

THE WHITE HOUSE
WASHINGTON

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PER E.O. 13526
2011-0104-M (1.11)
KBH 9/9/2019

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with President Soeharto of Indonesia,
February 20, 1998

PARTICIPANTS: The President
President Soeharto

Interpreter: Dan Fietkiewicz
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Gagnon

DATE, TIME February 20, 1998, 2340-0008 EST, Residence
AND PLACE:

The President: Hello, President Soeharto? (U)

President Soeharto: Your Excellency Mr. President, I am here
listening. (U)

The President: Thank you very much for taking my call. I
wanted to follow up on a number of the economic issues you spoke
to me about last Friday. (U)

I understand you have decided to defer the decision on a
currency board; that is a good step. It gives us time to work
together on alternatives and I think there are some promising
alternatives. (C)

First, you said you were worried about shortages and high prices
for necessities like food and medicines. We are working to make
sure adequate supplies reach Indonesia and to provide direct
U.S. bilateral credits to help finance these imports and to
encourage the World Bank and the IMF to support these efforts.
(C)

Second, I know you're concerned about the financing for trade.
We're working with the EU, Japan and others to provide, over the

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next few months, several billion dollars of short-term insurance and credit guarantees to help your companies get back in business. (S)

Third, I know your banking system can't provide the financing needed to support economic recovery. We want to work with you on bank restructuring and on speeding up the resolution of the corporate debt problem. (S)

Fourth, we will work with the IMF to help achieve a stronger and more stable exchange rate. I know several of your regional partners are prepared to support a stronger, more stable exchange rate through intervention. (S)

Secretary Rubin, I think you know, is meeting with the G-7. I believe that tomorrow our time -- later in the day your time -- they will have an announcement to make on this. I think all these steps will help. But, I think the lack of international confidence about Indonesia is not a reflection of concern over the details of the economic reform program. It comes more from a sense that recent personnel and policy decisions do not create certainty about the strength of Indonesia's commitment to reform. (S)

So Mr. President, if I might in addition to the four steps we and the international community are prepared to take, I would like to suggest four steps you can take immediately. (S)

First, I think you have to deliver, once more, a clear, convincing message that you will put your whole authority behind implementing reforms. Second, I think it will help if it is reinforced by the choice of a knowledgeable, experienced economic reform team with the authority and independence to do what is needed without interference. That will do a great deal to restore confidence in the markets. (S)

I would like to mention two other things. Because there will be a lot of hardship for many citizens, it's important to reach out to a broad range of opinions. This will give all your citizens a stake in the success of economic reform efforts. Finally, I think it is important, that even though in difficult times people look for scapegoats, I hope you will do what you can to avoid scapegoating and take the necessary steps to prevent the escalation of violence and to protect legitimate expressions of opinion. This will do a lot to reinforce confidence in the markets. (S)

Mr. President, I think, if you take these steps and make clear there will be stability in economic reform and we in the international community take the steps I outlined, growth can return to Indonesia. I am very much committed to doing what we can to help and getting the rest of the world to do the same.

(C)

With your permission, I would like to send a personal representative to discuss the ideas we have talked about today. I would like to send a very close personal friend of mine, Walter Mondale, our former vice president. If you would see him, that would guarantee my personal involvement and I will stay in close touch with you. (C)

President Soeharto: Thank you very much Mr. President. It is very encouraging that after our last conversation you have devoted so much time and attention to find the best possible alternatives for helping Indonesia. For that, I am highly appreciative. Indeed, there have been some shortages of food stuffs and basic commodities, because of scarcities and the high cost of importing these commodities -- the result of the low rupiah exchange rate against the dollar. This has caused great anger on the part of the public. (C)

Indeed, there have been efforts to expedite distribution of basic commodities by the government. There has been some looting and some burning and arson by the public, because they want to express their frustration with the distributors, many of whom are ethnic Chinese. (C)

These looters and people, who have gotten angry and attacked ethnic Chinese shops and districts, are remnants of the formally banned Indonesian communist party. They have instigated this anger. At this moment, I am in Solo in central Java where the people are protecting the ethnic Chinese community from the frustration and anger of the mobs. (C)

The President: Good. (U)

President Soeharto: So, I can assure you the security situation is under control. Of course, this will depend on follow-up measures taken by the government to continue imports of basic commodities and spare parts. The government is obliged to fix the exchange rate against the dollar to enable importers to import commodities at reasonable prices so the people can purchase them at reasonable prices. (C)

This measure I have just mentioned is apart from the currency board system which is still under study and scrutiny. At the same time, we are making the best possible effort to look for better alternatives should they be more convenient and suitable. You are right, I have not made a final decision on the currency board and at this very last minute I am trying to find the best possible alternatives. (C)

As far as banking reforms are concerned, we are committed to carrying them out because the banking system is very weak. Whatever happens, we will continue these banking reforms. One thing is clear, Mr. President, the banks need liquidity to provide credit lines to finance imports, not only for corporations but for small businessmen. (C)

I am appreciative, Mr. President, that you are making the best possible effort and have pledged to help Indonesian banks gain acceptance for their letters of credit. Prime Minister Hashimoto has made the same pledge and Chancellor Kohl has promised he will bring this issue to the G-7. (C)

With regard to the servicing of the public debt, over the years Indonesia has always honored and paid its debt on time and on schedule. In view of these difficulties, I am wondering if the G-7 might possibly allow us to defer our debt payment while we are facing this financial crisis. (C)

As far as private corporation debt is concerned, there are some bright prospects that a solution can be achieved. Today, bankers, creditors and lenders are negotiating with the steering committee we call contact committees. (C)

As far as personnel and personalities of the Indonesian government are concerned, I would like to emphasize, Mr. President, that we are now trying to develop principles of democracy, where the voices and aspirations of the majority are heard. For this reason, the people should elect and choose the best possible candidates to serve the interests of the nation while adhering to principles of democracy. The decisions and expressions of the people will be expressed through their delegates to the Peoples Consultative Assembly in accordance with the 1945 constitution. I will take whatever measures are necessary in the interests of the nation as long as I am President, and I will see that there are no unconstitutional or unlawful acts committed by my staff and administration or by the armed forces. (C)

I myself have great respect for defending the national interest. I still have the confidence of the people and the armed forces and will take the necessary steps, with their support, to see to it that no elements or groups of people destabilize the nation.. I will do my best to defend the people and the nation and to give my firm commitment to the country. (C)

As far as I am concerned, I have never looked to scapegoats. On the contrary, I have tried to embrace them; to welcome them back into the fold of the country, unless they commit unlawful acts. If they commit unlawful acts, I will take necessary, firm actions. Therefore, whatever actions the government takes will be based purely on the facts and will be taken against unlawful and unconstitutional deeds; not against persons having different political or ideological views. (C)

As far as regeneration of the armed forces is concerned, I can tell you we have completed that process. Only a few days ago the command of the armed forces was transferred to the hands of the new generation. They stand behind the constitution, not me, President Soeharto, but behind the constitution. As long as they stand behind the constitution they will stand united and cohesive. (C)

I can assure you, your excellency, as long as I have the confidence of the people I will adhere to the constitution and defend the nation and the sovereignty of the nation. (C)

I would like, on this occasion, to refute the news in the international community that says the situation in Indonesia is out of control and chaotic. I can assure you this news is unfounded and untrue and does not reflect the condition of the country. Today, I received the President of The Republic of Yemen. After seeing the situation with his own eyes, he said the international press has exaggerated its reports on conditions in Indonesia. He saw the situation is completely under control and he expressed his support for Indonesia. (C)

I would certainly welcome warmly your special envoy, former Vice President Walter Mondale, who I know personally. I will be happy to meet with him and hope his delegation will see other leaders Indonesia to exchange views on these issues. Once again, Mr. President, I would like to thank you very much for your great attention and efforts in making the proper approaches to the G-7. Rest assured, Mr. President, the Indonesian people will never forget your great support in this time of difficulty. (C)

The President: Thank you Mr. President. I will raise the debt question you mentioned with our people and have them discuss it with others at the G-7 and have them work on the other issues we discussed. There will be an announcement later in the day. ~~(C)~~

President Soeharto: Thank you Mr. President. (U)

The President: Thank you, goodbye. (U)

-- End of Conversation --