

**Statement for Hearing on Indonesia
“Indonesia: Positive Trends
and the Implications for U.S. Strategic Interests”**

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I. Strategic Overview

I am pleased to appear before you to talk about a compelling success story -- Indonesia's democratic transformation -- and its implications for U.S. policy and our strategic interests. Although it is no surprise to members of the committee, Indonesia is clearly, by virtue of its size, location, and status as a democracy, one of the most important countries to the United States in Asia. Consider these facts:

- Since the fall of Suharto in 1998, Indonesia has become the world's third-largest democracy.
- Indonesia has more people of Muslim faith than Iran, Iraq, Egypt and Saudi Arabia combined [210 million vs. 190 million].
- The strategic sea lanes that pass through and along Indonesian territory carry one-third of the world's sea-borne trade.
- Half the world's oil passes through the Malacca Strait.

Finally, and perhaps most importantly, Indonesia is a key player in the dominant ideological struggle of our time: the competition between democratic modernization and the rise of militant Islam. Indonesia is aggressively combating the tiny minority of extremist terrorists. It is also working to promote religious tolerance among the population at large, while demonstrating to the world that Islam and democracy are fully compatible.

With Indonesia we have the opportunity now to forge close, long-term ties with a developing democracy that is home to 14% of the Islamic world. In the context of a

mature and robust relationship with a fellow democracy, we have an opportunity to resolve -- not ignore -- our differences with Indonesia, while strengthening our partnership with this tremendously important and dynamic country. The dominant trends in Indonesia today are positive ones for U.S. strategic interests. Secretary Rice noted to President Yudhoyono during their last meeting that the United States has pulled back at times in its relationship with Indonesia. But she added that this is not the way it will be in the future.

Madam Chairman, we must be both a good and reliable friend to Indonesia, and we must act now to make this a reality. We must do everything we can to develop our relationship to its full potential, and help Indonesia succeed as a modern, democratic power, one that acts as a positive force on the global stage and ensures prosperity for its people at home.

II. Opportunity

The success of Indonesia's 2004 national elections, and the joint Indonesian-U.S. response to the tragic earthquake and tsunami of December 26 have opened a window of opportunity for U.S.-Indonesian relations. Indonesia's national elections proceeded in an exceedingly peaceful and democratic manner, and gave Indonesians for the first time the right to directly elect their president. President Yudhoyono emerged from the elections with a mandate from the Indonesian people, receiving over 60 percent of the votes in the presidential run-off in September of last year. With Indonesian voters demanding change, President Yudhoyono is pursuing a bold reformist agenda. Furthermore, as a U.S. university and military college graduate, he has first-hand knowledge of the U.S. and its people. President Yudhoyono is keenly aware of Indonesia's status as a role model to the Islamic world and seeks a greater international profile that accords with this status. The example he sets is a positive one.

President Yudhoyono demonstrated his statesmanship in the aftermath of the tsunami, and opened up the previously closed Aceh province to international assistance, particularly from the United States. Our joint efforts in relief and reconstruction for the victims of the tsunami saved the lives and lessened the suffering for tens of thousands of victims, helping to bridge the distance between our countries. The USS Lincoln off the coast of Aceh made a strong positive impression on the people and Government of Indonesia. Scenes of U.S. relief workers and soldiers working side-by-side with their Indonesian counterparts showed Indonesians that the United States is a friend. Public opinion toward the United States has since improved.

Indonesia has a history that includes serious human rights abuses, separatist conflict, ethnic and inter-religious strife, and other problems and challenges that have affected our relations. Many of these problems and challenges remain today. However, it is essential that we address these issues not in isolation but in the context of a mature relationship that keeps in focus the broad, positive trends in Indonesia today: democracy, anti-corruption efforts, economic reforms, countering terrorism and extremism, and peaceful resolution of conflicts. These positive trends have created a rare opportunity to advance our long-term strategic objectives. We have the chance to achieve a breakthrough in our relations with the world's largest Muslim-majority nation and third-largest democracy. If we succeed it will have far-reaching effects on our common interests with Indonesia and throughout the world.

III. Positive Trends

Democracy

Indonesia is a front-line state in a trend we see all over the world: people want to rule themselves, and they want their governments to be accountable. It has been only seven years since the fall of Suharto and the end of three-decades of authoritarian rule. In this short span, Indonesia has emerged as the world's third-largest democracy and a leading global example of a democratic, Muslim-majority nation.

The successful series of national democratic elections in Indonesia last year produced a sea change in the country's domestic politics. More than 75 percent of eligible voters cast their ballots in last year's presidential election. To put those numbers in context, just as many Indonesians voted in their presidential election as did Americans last fall--about 118 million in each case. This year Indonesia is conducting eight gubernatorial and 157 local elections; reports so far have been similarly positive.

The direct presidential election itself was a product of sweeping constitutional reforms aimed at strengthening democratic institutions, accountability and transparency, and separation of powers. A free press and an increasingly active civil society have become important agents of change. People are debating the abuses and excesses of the Suharto years and are demanding real accountability for what happened. Citizens are demanding justice from the judicial sector. Finally, the country is going through one of the most ambitious decentralization efforts ever. That process is empowering Indonesia's far-flung 33 provinces and introducing unprecedented levels of transparency and accountability into local governance.

Looking forward, we envision an Indonesia that is democratic in the full sense of that term, with an educated electorate, a government that is transparent and accountable

to its people, respects the rule of law, and protects the human rights of its citizens. Indonesia has many difficult obstacles, both past and present, which it must strive to overcome. As our 2004 Human Rights Report indicates, Indonesia's human rights record has been poor, and there is much to be done, particularly in the area of accountability for abuses committed by members of the security services. But we cannot overlook the flourishing of democracy in Indonesia. We will continue to encourage and assist the positive democratic trend in Indonesia, while working with the country to achieve needed progress on education, accountability, the rule of law, transparency, and respect for human rights, to realize the vision of a modern, fully democratic Indonesia.

Islam and Modernization

Indonesia is a key player in the dominant ideological struggle of our time: the competition between democratic modernization and militant Islam. As the world's largest Muslim-majority nation, Indonesia is buffeted by the same radical strains of Islamic thought and hate-preaching firebrands that afflict much of the Islamic world. Related to this, we face a challenge in convincing countries like Indonesia of the truth that the Global War in Terror is not anti-Islamic.

Indonesia is in the midst of this ideological struggle, but the overall trend is positive. Indonesia stands as a democratic example to the Islamic world. Islam in Indonesia has always been predominantly tolerant and open to combining Islamic beliefs with modernization and free speech. Indonesia has maintained its pluralistic constitution and proven that Islam and democracy are compatible and complementary. The ability of such a diverse nation to pursue a democratic, just agenda respectful of other faiths serves as a powerful reminder of what a successful, tolerant society can look like.

Indonesians know better than most the devastating effects of terrorist attacks that are the product of extremist Islam, such as those that have occurred in Bali and Jakarta over the last three years. The Indonesian government has done an admirable job of pursuing, arresting, and prosecuting terrorists. Since the Bali bombings in October 2002, Indonesia's police and prosecutors have arrested and convicted more than 130 terrorists. Indonesia has established an effective counterterrorism police force that is working hard to bring terrorists to justice. Despite progress, the threat of future attacks remains grave. Our two countries thus share an interest in addressing the causes of terrorism and protecting our people from further terrorist violence. President Yudhoyono is committed to this cause.

Economic Reform

President Yudhoyono places priority on economic growth and poverty reduction, recognizing that Indonesia is still recovering from the 1997-1998 financial and economic crisis. The Government of Indonesia has announced an ambitious reform program, boosted investor confidence, attacked corruption and made a push for infrastructure development. President Yudhoyono remains committed to this program. Real GDP growth increased to 5.1% in 2004, and the Indonesian economy has been resilient in spite of the tsunami, avian influenza, polio, and high world oil prices. American investors continue to show interest in Indonesia. More than 300 U.S. companies have investments in Indonesia valued at a total of more than \$10 billion, and an estimated 3,500 U.S. business people work in Indonesia. The combination of high-level commitment, pressing economic issues, and American investor interest poses a special opportunity for us to make progress with Indonesia on economic reforms.

We have moved to take advantage of this special opportunity to help Indonesia address economic reforms. We have already had two rounds of Trade and Investment Framework Agreement (TIFA) talks this year and have started a dialogue with Indonesia on conducting a full review of all trade-related policies. We have restarted our Energy Policy Dialogue after an eight-year gap, and are working closely with the government on strategies for boosting Indonesia's crude oil production. We are also supporting the Yudhoyono government's crucial effort to change the culture of corruption in Indonesia, in part through his launch of several corruption cases against high-level officials. To support this important effort, we are putting in place a major USAID project to help the Government of Indonesia set up an anti-corruption court and reform the commercial courts. We want to see an Indonesia that is open for investment and trade, and open to American investors playing a prominent role in the country's economic development. American investors continue to push for investment climate and legal system reform and fair resolution of investment disputes, signaling their long-term commitment to Indonesia's economic growth.

Indonesia's economy faces concerns over fluctuating exchange rates and high fuel subsidies. Oil prices have posed a challenge as highly subsidized domestic fuel prices and subsidies have increased to almost \$15 billion or about one third of the government's budget in 2005. In a bold but necessary move, Yudhoyono reduced fuel subsidies in March, and in a recent speech, stated that the government will raise fuel prices again soon after compensation programs for the poor are in place. Subsidies and additional policy decisions by Bank Indonesia have increased pressure on the rupiah and shaken market sentiment. While investors on the ground remain

bullish, we still plan to pay close attention to currency concerns and will continue to urge Indonesia to once again reduce fuel subsidies. We are pleased with the government's ability to address major reforms right away and encouraged by their plans to promote growth and stability.

Security Service Reform

A central element of the transformation of Indonesia into a stable and prosperous democracy is the continuing evolution of the Indonesian military, or TNI, into a modern, professional, civilian-controlled force focused on external security. The Indonesian public has rejected a formal role for the military in politics, and the TNI has remained professional and out of politics during Indonesia's democratic transition. Major reforms of the security forces included the establishment of a police force separate from the military; the end of the military "dual function" system that placed military officers in civilian government positions; the end of military and police appointed seats in parliament in 2004; and the passage of legislation in 2004 to ensure that the parliament begins to exert control over the military's business interests.

The Minister of Defense, Juwono Sudarsono, is Indonesia's first civilian defense minister and is working to strengthen civilian control over the over the budgetary and procurement process. The Indonesian legislature in 2004 passed an armed forces law that makes clear the importance of democratic values, civilian supremacy, and respect for human rights. The TNI has also supported the Aceh peace process. President Yudhoyono and Defense Minister Juwono Sudarsono are committed to implementing and consolidating these reforms.

When President Yudhoyono visited Washington in May, he and President Bush jointly stated that normal military relations would be in the interest of both countries and undertook to continue working toward that objective. President Yudhoyono also reaffirmed his commitment to further strengthen military reform, civilian control, and accountability. President Bush pledged his full support in these efforts. Secretary Rice's February decision to certify International Military Education and Training will re-establish professional links between our militaries and result in increased professionalism of Indonesian military officers with respect to transparency, human rights, and public accountability. We also think that Foreign Military Financing (FMF) is in the interests of both countries. We see TNI reform as a long-term project, and we trust that President Yudhoyono is committed to take the necessary steps for enhanced military-to-military relations. We are committed to supporting Indonesia in that effort.

Resolving Political Differences Through Dialogue

The capacity to resolve political differences through dialogue rather than violence is a hallmark of a functioning democracy. Although Indonesia has experienced political violence in places like Aceh, Papua, and East Timor, President Yudhoyono is leading a new era in Indonesia, which promises to separate Indonesia from its repressive past. At this point I must also mention that while we have raised concerns over abuses by security forces in areas of separatist conflict, and we have urged closer attention to the implementation of special autonomy in places like Papua, it is incorrect and in fact detrimental to U.S. interests to in any way imply that the U.S. does not support the territorial integrity of Indonesia. The United States firmly supports Indonesia's territorial integrity, and does not support nor condone any effort to promote secession of any region from the republic of Indonesia.

The Yudhoyono government conducted a series of peace talks this year with the separatist Free Aceh Movement, known by the Indonesian acronym "GAM." These talks proceeded rapidly and culminated in a peace agreement signed on August 15 in Helsinki. If implemented successfully, this will end a three-decades long conflict that has claimed thousands of lives, and will put the people of Aceh on a path to economic recovery and political integration. Early signs have been positive, with the Indonesian Government granting amnesty to non-criminal GAM prisoners and beginning to withdraw military troops from the province. U.S. and other donors' support for implementation will play an important role in promoting peaceful reconciliation and addressing key elements of the Peace Agreement, such as professional training for Aceh police and assistance for the reintegration of ex-combatants.

Like Aceh, Papua has suffered from separatist conflict and serious human rights abuses. The Indonesian Government has not fully implemented the 2001 Special Autonomy law that was designed to address political and economic grievances. However, there have been two recent positive developments. First, last month a series of large demonstrations in Papua proceeded without violence, due to good communication between separatists and local officials. Second, President Yudhoyono met with Papuan leaders in Jakarta and pledged to fully implement Special Autonomy. President Yudhoyono has vowed to peacefully resolve the long-standing conflict in Papua.

With respect to East Timor, the Governments of Indonesia and East Timor have created a bilateral Truth and Friendship Commission (TFC) to promote reconciliation and achieve credible accountability for the crimes against humanity (must call them what they were) committed in 1999. There has been no credible accountability for

the crimes against humanity committed in East Timor in 1999. The Jakarta-based Ad Hoc Tribunal and Dili-based Serious Crimes Unit failed for different reasons. The Indonesian Government is cognizant of the need for the TFC process to be genuinely credible. The members recently selected by the GOI to the TFC appear to be committed to pursuing genuine truth and reconciliation. We will continue to remind and work with both Indonesia and East Timor on the importance of achieving credible accountability.

IV. Implications

How should we approach Indonesia now? I have stated that Indonesia's democratic transition and reformist government present a window of opportunity. I would also like to underline the importance of seizing this opportunity. The world's fourth most populous country, the third largest democracy, a country undergoing rapid modernization, the largest majority-Muslim country, a partner in the war on terrorism, a major open economy in a critical region – together those factors make a strong case for upgrading and deepening our relationship with Indonesia. In this light, we should:

- Aim to develop a mature, multi-faceted relationship between two major democracies
- Continue U.S. assistance, as described by my colleague from USAID, for tsunami reconstruction, education, the justice sector and for the police.
- Increase exchanges between our two countries, through more Congressional/Parliamentary delegations in both directions, through more contact between senior officials, and through increased student exchanges
- Support President Yudhoyono's reformist program and support further development of democracy, respect for human rights and freedom of the press in Indonesia.
- Support military reform in Indonesia by constructively engaging with its military. This will require lifting existing legislative restrictions on Foreign Military Financing.
- Bolster Indonesia as a leader of ASEAN, and as a stable democracy in a critical region.

Thank you.

