno's disastrous reign, the policies pursued have not, as noted above, served to raise the standard of living, particularly among the increasingly indigent population. For example, planned projects for the next five years include such new industries as a $1 billion copper mining complex that will employ about 600 workers, a $1 billion steel mill which may employ a few thousand, and an Alcoa aluminum project costing approximately $1.25 billion which will employ 2,000. Such planning is hardly responsive to the needs of a country whose unemployment rate is approaching 40%. Priority has been given to industrialization in a country which consists of an 80% rural population.

and agriculture-related jobs are rapidly being taken over by machinery. In fact, largely due to modernization within the agriculture and fishing industries, the population trend is moving more toward the already overcrowded Java cities, thereby adding to their population and unemployment woes. This situation is likely to increase prospects for restlessness and lawlessness, which in turn may spur the Government toward stronger authoritarian rule.

The most dramatic sign that all is not well with the Suharto regime came in January 1974 with the Jakarta riots, triggered by the visit of the Japanese Prime Minister. Paradoxically, Chinese merchants were a major target of these riots. Shocked by this unexpected manifestation of discontent, the regime reacted by jailing opponents and imposing further restrictions on political expression.

Unless the Suharto Government is able to deal more effectively with the immediate concerns of its population, it would not be illogical to predict additional such protests of considerable magnitude, with a potential for severe internal upheaval.

G. The Economy

Since 1968 the Indonesian economy has grown at about seven percent annually. An inflation rate which had reached 640% in 1966 was stabilized by 1968, although in recent years rice shortage and the effects of overseas inflation have revived inflationary tendencies somewhat. Impressive advances were realized during Indonesia's first Five-Year Plan (1968-1973): the mining sector, led by petroleum, grew by 180%, the manufacturing sector by 67%, construction by 180%, transportation by 80%, and trade by 77%. While these sectors constitute 48% of the GNP, they employ only 21% of the work force. The agricultural sector, comprising 40% of the GNP

and 60% of the labor force, grew only 14%. Taking into account population growth of 11-13% during the Plan period, this constituted essentially no growth.

The Suharto regime has taken a positive approach to population planning, and (along with foreign aid donors) has vigorously supported programs in family planning that give promise of favorable results in several areas. When the magnitude of the problem is considered, however, it is obvious that the surface has barely been scratched. Demographers still foresee the possible doubling of the populations of already grossly overcrowded Java, Madura and Bali by the year 2000, to 150-160 million people out of a total of 225-230 million.

Although agricultural output has increased with government-subsidized inputs, Indonesia must still import a substantial quantity of its staple food, rice, 240,000 tons of which are scheduled to be imported in FY 1975-76 to help meet a projected consumption of about 17 million tons. Estate agriculture, especially many of the former Dutch rubber and sugar estates, is still being rehabilitated. The Indonesian Government has a good agricultural development plan, but it will be necessary to place even greater emphasis on food production in an effort to become self-sufficient. The role of outside investors in Indonesian rice plantations is significant to this effort.

A commendable start has been made by the Suharto regime in restoring and improving infrastructure, in determining the extent of Indonesia's mineral resources, and in exploring and developing them. These projects are capital intensive, however, and many of them are situated in the outer islands. While they will ultimately and indirectly benefit the whole Indonesian people, their immediate impact on the under-employment

problem and on the daily lives of the majority on Java, Madura and Bali is slight.

Unlike other countries suffering from monumental problems of development in an environment of mass poverty and population pressure, Indonesia does have a major asset; oil. The increase in crude oil prices in January 1, 1974 opened the prospects for major new financial resources which the Government could apply to an accelerated attack on its domestic problems. Subsequent events, however, have somewhat reduced the magnitude of the anticipated windfall. Doubt is beginning to emerge that the Government will reach its 1979 production target of 2 million barrels per day, let alone the 3.0 million optimistically forecast by government officials last year. Meanwhile, new oil discoveries are counter-balanced by declining output from the Central Sumatra fields which still account for most of Indonesia's production.

Greatly complicating Indonesia's developmental efforts is the continuing lack of managerial talent. Despite numerous training programs intended to foster the growth of indigenous enterpreneurs and managers, much-needed skills are still lost because trained personnel are more often placed in high status, paper-shuffling jobs than in jobs dealing with practical needs. Most educated Indonesians see education as the pathway to the government bureaucracy, traditionally regarded as infinitely preferable to a job even vaguely associated with blue collar or agricultural labor. These cultural biases reinforce a more fundamental problem that Indonesian education has been unable to overcome; the lack of sense of civic responsibility among Indonesians at all levels of society. This expresses itself in innumerable ways--from petty to grand corruption, from job irresponsibility to prodigal waste of natural resources, from a cavalier attitude

by the elite toward the miseries of the poor, to the shortsightedness of the poor with regard to their common plight. These attitudes constitute major obstacles to successful economic and political development.

H. The Pertamina Problem

Until March of this year, the Suharto Government generally permitted Indonesia's economic development to be planned and executed from two centers--from Pertamina, the state oil enterprise for the oil sector, and from the Ministry of Planning for all other sectors.

This natural but uncoordinated division of economic planning and implementation resulted largely because of President Suharto's high confidence in the exceptional business talents of Pertamina's president-director, Lt. Gen. Ibnu Sutowo.

In 1972 and increasingly in 1973, General Sutowo believed that the time had come to use Pertamina's higher revenues to develop some of the many new investment opportunities opening up in the oil sector. Moreover, President Suharto and other senior government officials, chafing under their own budgetary constraints, started nudging Pertamina into major responsibilities outside the oil sector, such as the resuscitation of the abandoned Soviet steel mill project.

To seize the opportunities it believed were opening up and to discharge the peripheral tasks thrust upon it, Pertamina evaded the provisions of the IMF Stand-by Agreement which limited its medium-term foreign borrowing (1-15 years). Unwisely, Pertamina obtained large amounts of short-term credit to finance projects which would not yield their projected revenues for many years, apparently with the unwritten understanding of the foreign bank lenders that these credits could be

rolled over annually for the indefinite future. When some of the foreign banks refused in late 1974 to renew their one-year loans, Pertamina suddenly found itself in a liquidity crisis.

In February, Pertamina defaulted on at least two foreign bank syndications totalling $100 million. This news quickly threatened the Indonesian Government's own ability to borrow from these banks. In addition, by March 1975 Pertamina had failed to pass along to the Indonesian treasury about $800 million in foreign oil company revenues; perhaps 20% of the anticipated budget revenues for 1974/75.

These danger signals finally caused President Suharto to take corrective action. The Central Bank of Indonesia informed foreign bankers privately and publicly that while it was not assuming or guaranteeing Pertamina's debts, it would insure that Pertamina had the funds to meet its remaining obligations on schedule. (Those falling due in the 1975/76 fiscal year total well over $1 billion.) The bank added that Pertamina would be enjoined indefinitely from contracting foreign debts independently. A special committee was set up to evaluate all the development projects in Pertamina's $4 billion 1975/76 budget (two-thirds of the national budget) with a view to eliminating all the marginal ones. The steel mill project was removed from Pertamina's responsibility. The Bank of Indonesia engaged three foreign investment banking houses (British, French and American) to advise it.

In June 1974 a syndicate led by Morgan Guaranty raised $425 million in five-year funds to help the Government of Indonesia meet Pertamina's debts without drawing down its reserves. At the same time some Japanese banks raised $150 million for the Indonesian Government for the identical purpose.

Nevertheless, the damage had been done. Incredibly, the country's foreign exchange windfall in 1974 from doubled oil prices could not prevent Indonesia's reserves from actually declining by $9 million between March 31, 1974 and March 31, 1975. Most of this disappointing performance is due to the need to repay Pertamina's debts. The $1 billion-plus carry-over burden will likewise severely dampen Indonesia's balance of payments performance in the current fiscal year.

However, Pertamina's liquidity problem has produced two affirmative results. In the first instance, the Government of Indonesia has shown that it can take prompt corrective action when necessary. Secondly, and more importantly, economic planning and implementation in Indonesia are likely to be coordinated more effectively in the future.

I. U.S. Military and Economic Assistance to Indonesia

It was to seek assurance of a continued active US role in Southeast Asia that Suharto made an official visit to the United States in July 1975. Another important purpose of his trip was to convince the US officials that Indonesia merits continued economic assistance despite its oil revenues, as well as military assistance to shore up its neglected armed forces.

The Indonesian military has a limited defense capability, although the Army's fighting capability is rated as excellent. The Government of Indonesia does not want a large US military presence in their country, as they are confident of their abilities to defend themselves internally. In fact, Indonesia's "Territorial Defense Concept" has and continues to serve them well. This plan involves stationing military men throughout the country to enhance resoluteness against insurgent activities.

The Indonesian-Malaysia relationship is "special", and Indonesian officials watch with particular concern developments within its closest neighbor.

Indonesian military concerns are focused on their lack of coastal surveillance capabilities, and thus the Government is interested in receiving, through the FMS program, such items as helicopters, ships, jeeps and radar and communications equipment on a concessional basis. Such a request is likely to be received favorably in Washington, as the Indonesian Government is wisely lobbying the US Congress for this support.

Continued US economic assistance is desired in the critical areas of agriculture, education and birth control. Suharto is well aware of the world-wide cutbacks in US aid, and thus he was particularly anxious to come to the US to present his case. Again, effective lobbying efforts may make the difference.

J. US Interests and Objectives

The principal US interest in Indonesia is that it not become a threat to the stability of Southeast Asia or to the US position in the region, either through a return to militant foreign policies or through domestic unrest on a scale that would involve Indonesia's neighbors or attract outside meddling. Related to this interest is the US desire that Indonesia realize its leadership potential as a stabilizing factor in the region.

Another important interest the US maintains in Indonesia is its

very strategic location astride international air and shipping lanes. There is currently disagreement between the US and Indonesia with regard to transit rights. Indonesia's formulation of the archipelago concept has included insistence on the right to subject the transit of military vessels to a requirement of prior notification. The US, as a courtesy, gives prior notification of vessel transits, but is unwilling to accept this as a treaty obligation in view of the overall implications of control of the Straits. Bilateral discussions are on-going between the US and Indonesia on this matter, and it is probable that a mutually-acceptable archipelago concept can be negotiated for inclusion in a comprehensive global Law of the Seas treaty.

Lesser US interests include access to Indonesia's energy and natural resources (as well as access for US allies, especially Japan), access to Indonesian markets for US agricultural and industrial exports and continued access for private investment. Of still lesser importance but nonetheless noteworthy is Indonesia's tremendous size and population.

US objectives in Indonesia include: the development and maintenance of Indonesia's capability for internal defense and limited participation in efforts to maintain regional security; assurance of Indonesian acceptance of the right of free transit through and over international straits; and continued encouragement of Indonesian bilateral and regional security relationships with other Southeast Asian nations and South Asia. Beyond this, the US wants Indonesia to lend effective support to US policies, both in the Southeast Asian environment and in the world at large, although not at the expense of Indonesia's Third World status. This support can be particularly helpful in two areas where Jakarta has at least some weight: in negotiations between OPEC and the consumers and in the overall relationships between the non-aligned nations and

the West. The US equally is interested in limiting the influence of the Soviet Union in Jakarta, as well as that of any other third country whose interests could conflict with ours.

Additionally, the US wants the Government of Indonesia to extend to its people those rights specified in the Universal Declaration of Human Rights and to support their extension in other parts of the world. In particular, it would be beneficial to see a satisfactory solution to the problem of the estimated 35,000 political prisoners detained in connection with the 1965 coup attempt, the continued detention of whom has created concern in the US and elsewhere in the world. The human rights issue has become increasingly important in light of the focus Congress has placed on it and thus will have a significant influence on US aid to Indonesia. Recognizing this concern, the Indonesian Government has been systematically releasing prisoners, with plans to continue this at a rate of 2,500 a year.

Another unsettling situation is the internal instability in Portugese Timor. Indonesia would prefer to absorb this section of Timor rather than permitting it to become a weak, independent state open to possibly detrimental outside influences. However, to do so militarily without the expressed encouragement of the Portugese Government would be detrimental to Indonesia's image in Southeast Asia, the UN and throughout the Third World. Incorporation of this territory into Indonesia would be acceptable to the US and Australia, which retains a vital interest in Timor developments, but only with the acquiescence of the Portugese Government.

In summary, the US desires a "nationally resilient" Indonesia, capable of providing leadership and encouraging unity in non-communist

Southeast Asia as a psychological counter to Hanoi.

K. Policy Recommendations

Despite the many problems facing Indonesia, its solid potential and importance in Southeast Asia cannot be disregarded. Lead by an anti-communist, leaning-to-the-West regime, Indonesia's struggle for "national resilience" deserves continued US support. Specific policy recommendations include:

1. Continue and possibly increase US economic assistance to Indonesia, particularly in the fields of agricultural production, education and family planning;

2. Continue and possibly increase US military assistance to Indonesia. Such assistance should be responsive to the needs and desires of the Indonesian Government and dispersed in as low profile a manner as possible;

3. Express, where appropriate, encouragement of Indonesian active participation in ASEAN affairs. The US should not, however, take an active role in ASEAN affairs unless specifically requested to do so;

4. Encourage continued cooperation between the non-communist nations of South, Southeast and Northeast Asia;

5. Encourage increased Japanese and Australian economic assistance to Indonesia;

6. Continue to push for enactment of legislation in the US Congress to amend Section 502(b)2 of the Trade Act to permit the President to extend GSP to OPEC countries such as Indonesia which did not participate in the oil embargo of 1973/74;

7. Maintain a low profile in Indonesia, holding down the number of US officials in the country, and be prepared to accept inevitable

changes in Indonesian domestic style;

8. Continue fruitful negotiations with Indonesia regarding transit rights through the archipelago, bearing in mind not only its importance to the US but also to US allies, especially Japan. This issue is significant also in other areas of the world, and it is important that the Law of the Seas Treaty reflects the right of transit world-wide;

9. Encourage US, Australian and Japanese correlation and consultation with regard to Indonesia;

10. Continue and increase US business investment in Indonesia.

The Soviet Union would be more than willing to step in and take over economic assistance should the US abandon this role. A strong, independent Indonesia represents a definite plus for the overall goal in maintaining a power equilibrium in Asia.