

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

0202

THE WHITE HOUSE
WASHINGTON

DECLASSIFIED
PER E.O. 13526
2011-0104-M (1.05)
KBH 9/9/2019

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telephone Conversation with Soeharto,
President of the Republic of Indonesia

PARTICIPANTS: Soeharto, President of the Republic of
Indonesia

Interpreter: Larry Fisher
Notetakers: Sean Rice, Larry Wright,
Jim Smith, Joel Schrader and Cindy Lawrence

DATE, TIME January 8, 1998, 9:42 - 10:08 p.m. EST
AND PLACE: Air Force One, JFK International Airport,
New York

The President: Hello? (U)

President Soeharto: Hello. (U)

The President: Mr. President, thank you for taking my call at
such an early hour. (C)

President Soeharto: Thank you, Mr. President, for your kind
attention to the monetary turmoil not only in Indonesia but also
in other South East Asian countries, as well. (C)

The President: I have long valued our friendship, and I just
wanted to talk to you personally. (C)

President Soeharto: Well indeed, your Excellency. (U)

The President: I have been following closely the financial
situation in Indonesia. I know how painful the current problems
must be for you and all Indonesians. America values the
critical and constructive role Indonesia plays in the region.
It is because we appreciate Indonesia's importance that the
United States has been supportive of your reform program with
the IMF. Initially there was a positive reaction by markets to
your commitment to reform, but not anymore because of a

~~CONFIDENTIAL~~

Classified by: Glyn T. Davies

Reason: 1.5 (b,d)

Declassify On: 01/12/08

~~CONFIDENTIAL~~

perception these commitments are not going to be implemented. You have always shown great courage and leadership. I think it is vital now that you use those powers to provide this support for economic reform. I believe this is the best way to preserve your impressive economic legacy in Indonesia and to get out of this difficult situation. (C)

I know it is difficult to do, but among other things, interest rates should be kept high until the rupiah stabilizes. The situation is, I think, very similar to the situation faced by Korea and President Kim before the presidential election there. I understand IMF Managing Director Camdessus will be in Jakarta shortly, and I urge you and your economic team to work closely with him. We are in close contact with your team. I know you have very capable advisors, and we want to be in touch with them. I would like to send Deputy Secretary of the Treasury Larry Summers to consult with your economic team. He has worked closely with me on the Korean and Mexican situations. He is prepared to travel to the region immediately, and I would like you to spend some time with him to discuss the current economic situation. He will be able to tell you first hand how I view it. (C)

I also intend to release a statement in the next few minutes reiterating the importance of the relationship between our countries and to make it absolutely clear that we support you and that we will stand with you throughout these difficult times. (C)

President Soeharto: Thank you very much for your views. These are very important not only to me, but to the Indonesian people. Indeed in a short time, January 15th, the managing director of the IMF is going to meet with me, Mr. President. I would also like to express my appreciation for sending your mission and your efforts for resolving the present economic crisis and your support of the Indonesian economy in general. (C)

With regard to the IMF program, only a few days ago I presented to the Indonesian government and people the budget for dealing with the turmoil. As far as Indonesia is concerned, we believe it is not possible to carry out the full program without the full participation of the people. It is therefore necessary not to take any measures detrimental to the people's living standard. In general, with regard to the measures taken by Indonesia that are viewed by outsiders as not firm enough, we believe they are firm. But I would like to assure your Excellency that the domestic situation in Indonesia is most

important. It is Indonesia itself that understands the situation best and the steps that must be taken. Especially with regard to the subsidies, the government has been providing them for fuel oil. The people must understand the measures taken by the government, and if we take away the subsidies worth \$10 trillion rupiahs, the people must understand what is being done. With regard to the programs suggested by the IMF, we don't have a problem with that and they have been carried out.

(C)

With regard to the present monetary crisis, there are two important points. First, it is the result of speculators, and second, it is the result of debts of the private sector. The government has honored its obligations and will continue to do so. Coming back to private loans, the government has instructed its officials to discuss postponing repayment. More important is restoring confidence. With regard to the decline of the rupiah, your Excellency, this has been the result of speculators actively involved in currency trading, especially foreign banks in South East Asia and Asia who are trading currency. For example, your Excellency, a foreign bank operating in Hong Kong has offered \$1 million in credit to speculators. With that amount, it will require \$10 million to buy the rupiahs back. With the possibility of the decline in value of the rupiah, these speculators can make money in rumors that the President is ill, that he is incapacitated or even that he has passed away. Certainly, we shouldn't deal in or respond to these kinds of rumors, or else foreign exchange reserves will be exhausted. We should warn foreign banks operating in South East Asia, because in the end they will only destroy the economies of South East Asia. This is the result of manipulations carried out by foreign speculators, not only for the rupiah but other currencies as well. This monetary crisis is compounded by the number of private companies having their loans come to maturity. Therefore, there is a rush to buy dollars in order to repay their debts and honor their obligations. (C)

The situation faced by Indonesia is difficult to overcome here, as well as in other countries of South East Asia. As far as implementation of the program is concerned, I can assure you there is no problem, as the Indonesian people are willing to sacrifice to ensure a beneficial result. Thank you very much Mr. President for allowing me to make these points. (C)

The President: Thank you, Mr. President. If I could say one or two words in response to the very helpful summary you've given me. First, I know how much an impact currency speculation can

have; we saw this in Great Britain a couple of years ago. Once they get started in one direction, it's hard to stop it. But I think the whole question is one of changing the psychology of the situation to restore confidence in the currency. It's obvious that the people of Indonesia have an enormous productive capacity; one has only to look at the progress of the last few years to see that. (C)

So in response to your briefing, I have only two observations. First, I think what you are trying to do with private loans; to get as many as possible rolled over is a good thing. I've been talking to experts here, and they have told me several things. When the companies negotiate loans, they must make sure the records of the loans are accurate so the banks can get a true picture of the status of the company. I hope that when Mr. Camdessus and Mr. Summers come they can advise you on this. It is very important. The only other observation I have is that sometimes small things can make a big difference. For instance, when several banks were closed it made a big difference for the investors, but when some were reopened under new names it had a huge influence on the psychology of investors here. I think anyone can sympathize with not wanting to end subsidies for fuel oil that would hurt the people of Indonesia, but you need to see if there are some small steps that could help psychologically to deal with the situation and to restore confidence in the reform plan for the economy of Indonesia. Meanwhile, I will issue my statement and send Mr. Summers and we will work for the best and hope for the best. (C)

President Soeharto: Thank you very much Your Excellency for your interest. Your demarche will be very valuable. Regarding the economic crisis, this is caused by a crisis of confidence, and it is extremely important to restore the confidence in the rupiah and our economy. Well, Your Excellency, with regard to the banks that have been closed, practically all of them have been closed by the revocation of their licenses. However, one brought a lawsuit to the court and it was reopened based on a decision by the court. The government would like to respect the opinion of the court and we will not appeal. Because the reformation of the banking system is the first priority of the government, we decided to merge four major state-owned banks. We hope this will be an example to other banks to merge. Now we are encouraging other banks to contribute to making the economy of Indonesia strong and healthy. But, I must admit we have a great shortage of human resources in this sector. I would like to express my appreciation and thanks for your statement and your attention to this matter. I believe your statement will

~~CONFIDENTIAL~~

5

help in letting the international community know that Indonesia is not hesitant to put its house in order. ~~(C)~~

The President: Thank you very much, Mr. President. Goodbye.
(U)

President Soeharto: Goodbye. (U)

-- End of Conversation --

~~CONFIDENTIAL~~